Asahi

A Taste for Value

ASAHI BREWERIES, LTD. Annual Report 1998

Founded in 1889, Asahi Breweries, Ltd., is Japan's leading innovator in the beer industry. In the year ended December 31, 1998, Asahi captured the largest share of the Japanese beer market, selling approximately 184 million cases of its flagship beer, *Asahi Super Dry,* which is now firmly established as Japan's most popular beer. Asahi emphasizes the coordination of production, inventory control, and marketing activities under its Total Fresh Management principles to ensure the reliable and timely supply of products to consumers. Overseas, Asahi is cooperating with other leading breweries to promote the Asahi brand name in major beer markets throughout the world.

Asahi has realized 100% recycling of waste and by-products at its nine breweries and is now progressing with large-scale measures to minimize the environmental impact of its operations. We are committed to improving the communities we serve while meeting the needs and fulfilling the expectations of consumers with products of the highest quality.

CONTENTS

Fiscal 1998, ended December 31, 1998, was a momentous year for Asahi Breweries, Ltd. We posted record consolidated sales, despite total domestic beer sales on a tax volume basis being down about 8% compared with fiscal 1997. Moreover, we captured the largest share of the domestic beer market. This is a goal we have had since our establishment in 1949. Sales of our flagship beer, *Asahi Super Dry,* increased 8%, to approximately 184 million cases—another record figure. We now estimate that *Asahi Super Dry* ranks as the third best-selling beer in the world. It has made Asahi a truly global brand.

● Our soft drinks and food businesses also posted year-on-year sales and profit gains and exceeded the average growth in their respective industries. In nonoperating activities, we completed the liquidation of money trusts and moved forward with measures to strengthen the financial structure of the Asahi Group.

● We would like to thank everyone who has contributed to these results.

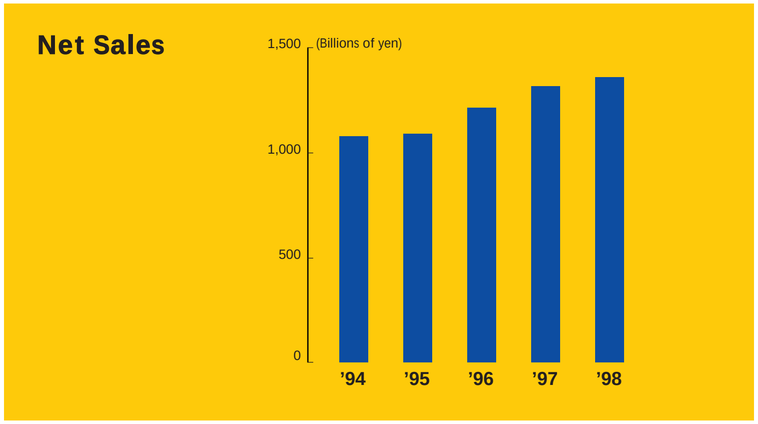
● At the Board of Directors meeting on January 13, 1999, Executive Vice President Shigeo Fukuchi was elected as president of Asahi. Outgoing President Yuzo Seto has taken up the position of chairman.

Yuzo Seto, Chairman, and **Shigeo Fukuchi,** President

We are pleased to have achieved our principal business goals of raising customer satisfaction and creating **Value** for Company **stakeholders** in 1998.

FOR THE YEAR

	Millions of yen		Increase (decrease)
	1998	1997	(%)
Net sales	**¥1,357,217**	¥1,313,257	**3.3**
Operating income	**91,893**	96,299	**(4.6)**
Net income	**579**	11,555	**(95.0)**
Net cash provided by operating activities	**87,837**	94,986	**(7.5)**
Capital investments	**103,449**	100,936	**2.5**



● In 1999, Asahi will celebrate the 110th anniversary of its foundation and the 50th anniversary of its establishment. At this major point in our history, we intend to take the first steps in a new drive to make Asahi, as the centerpiece of the Asahi Group, an outstanding global company.

Management strategies designed to build long-term corporate value have dictated the course of our financial results.

The measures Asahi has implemented to increase value have both qualitative and quantitative targets. We believe our key financial indicators should be evaluated in light of the progress we have made toward these targets.

● The maxim of Asahi's management is to listen to signals from the marketplace and then refine business methods in ways that will raise product quality and customer satisfaction. This applies to all areas of our operations—product development, quality control, and environmental management. The development of our beer business currently revolves around well-defined strategies designed to strengthen the appeal of *Asahi Super Dry.* This appeal provides us with great leverage in expanding our product lineup. At the same time, we are taking initiatives to entrench management standards that are suitable for a company with a global presence.

● In recent years, efforts to strengthen our marketing force have been accompanied by systematic investments in production facilities. Cash from operating activities has been reinvested with a view to sustaining the growth in our beer sales. This investment has been complemented by the disposal of underperforming assets and other measures to increase the efficiency of total capital employed. Our rate of return on assets has risen as a consequence, with improvements realized in both gross profit margins and the asset turnover rate. In addition, a focus on improving free cash flow has enabled us to reduce the amount of our interest-bearing debt from a peak of ¥1,411.1 billion in fiscal 1992 to ¥613.2 billion in the year under review. Our interest coverage has risen significantly, too.

● Each department is now progressing with measures to meet specific targets that have been set for 1999. Increasing the speed of management will be the key to success.

PER SHARE

	Yen		Increase (decrease)
	1998	1997	(%)
Net income	**¥ 1.19**	¥ 25.15	**(95.3)**
Cash dividends applicable to the year	**12.00**	11.00	**9.1**
Shareholders' equity	**777.60**	776.68	**0.1**

Our commitment to freshness adds value—to our profits and to the profits of those who deal with our products.

Masatoshi Uchisaka, Managing Director,
Chief Operating Officer,
Logistics Systems Headquarters

Value in ...
FRESHNESS

We believe that maintaining freshness is extremely important to securing consumer faith in the quality of our beer. Our pursuit of Total Fresh Management principles has not only strengthened the image of *Asahi Super Dry* but also boosted the profile of Asahi as a company that is committed to quality. This is because freshness, as a management concept, extends across and actively involves our procurement, production, distribution, and marketing departments. It focuses our attention on the level of synchronization within the organization, thereby facilitating effective supply chain management, which is crucial to competitiveness in today's fast-paced business environment.

As far as production is concerned, we have made every effort to create a flexible structure that may be adjusted at short notice to meet actual demand. Ultimately, we want to be able to prepare production schedules at a day's notice. Distribution time has been shortened by a number of measures, in particular the introduction of a direct-from-the-brewery delivery system, which has also led to a significant reduction in the volume of inventory at all points in the distribution channel.

On the marketing front, we are striving to improve our understanding and knowledge of the operations of beer wholesalers. Our Marketing Department works closely with our Distribution Strategy Department analyzing sales data and forecasting demand. Based on this work, we are able to offer wholesalers inventory management advice, thereby improving their management efficiency.

Products are one medium by which companies advertise their business philosophy.

Value in ... CREATIVITY

Yuji Ninomiya,
General Manager,
Marketing Department

• **Bottle cap can be easily removed by hand**

• **Fully sealed label cover improves product safety**
• **Designed to facilitate efficient recycling**

Asahi enlisted the help of the Technology Department to come up with a suitable design for the Steiny bottle.

In April 1998, we released our Steiny beer bottle. The bottle combines a number of design concepts—functionality, style, simplicity, and environment friendliness.

The idea to develop the Steiny bottle first came about after we launched advertising campaigns that promoted the 100% waste-recycling rate at our Ibaraki Brewery, which was achieved in 1996. We were surprised by the overwhelming consumer response to these ads, particularly the views concerning product recyclability.

In recent years, the percentage of total beer sales accounted for by aluminum can products has increased. Aluminum is, of course, recyclable, but unlike bottles, cans are not reusable as such. We wanted to design a container that retained the convenience of a can for packaging purposes yet capitalized on a bottle's inherent convenience for recycling. In effect, this was an exercise in incorporating our philosophy on product functionality and environmental conservation into a bottle design.

Because of its packaging, supermarkets and convenience stores have become the main retail outlets for Steiny bottles. In contrast to specialist alcohol retailers, there was no established bottle recovery system at these outlets. We are continuing to work with retailers to establish the infrastructure for bottle recovery and develop efficient recovery systems. This is the first time a beer manufacturer has undertaken such a project in Japan.

Asahi is presented with three major challenges to sustain consolidated growth and join the ranks of the world's best companies.

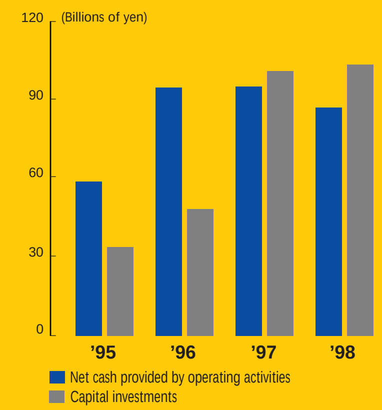
The first is to enhance the marketability of *Asahi Super Dry.* One of the strategies that has propelled its rise to become the most popular beer in Japan is that of creating an image of freshness. In essence, this has been an exercise in improving our supply chain management based on detailed market information gathered by our sales force. The pursuit of Total Fresh Management principles has improved the synchronization between our production, distribution, and sales activities and put substance behind *Asahi Super Dry*'s advertising messages.

● The introduction of the Steiny bottle in April 1998 is another measure that has enhanced the sales potential of *Asahi Super Dry.* The introduction of a returnable bottle has boosted the beer's overall appeal at a time when environmental issues are at the forefront of consumers' minds. This is but one of the measures we have undertaken to realize a 100% recycling rate at all our breweries. We are confident that the creative value-adding measures planned for 1999 will reinforce *Asahi Super Dry*'s popularity.

● The second challenge is to fortify the management of the Asahi Group. With the introduction of international accounting standards in Japan in the fiscal year ending March 31, 2000, the market's focus in evaluating company performance will shift to a group basis. We have made adjustments to the Asahi Group's management, principally in our beer business, with a view to clearly defining the Group's future direction and determining the best strategies to raise overall profitability.

Capital Investments and Cash Flows from Operations

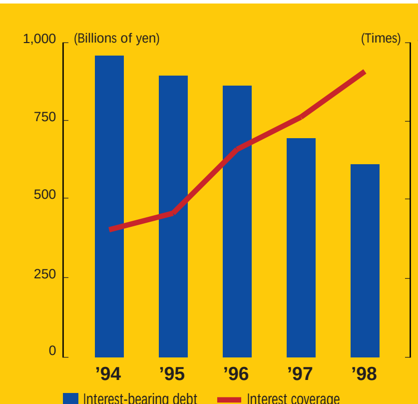
Asahi has strengthened its platform for long-term growth through systematic capital investments.



● The expansion of our overseas operations is the third major challenge confronting management. We are now promoting *Asahi Super Dry* through broad-based alliances in North America, Europe, and China and plan to commence marketing programs tailored to each area in the near future. China has been the focus of our overseas activities in the past few years. The combined

Interest-Bearing Debt/ Interest Coverage

The Company's financial structure has benefited from the planned reduction of interest-bearing debt, which has been made possible by strong cash flows.



production volume of four domestic brewing companies in which we have a capital stake is now the third largest in the country. *Asahi Super Dry* was first manufactured locally in March 1998 by Yantai C.S.I. Brewery Co., Ltd., in Shangdong Province. In spring 1999, brewing will commence at Shenzhen Tsingtao Beer Asahi Co., Ltd., a joint venture with Tsingtao Brewery Company, Ltd., in Guangdong Province. We have transferred state-of-the-art production and environmental technologies to this brewery. In addition, we will establish a domestic marketing subsidiary in 1999.

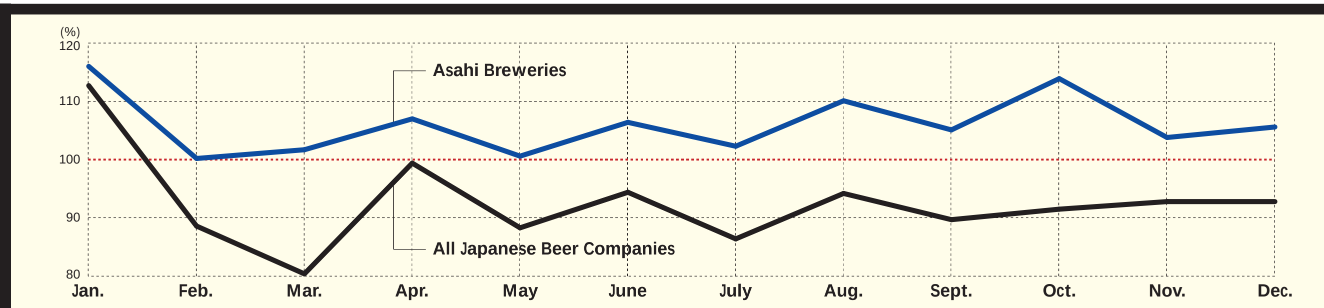
● In North America, we strengthened our marketing capabilities by establishing a domestic marketing subsidiary in Los Angeles, in March 1998, and aim to make *Asahi Super Dry* the top-selling Japanese beer in the United States in 1999. We also set up a marketing subsidiary in London, in May 1998, to build our profile in Europe.

In 1998, we made major changes to our organizational structure to provide us with the flexibility required to evolve in a fast-paced operating environment. The underlying theme of the reforms was individual empowerment.

Specifically, in September we reorganized our head office into seven headquarters. This was done after thoroughly evaluating our ability to convert ideas into strategy and subsequently action in the workplace under our existing structure. Approximately 100 employees have been relocated to reinforce our frontline activities.

● One of the primary aims of the head office rationalization was to shift decision-making authority closer to the point of decision implementation. We believe the speed and quality of decisions are optimized when made by those close to information sources. At a higher level, we set up a Corporate Management Strategy Committee and an Advisory Board comprising opinion leaders from outside the Company to complement the work of the Executive Board in formulating management policy. The input from these bodies will assist us in identifying issues that are most important to our future and charting a course for sustained growth.

Beer shipments in Japan in 1998 (1997=100%)



In a broad sense, a product's appeal reflects its own qualities as well as those of the company that makes it. We aim to use technology to strengthen both.

Koichi Asahi, Managing Director,
Chief Operating Officer,
Production Headquarters

Value in ... TECHNOLOGY

From a customer's perspective, our job is to create products that provide them with pleasure. If we are to meet customers' expectations, it is not acceptable for us to compromise on details.

Maintaining freshness is the *raison d'être* of draft beer production technology. Facilities and quality control methods must meet high technical standards to attain consistent beer quality.

We are gradually moving from a production system based on demand forecasting to one in which production is activated by the receipt of an order. The demands made of production technology under such a system are considerably higher.

Society's interest in the environmental qualities of products has reached an unprecedented level. One of the challenges for our engineers is to put scientific justification behind our claims of caring for the environment. We have achieved a 100% waste-recycling rate at all our breweries.

At our Nagoya Brewery, we have reduced CO_2 emissions and eliminated the use of CFC-substitute coolants and are progressing with work to create efficient total energy systems. These are among the most advanced environment-related projects in Japanese industry.

In China, we hope to improve the level of brewing, in terms of quality control and environmental impact, through technology transfers to Shenzhen Tsingtao Beer Asahi Co., Ltd., our local joint venture with Tsingtao Brewery. Operations are scheduled to commence in spring 1999.

● As elsewhere, the digital information revolution is having a profound effect on the way we do business and ultimately our organizational structure. Since 1995, we have been constructing an information network system, which now ranks as one of the largest in the industry. In 1998, we added new functions to our Internet web site to hear consumers' opinions directly and in real time. Employees can access these opinions via our intranet. Also, to facilitate electronic data interchange, we completed work to network our computer systems with those of our major customers and are now linking our systems to those of other Asahi Group member companies. Computer and telecommunications technologies are quickly rendering obsolete the traditional command/response channels in pyramidal organizational structures. They allow information to flow smoothly and accurately in flatter structures that greatly reduce the time and resources spent on administration. The productivity increases afforded by our information systems enable us to devote greater resources to market research and other activities more directly related to raising customer satisfaction.

We have introduced a personnel evaluation and reward system that emphasizes performance to create a better-motivated and more-skilled workforce.

Our development as a company is inextricably linked to the development of our employees. Now that we have reached the top position in the domestic beer industry, it is even more important that we raise individual skill levels.

● For management, the ability that we value most is that of being able to respond promptly to change. This is especially so in today's operating environment. A large percentage of our workforce belongs to a younger generation that has risen through the ranks at a time when there has been great change at Asahi. We are fortunate that it has also been a time when Asahi has experienced a prolonged period of high market share and profit growth. Five years ago, we inaugurated a double job specialist system under which employees are rotated to different departments. It has proved successful in achieving the desired objective of

MAJOR TOPICS (Domestic)

Shikoku Brewery

● In June 1998, Asahi brought the Shikoku Brewery on line. In its ninth domestic brewery—the first brewing facility operated by a major Japanese beer producer in Shikoku—Asahi has incorporated innovative production technologies and architectural design concepts to realize its concept of an ideal brewing facility.

100% Recycling

● As of November 1998, all production facilities in the Asahi Group had realized 100% recycling of waste and by-products. Moreover, the Fukushima Brewery obtained ISO 14004 certification in December 1998.

diversifying employee skills and will continue to be used.

● In September 1998, we introduced a performance-based evaluation system. Amid a rapidly changing employment market, it is crucial that personnel evaluation systems not only encourage creativity and drive but also reward these qualities. We believe that our new system will contribute significantly to strengthening the ranks of our future management candidates.

The process of increasing corporate value involves the careful consideration of the benefits that society will derive from our business strategies. Today, people are very aware of the influence that companies' operations have on the environment. Environmental conservation has long been a priority of our management policies, and we have taken numerous initiatives to minimize the environmental impact of our operations. By the end of 1998, all nine of Asahi's breweries as well as three production facilities at subsidiaries in the Group's soft drinks business had realized waste-recycling rates of 100%. Specific measures taken to achieve this target are outlined in the environmental section of this report. We are now progressing with large-scale projects at breweries to reduce greenhouse gas emissions and improve energy efficiency.

● Thanks to the success of *Asahi Super Dry,* our business has gathered considerable momentum in recent years. The challenge we now face is to build on this momentum and extend the excellent reputation we have in Japan to the international stage. As mentioned at the start of this message, consumer satisfaction and corporate value are the maxims of our management philosophy. We intend to remain true to them in our endeavors this year.

March 1999

Yuzo Seto,
Chairman

Shigeo Fukuchi,
President

MAJOR TOPICS (Overseas)

China

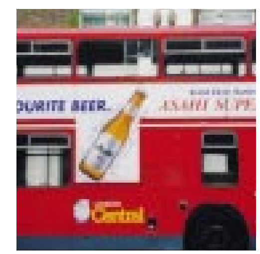
● ***Asahi Super Dry* began being brewed in China in March 1998 by Yantai C.S.I. Brewery Co., Ltd. This is a significant step for Asahi toward building market share in what is potentially the world's biggest beer market.**

U.S.A.

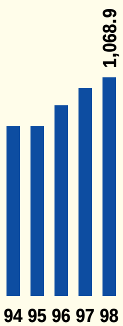
● **In March 1998, Asahi and Miller Brewing Company formed Asahi Beer U.S.A., Inc., a marketing joint venture in Los Angeles.**

EU

● **In May 1998, Asahi established Asahi Beer Europe Limited, in London, to promote *Asahi Super Dry* in Europe.**



Alcoholic Beverages



Beer

Amid extremely harsh conditions caused by a sharp decline in overall demand for beer, Asahi achieved about a 6% increase in the sales volume of beer—the only company in the industry to post a gain from the previous term—and thus raised its market share for the seventh consecutive year.

As a result, Asahi garnered the top share of the domestic beer market.

Looking at performance by product, the Company's flagship beer, *Asahi Super Dry,* recorded about an 8% increase in sales from the previous term. *Asahi Super Dry* posted annual sales of over 100 million cases for the 10th consecutive year, solidifying its position as the top brand in the domestic market.

Asahi's Steiny series of beers feature returnable bottles, which have earned extensive plaudits for being environment friendly as well as for being innovatively and attractively designed. Sales of the Steiny series of beers reached 8.8 million cases during the current term while sales of beers with distinctive tastes, including dark beers and premium beers, amounted to 4.1 million cases, and the market for such beers is expected to grow in the future. Sales of keg draft beers, which have enjoyed surging popularity, rose about 9% from the previous term, surpassing the industry average. This strong performance is attributable to aggressive marketing that included the introduction of five-liter kegs, the smallest size in the industry, as well as improvements in quality control.

On the marketing front, guided by the Companywide slogan, "Challenge, Energy, Inspiration," Asahi aimed to further raise quality levels, focusing efforts on achieving higher degrees of freshness and reducing the time from production to delivery to retail outlets, as the Company worked to continually supply customers with fresh beer. Concurrently, the Company deployed its leading-edge information systems to aggressively carry out proposal-based marketing activities.

The content of Asahi's advertising and promotional campaigns focused on elucidating the distinctive features of each brand, particularly *Asahi Super Dry,* as well as building a broader customer base and strengthening product loyalty.

Thanks to these efforts, sales of beer products increased 5.6% over the previous term, to ¥1,013,194 million.

Other Alcoholic Beverages

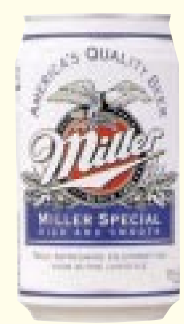
Most of Asahi's operations in alcoholic beverages other than beer are handled by the Nikka Whisky Distilling Co., Ltd. The decline in whiskey prices that followed a further reduction in taxes under the Liquor Tax Law in May 1998 led to an increase in shipments of whiskey products for retail customers during 1998. In contrast, commercial product shipments fell amid the depressed business environment.

Against this background, Nikka Whisky concentrated its efforts on marketing *New All Malt, New Malt Club, Black Nikka Clear Blend,* and other whiskeys for the household sector. In particular, Nikka Whisky capitalized on the popularity of *Black Nikka Clear Blend* whiskey by releasing two can products as well as a large bottle in May. Also, a limited release whiskey commemorating 34 years of distilling at Nikka Whisky was released in June and proved extremely popular. Thanks to these measures, the Company

Super Dry

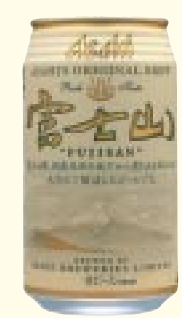
First Lady "Silky"

Draft Beer Beer Water



Miller Special

Kuronama



Fujisan

realized an increase in sales volumes of retail products.

Nikka Whisky expanded its wine importing activities in 1998, importing the Chilean wine *Undoraga* from July and Beaujolais products from November upon the removal of import restrictions on this type of wine. Also, sales of the Company's sparkling wine, *Cidre,* rose sharply during 1998, thanks to the success of a relaunch campaign in September.

Asahi's domestic subsidiary Asahi Beer Winery, Ltd., produces *La Vin* and *Festa* wines. Against the background of an ongoing wine boom in Japan, Asahi worked aggressively to position these products as mainstay items at retail sales locations as well as at eating and drinking establishments.

Sales of other alcoholic beverages, including *High-Club, Chugokushu Kiraku,* and *Hooper's Hootch,* declined 9.2% from the previous year, to ¥3,450 million.

Reflecting these results, consolidated sales of alcoholic beverages rose about 5% from the previous year, to ¥1,068.9 billion.

Outlook

In fiscal 1999, the Japanese economy is expected to post a mild recovery due to a pickup in private demand and the effects of measures to stabilize the financial sector. Amid this economic climate, overall demand for beer is projected to increase slightly, as various brewers focus on improving product quality and introducing new products to stimulate overall demand. This outlook, however, assumes normal weather conditions.

Asahi will continue to emphasize coordination and efficiency in enhancing the quality of management in its beer business. Specifically, the Company will strengthen its basic marketing capabilities and make full use of its information systems in developing proposal-based marketing strategies. By taking these steps, Asahi is confident of raising the quality of its beers, in particular, their freshness.

In addition to building the momentum of *Asahi Super Dry,* Asahi will work to increase market demand by promoting *Asahi Draft Beer Beer Water,* a new category of draft beers introduced in anticipation of changes in customer preferences. In addition, Asahi will further cultivate and expand sales of specialty beers, including *Asahi Kuronama (Black Draft Beer)* and *Asahi First Lady "Silky"*, as well as region-specific beers.

On the international front, a state-of-the-art brewery at Shenzhen Tsingtao Beer Asahi, in Shenzhen, Guangdong Province, China, is scheduled to commence operations in spring 1999. In the current year, efforts will be focused on promoting sales of *Asahi Super Dry* in China in the principal coastal cities of that country. In North America, Asahi will continue its activities to expand local sales of *Asahi Super Dry* in the overall market and will aim for a more than twofold increase in sales compared with the previous fiscal year. In Europe, the Company will strengthen its sales activities in the United Kingdom, France, and Germany and conduct further research on establishing local production capabilities.

Regarding other alcoholic beverages, Asahi will refine its lineup of whiskey products to enhance sales growth potential and take steps to capitalize on the growing popularity of wine in Japan.

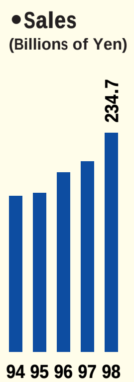
Steiny Series

Chateau Climens (French)

Bardolino Classico (Italian)

SantaHelena Sigro de Oro Cabernet Sauvignon (Chilean)

Soft Drinks and Food



Soft Drinks

Asahi's operations in the soft drinks market are handled by the subsidiary Asahi Soft Drinks Co., Ltd. In fiscal 1998, Asahi's soft drink sales volumes rose 10% above the previous year's level, to 124.6 million cases—the third consecutive year of double-digit increases.

During fiscal 1998, unseasonable weather in the peak demand season combined with the ongoing slump in consumer spending resulted in overall soft drink shipments slipping 1%, to 1.56 billion cases. In marketing, the company pursued brand building strategies using advertisements featuring popular sporting figures: golf sensation Tiger Woods for *WONDA* coffee; baseball star Ichiro Suzuki for *Mitsuya Cider* soda pop; and Japanese soccer star Hidetoshi Nakata for *Eau+* conditioning water. On the sales front, Asahi Soft Drinks boosted the number of vending machines in its network by 16,000, to 156,000.

Looking at performance by drink type, in carbonated beverages, Asahi Soft Drinks introduced 500ml PET bottles for its *Mitsuya White Soda* and *Mitsuya Sawayaka Orange* products. However, shipments of *Mitsuya*-brand drinks declined 11% below the previous fiscal year's level, to 25.4 million cases. The company strengthened its lineup of *Bireley's*-brand noncarbonated fruit juices and fruit drinks by releasing *Muscat* flavor. Despite the encouraging performance of these items, shipments of products in this brand contracted 15%, to 14.8 million cases. Shipments of canned coffee surged 42%, to 25.6 million cases, lead by Asahi Soft Drinks' best-selling *WONDA* brand coffee.

In Japanese tea, shipments of *Asahi Juroku-cha,* a blended tea containing 16 different herbal ingredients that is now in its sixth year on the market, were steady, while those of *Ajiwai-Ryokucha* soared 50%, helped by its launch in two-liter and 500ml PET bottle sizes during the fiscal year. As a result, Asahi's total Japanese tea shipments expanded 3%, to 27 million cases.

In February, Asahi Soft Drinks capitalized on the brand appeal of *Teao,* its popular sugarless mildly sweet tea, by releasing milk tea and lemon tea drinks under this name. The contributions of these new products resulted in black tea shipments growing 38%, to 11.5 million cases, and exceeding the 10 million case mark for the first time.

The sugarless conditioning water *Eau+,* which debuted in the market in March 1998, proved to be a hit with consumers. The company sold approximately 7.3 million cases during the year under review. However, in August media reports emerged that one of the ingredients of *Eau+* had a laxative effect. Asahi Soft Drinks immediately replaced products in the market at the request of customers to effectively eliminate any cause for concern.

Food

Asahi's food-related operations are mainly carried out through a wholly owned distributor Asahi Beer Food, Ltd. This subsidiary markets food ingredients, principally brewer's yeast extracts, as well as various dried vegetable flakes, cooked frozen foods, and other processed foods. Asahi Beer Food's acquisition of Nippon Freeze Drying Co., Ltd., a food ingredient manufacturer, in January 1998 as well as the introduction of new *otsumami shozai* (side dishes) products contributed to sales growth during the year. *Otsumami shozai* products have sold extremely well to convenience stores since their introduction into the market in 1997.

Sales of yeast-based seasoning products used in food processing decreased slightly due to slack consumer demand. Sales of freeze-dried foods—primarily white spring onion, cabbage, corn, shrimp, and other foods used in cup noodle products—rose significantly, with an increase in exports more than offsetting the effects of stagnant domestic demand. Sales of frozen foods for commercial use increased about 3%, while sales of consumer retail products, including *otsumami shozai,* jumped 208%.

Due to the preceding factors, in fiscal 1998, consolidated sales of soft drinks and food increased about 15%, to ¥234.7 billion.

Outlook

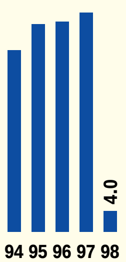
In 1999, the demand for soft drinks and food is expected to increase slightly with an improvement in general economic conditions in Japan. Asahi Soft Drinks will conduct brand development activities under the slogan "Make Today for a Bright Tomorrow," with the aim of achieving a double-digit increase in sales for the fourth consecutive year.

In the area of product development, Asahi Soft Drinks will strive to reinforce its reputation for offering safe, healthy, and tasty products and fortify its lineup with items that complement its mainstay brand products. In sales activities, the company continued to expand its network of vending machines while developing new sales points.

In production, Asahi Soft Drinks' Kashiwa and Akashi plants are on schedule to obtain ISO 9002 certification for their quality control systems by April 1999. The company's Hokuriku plant received certification in December 1998. In addition, the three plants realized 100% waste-recycling rates during 1998 and are on schedule to obtain ISO 14001 certification for their environment management systems in 2000.

Pharmaceuticals

•**Sales**
(Billions of Yen)



In fiscal 1998, sales of prescription and over-the-counter (OTC) drugs contracted 3% below the level in the previous fiscal year as pharmaceutical manufacturers struggled to shake off the effects of declines in national health insurance (NHI) reimbursement prices as well as weak demand for OTC drugs.

Sales of Asahi Beer Pharmaceutical Co., Ltd.'s *EBIOS* brewer's yeast preparation edged up 1% during the year under review, despite unfavorable market conditions, after two consecutive years of sales declines. Combined sales of the company's lactic acid bacteria preparations, *New Lactone A* and *Lactcoat,* rose 14%, thanks to efforts to cultivate ties with mass-sales outlets.

Sales of prescription Chinese medicines fell 23% due to the aforementioned unfavorable market conditions.

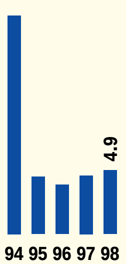
In consumer health care products, the company increased sales of commercial-use bath powders for the fifth consecutive year amid rigorous competition, securing five new supply contracts. Household-use bath powder sales also rose as a result of their expanded use by companies in promotional activities. These results contributed to a 16% increase in total consumer health care product sales.

In December 1998, Asahi accepted a tender offer by Japan Tobacco Inc. for its consolidated subsidiary Torii Pharmaceutical Co., Ltd., which had engaged in the development and marketing of ethical drugs, thereby leaving Asahi Beer Pharmaceutical as the sole consolidated subsidiary responsible for Asahi's operations in the pharmaceuticals market.

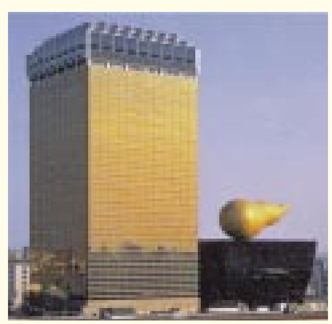
As a result of these performances, Asahi's consolidated pharmaceutical sales declined 90%, to ¥4.0 billion.

Real Estate

•**Sales**
(Billions of Yen)



There were signs of improvement in the Japanese real estate market in fiscal 1998. By improving the management efficiency of its real estate holdings and responding to market needs, Asahi was able to boost consolidated real estate sales 10%, to ¥4.9 billion.



Asahi's head office

Corporate Citizenship

Since its establishment in 1949, Asahi has been an active participant in a wide range of community activities. In 1990, we introduced a new corporate policy in which we declared community activities to be one of the main issues concerning a company and committed ourselves to participate in them. We also formed the Culture and Philanthropy Department to promote this policy—the department was later reorganized as the Environment & Culture Promotion (ECP) Department.

Through this new organization, Asahi has steadily expanded its corporate citizenship activities. On the one hand, we formed an external policy that is aimed at ensuring that we become a company in which society can trust. On the other hand, to promote activities for fostering both community and culture, Asahi's internal policy is that the Company aims to encourage its employees to become more involved in community activities and in experiencing art and culture.

"Quality" and "Challenge" are two key words for these activities as well as for our business. Such activities are categorized under the following three themes:

❶ Contributing to the creation of culture for the future

❷ Pioneering activities cooperating with private nonprofit organizations (NPOs)

❸ Developing a program to encourage our employees to participate in both volunteer activities and cultural events

❶ Supporting the Development of Arts and Culture

Asahi supports various artists in a wide range of fields. Innovative music, pioneering visual art, and original performance are fields in which we are prominent in our sponsorship. Such support, however, is intended not only to promote or hold events but also to support the process of creating pioneering arts. We hope to contribute to the ongoing development of various art forms by supporting younger talented artists in particular.

Asahi Beer Lobby Concerts

Asahi inaugurated free concerts in the lobby of its head office in 1990 at the suggestion of its employees. The organization of these concerts is handled by Asahi employees. In the concerts, we introduce types of music that are rarely heard, combinations of curious instruments, or music by still-unknown younger musicians. In 1998, we held approximately 20 concerts in our brewing facilities around Japan as well as in the head office.

Asahi Beer Lecture & Concert Series

In 1997, Asahi began a new series of events that consisted of lectures about certain kinds of music as well as performances of these kinds of music. The music that was introduced in this series comprised various kinds of Japanese music with which people were not so familiar. The performances in 1998 included the chants of Buddhist monks from the *Shingon* sect, which was known as *Shingon Shoumyo,* as well as songs sung by workers when making Japanese sake employing traditional methods. We also staged a unique musical performance in which the tunes were played using toys as musical instruments, and 180 kinds of these toys were exhibited.

❷ Cooperation with Private Nonprofit Organizations (NPOs)

NPOs have risen in prominence in recent years, and Asahi supports their activities in a wide range of fields, including welfare, culture, and international exchanges. As a part of its ongoing efforts to contribute to NPO activities, Asahi conducts an NPO exchange program as a part of its training program for new employees.

Kids Project

NPOs currently take a leading role in dealing with many recent social problems. One such problem is that of children who have lost their parents or children who cannot live with their parents for various reasons. At first, several Asahi employees began a private project in which they communicated with these children. This project gradually involved the whole Company and was named “Kids Project” in 1998. The activities of Kids Project included visits to farms and Asahi production facilities with the children as well as a party for them at the Asahi head office to view a large Japanese fireworks show, the Sumida River fireworks.

Kids Project

New Employee Training Program

Cooperating with Asahi’s Personnel Promotion Department, the ECP Department has begun conducting a secondment work program with staff from NPOs as a part of the training of new employees. This program’s goals are: 1) Raising employees’ awareness of the needs of various groups in the community; 2) Supporting the work of NPOs. In 1998, these employees experienced communicating through sign language and the difficulties of using wheelchairs.

❸ Community Volunteer Activities

It is the Asahi employees themselves who plan and participate in many community volunteer activities. In 1997, ECP Promotion Committees were established in all of Asahi’s offices to increase the number of opportunities for employees to take part in these activities. Outlined below are our new activities planned for 1999.

My Action Day Program

Asahi inaugurated a program called “My Action Day” to encourage all employees, including senior management, to participate in volunteer activities at least once a year. The type of volunteer work undertaken is completely at the discretion of employees. The ECP Department provides them with various types of assistance to enable them to pursue their chosen activities.

Matching Gift System

Asahi has established a volunteer work holiday system to allow its employees to take a holiday to pursue volunteer activities. In 1999, furthermore, Asahi will complement this system with its Matching Gift System. Under this system, the Company covers expenses spent by employees in conducting volunteer work and matches donations made by them to charitable institutions.

Employees Culture Promotion Programs

Asahi organized art gallery tours to cultivate an appreciation of art among its employees. In 1999, the Company plans to expand its cultural awareness activities by conducting backstage tours of drama and dance theaters. Tour guides will explain the types of drama and dance performances as well as the various backstage activities.

The Asahi Beer Oyamazaki Villa Museum in Kyoto

Environmental Issues

ENVIRONMENTAL POLICY

Philosophy

We believe that a beautiful natural environment is essential to a healthy, happy life. It is our responsibility to stop environmental destruction and leave the earth in a condition that will allow future generations to enjoy a quality of life that is superior to ours. The Asahi Group will promote measures to preserve and improve the natural environment and strive to create an environmentally sound and sustainable economy.

Action Guidelines

(1) Carefully preevaluate the environmental impact of products in all stages of the product life cycle—production, distribution, consumption, and disposal—and promote environmental conservation in product and technology development activities
(2) Promote waste reduction and recycling as well as resource and energy conservation in all business activities
(3) Meet our duty as a corporate citizen to pursue growth that is harmonious with the global environment, actively participate in environment-conservation activities, and encourage employees to voluntarily participate in such activities
(4) Establish an internal organization to promote environmental conservation and raise employee awareness of environmental issues

ENVIRONMENTAL OBJECTIVES AND TARGETS

Achievement of 100% Recycling at All Breweries

In 1996, the Ibaraki Brewery became the first Asahi production facility to realize 100% recycling of waste and by-products. In 1997, the Fukushima and Tokyo breweries emulated this feat, and by the end of 1998, all nine breweries in Asahi's domestic production network had effectively eliminated waste generated in production. Furthermore, the three production facilities operated by Asahi Soft Drinks and four Asahi Beer Gardens achieved 100% recycling in 1998.

Promotion of Energy-Saving Activities

Reducing the volume of fuel, electricity, and water used in production is one of Asahi's environmental management priorities. To this end, we are taking the following measures:

• Installing total energy systems that maximize the efficiency of heat and electricity usage at all our breweries. These systems utilize such technologies as cogeneration systems, ice thermal storage systems, and heat pumps.
• Introducing closed cleaning water recycling systems to reduce the amount of cleaning water used in production and improve its quality. These systems employ filtration, activated charcoal absorption, membrane, and ozone water treatment processes.

Containment of Greenhouse Gases

By 2000, Asahi plans to reduce the volume of CO_2 emitted per unit of output by 20% compared with the level in 1990.

Measures taken to achieve this objective have included:

• Transforming the Nagoya Brewery into a chlorofluorocarbon (CFC)-free production facility (work was completed in 1998)
• Introducing ammonia-absorption refrigerators, thereby eliminating the use of HFCs and CFCs as coolants
• Introducing fuel cells at the Shikoku Brewery in 1998
• Harnessing methane gas, extracted from anaerobic wastewater in treatment processes, as an energy source

Promotion of Container Recycling Activities

• Maintaining a system for bottle return and recycling
• Introducing a new bottle designed for easy recycling
• Promoting recycling of aluminum cans (Asahi is an active member of the Japan Aluminum Can Recycling Association and the Beverage Industry Environment Beautification Association, which promote environment-friendly food and beverage packaging.)
• Reducing the weight and volume of containers and packaging materials

Improvement of Environmental Management Systems

• Obtaining ISO 14001 certification for all breweries
• Conducting environmental audits at all breweries

WASTE RECYCLING AT BREWERIES

In November 1996, the Ibaraki Brewery became the first Asahi brewery to realize 100% recycling for its waste and by-products. This achievement was the result of the combined efforts of employees at the brewery, whose suggestions formed the basis of measures to eliminate waste generated at each sorting station. The key lesson learned in this process was that 100% waste recycling is best achieved by breaking the waste down into its constituent materials.

The Tokyo and Fukushima breweries followed the lead of the Ibaraki Brewery, realizing the 100% recycling target in October 1997. By 1998, Asahi's nine breweries, including the newly opened Shikoku Brewery, had effectively eliminated industrial waste from their operations. Moreover, the three plants operated by Asahi Soft Drinks—Kashiwa, Akashi, and Hokuriku—completed waste-recycling measures in 1998.

Waste and By-Product Recycling Results at All Breweries

	1995	1996	1997
Production volume (thousand kl)	1,880	2,117	2,345
Waste generated			
Total volume (thousand tons)	322	359	365
Unit volume (kg/kl)	171	170	156
Volume of waste recycled (thousand tons)	304	349	357
Waste-recycling rate (%)	94.6	97.1	98.0

Waste Breakdown

(Tons)

	1997	
	Waste Volume	Recycling Volume
Spent grain	281,278	281,278
Spent yeast	17,624	17,624
Sludge/screen dregs	32,927	28,659
Malt dust	6,385	6,383
Plastic	2,499	62
Pallets	2,296	2,296
Plastic crates	650	650
Glass	15,966	15,950
Bottle crowns	42	24
Labels	2,197	1,815
Cardboard	667	632
Aluminum	576	576
Other metal	546	546
Oil	16	15
Furnace ash	179	135
Miscellaneous	695	500
Total	364,543	357,145
Waste-recycling rate (%)	98.0	

HISTORY OF ENVIRONMENTAL CONSERVATION ACTIVITIES

1963	• Introduced wastewater treatment systems
1973	• Established the Energy Efficiency Committee
1987	• Introduced lithium odor-absorption refrigerators (waste heat recovery)
1988	• Introduced anaerobic wastewater treatment systems
1989	• Introduced steam recovery systems to harness steam generated in production for energy reuse (closed steam system)
1991	• Established the Living Environment Department (now the Living Environment Office) • Established the Living Environment Committee
1993	• Established Asahi's basic policy on environmental conservation
1995	• Established the Energy Conservation and Waste Reduction Promotion Committee under the Living Environment Department
1996	• Established environmental management committees at all breweries • Achieved 100% recycling at the Ibaraki Brewery
1997	• Introduced cogeneration systems and ammonia-absorption refrigerators to improve overall efficiency of energy usage and eliminate CFC-substitute coolants • Established environmental audit guidelines • Began conducting environmental audits • Achieved 100% recycling at the Fukushima and Tokyo breweries • Established the Life Cycle Assessment Research Team under the Living Environment Committee

1998	• All Asahi's breweries achieved 100% recycling • Operations commenced at the Shikoku Brewery, which incorporates the latest environmental technologies • Fukushima Brewery received ISO 14001 certification
1999	• Nagoya Brewery realizes CFC-free operations

Awards

1995	Hakata Brewery	The Energy Conservation Prize: Commendation from the Minister of International Trade and Industry (The Energy Conservation Center)
1996	Hokkaido Brewery	The Energy Conservation Prize: Commendation from the Minister of International Trade and Industry (The Energy Conservation Center)
1997	Ibaraki Brewery	Environment-Friendly Company Award (Ibaraki Prefecture)
	Ibaraki Brewery	Superior High-Tech Facility Award (*Nihon Keizai Shimbun*)
1998	Asahi Breweries	Global Environment Award (*Nihon Kogyo Shimbun,* Minister of International Trade and Industry)
	Suita Brewery	21st Century Energy Award (Chairman, Energy Federation)

ENERGY CONSUMPTION

Reducing the consumption per unit output of fuel, electricity, and water is one of our fundamental environmental objectives. Each year, we set new targets for improving this figure for each of these three major production inputs. To date, we have successfully met our targets, realizing a significant improvement in energy efficiency.

For example, in 1997 we installed a cogeneration system at our Suita Brewery to improve the overall efficiency of total waste heat and electricity usage. The system recovers waste heat produced by electricity generators for use as a fuel for ammonia-absorption refrigerators. Since the introduction of the system, electricity consumption and cost per unit of output has been reduced by 20% and 35%, respectively. A similar system installed at our Nagoya Brewery in 1998 has trimmed fuel and electricity consumption approximately 14% and energy costs approximately 30%.

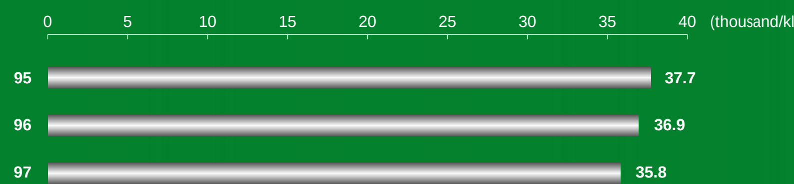
By 2000, we aim to reduce the consumption per unit output of fuel, electricity, and water between 20% and 50% compared with the 1990 levels.

Energy Consumption at Breweries

	1995	1996	1997
Production volume (thousand kl)	1,880	2,117	2,345
Fuel			
Volume (million kcal)	708,870	781,303	839,510
Volume per unit output (thousand kcal/kl)	377	369	358
Electricity			
Volume (thousand kWh)	277,480	287,516	315,403
Volume per unit output (kWh/kl)	147.6	135.8	134.5
Water			
Volume (thousand m^3)	16,021	17,301	18,760
Volume per unit output (m^3/kl)	8.5	8.2	8.0

Consumption per Unit of Output

Fuel



Electricity

Water

GREENHOUSE GASES

We are striving to reduce the volume of CO_2 emitted per unit of output by implementing fuel and electricity saving measures, employing low CO_2 emission fuel alternatives, and taking other appropriate actions. In Shobara, Hiroshima Prefecture, we manage forests covering an area of 2,169 hectares. These forests generate 31,500 tons of oxygen and consume roughly 43,000 tons of CO_2 a year, which is equivalent to approximately 12% of the total annual CO_2 emissions at all our breweries.

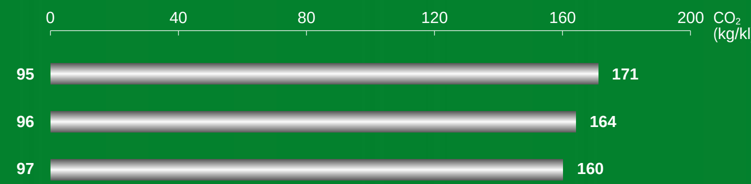
By 2000, we aim to reduce the volume of CO_2 per unit of output at breweries by 20% compared with the level in 1990.

The introduction of ammonia-absorption refrigerators together with cogeneration systems at breweries in 1997 has allowed us to make a greater contribution to the prevention of global warming by eliminating CFC-substitute coolants, such as HFCs, that contribute to the greenhouse effect.

Volume of CO_2 Emissions at Breweries

	1995	1996	1997
Production volume (thousand kl)	1,880	2,117	2,345
Emission volume			
Boiling (thousand tons)	185	194	215
Fermentation (thousand tons)	46	50	41
Production processes (thousand tons)	57	64	74
Wastewater treatment (thousand tons)	34	40	44
Subtotal (thousand tons)	322	348	374
Emission per unit of output (kg/kl)	171	164	160
CO_2 absorption capacity of forests (thousand tons)	43	43	43
Net CO_2 emissions (thousand tons)	279	305	331

Volume of CO_2 Emissions per Unit of Output



Energy Conservation and CO_2 Emission Controls

1. Gas turbine cogeneration systems and ammonia-absorption refrigerators that utilize steam generated by cogeneration systems
2. Steam cascade systems that drive back-pressure turbine propellers on ammonia-absorption refrigerators
3. Use of methane gas generated during the treatment of anaerobic wastewater as an energy source
4. 100% recycling of steam generated in production

Elimination of CFC-Substitute Coolants

In 1998, Asahi realized CFC-free operations at its Nagoya Brewery. Various measures were taken to eliminate the use of CFC-substitute coolants and HFCs as coolants, not only in production processes but also in all brewery equipment, including ventilation systems, refrigerators, and even vending machines. We are now implementing a similar program at our Shikoku Brewery.

Outlined below are the measures we have taken to eliminate CFC-substitute coolants from our operations.

1. Introduction of power cogeneration systems and ammonia-absorption refrigerators to eliminate CFC substitute coolants. These facilities also help conserve energy and reduce CO_2 emissions.
2. Replacement of air-conditioning systems with those that employ ammonia, propane, chilled water, or other natural coolants
3. Modification of vending machines, refrigerators, and other equipment to allow the use of ammonia, isobutane, chilled water, and other natural coolants

CONTAINER RECYCLING

Asahi consistently strives to increase the percentage of beer bottles that pass through its bottle return and recycling system. To this end, in 1998, Asahi brought out the *Asahi Super Dry Steiny* and several new products packaged in Steiny bottles, which have been designed for a new, more-efficient recycling process.

Aluminum cans are the other main type of beer containers. In 1996, more than 70% of all aluminum beer cans sold in Japan were recycled. Asahi is an active member of the Japan Aluminum Can Recycling Association and the Beverage Industry Environment Beautification Association, which comprise companies in the food and beverage industry that are responsible for the establishment of can-recycling facilities as well as the promotion of container recycling.

Bottle Return Results

Bottle size	1995	1996	1997
Large (633ml)			
Shipment volume (thousand cases)	32,055	33,007	34,989
Return volume (thousand cases)	31,314	31,601	33,270
Return rate (%)	97.7	95.7	95.1
Medium (500ml)			
Shipment volume (thousand cases)	22,530	24,140	25,960
Return volume (thousand cases)	22,336	23,888	25,716
Return rate (%)	99.1	99.0	99.1
Small (334ml)			
Shipment volume (thousand cases)	1,981	2,318	2,402
Return volume (thousand cases)	1,935	2,244	2,341
Return rate (%)	97.7	96.8	97.5

STRENGTHENING ENVIRONMENTAL MANAGEMENT SYSTEMS

In 1997, we established guidelines for environmental management audits and began voluntary internal audit activities. Subsequently, in the Asahi Management Philosophy and Company Action Policy, introduced in January 1998, we stated clearly our commitment to the environment and safe brewery operations.

In December 1998, our Fukushima Brewery received ISO 14001 certification, an internationally recognized set of environmental management system standards. We aim to obtain this certification for all our breweries by 2000.

We have established a Life Cycle Assessment Research Team to research the environmental influences in all stages of our business operations—product design, production, distribution, and consumption—with a view to minimizing their impact.

Brewery Environmental Audit Inspection Categories

Items in the Asahi Environmental Management Audit checklist are divided into the following eight main categories.

1. General environmental management controls
2. Water pollution controls
3. Air/odor pollution controls
4. Sound/vibration pollution controls
5. Waste treatment measures (including recycling and resource conservation)
6. Energy conservation controls (fuel, electricity, water, and carbon gas)
7. Education, training, and regional activities
8. Other specific areas (CFCs and their substitutes, brewery foundation subsidence, and PCBs)

Environmental Audit Process

1. An audit team is appointed by the brewery's Environmental Management Committee (EMC) to perform its inspection duties.
2. Audit results are reported to the EMC.
3. Within one month, unsatisfactory results must be remedied or appropriate measures must be submitted to the EMC.
4. Auditors confirm the remedy of all unsatisfactory results and report to the EMC.
5. Results of all audits as well as measures to remedy unsatisfactory results are reported to the Lifestyle Environment Committee.

ASAHI BEER Environmental Issues

ENVIRONMENTAL MANAGEMENT ORGANIZATION

EXECUTIVE BOARD

LIVING ENVIRONMENT COMMITTEE

Chairman: Director responsible for environmental affairs
Members: General managers of related departments
Section in charge: Total Quality Headquarters, Environment & Culture Promotion Department

Functions

1. Deliberate on environmental policies and report to the Executive Board
2. Deliberate on environmental problems and propose measures to overcome such problems
3. Study methods to promote product development, work environment, and environmental conservation activities in accordance with Asahi's basic environmental policy
4. Approve environmental management activities as well as audit procedures, measures, and guidelines at breweries
5. Approve the results of brewery environmental audits

LIFE CYCLE ASSESSMENT RESEARCH TEAM

Members: Related departments
Section in charge: Total Quality Headquarters, Environment & Culture Promotion Department

Functions

1. Conduct product life cycle assessments and collect related information
2. Report and promote research activities and findings

ENERGY CONSERVATION AND WASTE REDUCTION PROMOTION TEAM

Members: Related departments
Section in charge: Environmental Management Office, Production Department

Functions

1. Evaluate and promote energy conservation, waste reduction, and environmental conservation measures in accordance with Asahi's basic environmental policy
2. Evaluate and report on environmental management activities as well as audit policies, measures, and guidelines at breweries
3. Evaluate environmental management activities and audit procedures at breweries and promote related activities
4. Conduct brewery environmental audits and compile audit results

ENVIRONMENTAL MANAGEMENT OFFICERS BOARD

Chairman: Environmental Management Officer, Production Department
Members: Environmental management officers of all breweries
Section in charge: Energy Section, Production Department; Living Environment Office, Environment & Culture Promotion Department

Functions

1. Ensure environmental regulations are met; set energy conservation, waste reduction, and environmental preservation goals; formulate plans to achieve these goals; discuss and deliberate on environmental conditions at breweries and other related matters
2. Discuss and deliberate on education and environmental promotion activities at work sites

BREWERY ENVIRONMENTAL MANAGEMENT COMMITTEE

Chairman: Plant Manager
Members: General managers of related departments
Person in charge: Manager, Environmental Management Office

Functions

1. Ensure environmental regulations are met; set energy conservation, waste reduction, and environmental preservation goals; formulate plans to achieve these goals
2. Conduct brewery environmental audits and report audit results; promote environmental activities and education programs

SIX-YEAR SUMMARY

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen						Thousands of U.S. dollars
	1998	1997	1996	1995	1994	1993	**1998**
For the year:							
Net sales	**¥1,357,217**	¥1,313,257	¥1,212,046	¥1,087,900	¥1,075,540	¥ 951,199	**$11,730,483**
Operating income	**91,893**	96,299	99,643	77,829	80,858	62,556	**794,239**
Income before income taxes	**23,273**	32,798	36,291	24,480	25,168	17,880	**201,149**
Net income	**579**	11,555	8,231	6,607	6,492	3,434	**5,007**
Capital investments	**103,449**	100,936	48,366	33,906	19,015	69,592	**894,114**
Depreciation	**39,656**	35,740	34,245	32,629	31,407	29,196	**342,748**
At year-end:							
Working capital	**¥ (86,602)**	¥ (107,814)	¥ (120,393)	¥ (176,793)	¥ 16,152	¥ 965	**$ (748,502)**
Interest-bearing debt	**613,194**	695,569	861,955	893,300	957,227	1,040,544	**5,299,857**
Total shareholders' equity	**387,089**	374,591	319,645	298,798	294,530	288,064	**3,345,628**
Total assets	**1,519,014**	1,616,210	1,697,268	1,727,834	1,782,131	1,829,216	**13,128,900**
	Yen						U.S. dollars
Per share data:							
Net income	**¥ 1.19**	¥ 25.15	¥ 19.18	¥ 15.60	¥ 15.54	¥ 8.23	**$0.01**
Cash dividends applicable to the year	**12.00**	11.00	10.00	9.50	9.50	8.00	**0.10**
Shareholders' equity	**777.60**	776.68	723.99	703.45	702.73	689.97	**6.72**

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥115.70 to U.S.$1, the exchange rate prevailing at December 31, 1998.

CONTENTS

In fiscal 1998, ended December 31, 1998, Asahi's consolidated net sales increased ¥44.0 billion, or 3.3%, to ¥1,357.2 billion.

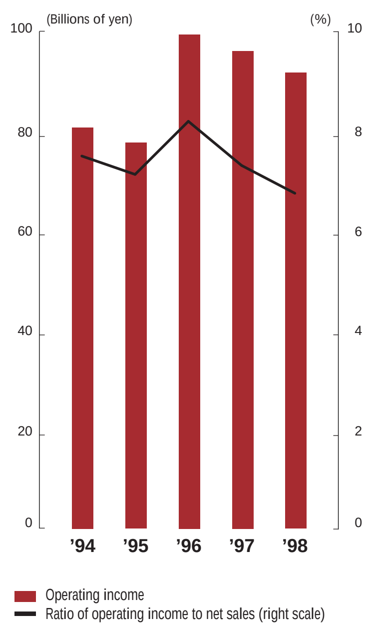
In alcoholic beverages, Asahi's marketing activities were again geared toward expanding sales of its flagship beer, *Asahi Super Dry.* To this end, the Company continued to pursue its Total Fresh Management principles and promote region-specific sales campaigns. Reflecting the success of these strategies, domestic beer sales increased 6.0%, compared with an approximate 8% decline for the industry as a whole.

In the other alcoholic beverages category, Nikka Whisky released *New All Malts* and *New Malt Club* whiskeys to capture strong demand in the household sector, which was spurred by price reductions resulting from amendments to the Liquor Tax Law. Aggressive marketing of these and other products through supermarkets and convenience stores led to an increase in sales. However, whiskey sales to the commercial sector declined amid depressed market conditions. As a result, sales of alcoholic beverages rose ¥51.0 billion, or 5.0%, to ¥1,068.9 billion.

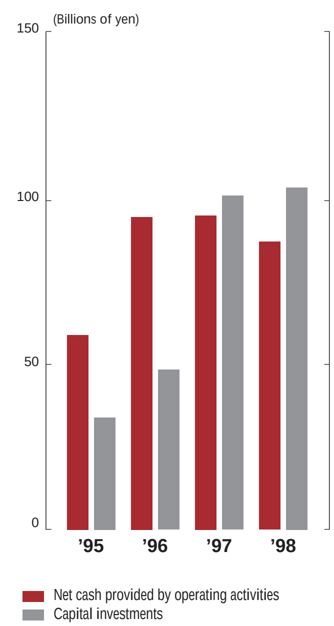
In the soft drinks and food sector, Asahi Soft Drinks implemented creative marketing activities to strengthen the profile of its main brands, including *WONDA* canned coffee, *Teao* sugar-free sweet tea, and *Eau+* sugar-free conditioning water, which was reintroduced into the market during the period. These activities, in conjunction with the expansion of a network of vending machines and the use of marketing proposals aimed at supermarkets and convenience stores, underpinned a 10.0% increase in soft drink sales. Consequently, total sales of soft drinks and food grew ¥30.5 billion, or 15.0%, to ¥234.7 billion.

In pharmaceuticals, Japan Tobacco acquired all the shares in Asahi's consolidated subsidiary Torii Pharmaceutical Co., Ltd., on December 2, 1998, through a tender offer. As a result of this transaction, pharmaceutical sales fell 90.3% from the previous fiscal year, to ¥4.0 billion.

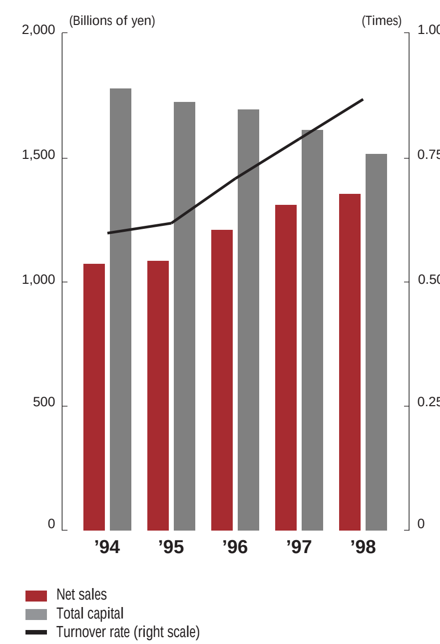
Operating Income/ Ratio of Operating Income to Net Sales



Capital Investments and Cash Flows from Operations



Total Capital Turnover Rate



*The total capital turnover rate is calculated using the average of total capital at the beginning and at the end of each fiscal term.

Revenue from the Company's real estate operations advanced 9.6%, to ¥4.9 billion.

COSTS AND EXPENSES

The growth in sales during the year under review was accompanied by an increase in the cost of sales, which expanded ¥13.7 billion, or 3.6%, to ¥395.8 billion. The increase also resulted in a ¥24.3 billion, or 4.6%, rise in the amount of alcohol tax paid, to ¥554.9 billion.

Looking at selling, general and administrative (SG&A) expenses, despite savings in personnel and R&D expenses attributable to the sale of Torii Pharmaceutical, higher promotion costs associated with beer and soft drink marketing activities—including sales premiums and commissions of ¥9.3 billion, transportation costs of ¥3.9 billion, and advertising costs of ¥2.7 billion—resulted in SG&A expenses climbing ¥10.3 billion, or 3.4%, to ¥314.7 billion.

OPERATING INCOME AND NET INCOME

As a result of the aforementioned activities, operating income declined ¥4.4 billion, or 4.6%, to ¥91.9 billion. This figure includes a loss of ¥7.2 billion on the sale of Torii Pharmaceutical.

The total loss incurred on the liquidation of unconsolidated subsidiaries in fiscal 1998 was ¥1.7 billion, down ¥18.7 billion compared with the previous fiscal year. However, amid the protracted slump in the domestic stock market, loss on revaluation of marketable securities increased ¥13.4 billion, to ¥18.4 billion. In addition, a loss of ¥13.1 billion was incurred on the liquidation of specified money trusts *(tokkin)*, resulting in other expenses of ¥68.6 billion, ¥5.1 billion more than in fiscal 1997.

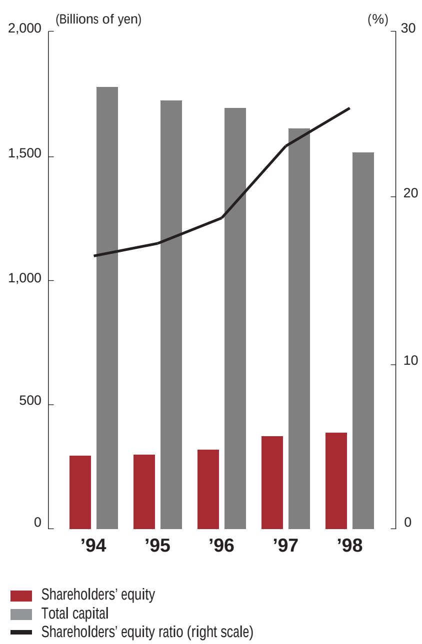
Consequently, income before income taxes fell 29.0%, to ¥23.3 billion, and net income declined 95.0%, to ¥0.6 billion. Of the ¥11.0 billion decline in net income, ¥1.5 billion was attributable to the sale of Torii Pharmaceutical.

FINANCIAL POSITION

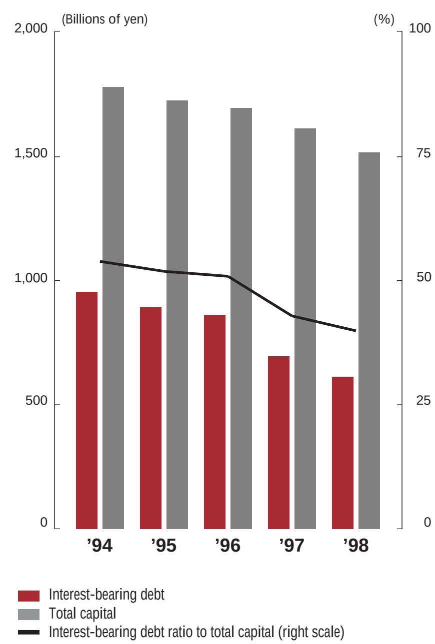
At December 31, 1998, consolidated total assets stood at ¥1,519.0 billion, down ¥97.2 billion, or 6.0%, from the previous fiscal year-end. The major reason for the decrease was the decline in the amount of cash assets associated with the liquidation of specified money trusts and the sale of Torii Pharmaceutical.

In current assets, specified money trusts and time deposits fell ¥40.9 billion, while marketable securities dropped ¥3.9 billion due to the sale of securities to finance bond redemptions and other transactions. Notes and trade accounts receivable fell ¥8.8 billion, primarily due to the sale of Torii Pharmaceutical. As a result, total current assets declined ¥55.6 billion, to ¥649.8 billion.

Changes in Shareholders' Equity Ratio



Changes in Total Capital Employed and Interest-Bearing Debt



Property, plant and equipment increased ¥13.8 billion, to ¥683.8 billion, primarily as a result of investments in the Shikoku Brewery, which came on line in 1998.

Investments and long-term receivables declined ¥55.4 billion, to ¥185.4 billion, due to the sale of securities to finance the redemption of corporate bonds.

Total current liabilities fell ¥76.8 billion, to ¥736.4 billion, during the year under review. The funds acquired through the aforementioned liquidation of cash assets as well as the sale of Torii Pharmaceutical alleviated the requirement for bank lending, resulting in a ¥70.7 billion decrease in bank loans. In addition, long-term debt fell ¥17.0 billion, to ¥349.2 billion.

As a result of the conversion of convertible bonds into stock, total shareholders' equity increased ¥12.5 billion, to ¥387.1 billion, and the equity ratio rose 2.3 percentage points, to 25.5%.

CASH FLOWS

In fiscal 1998, Asahi maintained a policy of reinvesting cash acquired from its beer and soft drinks operations as well as from other measures in production facilities to strengthen the foundations of its core businesses. In addition, the Company progressed with measures to reduce outstanding debt to strengthen its financial structure.

Net cash provided by operating activities fell ¥7.1 billion, to ¥87.8 billion, primarily as a result of the decline in operating income of Asahi and the sale of Torii Pharmaceutical.

Net cash used in investing activities totaled ¥29.0 billion, with an increase in the amount invested in beer production facilities more than offsetting funds acquired from the Torii Pharmaceutical sale and the liquidation of specified money trusts.

Net cash used in financing activities was ¥64.7 billion, down ¥56.2 billion compared with fiscal 1997, despite the reduction in short- and long-term bank loans.

SALE OF TORII PHARMACEUTICAL

Background

On December 2, 1998, Asahi sold shares held in Torii Pharmaceutical, which accounted for 51.0% of the outstanding shares of that company, to Japan Tobacco. The sale was made with a view to concentrating the Asahi Group's resources in its core beer business. The proceeds from the sale will be used to finance investments in domestic and overseas production facilities as well as to strengthen the Group's financial structure.

Effect on Results

The exclusion of Torii Pharmaceutical's figures from the consolidated accounts resulted in a ¥38.8 billion decline in net sales, a ¥7.2 billion decline in operating income, and a ¥1.5 billion decline in net income.

YEAR 2000 (Y2K) PROBLEM RESOLUTION

Policy

Y2K problems have the potential to disrupt Asahi's operations in many ways. These include disruptions to the exchange and confirmation of order, delivery, payment, and other data with customers as well as to internal computerized information systems, production lines, and warehouse operations. In response, Asahi has initiated a Year 2000 Project headed by Asahi Beer Information System, Ltd., as part of a Groupwide effort to identify and resolve all Y2K problems.

Structure

Asahi's Production Headquarters is overseeing a project to implement Y2K measures at all production and R&D facilities in the Asahi Group.

To eliminate problems associated with the information systems of major customers, from 1998 Asahi's Logistics Systems Department has been advancing Y2K measures in conjunction with an outside information systems development company. Monthly meetings are held to monitor progress.

As regards other information systems, since 1997 Asahi Beer Information System has progressed with work to identify potential Y2K problems, formulate and implement solutions, and conduct tests to confirm problem resolution.

Progress

In 1998, Asahi completed measures to debug the main computer systems at its breweries and R&D centers. Inspections of peripheral systems will be completed in March 1999, after which time response measures will be implemented.

Asahi has completed inspections of information systems at 90% of its major customers, including beer wholesalers, and confirmed details of resolution programs. The Company is continuing to negotiate with the remaining customers over Y2K resolution procedures. Between April and June 1999, software will be replaced at retail outlets that have problems with their existing systems.

Asahi Beer Information System has been working for approximately 10 years to ensure Asahi's information systems are ready to make a smooth transition into the next millennium. By March 1999, the company will have finished formulating appropriate response measures for all computerized information systems used throughout the Asahi Group.

Costs

The cost of responding to the Y2K problem is estimated at approximately ¥200 million. Approximately ¥100 million of this amount has been recorded in the years up to and including fiscal 1998. Since fiscal 1997, Asahi has clearly identified those costs associated with the Y2K problem and allocated them as such. These costs do not include amounts for upgrading software programs and introducing new information systems during the last 10 years.

Crisis Management Planning

Asahi has established a crisis management team to study and evaluate specific measures for various crises that may arise in the course of its operations. By December 1999, the Company plans to have in place a crisis management structure that is capable of dealing with a worst-case scenario caused by Y2K problems.

Also, Asahi is requesting other companies to exchange information on Y2K response measures.

Other

Asahi is confident that even a worst-case Y2K scenario would not lead to the cessation of production or a deterioration in product quality. Therefore, the Company believes that there is no possibility of the Y2K issue giving rise to legal claims against it.

ASAHI BREWERIES ORGANIZATIONAL RESTRUCTURING

Asahi Breweries adjusted its organizational structure as follows, effective September 1, 1998. The changes have been made to enhance the Company's ability to pursue operating strategies designed to make it a leading global company.

(1) Establishment of a Management Strategy Committee

This committee will be the supreme management decision-making authority in the Company. It will be responsible for evaluating and deciding policies for management strategies and medium- and long-term management plans.

(2) Establishment of a Management Advisory Board

The board has been established to promote management that meets the standards that are generally accepted in the international business community.

(3) Division of Management into Seven Headquarters

Four new headquarters have been established, resulting in the division of management into the following seven headquarters: Total Quality (new), Group & Global (new), Companywide Management (new), Logistics Systems (new), Sales & Marketing, Production, and Research & Development headquarters.

CONSOLIDATED BALANCE SHEETS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

December 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**1998**	1997	**1998**
Current assets:			
Cash and cash equivalents	**¥ 16,370**	¥ 22,603	**$ 141,484**
Specified money trusts and time deposits	**80,448**	121,333	**695,312**
Marketable securities (Note 4)	**147,165**	151,085	**1,271,950**
Notes and accounts receivable:			
Trade	**244,597**	253,415	**2,114,063**
Other	**25,828**	25,026	**223,232**
Allowance for doubtful accounts	**(1,540)**	(1,775)	**(13,314)**
Inventories (Note 3)	**106,572**	100,857	**921,109**
Deferred income taxes (Note 8)	**180**	266	**1,560**
Other current assets	**30,165**	32,568	**260,722**
Total current assets	**649,785**	705,378	**5,616,118**
Property, plant and equipment (Notes 2 and 6):			
Land	**175,680**	175,430	**1,518,410**
Buildings and structures	**344,138**	338,406	**2,974,402**
Machinery and equipment	**458,467**	425,942	**3,962,553**
Construction in progress	**12,831**	25,138	**110,896**
	991,116	964,916	**8,566,261**
Accumulated depreciation	**(307,300)**	(294,945)	**(2,656,011)**
	683,816	669,971	**5,910,250**
Investments and long-term receivables:			
Investment securities	**98,728**	149,757	**853,308**
Investments in unconsolidated subsidiaries and affiliated companies (Note 4)	**17,578**	17,980	**151,927**
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliated companies	**1,207**	2,236	**10,436**
Other	**8,374**	6,831	**72,377**
Deferred income taxes (Note 8)	**12,733**	14,072	**110,056**
Other investments	**46,713**	48,038	**403,740**
Deferred charges	**80**	1,947	**688**
	185,413	240,861	**1,602,532**
	¥1,519,014	¥1,616,210	**$13,128,900**

See accompanying notes.

Liabilities and Shareholders' Equity	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 1) 1998
Current liabilities:			
Bank loans (Note 6)	**¥ 164,940**	¥ 235,662	**$ 1,425,583**
Long-term debt due within one year (Note 6)	**99,055**	93,667	**856,136**
Notes and accounts payable:			
Trade	**91,560**	86,239	**791,356**
Other (mainly construction)	**59,578**	81,541	**514,939**
Alcohol tax and consumption tax payable	**151,880**	149,766	**1,312,703**
Deposits received	**104,010**	106,613	**898,965**
Income taxes payable (Note 8)	**15,010**	7,330	**129,736**
Accrued liabilities	**50,039**	51,267	**432,490**
Other current liabilities	**315**	1,107	**2,712**
Total current liabilities	**736,387**	813,192	**6,364,620**
Long-term debt (Note 6)	**349,199**	366,240	**3,018,138**
Employees' retirement benefits (Note 7)	**13,515**	14,004	**116,811**
Other long-term liabilities	**9,676**	8,918	**83,629**
Foreign currency translation adjustments	**93**	985	**805**
Minority interests	**23,055**	38,280	**199,269**
Commitments and contingent liabilities (Note 10)			
Shareholders' equity (Note 9):			
Common stock, par value ¥50 per share;			
Authorized—992,305,309 shares			
Issued—497,807,415 shares in 1998 and			
482,330,989 shares in 1997	**177,559**	168,750	**1,534,651**
Additional paid-in capital	**169,351**	160,546	**1,463,707**
Legal reserve	**6,845**	6,279	**59,164**
Retained earnings	**33,342**	39,088	**288,178**
Treasury stock, at cost	**(8)**	(72)	**(72)**
Total shareholders' equity	**387,089**	374,591	**3,345,628**
	¥1,519,014	¥1,616,210	**$13,128,900**

CONSOLIDATED STATEMENTS OF INCOME

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	**1998**
Net sales (Note 13)	**¥1,357,217**	¥1,313,257	¥1,212,046	**$11,730,483**
Costs and expenses (Note 13):				
Cost of sales	**395,753**	382,039	342,445	**3,420,511**
Alcohol tax	**554,917**	530,612	483,148	**4,796,169**
Selling, general and administrative	**314,654**	304,307	286,810	**2,719,564**
	1,265,324	1,216,958	1,112,403	**10,936,244**
Operating income (Note 13)	**91,893**	96,299	99,643	**794,239**
Other income (expenses):				
Interest and dividend income	**12,203**	21,459	29,085	**105,469**
Interest expense	**(28,685)**	(38,550)	(48,759)	**(247,925)**
Loss on sale of marketable securities	**(5,635)**	(7,173)	(25,792)	**(48,703)**
Loss on sale and disposal of property, plant and equipment—net	**(4,095)**	(7,966)	(8,164)	**(35,391)**
Loss on liquidation of unconsolidated subsidiaries (Note 11)	**(1,726)**	(20,463)	(336)	**(14,921)**
Loss on revaluation of marketable securities	**(18,431)**	(5,065)	(1,564)	**(159,292)**
Loss on liquidation of specified money trusts	**(13,141)**	—	—	**(113,578)**
Other—net	**(9,110)**	(5,743)	(7,822)	**(78,749)**
	(68,620)	(63,501)	(63,352)	**(593,090)**
Income before income taxes	**23,273**	32,798	36,291	**201,149**
Income taxes (Notes 2 and 8)	**22,101**	18,680	25,940	**191,019**
	1,172	14,118	10,351	**10,130**
Minority interests in net income of consolidated subsidiaries	**(593)**	(2,384)	(2,213)	**(5,127)**
Amortization of goodwill arising from consolidation	**(153)**	(329)	(330)	**(1,321)**
Equity in net income of unconsolidated subsidiaries and affiliated companies	**153**	150	158	**1,325**
Foreign currency translation adjustments	**—**	—	265	**—**
Net income	**¥ 579**	¥ 11,555	¥ 8,231	**$ 5,007**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	**¥ 1.19**	¥25.15	¥19.18	**$0.01**
Diluted net income	**—**	23.36	17.56	**—**
Cash dividends applicable to the year	**12.00**	11.00	10.00	**0.10**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1998, 1997 and 1996

	Number of shares of common stock (thousands)	Millions of yen			
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at December 31, 1995	424,768	¥130,670	¥122,495	¥5,388	¥40,251
Net income					8,231
Cash dividends paid (¥9.50 per share)					(4,025)
Bonuses to directors and corporate auditors					(188)
Transfer to legal reserve				410	(410)
Shares issued upon conversion of convertible debentures	24,440	13,889	13,883		
Purchase and retirement of treasury stock (Note 9)	(7,694)				(10,000)
Foreign currency translation adjustments					(938)
Balance at December 31, 1996	441,514	144,559	136,378	5,798	32,921
Net income					11,555
Cash dividends paid (¥10.50 per share)					(4,705)
Bonuses to directors and corporate auditors					(202)
Transfer to legal reserve				481	(481)
Shares issued upon conversion of convertible debentures	40,817	24,191	24,168		
Balance at December 31, 1997	482,331	168,750	160,546	6,279	39,088
Net income					**579**
Cash dividends paid (¥11.50 per share)					**(5,555)**
Bonuses to directors and corporate auditors					**(204)**
Transfer to legal reserve				**566**	**(566)**
Shares issued upon conversion of convertible debentures	**15,476**	**8,809**	**8,805**		
Balance at December 31, 1998	**497,807**	**¥177,559**	**¥169,351**	**¥6,845**	**¥33,342**

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at December 31, 1997	$1,458,509	$1,387,603	$54,271	$337,837
Net income				**5,007**
Cash dividends paid ($0.08 per share)				**(48,013)**
Bonuses to directors and corporate auditors				**(1,760)**
Transfer to legal reserve			**4,893**	**(4,893)**
Shares issued upon conversion of convertible debentures	**76,142**	**76,104**		
Balance at December 31, 1998	**$1,534,651**	**$1,463,707**	**$59,164**	**$288,178**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	**1998**
Cash flows from operating activities:				
Net income	**¥ 579**	¥ 11,555	¥ 8,231	**$ 5,007**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation (Note 13)	**39,656**	35,740	34,245	**342,748**
Loss on sale and disposal of property, plant and equipment—net	**4,095**	7,966	8,164	**35,391**
Loss on liquidation of unconsolidated subsidiaries (Note 11)	**1,726**	20,463	336	**14,921**
Loss on sale and revaluation of securities	**24,066**	15,119	27,639	**207,995**
Allocation of unrealized exchange loss	**—**	3,215	4,791	**—**
Loss on liquidation of specified money trusts	**13,141**	—	—	**113,578**
Minority interests in net income of consolidated subsidiaries	**593**	2,384	2,213	**5,127**
Equity in net income of unconsolidated subsidiaries and affiliated companies	**(153)**	(150)	(158)	**(1,325)**
Other	**436**	133	119	**3,768**
Changes in operating assets and liabilities:				
Increase in notes and accounts receivable	**(9,968)**	(22,341)	(29,602)	**(86,154)**
Increase in inventories	**(7,968)**	(4,584)	(412)	**(68,868)**
Decrease (increase) in other current assets	**1,736**	(3,640)	6,505	**15,004**
Increase (decrease) in notes and accounts payable (excluding construction)	**8,486**	22,228	(11,663)	**73,345**
Increase in alcohol tax and consumption tax payable	**2,586**	19,848	14,482	**22,351**
Increase (decrease) in deposits received	**(2,417)**	8,268	8,033	**(20,890)**
Increase (decrease) in income taxes payable	**9,610**	(10,863)	10,433	**83,060**
Increase (decrease) in accrued and other liabilities	**1,633**	(10,355)	11,201	**14,121**
Net cash provided by operating activities	**87,837**	94,986	94,557	**759,179**
Cash flows from investing activities:				
Capital investments (Note 13)	**(103,449)**	(100,936)	(48,366)	**(894,114)**
Proceeds from disposal of property, plant and equipment	**9,553**	8,850	5,800	**82,567**
Increase (decrease) in accounts payable relating to construction	**(18,692)**	31,671	7,641	**(161,557)**
Decrease (increase) in marketable and investment securities	**33,301**	79,509	(17,456)	**287,822**
Proceeds from sale of investment in subsidiary	**32,439**	—	—	**280,372**
Decrease in specified money trusts	**24,976**	7,956	49,945	**215,869**
Decrease (increase) in long-term loans receivable	**(531)**	2,316	7,597	**(4,589)**
Increase in other investments	**(6,620)**	(4,098)	(3,766)	**(57,218)**
Net cash provided by (used in) investing activities	**(29,023)**	25,268	1,395	**(250,848)**
Cash flows from financing activities:				
Proceeds from long-term loans from banks	**18,453**	18,673	103,532	**159,490**
Repayments of long-term loans from banks	**(33,168)**	(54,869)	(85,026)	**(286,672)**
Redemption of bonds	**(56,527)**	(73,700)	(58,926)	**(488,565)**
Proceeds from bonds and convertible debentures issued	**82,210**	8,000	80,922	**710,545**
Decrease in bank loans	**(70,122)**	(14,274)	(44,075)	**(606,067)**
Cash dividends paid	**(5,555)**	(4,705)	(4,025)	**(48,013)**
Payment for subrogation of a subsidiary's liabilities	**—**	—	(65,000)	**—**
Purchase and retirement of treasury stock (Note 9)	**—**	—	(10,000)	**—**
Net cash used in financing activities	**(64,709)**	(120,875)	(82,598)	**(559,282)**
Effect of exchange rate change on cash and cash equivalents	**(338)**	326	225	**(2,921)**
Net increase (decrease) in cash and cash equivalents	**(6,233)**	(295)	13,579	**(53,872)**
Cash and cash equivalents at beginning of year	**22,603**	22,898	9,319	**195,356**
Cash and cash equivalents at end of year	**¥ 16,370**	¥ 22,603	¥ 22,898	**$141,484**
Supplemental disclosures of cash flow information:				
Conversion of convertible debentures to common stock	**¥ 17,614**	¥ 48,359	¥ 27,772	**$152,246**
Cash paid during the year for:				
Interest	**32,192**	41,983	53,554	**278,244**
Income taxes	**11,056**	32,199	15,904	**95,558**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Asahi Breweries, Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

ASAHI BREWERIES, LTD. (the "Company"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen in accordance with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been translated from the financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance of Japan. In preparing the accompanying financial statements, certain modifications, including the presentation of the statements of shareholders' equity and cash flows, have been made to facilitate understanding by readers outside Japan.

The financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at December 31, 1998, which was ¥115.70 to U.S.$1. 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.

Certain reclassifications have been made in the 1997 and 1996 financial statements to conform to the presentation for 1998.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The consolidated financial statements have included the accounts of the Company and its significant subsidiaries (21 domestic and 1 overseas subsidiary for 1998, 22 domestic and 1 overseas subsidiary for 1997 and 22 domestic and 2 overseas subsidiaries for 1996).

The excess of investment cost over net assets at the date of acquisition is analyzed, and the portion regarded as land value increase is allocated to the cost of land. The remaining portion which cannot be identified is deferred and amortized over five years (except for investment in Torii Pharmaceutical Co., Ltd., which was amortized over 15 years) on a straight-line basis.

All the significant intercompany accounts and transactions have been eliminated.

Equity method—Investments in certain unconsolidated subsidiaries 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.

Cash and cash equivalents—Cash and cash equivalents include cash and time deposits with a maturity of three months or less.

Allowance for doubtful accounts—The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It is determined by adding individually estimated uncollectible amounts to an amount calculated by a formula as permitted by the Corporation Tax Law of Japan with respect to the remaining receivables.

Securities—All securities included in both current assets and non-current investments are stated at cost determined by the moving-average method. Securities included in specified money trusts are valued at the moving-average cost on a portfolio basis. If a decline in value below cost of a security is judged to be material and other than temporary, the carrying value of the individual security is written down.

Inventories—Inventories are stated at cost. Cost is determined mainly by the weighted-average method for all inventories except for property for sale, which is determined on an individual basis.

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 based on 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	3-65 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—Income taxes in the accompanying balance sheets have been provided for the amounts currently payable for each year based on taxable income. Deferred income taxes are recognized only insofar as they relate to the temporary differences arising from the elimination of unrealized intercompany profits.

Employees' retirement benefits—Non-contributory funded plans of the Company and its domestic consolidated subsidiaries cover a certain portion of the amount which would be required had all eligible employees voluntarily retired at the balance sheet date. The liabilities under the unfunded plan are provided at 40% of the remaining amount.

Annual contributions, which consist of normal costs as well as of amortization of prior service costs over approximately 13 years and 9 months, are charged to income when paid.

Translation of foreign currency accounts—Current monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date. The resulting translation gains or losses are included in "Other income (expenses), Other—net." Non-current assets and liabilities denominated in foreign currencies are translated at the historical exchange rate.

Translation of foreign currency financial statements—Through 1996, the balance sheet accounts of foreign consolidated subsidiaries were translated at the rate of exchange in effect at the balance sheet date, except long-term monetary assets and liabilities and deferred items, which were translated at historical rates. Income and expense accounts, except amortized deferred items, were translated at average exchange rates in effect during the year. Net income for the year and retained earnings at the end of the year of foreign consolidated subsidiaries were translated at the rate of exchange in effect at the balance sheet date. Differences arising from translation were presented as "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

From 1997, due to the application of the revised Accounting Standards for Foreign Currency Transactions, the balance sheet accounts of foreign consolidated subsidiaries are translated at the rate of exchange in effect at the date of the subsidiary's balance sheet, except for (1) common stock, additional paid-in capital, and legal reserve, which are translated at historical rates, and (2) retained earnings, which constitute an accumulation of translated amounts of net income in the respective years. Income, expenses and net income for the year of foreign consolidated subsidiaries are translated at the rate of exchange in effect at the subsidiary's balance sheet date. Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated financial statements. The effect on the consolidated financial statements of the application of the revised standards was immaterial.

Amounts per share of common stock—Computations of net income per share of common stock are based on the weighted-average number of shares in issue during each year. For the computation of diluted net income per share, the average number of shares was increased by the number of shares that would have been outstanding assuming all convertible debentures were converted on January 1 of each year. Related interest expense, net of income tax, has been eliminated.

Cash dividends per share represent actual amounts applicable to the respective years.

3. INVENTORIES

Inventories at December 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Finished goods	**¥ 11,292**	¥ 16,423	**$ 97,593**
Work in process	**40,441**	38,800	**349,533**
Raw materials	**30,553**	23,987	**264,068**
Supplies	**7,898**	7,689	**68,266**
Merchandise	**13,973**	11,090	**120,772**
Property for sale	**2,415**	2,868	**20,877**
	¥106,572	¥100,857	**$921,109**

4. MARKET VALUE INFORMATION—THE PARENT COMPANY ONLY

At December 31, 1998 and 1997, book value, market value and net unrealized losses of quoted securities included in marketable securities and investments in the accompanying balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Book value:			
Current assets—corporate shares	**¥107,856**	¥115,026	**$932,205**
Investment securities—shares of subsidiaries and affiliated companies	**6,500**	34,342	**56,176**
	114,356	149,368	**988,381**
Market value:			
Current assets—corporate shares	**66,347**	65,344	**573,438**
Investment securities—shares of subsidiaries and affiliated companies	**11,966**	45,832	**103,426**
	78,313	111,176	**676,864**
Net unrealized losses	**¥ 36,043**	¥ 38,192	**$311,517**

5. DERIVATIVE TRANSACTIONS—THE PARENT COMPANY ONLY

The Company enters into forward currency exchange contracts and interest rate swap contracts in order to minimize interest expense, currency exchange rate risk and interest rate risk within the limits of the balance of debentures and bonds.

The contract amounts at December 31, 1998 and 1997 and unrealized gain or loss at December 31, 1998 of outstanding derivative transactions were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
(1) Currency related			
Forward currency exchange contracts:			
Buy (D.M.)			
Contracts outstanding	**¥ 647**	¥ —	**$ 5,592**
Unrealized loss	**1**	—	**9**
(2) Interest related			
Interest rate swaps:			
Pay fixed			
Contracts outstanding	**77,000**	77,000	**665,514**
Unrealized loss	**3,984**	—	**34,434**
Pay variable			
Contracts outstanding	**12,000**	12,000	**103,717**
Unrealized gain	**626**	—	**5,411**

Disclosure of unrealized gain or loss was not required in 1997.

6. BANK LOANS, COMMERCIAL PAPER AND LONG-TERM DEBT

Bank loans at December 31, 1998 and 1997 were represented by short-term notes or overdrafts, bearing interest at rates of 0.85% per annum for 1998 and 0.65% to 2.67% per annum for 1997.

The Company has entered into a yen domestic commercial paper program with a current maximum facility amount of ¥200,000 million ($1,728,608 thousand). There were no outstanding balances at December 31, 1998 and 1997.

Long-term debt at December 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Domestic debentures:			
2.45% debentures due 2001	**¥ 20,000**	¥ 20,000	**$ 172,861**
2.85% debentures due 2001	**10,000**	10,000	**86,430**
2.70% debentures due 2002	**15,000**	15,000	**129,646**
3.05% debentures due 2002	**15,000**	15,000	**129,646**
6.4% convertible debentures due 1998	**—**	12,561	**—**
0.9% convertible debentures due 2001	**10,091**	11,735	**87,217**
2.5% mortgage convertible debentures due 2001	**113**	119	**977**
0.95% convertible debentures due 2002	**8,479**	9,651	**73,284**
1.0% convertible debentures due 2003	**15,549**	17,807	**134,391**
7.0% Japanese yen bonds due 1999	**10,000**	10,000	**86,430**
7.3% Japanese yen bonds due 2000	**50,000**	50,000	**432,152**
2.0% debentures due 2001	**10,000**	—	**86,430**
2.5% debentures due 2003	**10,000**	—	**86,430**
0.7% convertible debentures due 2005	**30,000**	—	**259,291**
Various bonds and notes issued by consolidated subsidiaries	**79,350**	108,649	**685,825**
Long-term loans, principally from banks, insurance companies and agricultural cooperatives:			
Secured loans due through 2052 at interest rates of mainly 2.2% to 5.2%	**7,709**	9,403	**66,631**
Unsecured loans due through 2008 at interest rates of mainly 0.8% to 6.2%	**156,963**	169,982	**1,356,633**
	448,254	459,907	**3,874,274**
Amount due within one year	**(99,055)**	(93,667)	**(856,136)**
	¥349,199	¥366,240	**$3,018,138**

The trust deeds, under which the domestic convertible debentures were issued, provide, among other conditions, for the conversion prices per share into common shares. The current conversion prices per share at December 31, 1998 were as follows:

	Yen	U.S. dollars
0.9% convertible debentures due 2001	¥1,165.0	$10.07
2.5% mortgage convertible debentures due 2001	696.8	6.02
0.95% convertible debentures due 2002	1,165.0	10.07
1.0% convertible debentures due 2003	1,165.0	10.07
0.7% convertible debentures due 2005	1,763.0	15.24

At December 31, 1998, 46,465 thousand shares of common stock were issuable upon full conversion of outstanding convertible debentures at the current conversion prices.

At December 31, 1998, the domestic debentures and secured long-term loans were collateralized by "factory mortgages" pursuant to the Factory Hypothecation Law of Japan as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥21,948	$189,697
Buildings and structures (net of depreciation)	5,396	46,638
Machinery and equipment (net of depreciation)	2,193	18,954
	¥29,537	$255,289

The aggregate annual maturities of long-term debt at December 31, 1998 were as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
1999	¥ 99,055	$ 856,136
2000	95,131	822,214
2001	69,550	601,124
2002	60,292	521,109
2003	68,316	590,459
2004 and thereafter	55,910	483,232
	¥448,254	$3,874,274

7. EMPLOYEES' RETIREMENT BENEFITS

Unamortized prior service costs under the non-contributory funded pension plan amounted to ¥11,833 million ($102,270 thousand) at December 31, 1998.

Charges with respect to employees' retirement benefits were ¥4,333 million ($37,454 thousand), ¥5,157 million and ¥4,877 million for the years ended December 31, 1998, 1997 and 1996, respectively.

8. INCOME TAXES

The Company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate normal effective tax rate of approximately 52% for 1998, 1997 and 1996.

The actual effective tax rate differed from the normal effective rate, primarily as a result of expenses not deductible for tax purposes and the effect of temporary differences in recognizing revenues and expenses for financial statements and tax returns other than those from the elimination of unrealized intercompany profits.

Income taxes of ¥22,101 million ($191,019 thousand), ¥18,680 million and ¥25,940 million for the years ended December 31, 1998, 1997 and 1996 in the accompanying statements of income reflect the addition (in case of debit) or subtraction (in case of credit) of deferred income taxes of ¥1,425 million ($12,316 thousand) (debit), ¥2,473 million (credit) and ¥1,128 million (credit), respectively.

9. SHAREHOLDERS' EQUITY

According to the approval at the annual shareholders' meeting on March 28, 1996, the Company purchased 7,694 thousand shares of common stock at a cost of ¥10,000 million and retired the number of shares authorized and outstanding by that number, respectively.

In accordance with the Commercial Code of Japan (the "Code"), certain issues of shares of common stock, including conversions of convertible debentures and exercise of warrants, are required to be credited to the common stock account to the extent of the greater of par value or 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to additional paid-in capital.

The Code provides that an amount equal to at least 10% of cash dividends and bonuses to directors and corporate auditors shall be set aside as a legal reserve until such reserve equals 25% of common stock. The legal reserve is not available for dividends but may be used to reduce a deficit upon approval at a shareholders' meeting, or it may be capitalized by resolution of the Board of Directors.

10. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1998, the Company and its consolidated subsidiaries were contingently liable as guarantors for borrowings of unconsolidated subsidiaries, affiliated companies, employees and others in the amount of ¥10,961 million ($94,736 thousand).

11. LOSS ON LIQUIDATION OF UNCONSOLIDATED SUBSIDIARIES

For the year ended December 31, 1997, the loss on liquidation of unconsolidated subsidiaries amounting to ¥20,463 million was incurred due to the liquidation of three unconsolidated subsidiaries, including Asahi Beer International Holding (Australia) Ltd.

At the liquidation, the Company wrote off the investments and waived the foreign currency long-term loans receivable from Asahi Beer International Holding (Australia), which had been hedged by long-term forward exchange contracts. The balance of the loss on the relevant forward exchange contract that had been deferred and amortized over the life of the forward contract was charged to income as a part of the loss on liquidation of unconsolidated subsidiaries.

12. 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.

Lease payments under finance leases, which are accounted for in the same manner as operating leases, for the years ended December 31, 1998 and 1997 were ¥26,001 million ($224,728 thousand) and ¥23,650 million, respectively.

Future lease payments as of December 31, 1998, net of interest, under such leases are summarized as follows:

	1998	
	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥22,399**	**$193,596**
Due after one year	**74,681**	**645,471**
	¥97,080	**$839,067**

13. SEGMENT INFORMATION

The Company operates primarily in the production and sales of alcoholic beverages, soft drinks and food, pharmaceuticals, real estate and others.

Business segment information for the years ended December 31, 1998, 1997 and 1996 was as follows:

	Millions of yen						
Year ended December 31, 1998	Alcoholic beverages	Soft drinks and food	Pharmaceuticals	Real estate	Others	Elimination and/or corporate	Consolidated
Sales:							
Outside customers	**¥1,068,908**	**¥234,729**	**¥ —**	**¥ 4,921**	**¥48,659**	**¥ —**	**¥1,357,217**
Intersegment	**1,325**	**2,740**	**—**	**3,866**	**202**	**(8,133)**	**—**
Total sales	**1,070,233**	**237,469**	**—**	**8,787**	**48,861**	**(8,133)**	**1,357,217**
Operating expenses	**977,650**	**229,828**	**—**	**5,727**	**47,911**	**4,208**	**1,265,324**
Operating income	**¥ 92,583**	**¥ 7,641**	**¥ —**	**¥ 3,060**	**¥ 950**	**¥ (12,341)**	**¥ 91,893**
Identifiable assets	**¥ 842,833**	**¥101,565**	**¥ —**	**¥101,165**	**¥33,927**	**¥439,524**	**¥1,519,014**
Depreciation	**30,245**	**4,004**	**—**	**1,092**	**2,013**	**2,302**	**39,656**
Capital investments	**90,671**	**4,619**	**—**	**1,554**	**3,356**	**3,249**	**103,449**
Year ended December 31, 1997							
Sales:							
Outside customers	¥1,017,915	¥204,199	¥41,891	¥ 4,488	¥44,764	¥ —	¥1,313,257
Intersegment	1,495	2,536	126	4,202	72	(8,431)	—
Total sales	1,019,410	206,735	42,017	8,690	44,836	(8,431)	1,313,257
Operating expenses	927,270	201,445	36,294	5,237	43,829	2,883	1,216,958
Operating income	¥ 92,140	¥ 5,290	¥ 5,723	¥ 3,453	¥ 1,007	¥ (11,314)	¥ 96,299
Identifiable assets	¥ 773,897	¥ 98,176	¥71,510	¥105,480	¥28,089	¥539,058	¥1,616,210
Depreciation	26,483	2,604	1,531	1,865	1,892	1,365	35,740
Capital investments	77,559	9,202	493	784	2,830	10,068	100,936
Year ended December 31, 1996							
Sales:							
Outside customers	¥ 933,072	¥192,127	¥40,158	¥ 3,819	¥42,870	¥ —	¥1,212,046
Intersegment	1,383	93	120	5,171	69	(6,836)	—
Total sales	934,455	192,220	40,278	8,990	42,939	(6,836)	1,212,046
Operating expenses	847,966	180,534	34,935	5,664	42,509	795	1,112,403
Operating income	¥ 86,489	¥ 11,686	¥ 5,343	¥ 3,326	¥ 430	¥ (7,631)	¥ 99,643
Identifiable assets	¥ 729,562	¥ 92,690	¥66,614	¥ 98,942	¥34,781	¥674,679	¥1,697,268
Depreciation	26,059	1,678	1,634	2,064	1,971	839	34,245
Capital investments	29,260	4,581	876	3,519	3,168	6,962	48,366

Year ended December 31, 1998	Alcoholic beverages	Soft drinks and food	Pharmaceuticals	Real estate	Others	Elimination and/or corporate	Consolidated
	Thousands of U.S. dollars						
Sales:							
Outside customers	**$9,238,618**	**$2,028,774**	**$—**	**$ 42,528**	**$420,563**	**$ —**	**$11,730,483**
Intersegment	**11,456**	**23,683**	**—**	**33,414**	**1,748**	**(70,301)**	**—**
Total sales	**9,250,074**	**2,052,457**	**—**	**75,942**	**422,311**	**(70,301)**	**11,730,483**
Operating expenses	**8,449,870**	**1,986,413**	**—**	**49,497**	**414,105**	**36,359**	**10,936,244**
Operating income	**$ 800,204**	**$ 66,044**	**$—**	**$ 26,445**	**$ 8,206**	**$ (106,660)**	**$ 794,239**
Identifiable assets	**$7,284,645**	**$ 877,830**	**$—**	**$874,376**	**$293,229**	**$3,798,820**	**$13,128,900**
Depreciation	**261,405**	**34,609**	**—**	**9,439**	**17,396**	**19,899**	**342,748**
Capital investments	**783,674**	**39,920**	**—**	**13,434**	**29,003**	**28,083**	**894,114**

During 1998, the Company sold all of the shares it owned of a pharmaceutical subsidiary, and the subsidiary was not consolidated, nor were its operations included in the consolidated financial statements in 1998. As the subsidiary accounted for a significant part of the pharmaceuticals segment in 1997 and 1996, the pharmaceutical business in 1998 is included in the others segment.

Assets in the corporate column mainly comprise current and non-current securities of the Company.

Sales outside Japan and sales to foreign customers were less than 10% of the Company's consolidated net sales for 1998, 1997 and 1996.

14. SUBSEQUENT EVENTS

(A) The Company issued domestic unsecured debentures for capital investments as follows:

	Millions of yen	Thousands of U.S. dollars	Date of issue
1.6% debentures due 2002	¥10,000	$86,655	Feb. 17, 1999

(B) At the March 30, 1999 annual meeting, the Company's shareholders approved the following appropriations of retained earnings:

(i) Payment of a year-end cash dividend of ¥6.50 per share aggregating ¥3,236 million ($27,966 thousand),

(ii) Payment of bonuses to directors and corporate auditors in the amount of ¥99 million ($851 thousand), and

(iii) Transfer of ¥334 million ($2,887 thousand) from retained earnings to the legal reserve.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
ASAHI BREWERIES, LTD.:

We have audited the accompanying consolidated balance sheets of ASAHI BREWERIES, LTD. (a Japanese corporation) as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998, expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of ASAHI BREWERIES, LTD. as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
March 30, 1999

BOARD OF DIRECTORS

Yuzo Seto,
Chairman

Shigeo Fukuchi,
President

Hisashi Usuba,
Executive Vice President

Ken-ichiroh Masui
Executive Vice President

Chairman
Yuzo Seto
- 1953: Graduated from Keio University; joined Asahi Breweries
- 1981: Became head of Sales Department I
- 1988: Became senior managing director and head of Sales Headquarters
- 1990: Became executive vice president
- 1992: Became president
- 1999: Became chairman and representative director

President
Shigeo Fukuchi
- 1957: Graduated from Nagasaki University; joined Asahi Breweries
- 1981: Became general manager of Kyoto Branch
- 1984: Became general manager of Sales Promotion Department
- 1985: Became associate director and general manager of Sales Promotion Department
- 1987: Became associate director and general manager of Osaka Branch
- 1988: Became director and general manager of Osaka Branch
- 1991: Became managing director and senior general manager of Osaka Branch
- 1992: Became managing director and deputy chief operating officer of Sales & Marketing Headquarters
- 1993: Became senior managing director and deputy chief operating officer of Sales & Marketing Headquarters
- 1993: Became senior managing director
- 1996: Became executive vice president and representative director
- 1999: Became president and representative director

Executive Vice Presidents
Hisashi Usuba
Ken-ichiroh Masui

Senior Managing Directors
Susumu Tsukada
Masumi Uematsu
Ryozo Mochizuki

Managing Directors
Koichi Asahi
Kooichiro Takai
Sugao Nishikawa
Kouichi Ikeda
Junichi Sakamoto
Tomoaki Tsukiyama
Tatsushiro Takahashi
Masatoshi Uchisaka
Seizo Yabuuchi
Akashi Sato

Advisory Director
Hirotaro Higuchi

Directors
Nobuo Yamaguchi
Shyoichi Yamada
Saishiro Matsumoto
Tatsuo Wani
Masaki Ogiya
Yoshio Hatanaka
Kenjiro Hiraki
Hiroshi Fujita
Sadao Ogura
Hitoshi Ogita
Tadashi Asahara
Yasuo Yamanaka
Kotaro Okabe
Kazunobu Yanase
Nagayuki Akimoto
Seigi Shiohara
Yosuke Matsumoto
Toshio Harada
Yutaka Nakamura
Masaaki Sato
Isao Shibata

Standing Corporate Auditors
Akira Tayama
Hiroshi Hasegawa
Keisuke Nonaka

Outside Corporate Auditors
Takahide Sakurai
Tetsuo Furuya

(As of February 28, 1999)

DOMESTIC

Manufacturing

■ The Nikka Whisky Distilling Co., Ltd.
Issued Share Capital: ¥14,989 million
Capital Investment Percentage: 58.1%
Principal Business: Production and sales of whiskey

■ Asahi Beer Pax Co., Ltd.
Issued Share Capital: ¥3,000 million
Capital Investment Percentage: 100.0%
Principal Business: Production and sales of bottles

■ Asahi Beer Malt, Ltd.
Issued Share Capital: ¥90 million
Capital Investment Percentage: 91.9%
Principal Business: Processing of malt

■ Asahi Beer Winery, Ltd.
Issued Share Capital: ¥490 million
Capital Investment Percentage: 100.0%
Principal Business: Production and sales of wine

■ Nippon National Seikan Company, Ltd.
Issued Share Capital: ¥1,000 million
Capital Investment Percentage: 51.0%
Principal Business: Production and sales of cans and containers

■ Asahi Soft Drinks Co., Ltd.
Issued Share Capital: ¥4,282 million
Capital Investment Percentage: 91.4%
Principal Business: Production and sales of soft drinks and food

■ Asahi Beer Food, Ltd.
Issued Share Capital: ¥300 million
Capital Investment Percentage: 100.0%
Principal Business: Production and sales of food

■ Asahi Beer Pharmaceutical Co., Ltd.
Issued Share Capital: ¥490 million
Capital Investment Percentage: 99.8%
Principal Business: Production and sales of pharmaceuticals

Transportation

■ Asahi Cargo Service Tokyo, Ltd.
Issued Share Capital: ¥80 million
Capital Investment Percentage: 100.0%
Principal Business: Transportation and warehousing

■ Asahi Cargo Service Nagoya, Ltd.
Issued Share Capital: ¥10 million
Capital Investment Percentage: 100.0%
Principal Business: Transportation and warehousing

■ Asahi Cargo Service Osaka, Ltd.
Issued Share Capital: ¥72 million
Capital Investment Percentage: 100.0%
Principal Business: Transportation and warehousing

■ Asahi Cargo Service Kyushu, Ltd.
Issued Share Capital: ¥10 million
Capital Investment Percentage: 100.0%
Principal Business: Transportation and warehousing

Restaurants

■ Asahi Beer System, Ltd.
Issued Share Capital: ¥915 million
Capital Investment Percentage: 75.0%
Principal Business: Operation of restaurants

■ New Asahi, Ltd.
Issued Share Capital: ¥181 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of restaurants

■ Asahi Beer Pizza Studio, Ltd.
Issued Share Capital: ¥90 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of pizza restaurants

■ Asahi Beer Garden, Ltd.
Issued Share Capital: ¥100 million
Capital Investment Percentage: 81.3%
Principal Business: Operation of restaurants

■ Asahi Beer Garden Fukushima, Ltd.
Issued Share Capital: ¥30 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of restaurants

■ Asahi Beer Garden Hakata, Ltd.
Issued Share Capital: ¥30 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of restaurants

■ Asahi Beer Restaurant Service, Ltd.
Issued Share Capital: ¥110 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of restaurants

Real Estate

■ Asahi Beer Real Estate, Ltd.
Issued Share Capital: ¥3,000 million
Capital Investment Percentage: 100.0%
Principal Business: Real estate leasing, sales, and development

■ Asahi Building Management, Ltd.
Issued Share Capital: ¥20 million
Capital Investment Percentage: 100.0%
Principal Business: Management and maintenance of real estate

Finance

■ Asahi Beer Finance Co., Ltd.
Issued Share Capital: ¥80 million
Capital Investment Percentage: 100.0%
Principal Business: Trading of securities and loans

Services

■ Asahi Beer Communications, Ltd.
Issued Share Capital: ¥50 million
Capital Investment Percentage: 100.0%
Principal Business: Facility tours and merchandise sales

■ East Japan Asahi Draft Beer Service, Ltd.
Issued Share Capital: ¥20 million
Capital Investment Percentage: 100.0%
Principal Business: Maintenance of draft beer equipment

■ West Japan Asahi Draft Beer Service, Ltd.
Issued Share Capital: ¥30 million
Capital Investment Percentage: 100.0%
Principal Business: Maintenance of draft beer equipment

■ Chuo Advertising Shinsha, Inc.
Issued Share Capital: ¥30 million
Capital Investment Percentage: 53.3%
Principal Business: Advertising representative

■ Asahi Beer Information System, Ltd.
Issued Share Capital: ¥110 million
Capital Investment Percentage: 100.0%
Principal Business: Computer services

OVERSEAS

United States

■ Asahi Beer U.S.A., Inc.
Issued Share Capital: US$10 million
Capital Investment Percentage: 97.5%
Principal Business: Importing, sales, and marketing of beer
Headquarters & Los Angeles Branch
21250 Hawthorne Blvd., Suite 770,
Torrance, CA 90503, U.S.A.
Tel: (1) 310-316-7775
Fax: (1) 310-316-9995

Honolulu Office

New York Branch
11 Martine Ave., Suite 770,
White Plains, NY 10606, U.S.A.
Tel: (1) 914-428-3636
Fax: (1) 914-428-2444

Europe

■ Asahi Beer France S.A.R.L.
Issued Share Capital: FFr51 million
Capital Investment Percentage: 100.0%
Principal Business: Holding company
Tour Franklin Cedex 11 101, Terrasse Boieldieu,
92042 Paris-La Defense 8, France
Tel: (33) 01-55-61-31-80
Fax: (33) 01-55-61-31-89

■ Asahi Beer International Finance B.V.
Issued Share Capital: NLG29 million
Capital Investment Percentage: 100.0%
Principal Business: Trading of securities and loans
Strawinskylaan 3105, 7th Floor, 1077 ZX Amsterdam,
The Netherlands
Tel: (31) 20-4420268
Telex: 15614 ALTRU NL
Fax: (31) 20-4064555
Inquiries should be directed to the Tokyo Head Office.

■ Buckinghamshire Golf Company Limited
Issued Share Capital: £12.7 million
Capital Investment Percentage: 100.0%
Principal Business: Ownership and management of a golf club
Denham Court Drive, Denham,
Buckinghamshire UB9 5BG, U.K.
Tel: (44) 1895-835777
Fax: (44) 1895-835210

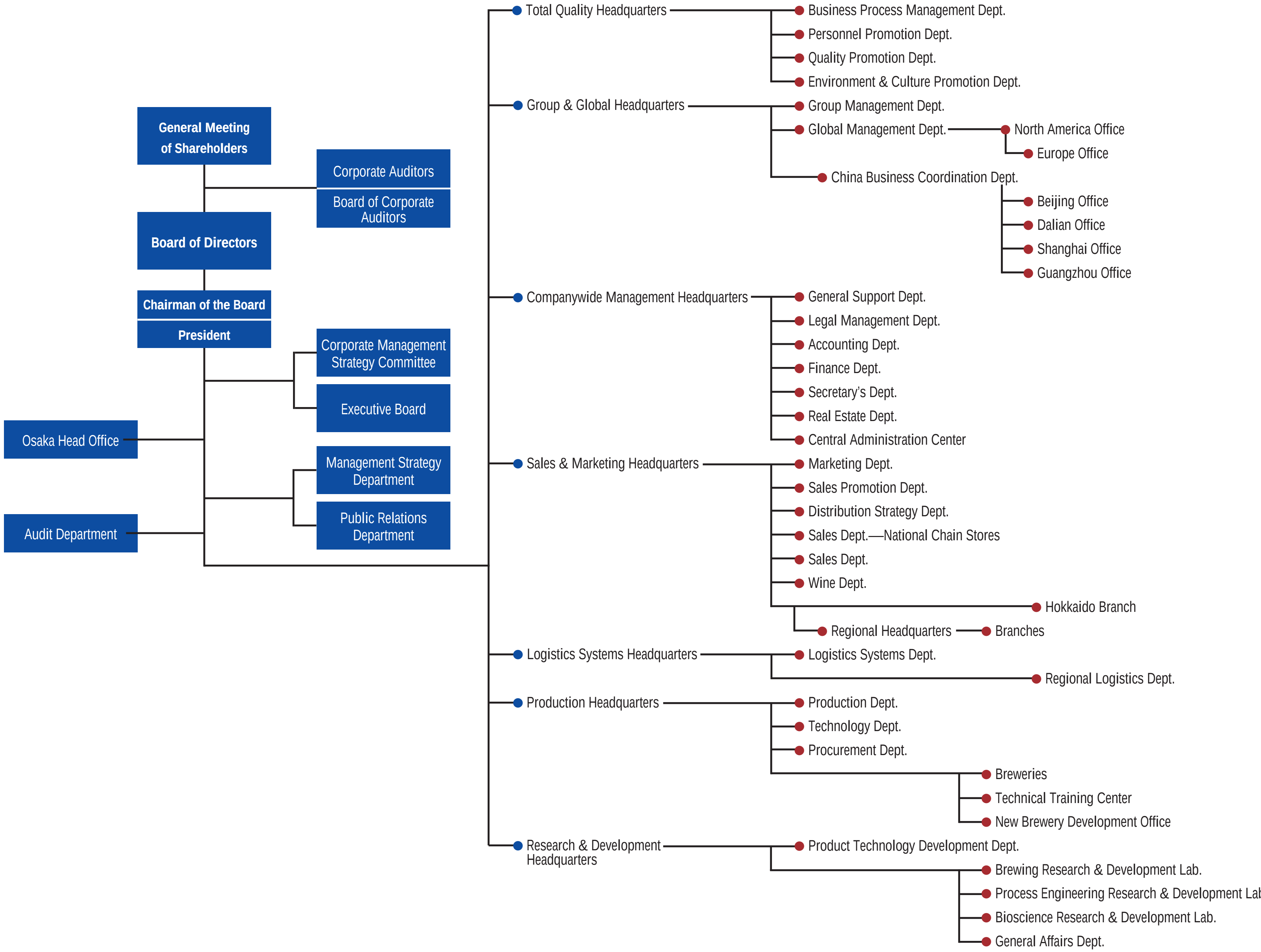
■ S.A. du Golf International de Grasse Claux Amic
Issued Share Capital: FFr46 million
Capital Investment Percentage: 80.0%
Principal Business: Ownership and management of a golf club
Lieu dit "Claux Amic," 06130 Grasse, France
Tel: (33) 493-605544
Fax: (33) 493-605519

■ Asahi Beer Europe Limited
Issued Share Capital: £0.4 million
Capital Investment Percentage: 100.0%
Principal Business: Marketing of beer
17 Connaught Place, London W2 2EL, U.K.
Tel: (44) 171-706-8330
Fax: (44) 171-706-4220

Financial Information: As of December 31, 1998
Addresses and Telephone Numbers: As of March 31, 1999

ORGANIZATION CHART

(As of September 1, 1998)



Head Office
23-1, Azumabashi 1-chome,
Sumida-ku, Tokyo 130-8602, Japan
Tel: (03) 5608-5126
Fax: (03) 5608-7121
URL: http://www.asahibeer.co.jp

Fiscal Year-End Date
December 31 on an annual basis

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

Date of Establishment
September 1, 1949

Paid-in Capital
¥177,559 million

Number of Shares of Common Stock Issued
497,807,415

Number of Shareholders
49,555

Major Shareholders
The Dai-Ichi Mutual Life Insurance Company
Asahi Chemical Industry Co., Ltd.
The Sumitomo Bank, Ltd.
The Sumitomo Trust & Banking Company, Limited
Fukoku Mutual Life Insurance Company
Sumitomo Life Insurance Company
The Toyo Trust and Banking Co., Ltd.
The Chase Manhattan Bank, N.A. London
State Street Bank & Trust Co.
The Norinchukin Bank

Number of Domestic Offices and Facilities
Branch offices: 73
Breweries: 9
Laboratories: 3

Number of Employees
4,258

Stock Exchange Listings
Tokyo, Osaka, Nagoya, and Kyoto stock exchanges

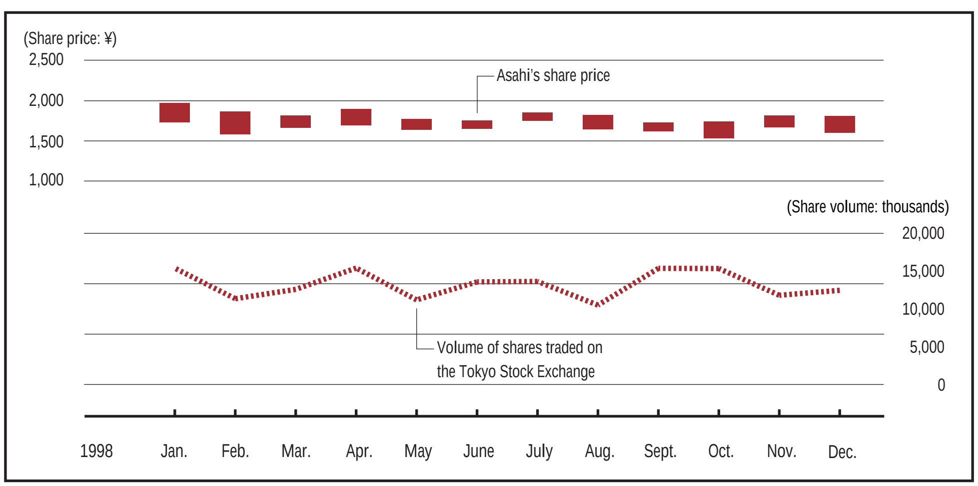
Newspaper for Official Notice
Nihon Keizai Shimbun

Transfer Agent and Registrar
The Toyo Trust and Banking Co., Ltd.
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Tel: (03) 5683-5111

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.

Auditor
Asahi & Co.

Share Price Movement



(As of December 31, 1998)

ASAHI BREWERIES, LTD.

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