
# Asahi

## ASAHI BREWERIES, LTD.

# 2002

## ANNUAL REPORT

## Our New Possibilities

## Profile

Since its establishment in 1889, Asahi Breweries Ltd. has played a significant role in Japan's beer industry. Business performance advanced rapidly with the release of *Asahi Super Dry* in 1987, capturing the top share in the domestic beer market in 1998. In 2001, we entered the happoshu (low-malt beer) business with *Asahi Honnama*, and claimed the top share in the combined beer and happoshu market.

Based on these strong brands and solid marketing and sales efforts, Asahi Breweries will fully leverage this substantial competitive position towards offering a complete lineup of alcoholic beverages around its core products of beer and happoshu. In 2002, Asahi Breweries pursued aggressive M&A activities in the alcoholic beverages business and significantly expanded its product lineups by adding whisky, sho-chu, wine, and low-alcoholic beverages to its beer and happoshu product offerings.

Under the Group vision of "Taking on the challenge of creating a fun and an affluent lifestyle culture for a new era through its food and health businesses," we intend to achieve group-wide growth through a broad range of businesses, including alcoholic beverages, non-alcoholic beverages, food, and pharmaceuticals.

## Contents

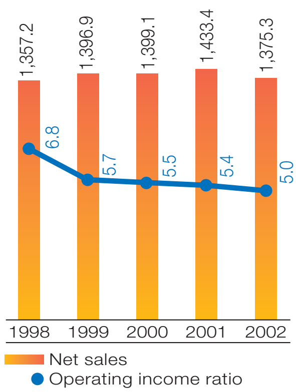
# Financial Highlights

Asahi Breweries, Ltd. and Consolidated Subsidiaries
December 31,2002 and 2001

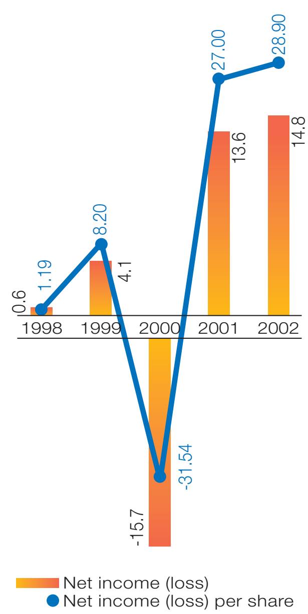
| | Millions of yen | | Thousands of U.S. dollars (Note) |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| **For the year:** | | | |
| Net sales | **¥ 1,375,267** | ¥ 1,433,364 | **$ 11,470,117** |
| Operating income | **69,341** | 77,777 | **578,324** |
| Net income | **14,754** | 13,617 | **123,053** |
| Net cash provided by operating activities | **77,951** | 110,107 | **650,133** |
| Capital investments | **41,257** | 64,829 | **344,095** |
| **At year-end:** | | | |
| Total assets | **1,294,738** | 1,341,103 | **10,798,482** |
| Interest-bearing debt | **402,206** | 417,167 | **3,354,513** |
| Total shareholders' equity | **387,539** | 385,965 | **3,232,185** |
| **Per share data** (in yen and U.S. dollars): | | | |
| Net income | **¥ 28.90** | ¥ 27.00 | **$ 0.24** |
| Cash dividends applicable to the year | **13.00** | 13.00 | **0.11** |
| Total shareholders' equity | **770.86** | 752.25 | **6.43** |

Note:
U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥119.90 to U.S.$1, the exchange rate prevailing at December 31, 2002.

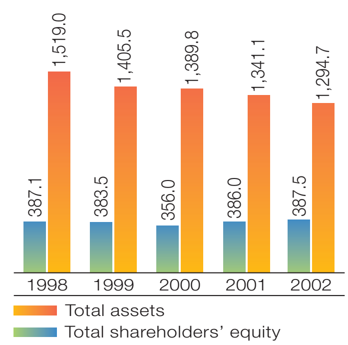
**Net sales** (Billions of yen)
**Operating income ratio**(%)




**Net income (loss)** (Billions of yen)
**Net income (loss) per share** (Yen)




**Total assets**
**Total shareholders' equity**
(Billions of yen)




**Forward-Looking Statements**

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

### Asahi Honnama Establishes Major Brand Recognition

The year 2002 marked the first year of the second stage of our Medium-Term Group Management Plan. The Asahi Breweries Group pursued its business goals of: 1) Cementing our position in the beer and happoshu markets; and 2) Streamlining our operations for comprehensive alcoholic beverages.

With regard to our first goal of cementing our position in the beer and happoshu markets, we have made steady achievements. In particular, happoshu sales showed stunning results. Based on taxable shipments in 2002, the growth rate for total domestic sales of happoshu was 15.6%, while *Asahi Honnama* recorded a 20.3% growth rate — the highest of all existing brands in the market. *Asahi Honnama* solidly cemented its position as the No. 2 brand in the industry, rapidly closing in on the No. 1 brand and significantly outdistancing No. 3.

Meanwhile, total demand in the beer market declined 10.9% for the year on a taxable shipment basis as a result of harsh market conditions where demand has now contracted by 10% for two years in a row since 2001. Nevertheless, we sold 163 million cases of beer, limiting the year-on-year decline to 8.6%. Consequently, our leading brand *Asahi Super Dry* once again expanded its share in the beer market, marking the 11th consecutive year of increasing share since 1992.

As a result, our share of the combined beer and happoshu markets came to 38.4% on a taxable basis, maintaining the top position in market share for the second year running and accomplishing our goal of cementing our position in the beer and happoshu markets by maintaining strong brands in both markets.

### Progress in Building the Foundations for a Comprehensive Alcoholic Beverage Lineup

As for our second goal of streamlining operations for comprehensive alcoholic beverages, we are achieving steady progress through acquisitions and marketing alliance.

In the wake of the 2001 sales integration with the Nikka Whisky Distilling Co., we acquired the alcoholic beverages businesses of Kyowa Hakko Kogyo Co., Ltd. and Asahi Kasei Corporation in 2002. In addition,

# Pursuing Constant **Growth** for the Entire Group

**Shigeo Fukuchi**
Chairman and Chief Executive Officer

we signed an agreement to form a strategic marketing alliance in the Japanese market with Maxxium Worldwide, one of the five largest alcoholic beverage groups in the world. As a result of these endeavors, the Asahi Breweries Group acquired a product lineup comprising numerous major brands over a broad range of categories, such as whisky, sho-chu, wine, and low alcohol beverages, along with manufacturing licenses and substantial production facilities. In terms of marketing, as a result of sales integration and acquisitions, we have set up the largest marketing force in the industry, thereby establishing a foundation for strengthening the lineup for comprehensive alcoholic beverages.

## Reducing Costs in Core Businesses

Another significant accomplishment in 2002 was achieving considerable cost reductions, mainly in our core businesses. At Asahi Breweries, Ltd. and Asahi Soft Drinks Co., Ltd., we moved to cut costs focusing on manufacturing and logistics processes through such measures as reviewing procurement procedures for raw materials as well as packaging. In addition, we are promoting group procurement for materials. As a result of these efforts, Asahi Breweries, Ltd. reduced costs by ¥15 billion, and Asahi Soft Drinks cut costs by ¥10 billion from the previous year.

## Record-High Net Income as a Result of Improved Financial Structure

A downturn in total market demand in the wake of the prolonged economic slump resulted in a decline in beer sales and the weak performance of Asahi Soft Drinks. While sales of happoshu increased, consolidated sales for 2002 fell 4.1% from the previous year to ¥1,375,267 million and consolidated operating income dropped by 10.8% to ¥69,341 million.

**Kouichi Ikeda**
President and Chief Operating Officer

However, consolidated net income rose 8.3% to ¥14,754 million, a record high. The main factor behind these positive results was significant improvement in our financial condition, which is another accomplishment of 2002.

Asahi Breweries, Ltd., in particular, has almost completed its financial and operational restructuring underway since 1993 and the writing-off of losses caused by a change in accounting methods. Accordingly, the absence of extraordinary losses such as retirement benefits led to a considerable improvement in the bottom line. Furthermore, large-scale capital investments related to brewery construction have subsided following the completion of our Kanagawa Brewery in May 2002 as a new beer and happoshu production base. In addition, the amount of outstanding financial debt has significantly decreased.

Consequently, in 2002 we made strong progress in building the foundation for group-wide growth under the Medium-Term Group Management Plan.

## Increasing Sales and Profit, Strengthening Profitability

Our highest priorities for 2003 are to recover sales and profit in the alcoholic and non-alcoholic beverages businesses and to strengthen our corporate structure towards attaining further growth in sales and profit. To these ends, we will promote the following activities:

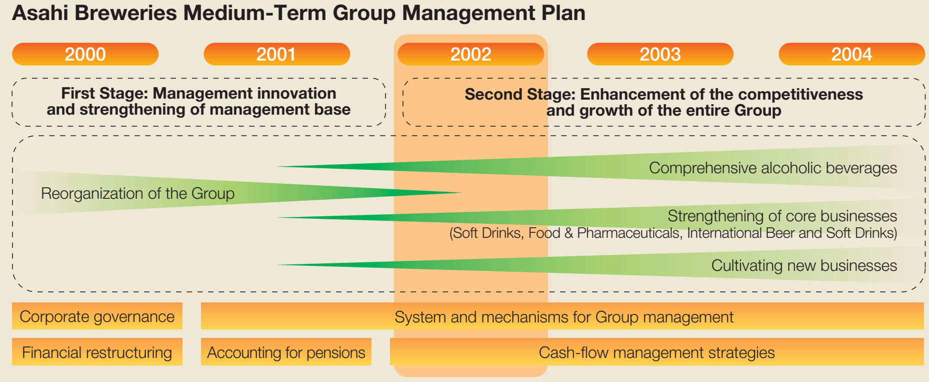
With regard to our alcoholic beverages business, we will develop the next leading brand products, while further strengthening the brand power of our current market leaders, *Asahi Super Dry* and *Asahi Honnama*, in our mainstay categories of beer and happoshu. As part of this strategy, we launched *Asahi Minorizanmai*, a new beer product, in January 2003, and *Asahi Sparks*, a new happoshu product, in February. Through the market launch of these products, we aim to capture customers not targeted by our main brands, *Asahi Super Dry* and *Asahi Honnama*. Both new products have kicked off to a good start. The sales of *Asahi Sparks* in particular is steadily progressing towards our first year annual sales target of 10 million cases on a taxable shipment basis.


*Asahi Minorizanmai* *Asahi Sparks*

For product lines in categories other than beer and happoshu, which were significantly expanded through acquisitions in 2002, we will identify core brands in each category for intensive development.

While establishing major brands in each category through these strategies, we are also strengthening our comprehensive proposal-based marketing. We will

**Asahi Breweries Medium-Term Group Management Plan**




**Toward continuous profit growth**

promote efficient expansion of alcoholic products in general, mainly targeting large volume retailers, which are expected to expand.

In our non-alcoholic beverages business, we have seen clear signs since autumn 2002 of a major turnaround in sales, as evidenced by the success of *WONDA Morning Shot* and *Asahi Juroku-Cha*. To fully leverage this opportunity to strengthen overall results, we will renew our management team in 2003 and work to improve our corporate structure. We will also implement thorough cost reduction measures towards our essential goal of returning to profitability in our non-alcoholic beverages business.

## Establishing a Group Point-of-Sale Sales Promotion Company

In January 2003, we established Smile Support Co., Ltd. to merchandize the products of Asahi Breweries and Asahi Soft Drinks at the storefronts of large volume retailers such as supermarkets and convenience stores. Greater efficiency in retail sales activities was achieved by using part-time employees from Smile Support in product display and follow-up activities for campaign support consigned by Asahi Breweries and Asahi Soft Drinks. With this marketing structure, we will aggressively promote sales, focusing on large volume retailers, whose numbers are expected to increase due to the deregulation of liquor sales licensing.

## Continuous Profit Growth that Meets Stakeholders' Expectations

We view 2003 as a year in which our performance as a comprehensive alcoholic beverages maker, as well as the overall performance of the Asahi Breweries Group, will come under scrutiny. In a continuing trend from the previous year, we expect in 2003 even more intensified competition in all markets in which the Group participates. Achieving steady growth under these circumstances will require us to seize the initiative of leading the markets with our superior brand power and raising sales and profits as we revitalize the entire market.

To that end, the Asahi Breweries Group will invest marketing costs systematically and continuously in each of our businesses to strengthen brand power and increase brand recognition. We will concurrently strive to further reinforce the synergy among our businesses and to promote rationalization and cost reductions across the group. By achieving continuous profit growth through these actions, we intend to fulfill the expectations of our shareholders and investors.

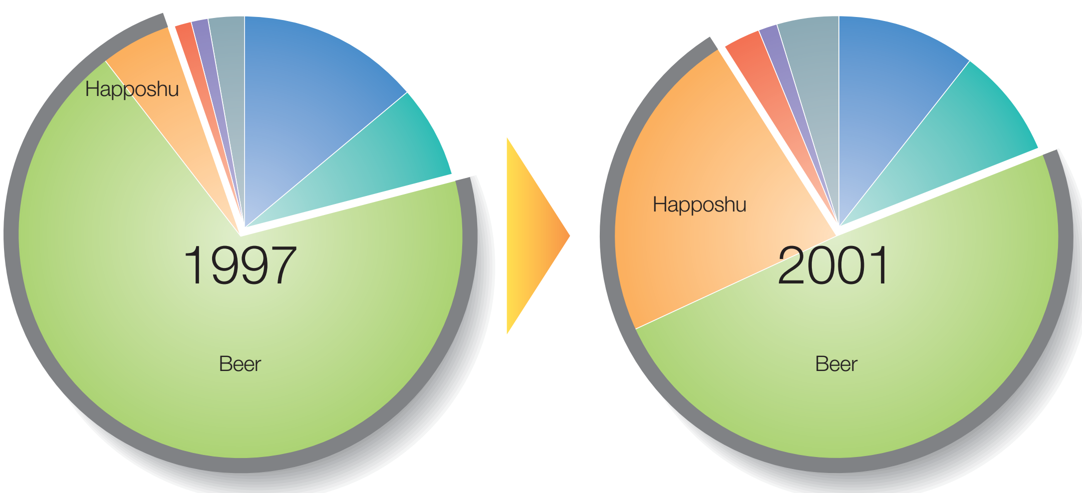
**Shigeo Fukuchi**
Chairman and Chief Executive Officer

**Kouichi Ikeda**
President and Chief Operating Officer

# Market Trends
## IN JAPAN

# Crafting Our Business Strategy in Response to Market Trends

**Change in proportional composition of domestic alcoholic beverages and distribution flow chart**

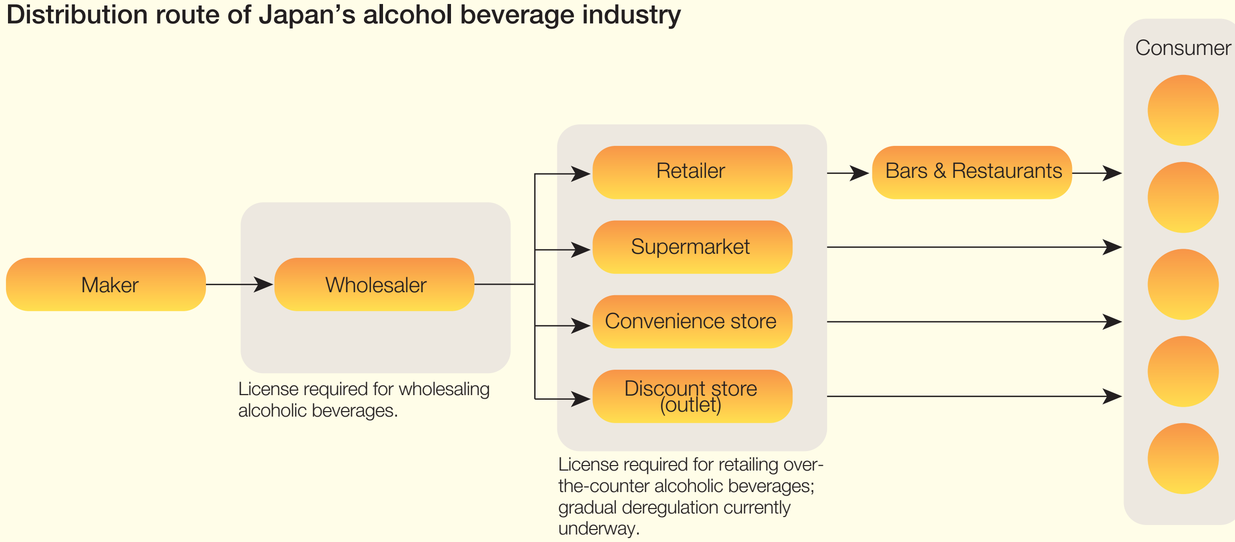



- Sake & Sake Compounds
- Sho-chu (Ko & Otsu types)
- Beer
- Happoshu
- Fruit Liquor (wine)
- Whisky
- Liqueurs

Used also for beverages such as chu-hi and cocktails

* Compiled from National Tax Agency statistics.
* Similarly for the period 2001, 1997 illustrates the period from April 1, 1997 ending March 31, 1998.

**Distribution route of Japan's alcohol beverage industry**



## Diversification in Consumer Preferences

The market for alcoholic beverages has been evolving to meet the increasingly diversifying preferences and purchasing criteria of consumers. For example, demand for happoshu, which is less expensive than beer, has been increasing significantly, to the point where it has grown into its own category, second only to beer. Fruit liquor and liqueurs mainly used for cocktails and low-alcoholic beverages such as chu-hi are also increasing their share of the overall market compared to a few years ago.

This trend toward diversification has fueled competition for product development among makers, leading to the introduction of many new products, primarily from the growing categories. Consequently, consumer choice among product lines has rapidly expanded. Beer and happoshu command a dominating 70% of the alcoholic beverages market in terms of volume. Although this places us at an advantage, further increases in sales while maintaining a competitive edge will require makers to offer strong brands in as many categories as possible.

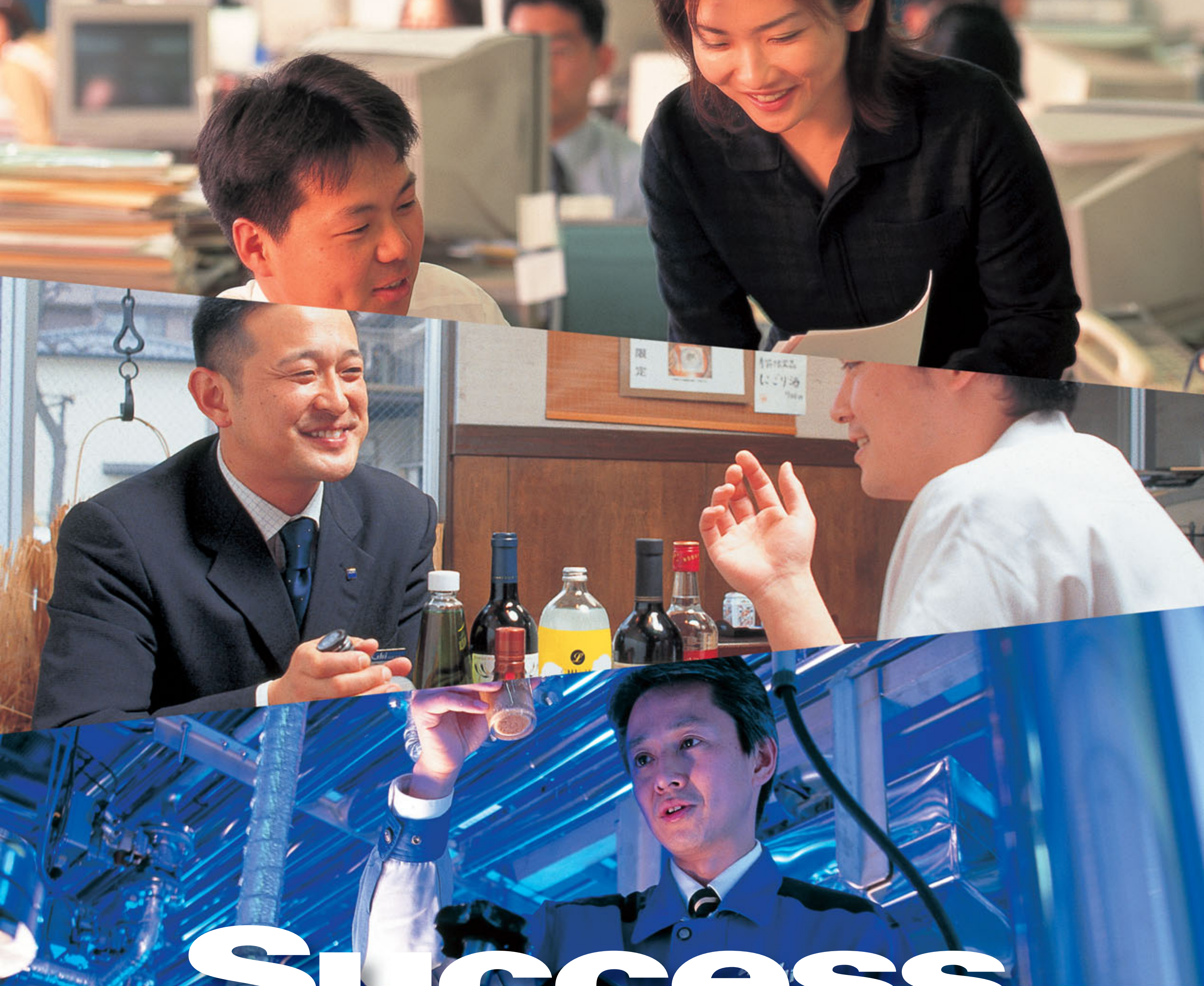
## Deregulation of Liquor Sales Licensing

In Japan, the gradual deregulation of liquor sales licensing has resulted in increases in the number of supermarkets and convenience stores that sell alcoholic beverages. By September 2003, liquor sales licensing is expected to be significantly deregulated, which will raise the number of supermarkets and convenience stores licensed to sell liquor. The increased number of retailers and introduction of new business categories will lead to the expansion of retail spaces, making alcoholic beverages more readily available than they are at present. On the other hand, as the alcohol consuming population declines in the wake of falling birthrates, overall demand for alcoholic beverages cannot be expected to significantly expand, and the unit sales of alcoholic beverages per retailer is expected to decrease as well.

Consequently, large volume retail outlets for alcoholic beverages, such as convenience stores, will become increasingly more selective in the brand names they choose to carry in each category in order to present a variety of products in a limited space. As a result, makers must possess strong brand names that will be carried as standard items in as many categories as possible. Furthermore, because of the deregulation of liquor sales licensing, alcoholic and non-alcoholic beverages will be predominantly sold in the same retail market. Therefore, for makers, this further enhances the merits of handling both alcoholic and non-alcoholic beverages to present retailers with a broad lineup of products.

## Evolution of the Soft Drink Market

In response to diversifying consumer preferences and a stronger orientation towards health, we have also observed in recent years a growing interest in tea-based drinks, functional beverages, health drinks, vegetable-based drinks and mineral water in the soft drink market. Bottled water and tea-based drinks, which were traditionally served free of charge at restaurants and drinking establishments in Japan, have become accepted as priced beverages. This change has been underpinned by a growing trend towards seeking quality and convenience in daily life, for example by choosing tastier water than tap water and seeking to avoid the extra effort of making tea at home. We see solid growth and extremely high potential in the soft drink market in the long term as a result of these changing lifestyles and the small proportion of such beverages in Japan's soft drink market.

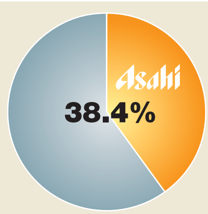


# Success through Innovation

**Sustained profitability through comprehensive strategy and competitive strengths**

# Establishing Major **Brands** Across the Full Range of Alcoholic Beverages

Asahi Breweries enjoys a dominating 38.4% share in the beer and happoshu markets, which represent 70% of the total alcoholic beverage market in Japan by volume. Our mainstay *Asahi Super Dry* has significantly increased its share in the beer market, with annual sales exceeding 100 million cases for 14 consecutive years up to 2002. Our corporate strength is firmly rooted in this remarkably stable profit base as the foundation for generating new profit. Recognizing that strengthening brand power is essential to market survival and continuing profits, we strategically cultivate major brands under each category.



Share of combined beer and happoshu market in terms of taxable shipments in Japan

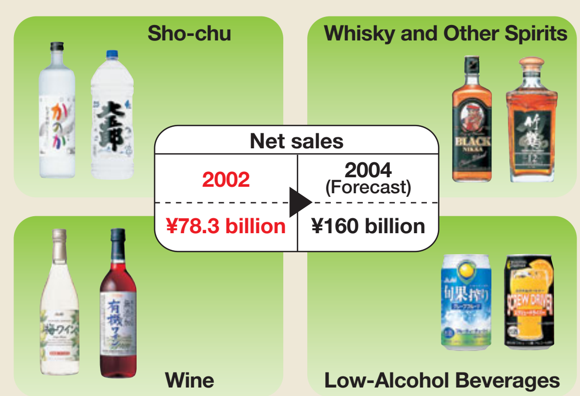
In addition to further intensifying the brand power of *Asahi Super Dry* and *Asahi Honnama*, we launched new products in each category of the beer and happoshu markets in early 2003. In January 2003 we launched *Asahi Minorizanmai* as a beer with a mild, soft taste as opposed to the sharp dry taste of *Asahi Super Dry*. In the happoshu market, we launched *Asahi Sparks*, a clear and light brew that is different from *Asahi Honnama*, which tastes more like beer.

The introduction of these new products in the beer and happoshu categories is meant to capture consumer segments which we have yet to penetrate with *Asahi Super Dry* and *Asahi Honnama*. In order to revitalize the beer market, we will actively promote the appealing flavor of beer in an attempt to revive demand and solidify the foundation of our core business.

With regard to categories other than beer and happoshu, we have aggressively pursued acquisitions and marketing alliances in 2002 to accelerate our drive to provide a comprehensive lineup of alcoholic beverages. We have also significantly expanded our brand lineup and established a sales and marketing force which is the largest in the industry.

At the beginning of 2003, we set up core brands in each category. For low-alcohol beverages, we will intensively promote *Shunka Shibori*, *Cocktail Partner*, and *HiLiKi*; for sho-chu, *Daigoro* and *Kanoka*, and Korean sho-chu *HOUKAI* and *BIDAN* as our core brands; for whisky and other spirits, *Black Nikka Clear Blend*, *Taketsuru*, *Jim Beam*, and *Remy Martin*; and for wines, domestic *Sankaboshizai-Mutenka Wine* (antioxidant-free wine) and *Asahi Ume Wine* as well as imported *Caliterra*, *Baron Philippe de Rothschild* and *Louis Latour*. At the same time, we have set sales targets for each category to expand both sales and profits. In 2004, through systematic sales and marketing activities, we expect to attain our targeted sales of ¥160 billion for alcoholic beverages excluding beer and happoshu.

**Sales targets for categories other than beer and happoshu**



**Success through Innovation 2**

# Moving to **Strengthen** the Soft Drink Business Across the Group

Along with deregulation in the liquor retailing of alcoholic beverages, sales channels for alcoholic and non-alcoholic beverages are expected to increasingly converge. Consequently, the co-marketing of alcoholic and non-alcoholic beverages should provide an advantage. In line with this development, we will exercise group-wide efforts to restructure our soft drinks business.

Although both operating and net incomes for our soft drinks business remained in the red in 2002, continuing the pattern from 2001, some signs of recovery can be discerned in such areas as our cost reductions of ¥10 billion, achieved in 2002 as a result of tireless efforts since 2001.


*Shinsen Juroku-Cha* *WONDA Morning Shot*

In terms of product development, *WONDA Morning Shot*, launched in autumn 2002, marked total sales of 4.62 million cases, far exceeding our sales target of 4 million cases. For the tea-based beverages category, we have significantly reviewed the blending of 16 kinds of natural ingredients as well as packaging and marketing in the intensive overhaul of *Juroku-Cha*, which marked the 10th year of its release in 2003. The new *Shinsen Juroku-Cha*, launched in January 2003, has shown favorable initial sales since its commercial release, leading to significant recovery of brand power.

Seizing on these signs of recovery, we renewed our management team to inject new energy into Asahi Soft Drinks in March 2003 towards accomplishing a turnaround in business performance through an uncompromising reform of its corporate structure. Under this new management team, we are restructuring our corporate governance, introducing a business headquarters system to clarify management roles and to accelerate decision-making, and implementing a thorough performance-oriented incentive system to encourage a sense of competitiveness among employees towards realizing a complete recovery.

We will also continue improving our cost structure by achieving higher efficiency in our production line, optimizing our production system with an enhanced ratio of self-production, and by improving operational efficiencies and increasing the distribution of vending machines by developing new locations through group-wide efforts.

Furthermore, we expect to increase sales in the industrial use of soft drinks by starting co-sales of oolong tea for industrial use, utilizing our established marketing network for beer.

Therefore, we will selectively invest our management resources in 2003 into *WONDA Morning Shot*, *Shinsen Juroku-Cha*, and *Mitsuya Cider*, as well as *Sarali* and *Charge*–new functional drink products. Our priority will be to recover sales mainly for convenience stores and other mass-retail outlets, in order to attain our target of 4% year-on-year growth in sales to ¥185.3 billion, thereby achieving our ultimate goal of generating net income.

Success through Innovation 3

# Improving Financial Structure

A solid financial base is a prerequisite for long-term profitability under fierce competition. The Asahi Breweries Group has been implementing a variety of measures to improve its financial structure centering on Asahi Breweries, Ltd., our core business.

The results have already become apparent in 2002. Due to the completion of our financial restructuring and loss write-offs, and the absence of extraordinary losses for items such as reserves for retirement benefits, we have achieved a record-high consolidated net income in 2002.

Furthermore, as a result of such measures as progressive cost reductions through operational efficiencies, financial debt for the entire Group has declined from over ¥800 billion in 1996 to ¥402 billion in 2002. Our debt-to-equity ratio has also dropped from 270% to 104%.

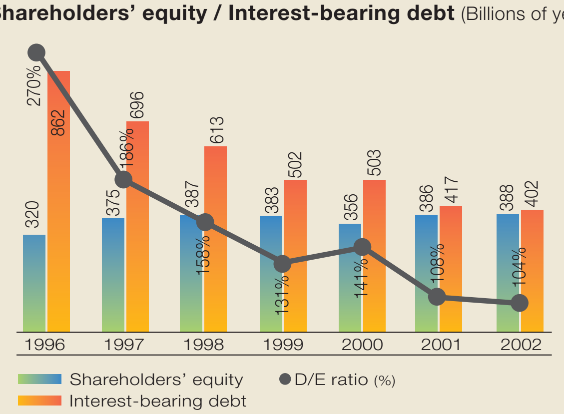
With regard to capital investment, with the completion of our new brewery in May 2002, we have reached the point where major new investments are not required, thereby releasing a steady growth in free cash flow. This increased flexibility in cash management allows us to pursue more varied and aggressive financial strategies.

Looking forward, we intend to efficiently apply our ample financial position by anticipating changes in business and economic environments. Plans for cash utilization include further financial debt reduction, business investments such as M&A activities and repurchase of company stock.

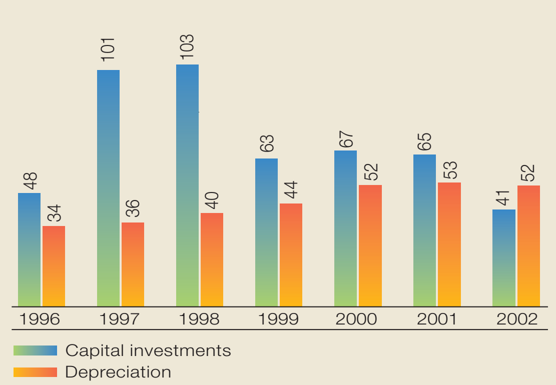
As for business investments, we have more or less completed the establishment of a foundation for becoming a comprehensive alcoholic beverage provider in our alcoholic beverage business through activities such as acquisitions undertaken up to 2002. Therefore, we will concentrate more on strengthening foundations and facilitating rapid development in our soft drinks and food and pharmaceutical businesses, towards advancing the growth of the entire Group.

In addition, we will attempt to strengthen our balance sheet by dissolving cross-shareholding and disposing of inefficient assets.

**Shareholders' equity / Interest-bearing debt** (Billions of yen)




**Capital investments / Depreciation** (Billions of yen)



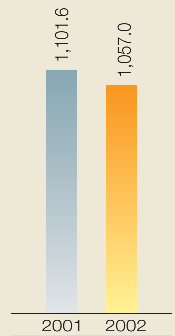
# Asahi, at a glance

Asahi Breweries' business segments were reorganized in the current consolidated accounting period under review, so that the categories "Alcoholic Beverages," "Soft Drinks and Food," "Real Estate," and "Others" have now become "Alcoholic Beverages," "Soft Drinks," "Food & Pharmaceuticals," and "Other Businesses." Net sales shown below for the previous period have been calculated in accordance with the current business segments.

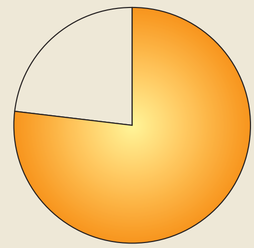
**Net Sales** (Billions of yen) | **Percentage of Net Sales**

## Alcoholic Beverages

Alcoholic Beverages

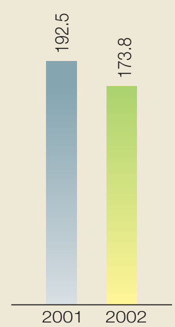



76.9%

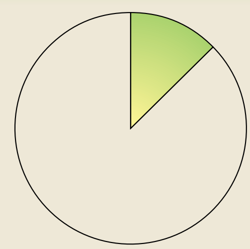


## Soft Drinks

Soft Drinks

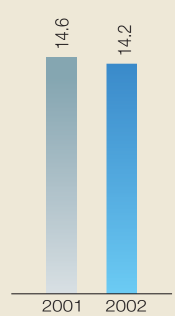



12.6%

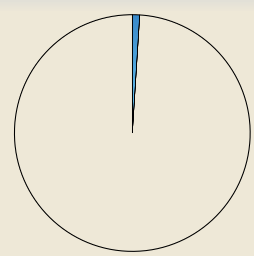


## Food & Pharmaceuticals

Food & Pharmaceuticals

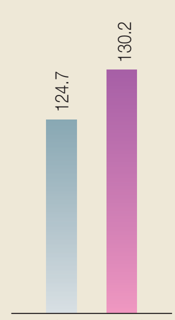



1.0%

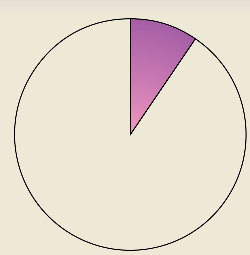


## Other Businesses

Other Businesses




9.5%



| Business Outline | Highlights of the Year |
|---|---|
| Manufacturing and sales of *Asahi Super Dry* and other domestic and international brand beer, and *Asahi Honnama* happoshu, as well as whisky, wine and *chu-hi*. We actively pursue M&A activities to improve our structure for a comprehensive lineup of alcoholic beverages. | • Achieved the top share for two consecutive years in the combined beer and happoshu markets (38.4% on a taxable shipment basis)<br>• Increased year-on-year sales volume of happoshu *Asahi Honnama* by 20.5%<br>• Completed construction of the Kanagawa Brewery, our new beer production base |
| Development and sales of tea-based beverages, such as *Asahi Juroku-Cha*, canned coffee *WONDA*, and soft drinks, such as *Mitsuya Cider* and *Bireley's*. By clearly focusing on priority product categories, we concentrate our management resources and engage in effective marketing and promotion activities. | • Achieved sales of 4.62 million cases of our new product *WONDA Morning Shot*, exceeding target sales of 4 million cases<br>• Awarded the Minister of Education, Culture, Sports, Science and Technology Award at the 2002 Tokyo Invention Exhibition for our particle inspection system for PET bottles<br>• Accomplished ¥10 billion in cost reductions by reorganizing our distribution system and lowering production costs |
| Development and sales of processed seasoning materials utilizing our brewer's yeast processing technology, food products for industrial and consumer markets, as well as pharmaceuticals and supplements. We take on the role of a core business corporation, promoting the Group vision of "Food and Health." | • Established Asahi Food and Healthcare Co., Ltd. by merging Asahi Beer Food, Ltd. and Asahi Beer Pharmaceuticals Co., Ltd.<br>• Increased the number of salespersons for brewer's yeast tablets and supplements by such activities as establishing a self-marketing system for EBIOS tablets |
| A broad range of businesses centering on real estate, logistics and operation of restaurants, and support services for Group companies. | • Actively conducted the restructuring of our restaurant business in 2001, including closing unprofitable shops; improved profits by ¥1 billion year-to-year over 2002 |

# Alcoholic Beverages

In 2002, we worked to further strengthen our beer and happoshu products and to lay the foundations for providing a complete lineup of alcoholic beverages. We were able to achieve solid results in each of these endeavors, and our brand power is rising steadily in each category.

## Beer and Happoshu

Total demand for beer and happoshu declined 2.6% for the year on a taxable shipment basis, as demand for beer fell 10.9% and happoshu rose 15.6%. Under these circumstances, Asahi Breweries undertook an aggressive advertisement campaign, emphasizing to consumers the “refined super clear and super crisp taste” of *Asahi Super Dry* and our efforts and services in pursuit of freshness. With regard to *Asahi Honnama*, we concentrated our advertisement activities on establishing a solid position in the market by stressing its tastiness.

As a result, we were able to limit the decline in sales volume of our flagship product *Asahi Super Dry* to a year-on-year decrease of 8.5% at 159.55 million cases. We expanded our share in the beer market by 1.2% to 47.4%. Meanwhile, *Asahi Honnama*, in the second year of its launch, fared well in the face of severe competition in a market in which as many as 12 new brands were introduced, significantly increasing sales volume by 20.5% to 47 million cases and nipping at the top brand’s heels.

Asahi Super Dry  Asahi Honnama

## Whisky and Other Spirits

We maintained a favorable performance, thanks to the positive contribution made by our sales integration with Nikka Whisky Distilling Co., Ltd. in April 2001. The *Taketsuru* series increased its sales volume steadily, growing into a mainstay brand in the medium- to high-quality whisky category. Our home-use whisky *Black Nikka Clear Blend* also reported a considerable increase in sales.

In 2002, our *Yoichi Malt**, which includes Nikka Single Cask Yoichi (10 years old), was selected as a whisky for sampling by members of the Scotch Malt Whisky Society, an international organization of whisky lovers, after meeting stringent standards. Accordingly, the Yoichi Distillery became the Society’s certified distillery. This marked the first time that malt whisky produced outside Scotland and Ireland was selected by the Society, and it stands as a testimony of the excellent quality of Nikka products to the entire world.

Taketsuru  Black Nikka Clear Blend

**Yoichi Malt: Malt whisky produced at Nikka Whisky’s Yoichi Distillery. One of its brands, the Nikka Single Cask Yoichi (10 years old), recorded the top score in a contest sponsored by the “Whisky Magazine,” the world’s only magazine specializing in whisky.*

## Sho-chu

Sales of *Ichibanfuda* increased significantly, while *Daigoro* and *Kanoka*, two brands acquired from Kyowa Hakko Kogyo Co., Ltd., also enjoyed favorable sales.


Kanoka  Daigoro

## Wine

*Asahi Ume Wine* and *Caliterra*, the Chilean import in its second


Mutenka Wine  Caliterra

year of sales in the year under review, both did well. Sales of *Sankaboshizai-Mutenka Wine* (antioxidant-free wine), a brand acquired from Kyowa Hakko Kogyo Co., Ltd., also grew significantly.

## Low-Alcohol Beverages and Other Alcoholic Beverages

Although *Asahi Super Sour*, which we began selling in 2002, did not perform as strongly as expected, sales of *Taru-Hi Club*, a barreled vodca-based low-alcohol beverage for commercial use, grew steadily, while *Shunka Shibori*, a brand acquired from Asahi Kasei Corporation and *Cocktail Partner*, acquired from Kyowa Hakko Kogyo Co., Ltd., showed favorable results.

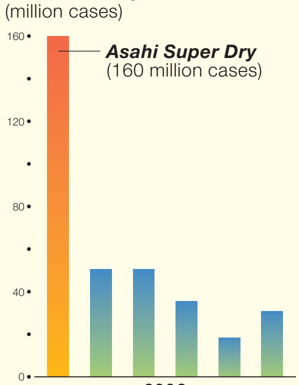
*Shunka Shibori* *Cocktail Partner*

As seen above, each of the categories performed well, though not well enough to offset the decline in beer sales, and total sales for the alcoholic beverage business decreased 4.0% to ¥1,057,029 million in 2002.

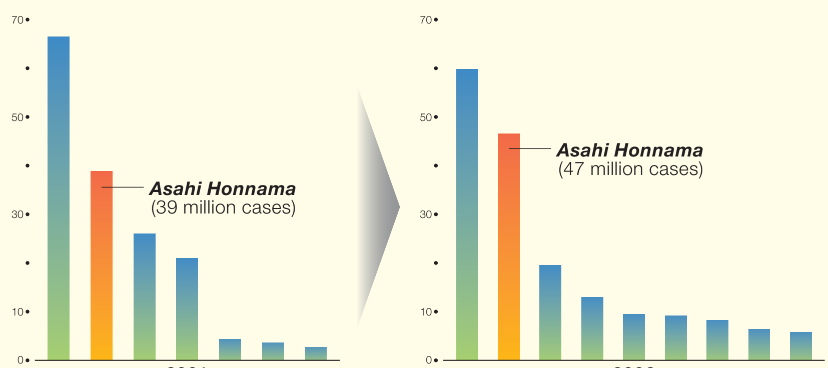
Operating income fell 10.0% to ¥69,145 million, due to an increase in various expenses related to sales integration.

### Asahi's brand strength in the beer and happoshu markets in Japan

**Sales performance of the mainstay beer brands**
(million cases)

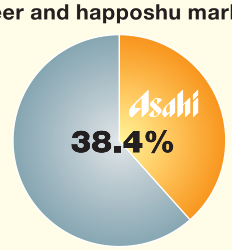



**Sales performance of happoshu by brand**
(million cases)

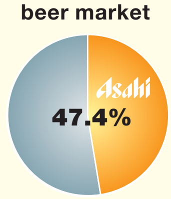



In spite of sales dispersion due to the increased number of new happoshu products in 2002 compared to 2001, *Asahi Honnama* enjoyed overwhelming support, coming within reach of the top brand.

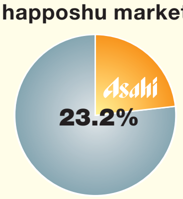
**Asahi's share of combined beer and happoshu market**




**Asahi's share of beer market**




**Asahi's share of happoshu market**




Based on taxable shipments of the five major brewing companies

## Review of Operations

# Soft Drinks

As part of the activities for the second year of the Medium-Term Management Plan at Asahi Soft Drinks, we pursued operational restructuring with a focus on the priority goals of achieving innovative product development, strengthening sales, and gaining cost competitiveness.

However, in 2002 prices edged even lower in the market, and, as competition among makers intensified, sales of main brands such as *Mitsuya Cider, Asahi Juroku-Cha,* and *Asahi Uma-Cha* suffered significant declines which could not be completely resolved by the aforementioned efforts.

Nevertheless, in the area of product development, we launched new products, such as the coffee drink *WONDA Morning Shot*, the tea-based beverage *Asahi Agari*, and the carbonated drink *Fukigen*. *WONDA Morning Shot*, which we began selling in October, became a hit product and demand is growing steadily. With regard to sales, we are encouraging Group companies to find new locations to install vending machines and to expand our sales in the commercial-use market in close collaboration with Asahi Breweries, Ltd. As for stronger cost competitiveness, we are promoting SCM (Supply Chain Management), reorganizing our logistics system by collaborating with the Asahi Breweries Group companies and cutting costs by reducing production costs. Our cost structure is headed for a significant improvement.

*WONDA Morning Shot*  *Mitsuya Cider*  *Asahi Juroku-Cha*

As a result, sales in the soft drink business fell 9.7% to ¥173,773 million. Operating income declined 96.5%, or ¥2,007 million, for an operating loss of ¥4,086 million.

## Review of Operations

# Food & Pharmaceuticals

*During 2002, the formerly separated food and pharmaceutical businesses were integrated into a single category due to business segment change.*

In July 2002, the Asahi Breweries Group merged Asahi Beer Food, Ltd. and Asahi Beer Pharmaceuticals Co., Ltd. and bolstered capital to ¥3.2 billion to establish Asahi Food & Healthcare Co., Ltd. Since then, the Group has been pursuing its food and pharmaceutical businesses through this new subsidiary.

Asahi Food & Healthcare Co., Ltd. functions as the core company in the Asahi Breweries Group for intently pursuing the Group vision of "Food and Health." Amid a growing recognition of the importance of diet, based on the viewpoints of self-medication and preventive medicine, Asahi Food & Healthcare Co., Ltd. will aim to provide valuable products that go beyond the categories of a food company or a pharmaceutical company.

In 2002, along with the building of a new organization, we expanded the sales staff for our mainstay brewer's yeast-based supplements and health food supplements with the aim of strengthening our nationwide sales structure. Furthermore, since July we have begun self-marketing EBIOS tablets and other products that had previously been sold by Tanabe Seiyaku Co., Ltd., and are striving to build a broad sales

*EBIOS (Brewer's yeast for medical use)*  *Super Brewer's Yeast*  *C'S CASE* channel that encompasses both the pharmaceutical and food sales networks.

Since its establishment in July, the company has demonstrated a successful performance led by the healthcare and freeze-dried food divisions. As a result, cumulative sales for all divisions for the period between July and December showed a 5% increase compared with the combined sales reported by the two companies during the same period last term. However, this increase was not enough to make up for the losses reported over the January-June period. As a consequence, sales for the full year fell slightly compared with the combined figures from 2001. Sales for the food and pharmaceuticals business decreased 2.3% to ¥14,232 million. Operating income fell 98.0%, or ¥398 million, to ¥8 million, due to temporary costs related to business integration.

In 2003, we will endeavor to expand the business and to improve performance by making full use of the synergy effect with a stronger management base. As part of this drive, we acquired Pola Foods in March 2002, gaining powerful brands including the nutritional supplement *Balance Up*.

**Review of Operations**

# Other Businesses

We have seen steady performance in our real estate business, centered on office and warehouse rental activities. This has contributed to raising overall sales and profit. As a result, sales of other businesses increased 4.5% to ¥130,233 million, while operating income jumped 55.7% to ¥3,855 million.

## Research & Development

The Asahi Breweries Group is undertaking systematic and efficient research and development that is firmly geared to the Group's growth. Under the R&D Headquarters and the Product & Technology Development Headquarters, there are six laboratories that have been given specific roles in accordance with their research themes, and a support division that is responsible for managing technical information for the entire Group. They are linked under the auspices of the Research & Development Center, which serves as the base for collaboration between each laboratory and related divisions within the Group, aimed at early development of new businesses and product development.

### R&D Headquarters

Mid- to long-term research aimed at new business development.

- **Future Technology Research Center:** Basic research on the functions of food materials and technologies involving microorganisms
- **Business Development Research Center:** Development of foods including functional foods, yeast-related products, and over-the-counter drugs
- **Development Research Center:** Research on technologies related to production, environmental preservation, and new containers and packaging from the perspective of new businesses
- **Technology Information Group:** Support for R&D including management of the Group's technical information

### Product & Technology Development Headquarters

Research on new product development in existing businesses

- **Alcoholic Beverages Research Center:** Comprehensive research and development of new alcoholic products and research on raw materials and brewer's yeast
- **Analytical Research Center:** Research and development of new analytical methods for quality assurance and product safety
- **Containers and Packaging Research Center:** Development of new containers and packaging, and research and development aimed at improving the quality of packaging materials and making cost reductions

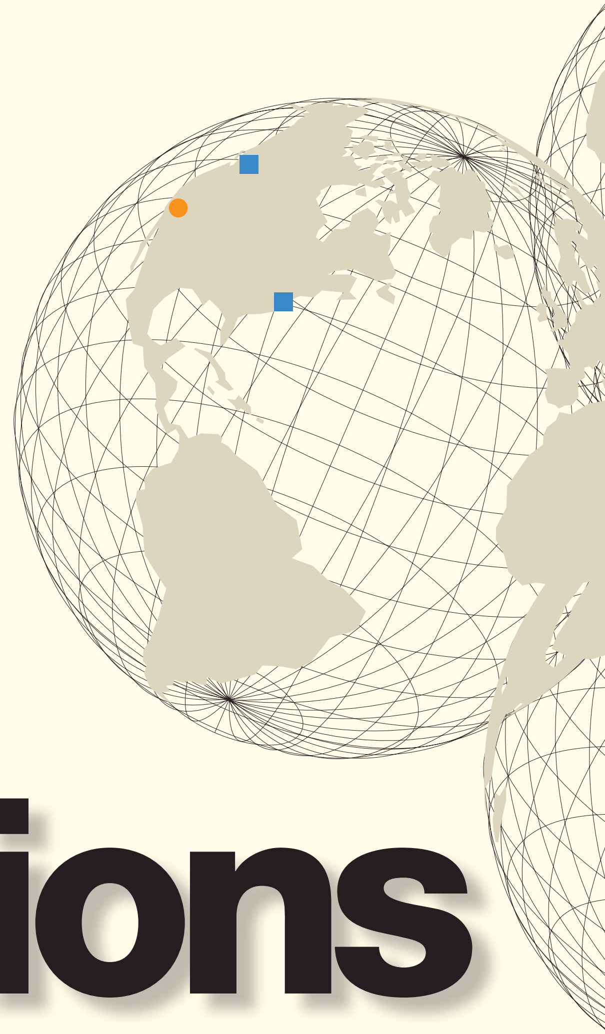
# North America

In 1988, we first launched *Asahi Super Dry* in North America, the world's largest beer market at the time. In 1994, we began local production of *Asahi Super Dry* at Molson Canada Ltd., located in Vancouver. In North America, we are currently focusing our marketing efforts on the west and east coasts as well as Hawaii, where Japanese beer brands are in high demand. Within these regions, we are improving the efficiency of marketing activities by maintaining a balance between sales and sales promotion expenses. Additionally, efforts are underway with Molson Canada to reduce production costs. In 2002, we have achieved sales comparable to those of the previous year in each of the focus regions.

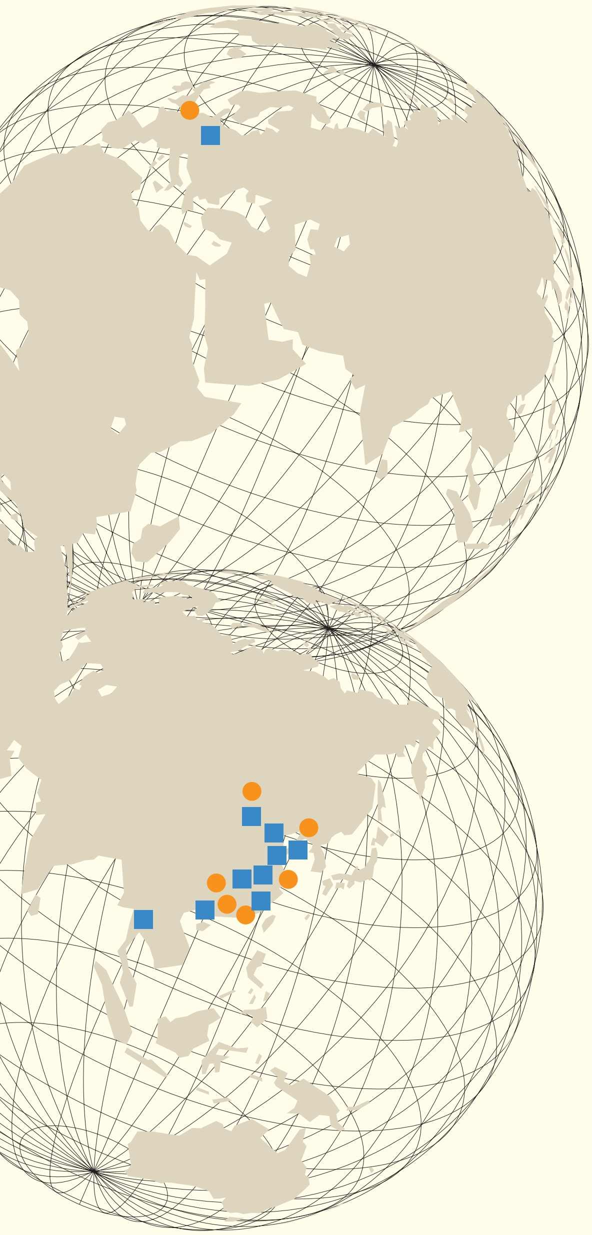
# Global Operations

## Established Production and Marketing Systems in Three Global Regions

**The Asahi Breweries Group operates its production and marketing activities in the three regions of North America, Europe, and Asia, focusing on beer as our main product. Having held the top share in the combined beer and happoshu markets in Japan since 2001, we now intend to implement a full-scale marketing program targeting our overseas business.**



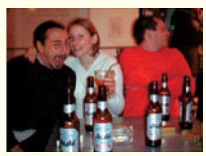
Sales and marketing centers
Production centers



# Europe

We concentrate efforts to expand sales in countries and regions, such as the United Kingdom, France, Germany, and Italy, where demand for beer is strong and the consumption of imported premium beer is growing. In 2002, *Asahi Super Dry* achieved solid sales growth, particularly in London, increasing sales 37% over the previous year. Production at Prague Breweries in the Czech Republic jumped 40% compared to the previous year. Thanks to the Japanese food and culture boom in Europe, especially among the younger generation in London, *Asahi Super Dry* was recognized as a highly fashionable beer and was selected as a “Cool Brand” by Superbrands Ltd. in the United Kingdom.

As is the case in North America, this region’s operation and production costs will be spotlighted for further improvements.



# Asia

In China, intensifying competition along with its participation in the World Trade Organization has brought major changes in market conditions; we regard the country as a high priority region with enormous potential.

The volume of production and sales at our five joint ventures in China has already exceeded 5,000,000 hl, placing us among the leading beer production groups in the country. In particular, Shenzhen Tsingtao Beer Asahi Co., Ltd., our joint venture with Tsingtao Breweries, has maintained steady operations since 1999 and achieved a record volume of 1,287,000 hl in 2002, successfully reporting a second year of profit. In addition, the company introduced *Asahi Beer Xian Zai*, a standard brand, in response to the growing interest in standard beer products.

In the soft drink business, we have added tea-based beverages and fruit drinks to mineral water at Qingdao Tsingtao Beer and Asahi Beverage Co., Ltd., mainly in Shandong Province.

In 2002, we formed an alliance with Thailand’s Boon Rawd Group and began selling locally brewed *Asahi Super Dry*, mainly in the capital city, Bangkok. We also intend to expand our business in the members of ASEAN (the Association of Southeast Asian Nations) with the brewery owned by the Boon Rawd Group as a production base for the region.

Meanwhile, we began exporting our standard brand *ASAHI RED*, brewed at Shenzhen Tsingtao Beer Asahi Co., Ltd., to the southern regions of Taiwan. We intend to broaden our marketing focus on the brand to encompass the entire country in 2003, and expand production and sales of *ASAHI RED* together with *Asahi Super Dry*.

A gradual lowering and abolition of local tariffs is expected to take place following the formation of the ASEAN Free Trade Area (AFTA), opening excellent prospects for market expansion. Strengthened collaboration between our production bases in Thailand and China will improve competitiveness and profitability by reducing distribution and production costs throughout Asia, as well as in Australia and New Zealand.

# Corporate Citizenship

## Contributing to a Society Based on Sustainable Development

In response to increasing concern over such issues as the environment, the Asahi Breweries Group recognizes its mission to help create a sustainable society while at the same time seeking economic growth as a corporation.

In this context, Asahi Breweries has led the Group in actively promoting environmental management with full consideration of our social responsibilities, including our overall contributions to society and adherence to compliance standards. As just one expression of this commitment, Asahi Breweries participated in The Global Compact, supported by the United Nations, in 2002.

Not only does the Asahi Breweries Group promote a broad range of activities for environmental conservation, as well as make social and cultural contributions, the Group also expresses a clear and unwavering commitment to raising our corporate value in society by constantly evaluating our management from a universal perspective beyond pursuing financial growth as a corporation.

## Environmental Activities

### Promoting Environmental Management Across the Group

***Strengthening Environmental Control Systems***

In April 2000, Asahi Breweries set up a Group Environmental Committee. We tirelessly strive to achieve quantifiable targets and action goals set for each fiscal year, based on Group Environmental Guidelines. The Committee now comprises nine companies, including Asahi Breweries, and the combined net sales account for 92% of our consolidated net sales. In addition, we began conducting environmental audits on Group companies in 2001.

In terms of standards for environmental management systems, all our breweries—except for one just recently transferred in March 2002—have already acquired ISO 14001 certification. In August 2001, Asahi Breweries' head office acquired the certification. In addition, environmental accounting for all Asahi Breweries divisions began in 1999, followed by the accounting of major subsidiaries in 2000.


### Efforts to Reduce Waste

Our earnest commitment to waste reduction began in 1998, when we achieved 100% waste recycling at all nine breweries in Japan. In 2002, Nikka Whisky Distilling Co., Ltd., at all its distilleries, and the two subsidiary companies of Nippon National Seikan Co., Ltd. achieved 100% waste recycling. We have also introduced fuel-efficient facilities at four domestic breweries in order to conserve energy and reduce $CO_2$ emissions. In addition to these efforts, we have completely eliminated the use of CFC gases at our Nagoya Brewery, as well as at our Kanagawa Brewery, which came on line in 2002.

For more information, please visit our website at **http://www.asahibeer.co.jp/eco-habitat-english/index.html**

## Promoting the Recycling of Containers and Materials

Our environmental activities include the collection and reuse of returnable containers, and 99% of bottles have been collected in 2002. At the same time, we are decreasing environmental impact by using recycled and recyclable materials for sales promotion items, such as billboards, product posters and gifts.


## Environmental Communication

### *Asahi Eco Space*

The Asahi Eco Space *Minerva's Forest* opened in April 2002 in the 1st floor lobby of Asahi Breweries' Azumabashi Headquarters Building as a communication area for us to think about environmental issues together with our customers. In *Minerva's Forest*, there are display panels and stands explaining Asahi Breweries' commitment to environmental issues, created from cut trees and recycled materials.

### *Environmental Culture Seminars*

Since September 2002, three *Asahi Breweries Environmental Cultural Seminars* have been held to provide participants with an opportunity to consider the impact of environmental issues on daily life. The seminars, which will continue into 2003 and beyond, have focused particularly on water and forests, precious national assets that are also intrinsically related to our products.

# Topics

### Completion of Kanagawa Brewery, an Environmental Creation Plant

Completed in May 2002, our Kanagawa Brewery is not only a state-of-the-art brewery, but also a facility that demonstrates full consideration for people, local communities, and the environment. The brewery incorporates the abundant expertise in energy conservation and $CO_2$ reduction measures accumulated at our existing breweries. We have also used wind-power generation with our green-certified electric system and conducted practical tests for an electricity storage system using NaS batteries. From the very beginning of operations, the Kanagawa Brewery has achieved 100% waste recycling and complete elimination of CFC gases. In addition, we have set aside over 50% of the site, or 210,000 m$^2$, as green area, which is open for public recreation and relaxation.

### FSC Certification

Asahi Breweries' 2,169 hectares of mountainous forest in Japan contribute to the conservation and cultivation of forest resources, the securing of water resources, and $CO_2$ absorption. In 2001, Asahi Breweries obtained the FSC Forest Management Certification* for its forest as a first food company in Japan. We are taking this opportunity to make full use of the forest as a social resource by collaborating with local government and universities, and to open up our forest to the public to promote environment and nature education.

**Forest Management Certification: An international certification, accredited by a third-party as a model of responsible forest management that is also economically sustainable. Certification by the Forest Stewardship Council (FSC), headquartered in Mexico, is the most widely recognized standard in the world.*

### Receiving the "Minister of Environment Award" at the Global Environment Grand Prize

In April 2002, as a symbol of recognition for our contribution to environmental conservation activities, Asahi Breweries received the Minister of Environment Award at the 11th Global Environment Grand Prize ceremony. This award signifies the importance attributed to our contribution to forest conservation through controlled management of our corporate forest, as well as our activities related to environmental conservation and coexistence with local surroundings at our Kanagawa Brewery.

# Corporate Citizenship

## Social and Cultural Activities

### Establishing an Employee Volunteering Support System

***Asahi One Beer Club***

In April 2002, we launched the *Asahi One Beer Club*, a membership-based fundraising organization for our employees. As of December 2002, 358 members have voluntarily participated in the membership-managed group under the slogan, "A glass of beer's worth of social contribution." Money collected by the club is used by local community organizations or for emergency disaster relief.

***Asahi Eco Mileage***

In April 2002, the Asahi Eco Mileage system was set up as a volunteer system modeled on the idea of a local currency. Under this system, voluntary activities by employees are converted into a special point system, with the cash equivalent of accumulated points annually donated to social charity organizations.

### Creating Networks with Society

***Support for the Arts and Cultural Activities: Asahi Arts Festival***

We enthusiastically support activities, such as the "Lobby Concert," affording young musicians an opportunity to perform in the lobby of our headquarters, the discovery of young artists in cooperation with arts-related non-profit organizations (NPOs), and the sponsorship of exhibitions featuring collaboration between traditional and contemporary arts.

In addition, we began sponsoring the *Asahi Arts Festival* in the summer of 2002. With the assistance of more than 400 people from arts-related NPOs and various other groups, over 100 art programs will be offered nationwide for the participation and enjoyment of local citizens during the next three years through 2004.

### Building Partnerships with Society

***Support for Welfare Facilities: KIDS Project***

We are particularly proud of our management of the KIDS Project in six regions in Japan, which increases contact between children living in out-of-home care, such as group homes, and the general community.

The events are designed and organized by the Asahi Breweries Group's employees on a volunteer basis.

***Support for Disaster Recovery and Donations for Flooding Damage in Europe***

We have undertaken support activities in collaboration with NPOs for victims of natural disasters. For example, employees visited residents of Miyakejima, who were forced to take shelter from a volcanic eruption, to provide personal support and deliver gifts to children. Similarly, every year, we sponsor summer trips for children recovering from the Great Hanshin Earthquake. In 2002, we collected donations to repair the damage caused by flooding in Europe.

### Support for Moderate Drinking

As a comprehensive alcoholic beverage maker, we actively support educational campaigns to encourage moderate drinking. In addition to producing and distributing educational guidebooks, we produced a preventive educational video in 2001 targeting drinking by minors, which is illegal in Japan. The videos are distributed free of charge to junior high schools.


In 2001, we became the first Asian corporation to join the ICAP* and actively participated in board meetings by offering proposals for action.

** ICAP: International Center for Alcoholic Policies, based in Washington, D.C. An international non-profit organization that specializes in alcohol-related issues. 12 major alcoholic beverage makers from around the world are registered members.*

# Corporate Governance

Asahi Breweries considers the reinforcement of corporate governance as an indispensable component to winning trust from our stakeholders and remaining a growing corporation.

## Further Enhancement of Management Fairness and Transparency

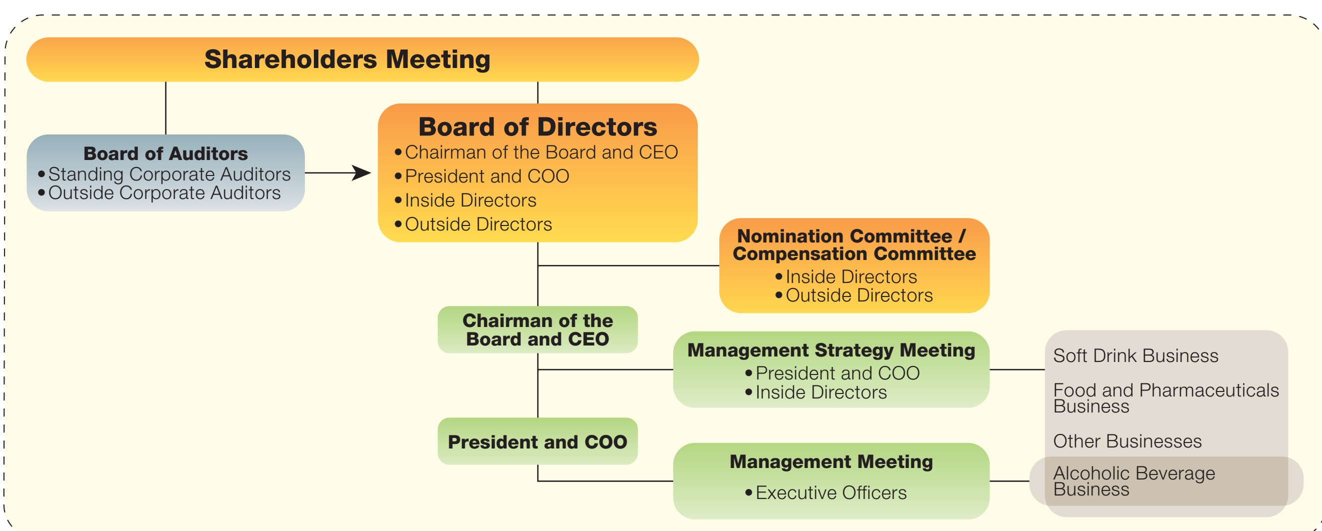
Our actions in this area include the establishment of the Nomination Committee and Compensation Committee under the Board of Directors in 2000. The Nomination Committee will recommend candidates for Directors, Executive Officers, and Standing Corporate Auditors to the Board of Directors, while the Compensation Committee will submit agendas to the Board of Directors regarding the compensation structure for Directors and Executive Officers. Our intent through these new committees is to further enhance management fairness and transparency. In 2002, the Nomination Committee was held four times and the Compensation Committee seven times.

In April 2000, we also increased the number of our Outside Directors from one to three in order to broaden perspectives on Board of Directors' deliberations, enhance management transparency and social accountability, and strengthen our group management capabilities. In addition, in order to maintain our management focus on shareholders, we have adopted a stock option system for our Directors and Executive Officers, so that the shareholder perspective is brought to bear in decision making and operational execution.

## In Pursuit of Speedy Decision Making

Asahi Breweries has introduced our Executive Officer System in 2000, under which the Board of Directors is responsible for management-level decision making and supervisory functions, while COO and Executive Officers are responsible for our core business of alcoholic beverages. The separation of these levels of responsibility will add impetus to the system and speed up the process of decision making.

On that basis, overall operations are guided and implemented through two major meetings: the Management Strategy Meeting, directed by the CEO, where the business of the entire Group is discussed; and the Management Meeting, directed by the COO, where our backbone business of alcohol beverages is deliberated. Through these organizational controls, Directors are responsible for the businesses of the entire Group while the COO and Executive Officers are responsible for the alcoholic beverage business. By assigning business domains to separate bodies, we accelerate decision making and clarify responsibilities.



# Board of Directors, Auditors, and Executive Officers

## Board of Directors

**Shigeo Fukuchi**
Chairman of the Board
and Chief Executive Officer

**Kouichi Ikeda**
President
and Chief Operating Officer

**Koichi Asahi**
Executive Vice President

**Sugao Nishikawa**
Executive Vice President

**Sadao Ogura**
Senior Managing Director

**Masaaki Okada**
Managing Director

**Akira Ohara**
Managing Director

**Naoki Izumiya**
Director

**Nobuo Yamaguchi**
Director
Chairman and Representative
Director of Asahi Kasei Corporation

**Yukio Okamoto**
Director
President of Okamoto Associates,inc.

**Tomoyo Nonaka**
Director
Journalist

## Auditors

**Standing Corporate Auditors:**
Akashi Sato
Hiroshi Fujita
Toshio Harada

**Outside Auditors:**
Takahide Sakurai
Naoto Nakamura

## Executive Officers

**Senior Managing Executive Officers:**
Junichi Sakamoto
Tomoaki Tsukiyama

**Managing Executive Officers:**
Yutaka Nakamura
Masahiko Ozeki
Nagayuki Akimoto
Yoshihiro Goto
Masaru Kuraguchi
Masatoshi Takahashi
Masahiko Osawa
Naoyuki Sorimachi
Yoshifumi Nishino

**Executive Officers:**
Kazuo Motoyama
Yuji Ninomiya
Tadashi Tamada
Hikaru Kawamura
Hisao Tominaga
Hideyuki Ishibashi
Noboru Ninomiya
Masakazu Eto
Syunzo Asano
Tsugiya Iwasaki
Osamu Sasaki
Nobukazu Yoshioka
Akira Matsunobu
Seikou Takahashi
Sakae Mitani
Nobuo Nagura
Toshifumi Ishii
Masato Miyake
Masanori Kameno
Fumio Yamasaki
Yoshito Tomita
Shigeru Hada
Hiroshi Yamashita

# Major Subsidiaries

## Domestic

### Manufacturing

**The Nikka Whisky Distilling Co., Ltd.**
Issued Share Capital: ¥14,989 million
Capital Investment Percentage: 100.0%
Principal Business: Production of whisky

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

**Asahi Soft Drinks Co., Ltd.**
Issued Share Capital: ¥11,081 million
Capital Investment Percentage: 51.2%
Principal Business: Production and sales of soft drinks

**Asahi Food & Healthcare Co., Ltd.**
Issued Share Capital: ¥3,200 million
Capital Investment Percentage: 100.0%
Principal Business: Production and sales of food and pharmaceuticals

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

**Nippon National Seikan Company, Ltd.**
Issued Share Capital: ¥1,000 million
Capital Investment Percentage: 100.0%
Principal Business: Production and sales of cans

### Transportation

**Asahi Logistics Co., Ltd.**
Issued Share Capital: ¥836 million
Capital Investment Percentage: 100.0%
Principal Business: Transportation and warehousing

### Restaurants

**Asahi Food Create, Ltd.**
Issued Share Capital: ¥1,500 million
Capital Investment Percentage: 100.0%
Principal Business: Operation of restaurants

**Asahi Beer Garden, Ltd.**
Issued Share Capital: ¥490 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

# Major Subsidiaries

## Overseas

### United States

**Asahi Beer U.S.A., Inc.**
Issued Share Capital: US$32 million
Capital Investment Percentage: 99.2%
Principal Business: Sales and marketing of beer
Headquarters & Los Angeles Branch: 20000 Mariner Avenue, Suite 300, Torrance, CA 90503, U.S.A.
Tel: (1) 310-921-4000
Fax: (1) 310-921-4001

**New York Branch**
560 White Plains Rd., Suite 320, Tarrytown, NY 10591, U.S.A.
Tel: (1) 914-332-9436
Fax: (1) 914-332-9439

### Europe

**Asahi Beer Europe Limited**
Issued Share Capital: £10.6 million
Capital Investment Percentage: 100.0%
Principal Business: Sales and marketing of beer
17 Connaught Place, London W2 2EL, U.K.
Tel: (44) 20-7706-8330
Fax: (44) 20-7706-4220

**Buckinghamshire Golf Company Limited**
Issued Share Capital: £24.5 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

### Asia

**Asahi Breweries Itochu (Holdings) Ltd.**
Principal Business: Investment in Chinese breweries
Inquiries should be directed to the Tokyo Head Office.

**Hangzhou Xihu Beer Asahi Co., Ltd.**
Issued Share Capital: RMB226 million
Capital Investment Percentage: 55.0%
Principal Business: Production and sales of beer

**Jiaxing Haiyan Beer Xihu Asahi Co., Ltd.**
Issued Share Capital: RMB33 million
Capital Investment Percentage: 55.0%
Principal Business: Production and sales of beer

**Quanzhou Qingyuan Beer Asahi Co., Ltd. Fujian**
Issued Share Capital: RMB134 million
Capital Investment Percentage: 60.0%
Principal Business: Production and sales of beer

**Yantai Beer Asahi Co., Ltd.**
Issued Share Capital: RMB219 million
Capital Investment Percentage: 53.0%
Principal Business: Production and sales of beer

**Yantai Beer Dong Ying Xinyi Co., Ltd.**
Issued Share Capital: RMB8 million
Capital Investment Percentage: 60.0%
Principal Business: Production and sales of beer

**Asahi Breweries Itochu China (Holdings) Ltd.**
Principal Business: Investment in Chinese breweries
Inquiries should be directed to the Tokyo Head Office.

**Beijing Beer Asahi Co., Ltd.**
Issued Share Capital: RMB333 million
Capital Investment Percentage: 55.0%
Principal Business: Production and sales of beer

**Shenzhen Tsingtao Beer Asahi Co., Ltd.**
Issued share capital: RMB248 million
Capital Investment Percentage: 29.0%
Principal Business: Production and sales of beer

**Asahi Beer (China) Investment Co., Ltd.**
Issued Share Capital: RMB248 million
Capital Investment Percentage: 100.0%
Principal Business: Investment

**Asahi Beer (Shanghai) Product Services Co., Ltd.**
Issued Share Capital: RMB145 million
Capital Investment Percentage: 100.0%
Principal Business: Sales of beer
No.1207, Westgate Mall, 1038 Nanjing Rd.(W), Shanghai, China 200041
Tel: (86) 21-6267-2400
Fax: (86) 21-6267-2401

**Qingdao Tsingtao Beer & Asahi Beverage Co., Ltd.**
Issued Share Capital: RMB70 million
Capital Investment Percentage: 60.0%
Principal Business: Production and sales of beverage

**B&A Distribution Co., Ltd.**
Issued Share Capital: THB100 million
Capital Investment Percentage: 49.0%
Principal Business: Sales and marketing of beer
17th floor, UBC II Building, 591 Sukhumvlt 33, Wattana, Bangkok 10110, Thailand
Tel: (66-2) 662-3274
Fax: (66-2) 662-3275

(As of December 31, 2002)

# Financial Section

# 11 Years Summary
Years ended December, 31

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 1992 | 1993 | 1994 | 1995 | 1996 |
| **For the year:** | | | | | |
| Net sales | ¥ 949,113 | ¥ 951,199 | ¥1,075,540 | ¥1,087,900 | ¥1,212,046 |
| Operating income | 52,297 | 62,556 | 80,858 | 77,829 | 99,643 |
| Net income (loss) before income taxes | 22,554 | 17,880 | 25,168 | 24,480 | 36,291 |
| Net income (loss) | 3,882 | 3,434 | 6,492 | 6,607 | 8,231 |
| Capital investments | 54,141 | 69,592 | 19,015 | 33,906 | 48,366 |
| Depreciation | 26,937 | 29,196 | 31,407 | 32,629 | 34,245 |
| <Segment information> | | | | | |
| Sales: | | | | | |
| Alcoholic beverages | 726,642 | 715,615 | 832,963 | 832,106 | 933,072 |
| Soft drinks and food | 151,322 | 144,262 | 167,007 | 170,241 | 192,127 |
| Pharmaceuticals | 34,337 | 36,123 | 34,645 | 39,746 | 40,158 |
| Real estate | 23,194 | 32,380 | 16,752 | 4,415 | 3,819 |
| Others | 13,618 | 22,819 | 24,173 | 41,392 | 42,870 |
| Sales: (New Segments) | | | | | |
| Alcoholic beverages | | | | | |
| Soft drinks | | | | | |
| Food and Pharmaceuticals | | | | | |
| Others | | | | | |
| Operating income: | | | | | |
| Alcoholic beverages | 30,580 | 34,539 | 67,820 | 64,935 | 86,489 |
| Soft drinks and food | 8,081 | 8,227 | 13,668 | 13,668 | 11,686 |
| Pharmaceuticals | 5,665 | 5,595 | 3,406 | 4,625 | 5,343 |
| Real estate | 16,878 | 25,254 | 4,000 | 4,071 | 3,326 |
| Others | 681 | 468 | 360 | 175 | 430 |
| Operating income: (New Segments) | | | | | |
| Alcoholic beverages | | | | | |
| Soft drinks | | | | | |
| Food and Pharmaceuticals | | | | | |
| Others | | | | | |
| **Financial position** | | | | | |
| Total assets | 2,120,711 | 1,829,223 | 1,782,546 | 1,727,834 | 1,697,268 |
| Total shareholders' equity | 290,043 | 288,071 | 294,945 | 298,804 | 319,645 |
| Interest-bearing debt | 1,411,062 | 1,040,544 | 957,227 | 893,300 | 861,955 |
| | Yen | | | | |
| **Per share data** | | | | | |
| Net income (loss): Primary | 9.30 | 8.23 | 15.49 | 15.60 | 19.18 |
| : Fully diluted | —*1 | —*1 | —*1 | —*2 | 17.56 |
| Shareholders' equity | 695.03 | 689.97 | 697.84 | 703.45 | 723.99 |
| Cash dividends applicable to the year | 8.00 | 8.00 | 9.50 | 9.50 | 10.00 |
| | % | | | | |
| **Ratios** | | | | | |
| Net income to shareholders' equity (ROE) | 1.3 | 1.2 | 2.2 | 2.2 | 2.7 |
| Operating income per net sales | 5.5 | 6.6 | 7.5 | 7.2 | 8.2 |
| Operating income per net sales (exclusive of alcohol tax) | 9.0 | 10.6 | 12.5 | 11.9 | 13.7 |
| Shareholders' equity to total assets | 13.7 | 15.7 | 16.5 | 17.3 | 18.8 |

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥119.90 to U.S.$1, the exchange rate prevailing at December 31, 2002.

*1 Disclosure of fully diluted per share data of net income was not required for the years 1992 through 1994.

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

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

| | Millions of yen | | | | | Thousands of U.S. dollars (Note) |
|---|---|---|---|---|---|---|
| 1997 | 1998 | 1999 | 2000 | 2001 | **2002** | **2002** |
| ¥1,313,257 | ¥1,357,217 | ¥1,396,898 | ¥1,399,108 | ¥1,433,364 | **¥1,375,267** | **$11,470,117** |
| 96,299 | 91,893 | 80,122 | 76,550 | 77,777 | **69,341** | **578,324** |
| 32,798 | 23,273 | 15,038 | (18,116) | 18,611 | **32,483** | **270,918** |
| 11,555 | 579 | 4,082 | (15,707) | 13,617 | **14,754** | **123,053** |
| 100,936 | 103,449 | 63,149 | 66,518 | 64,829 | **41,257** | **344,095** |
| 35,740 | 39,656 | 43,840 | 51,790 | 52,901 | **51,546** | **429,908** |
| 1,017,915 | 1,068,908 | 1,114,441 | 1,127,737 | 1,179,412 | **—** | **—** |
| 204,199 | 234,729 | 229,704 | 216,191 | 201,772 | **—** | **—** |
| 41,891 | — | — | — | — | **—** | **—** |
| 4,488 | 4,921 | 3,897 | 4,194 | 3,058 | **—** | **—** |
| 44,764 | 48,659 | 48,856 | 50,986 | 49,122 | **—** | **—** |
| | | | | 1,101,620 | **1,057,029** | **8,815,922** |
| | | | | 192,526 | **173,773** | **1,449,316** |
| | | | | 14,561 | **14,232** | **118,699** |
| | | | | 124,657 | **130,233** | **1,086,180** |
| 92,140 | 92,583 | 86,037 | 86,774 | 92,635 | **—** | **—** |
| 5,290 | 7,641 | 6,972 | 2,009 | (1,485) | **—** | **—** |
| 5,723 | — | — | — | — | **—** | **—** |
| 3,453 | 3,060 | 1,623 | 2,717 | 1,833 | **—** | **—** |
| 1,007 | 950 | 94 | (758) | (816) | **—** | **—** |
| | | | | 76,809 | **69,145** | **576,689** |
| | | | | (2,079) | **(4,086)** | **(34,078)** |
| | | | | 406 | **8** | **67** |
| | | | | 2,476 | **3,855** | **32,152** |
| 1,616,210 | 1,519,014 | 1,405,507 | 1,389,827 | 1,341,103 | **1,294,738** | **10,798,482** |
| 374,591 | 387,089 | 383,474 | 356,009 | 385,965 | **387,539** | **3,232,185** |
| 695,569 | 613,194 | 502,327 | 503,371 | 417,167 | **402,206** | **3,354,513** |
| | | Yen | | | | U.S. dollars (Note) |
| 25.15 | 1.19 | 8.20 | (31.54) | 27.00 | **28.90** | **0.24** |
| 23.36 | —*2 | 8.11 | —*3 | 25.25 | **27.46** | **0.23** |
| 776.68 | 777.60 | 777.04 | 715.04 | 752.25 | **770.86** | **6.43** |
| 11.00 | 12.00 | 12.00 | 12.00 | 13.00 | **13.00** | **0.11** |
| | | % | | | | |
| 3.3 | 0.2 | 1.1 | (4.2) | 3.7 | **3.8** | **3.8** |
| 7.3 | 6.8 | 5.7 | 5.5 | 5.4 | **5.0** | **5.0** |
| 12.3 | 11.5 | 9.7 | 9.2 | 9.0 | **8.3** | **8.3** |
| 23.2 | 25.5 | 27.3 | 25.6 | 28.8 | **29.9** | **29.9** |

# Management's Discussion and Analysis

## Overview

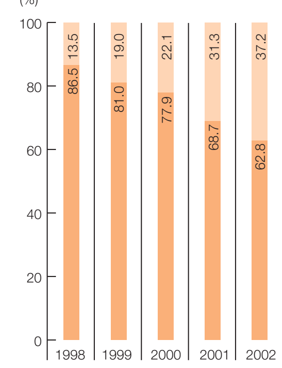
During the fiscal year ending December 31, 2002, the Japanese economy showed some signs of recovery in the first half of the year due to such factors as an increase in exports and a turnaround in production. However, concern over the prospects in the U.S. economy, developments in the disposal of nonperforming loans, and a further deterioration in consumer spending caused by rising corporate bankruptcies exerted a downward pressure on final demand, resulting in a flat performance in the latter half of the year.

The market for alcoholic beverages underwent a slump in total demand throughout the entire market caused by the prolonged recession. In spite of the 15.6% growth on a taxable shipment basis in the happoshu category, total demand for beer and happoshu —— the main business lines of Asahi Breweries, Ltd. —— recorded its first decline in two years, dropping by 2.6% for the year on a taxable shipment basis due to the fact that demand for beer, which accounts for 62.8% of the total sales in the beer and happoshu category, fell 10.9%.

In the soft drinks industry, although Japanese tea, mineral water, and sports drinks showed year-on-year increases, results in coffee drinks, carbonated drinks, and fruit drinks were particularly harsh.

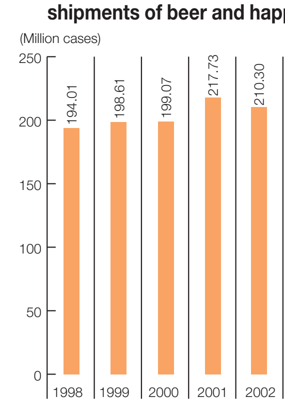
As a result, sales volume for the soft drinks market as a whole is estimated to come out even compared with the previous year.

**Individual beer and happoshu percentage in the combined beer and happoshu market**




* Based on taxable shipments

**Asahi's combined taxable shipments of beer and happoshu**




## Net sales

Consolidated net sales for the fiscal year decreased ¥58.1 billion, or 4.1%, to ¥1,375.3 billion.

By segment, alcoholic beverage sales remained roughly the same at 76.9%, while soft drink sales decreased slightly from 13.4% to 12.6%.

Total sales of consolidated overseas subsidiaries showed little change at ¥14.2 billion on the back of sales in the Chinese market.

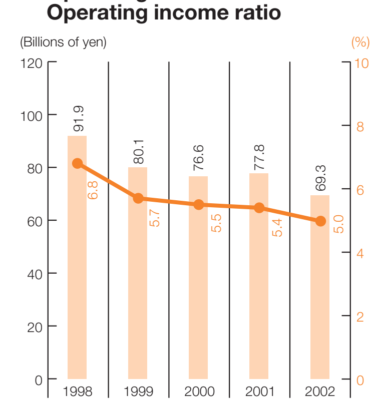
## Operating income

Cost of sales and alcohol tax decreased ¥47.1 billion, to ¥956.8 billion, and the cost of sales and alcohol tax ratio decreased from 70.0% to 69.6%, mainly due to cost reductions of raw materials in the alcoholic beverages and soft drinks operations.

Selling, general and administrative costs decreased ¥2.5 billion, from ¥351.6 billion in the previous year to ¥349.1 billion, due to a ¥3.6 billion reduction in transportation costs.

Although the costs of sales promotions and advertisements remained, for the most part, flat at ¥161 billion, the decline in sales slightly pushed up the ratio of costs of sales promotions and

**Operating income and Operating income ratio**



advertisements to net sales, from 11.2% to 11.7%.

While the cost of production fell, the rate of decline in selling, general and administrative costs did not overcome the decline in sales, causing the selling, general and administrative costs to net sales ratio to increase 0.8 percentage points from 24.6% to 25.4%.

As a result, operating income decreased ¥8.4 billion, or 10.8%, to ¥69.3 billion. The operating income ratio fell slightly from 5.4% to 5.0%.

### Other income and expenses

Due to the reduction in interest-bearing debt, the Company's financial balance improved ¥1.4 billion.

The Company did not state any losses representing the lump sum settlement of the difference arising from the new accounting system in retirement benefits, which amounted to ¥20.4 billion in the previous term, while losses on the valuation and sale of investment securities, which amounted to ¥7.7 billion and ¥3.1 billion, respectively, in the previous year, declined by a combined ¥3.3 billion.

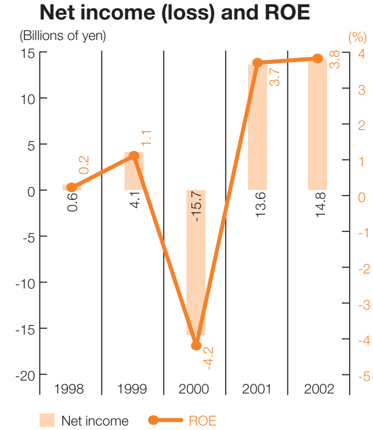
Substantial expenses that arose during the term were ¥3.6 billion in losses stated on the transfer of investment securities to the retirement benefit fund.

As a result, non-operating income and losses improved by ¥22.3 billion.

### Net income

The Company achieved a record-high net income of ¥14.8 billion for the term, a ¥1.2 billion increase over the ¥13.6 billion net income in the previous term, yielding a 1.1% net income ratio and a 3.8% Return on Equity (ROE), an improvement over the previous term. Net income per share also marked a record high of ¥28.90.

**Net income (loss) and ROE**




### Dividend

Asahi Breweries, Ltd. plans to issue the ordinary dividend of ¥13 per share.

Including the half-term dividend of ¥6.5 per share, dividends per share for the next term are expected to remain at ¥13 per share.

## Review of operations by segment

| | Millions of yen | | Percent change |
|---|---|---|---|
| | **2002** | 2001 | |
| **Sales** | | | |
| Alcoholic beverages | **¥1,057,029** | ¥1,101,620 | −4.0 |
| Soft drinks | **173,773** | 192,526 | −9.7 |
| Food and Pharmaceuticals | **14,232** | 14,561 | −2.3 |
| Others | **130,233** | 124,657 | 4.5 |
| **Operating income (loss)** | | | |
| Alcoholic beverages | **69,145** | 76,809 | −10.0 |
| Soft drinks | **(4,086)** | (2,079) | −96.5 |
| Food and Pharmaceuticals | **8** | 406 | −98.0 |
| Others | **3,855** | 2,476 | 55.7 |

## Alcoholic beverages

Total demand for beer and happoshu declined 2.6% for the year on a taxable shipment basis, as demand for beer dropped 10.9% against the 15.6% increase in demand for happoshu.

Under these circumstances, our flagship product *Asahi Super Dry* reported sales volume exceeding 100 million cases for the 14th straight year at 159.55 million cases, thus increasing its share of the beer market for the 11th consecutive year. However, sales volume represented an 8.5% year-on-year decrease, due to the overall decline in demand.

Sales volume for *Asahi Honnama* happoshu jumped 20.5% to 46.97 million cases.

As for alcoholic beverages excluding beer and happoshu, we bolstered our structure as a total alcoholic beverages provider, following up on our sales integration with Nikka Whisky Distilling Co., Ltd. in the previous term by acquiring the alcoholic beverages divisions of Kyowa Hakko Kogyo Co., Ltd. and Asahi Kasei Corporation and by forging a sales alliance with Maxxium Worldwide.

By category, sales of *Taketsuru* whisky for commercial use grew 16% for the year and *Black Nikka Clear Blend* whisky for home-use rose 19%.

Sho-chu products fared favorably, including *Daigoro* and *Kanoka*, which were acquired from Kyowa Hakko Kogyo and added to our existing *Ichibanfuda* brand, while in the wine category sales of *Asahi Ume Wine* increased 150% and *Caliterra* by 106% compared to the previous term.

In low-alcohol beverages, *Asahi Super Sour Chu-hi* failed to meet its sales target, while *Taru-Hi Club* increased sales in the commercial-use market and *Shunka Shibori* , acquired from Asahi Kasei and *Cocktail Partner*, acquired from Kyowa Hakko Kogyo, both attained their sales targets.

The Company, for the most part, achieved its target due to increased sales from business acquisitions, which amounted to ¥23.9 billion, or 98.3% of initial targets for the four months from September through December.

While individual categories demonstrated favorable results, the increased sales in categories excluding beer were not enough to offset the decline in beer sales, and sales for the overall alcoholic beverage business fell 4.0% to ¥1,057 billion. Operating income decreased 10.0% to ¥69.1 billion, due to lower sales and a temporary increase in expenses related to sales integration and business acquisitions.

## Soft drinks

A major effort was made to restructure the operations of the leading soft drinks company, Asahi Soft Drinks Co., Ltd., with priority on developing products brimming with originality, strengthening sales activities, and achieving cost competitiveness capable of withstanding price competition.

With regard to new products, we introduced to the market products that cut across existing categories, such as *Asahi Chugoku Ryokucha* (*Chinese Green Tea*) *RIN* and *Asahi CONCEPT-SAN*, as well as products with unique concepts such as *Asahi Agari* and *WONDA Morning Shot*.

Despite these aggressive developments in new products, sales of existing products declined, resulting in a 9.7% decrease in total sales for the soft drinks business to ¥173.8 billion.

By category, the 20.7% drop in tea-based beverages that comprise 33.6% of total sales was the greatest factor leading to lower sales.

As for operating income and loss, a cost reduction totaling ¥10.3 billion was accomplished at Asahi Soft Drinks Co., Ltd., roughly meeting initial projections, through the promotion of Supply Chain Management, restructuring of distribution, and reducing the cost of production aimed at achieving the priority goal of strengthening cost competitiveness. However, results were not strong enough to offset the effects of lower sales, resulting in a decrease of ¥2 billion for the overall soft drink business for an operating loss of ¥4.1 billion.

### Food and Pharmaceuticals

During the term in review, the Company undertook measures for future growth. The operations of Asahi Beer Food, Ltd. and Asahi Beer Pharmaceutical Co., Ltd. were integrated into Asahi Food & Healthcare Co., Ltd. in an attempt to further solidify and expand the management base of our food and pharmaceuticals business.

Cumulative sales covering July through December following the establishment of the new company increased 5% over the previous term for the two former companies and continue to fare well, led by the healthcare and freeze-dried food divisions. However, this did not make up for the losses recorded between January and June, resulting in slightly decreased annual sales for the term compared to pre-integration sales of the two companies. The operating income also fell year-on-year, due to an increase in selling, general and administrative expenses centered on expenses related to the integration.

As a result, sales for the food and pharmaceuticals business fell 2.3% to ¥14.2 billion, while operating income decreased by ¥398 million to ¥8 million.

### Others

In the real estate business, income from the office and warehouse rental business remained at similar levels to the previous term, while sales of real estate increased, resulting in higher total sales for the year.

In terms of operating income and loss, sales growth in the real estate business was complemented by a ¥1 billion improvement in the restaurant business.

As a result, sales of other businesses rose 4.5% to ¥130.2 billion, and operating income increased 55.7% to ¥3.9 billion.

## Liquidity and capital resources

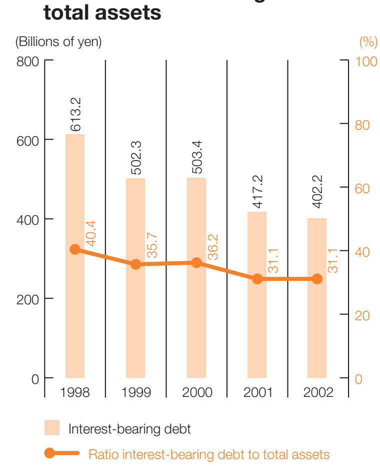
Asahi Breweries Ltd. gains its capital resources principally from cash flows from its operating activities, loans and the issuance of bonds or stock. These are mainly allocated to capital investment, business investment and loan repayments.

The outstanding balance of interest-bearing debt was reduced by ¥15.0 billion, or 3.6%, to ¥402.2 billion. The reduction of interest-bearing debt is a key corporate goal. Ongoing efforts to bring down the outstanding amount successfully reduced the level of interest-bearing debt to a little under a third of its peak of ¥1,411.1 billion in fiscal 1992 during the term in review.

As a result, the debt-to-equity ratio has fallen from 4.9 in fiscal 1992 to 1.0 during the term under review.

Meanwhile, daily financing needs are in principle met through short-term loans and the issuance of commercial paper.

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



## Assets, liabilities and shareholders' equity

Total assets at fiscal year-end amounted to ¥1,294.7 billion, a 3.5% decrease of ¥46.4 billion, mainly due to losses on the sale and devaluation of investment securities.

Current assets decreased by ¥8.4 billion, or 2.0%, to ¥404.2 billion, largely as a result of a decline in trade receivables caused by lower sales in the alcoholic and soft drinks business. The turnover period of trade receivables for the term was 2.24 months, basically unchanged from the previous term.

Property, plant and equipment decreased by ¥23.1 billion, or 3.1%, to ¥718.7 billion.

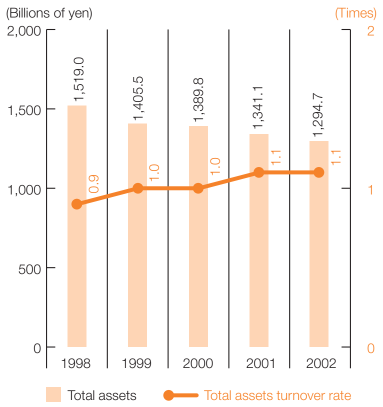
Investments and other assets decreased by ¥14.9 billion, or 8.0%, to ¥171.8 billion, mainly due to the previously stated decrease in investment securities. Factors behind the decrease in investment securities included the transfer of ¥7.1 billion to the retirement benefit trust fund and a valuation loss of ¥6.9 billion due to falling stock prices as well as the contraction in assets under management at overseas financial subsidiaries.

Current liabilities declined by ¥22.2 billion, or 3.6%, to ¥596.7 billion, mainly as a result of a ¥9.6 billion reduction in amounts payable and a ¥6.3 billion decrease in alcohol tax payable.

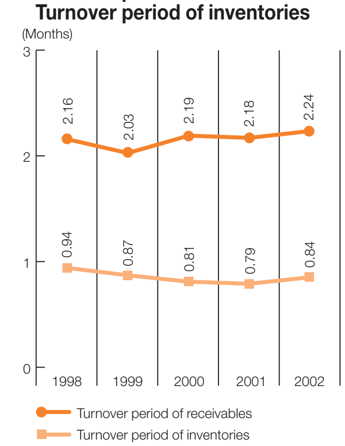
Long-term liabilities decreased by ¥22.6 billion, or 7.1%, to ¥296 billion, following a reduction of ¥15 billion in financial debt.

Total shareholders' equity increased by ¥1.6 billion, or 0.4%, to ¥387.5 billion, as a result of having utilized ¥8.7 billion to repurchase treasury stock and ¥3.6 billion as dividend payments from the net income of ¥14.8 billion. As a result, the equity ratio improved to 29.9% from 28.8% in the previous term.

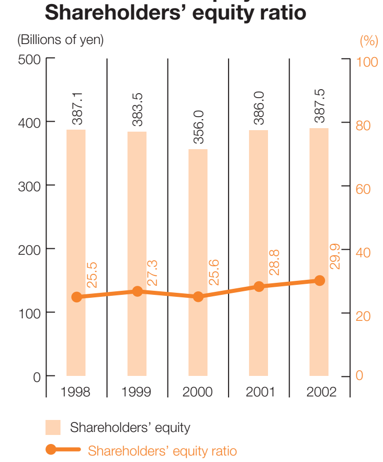
**Total assets and Total assets turnover rate**




**Turnover period of trade receivables and Turnover period of inventories**




**Shareholders' equity and Shareholders' equity ratio**



## Cash flows

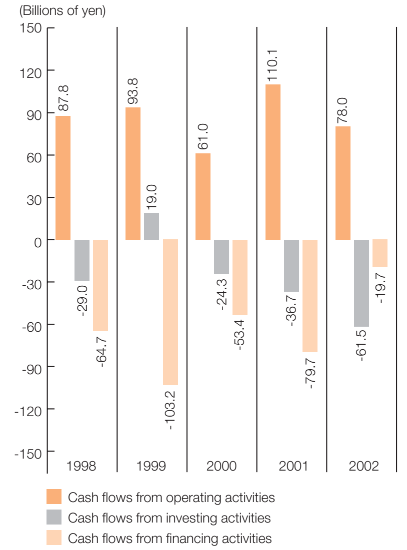
Net cash provided by operating activities decreased by ¥32.2 billion, or 29.2%, to ¥78 billion, as higher pretax income was offset by a ¥20.5 billion increase in corporate taxes.

Net cash used in investing activities increased by ¥24.8 billion, or 67.6%, to ¥61.5 billion, as the ¥15.5 billion income from the sale of investment securities was subtracted from an outflow of ¥52.8 billion in capital investments centered on the expansion of production facilities of beer and beverage plants and ¥19.2 billion in expenses related to the acquisition of the alcoholic divisions of Kyowa Hakko Kogyo and Asahi Kasei.

Net cash used in financing activities totaled ¥19.7 billion, mainly on the reduction of debt and payment of cash dividends.

As a result, cash and cash equivalents at end of year declined ¥3.4 billion, or 17.4%, to ¥16 billion.

**Cash flows**




## Capital investment

Capital investments decreased by ¥23.6 billion, or 36.4%, to ¥41.3 billion, as a result of an absence of capital expenditures for the construction of the Kanagawa Brewery (beer plant) and Fujisan Plant (beverage plant), which had been implemented up to the previous term, along with their completion.

Depreciation costs totaled ¥51.5 billion, and capital investments for the term remained within the range of depreciation expenses.

The main items included were ¥30.1 billion for the expansion of production facilities of beer and ¥2.8 billion for soft drinks.

# Consolidated Balance Sheets

Asahi Breweries, Ltd. and Consolidated Subsidiaries
December 31, 2002 and 2001

| Assets | Millions of yen 2002 | Millions of yen 2001 | Thousands of U.S. dollars (Note 1) 2002 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and time deposits (Notes 3 and 7) | ¥ 18,517 | ¥ 20,307 | $ 154,437 |
| Notes and accounts receivable: | | | |
| Trade | 256,310 | 259,925 | 2,137,698 |
| Other | 18,962 | 20,439 | 158,148 |
| Allowance for doubtful accounts | (7,960) | (5,970) | (66,389) |
| Inventories (Note 4) | 96,210 | 93,908 | 802,419 |
| Deferred income tax assets (Note 9) | 3,490 | 4,723 | 29,108 |
| Other current assets | 18,712 | 19,297 | 156,063 |
| Total current assets | 404,241 | 412,629 | 3,371,484 |
| **Property, plant and equipment** (Note 7)**:** | | | |
| Land | 204,163 | 208,805 | 1,702,777 |
| Buildings and structures | 390,079 | 388,678 | 3,253,370 |
| Machinery and equipment | 562,323 | 554,147 | 4,689,933 |
| Construction in progress | 3,756 | 10,129 | 31,326 |
| | 1,160,321 | 1,161,759 | 9,677,406 |
| Less accumulated depreciation | (441,592) | (419,931) | (3,683,002) |
| Net property, plant and equipment | 718,729 | 741,828 | 5,994,404 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 2 and 5) | 59,859 | 84,256 | 499,241 |
| Investments in unconsolidated subsidiaries and affiliated companies (Note 5) | 18,490 | 13,061 | 154,212 |
| Long-term loans receivable: | | | |
| Unconsolidated subsidiaries and affiliated companies | 800 | 1,200 | 6,672 |
| Other | 5,422 | 4,920 | 45,221 |
| Deferred income tax assets (Note 9) | 47,956 | 44,444 | 399,967 |
| Other investments | 39,241 | 38,765 | 327,281 |
| Total investments and other assets | 171,768 | 186,646 | 1,432,594 |
| | ¥1,294,738 | ¥1,341,103 | $10,798,482 |

See accompanying notes.

| Liabilities and Shareholders' Equity | Millions of yen 2002 | Millions of yen 2001 | Thousands of U.S. dollars (Note 1) 2002 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Bank loans (Note 7) | ¥ 92,670 | ¥ 85,553 | $ 772,894 |
| Commercial paper (Note 7) | 20,000 | 19,000 | 166,806 |
| Long-term debt due within one year (Note 7) | 66,210 | 74,330 | 552,211 |
| Notes and accounts payable: | | | |
| Trade | 82,346 | 86,642 | 686,789 |
| Other (mainly construction) | 39,846 | 49,464 | 332,327 |
| Alcohol tax and consumption tax payable | 145,054 | 151,748 | 1,209,791 |
| Deposits received | 85,011 | 78,300 | 709,016 |
| Income taxes payable (Note 9) | 11,669 | 19,868 | 97,323 |
| Accrued liabilities | 50,419 | 52,915 | 420,509 |
| Other current liabilities | 3,455 | 1,031 | 28,815 |
| Total current liabilities | 596,680 | 618,851 | 4,976,481 |
| **Long-term debt** (Note 7) | 223,326 | 238,284 | 1,862,602 |
| **Employees' severance and retirement benefits** (Note 8) | 29,523 | 35,161 | 246,230 |
| **Deferred income tax liabilities** (Note 9) | 26 | — | 217 |
| **Long-term deposits received** | 39,332 | 33,530 | 328,040 |
| **Other long-term liabilities** | 3,768 | 11,622 | 31,426 |
| **Minority interests** | 14,544 | 17,690 | 121,301 |
| **Commitments and contingent liabilities** (Note 11) | | | |
| **Shareholders' equity** (Note 10)**:** | | | |
| Common stock: | | | |
| Authorized-992,305,309 shares | | | |
| Issued-513,585,862 shares in 2002 and | | | |
| 513,585,004 shares in 2001 | 182,531 | 182,531 | 1,522,360 |
| Capital surplus | 180,894 | 180,894 | 1,508,707 |
| Retained earnings | 32,423 | 20,864 | 270,417 |
| Net unrealized holding gain on securities, net of taxes | 64 | — | 534 |
| Foreign currency translation adjustments (Note 2) | 975 | 2,275 | 8,132 |
| Treasury stock, at cost | (9,348) | (599) | (77,965) |
| Total shareholders' equity | 387,539 | 385,965 | 3,232,185 |
| | ¥1,294,738 | ¥1,341,103 | $10,798,482 |

# Consolidated Statements of Operations

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| **Net sales** (Note 14) | ¥1,375,267 | ¥1,433,364 | ¥1,399,108 | $11,470,117 |
| **Costs and expenses** (Note 14)**:** | | | | |
| Cost of sales | 421,726 | 437,594 | 419,967 | 3,517,314 |
| Alcohol tax | 535,101 | 566,376 | 568,771 | 4,462,894 |
| Selling, general and administrative expenses | 349,099 | 351,617 | 333,820 | 2,911,585 |
| | 1,305,926 | 1,355,587 | 1,322,558 | 10,891,793 |
| **Operating income** (Note 14) | 69,341 | 77,777 | 76,550 | 578,324 |
| **Other income (expenses):** | | | | |
| Interest and dividend income | 1,690 | 2,530 | 5,605 | 14,095 |
| Interest expenses | (5,861) | (8,136) | (12,426) | (48,882) |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | 666 | 197 | 51 | 5,555 |
| Loss on sale of securities-net | (107) | (2,290) | (40,810) | (892) |
| Loss on sale and disposal of property, plant and equipment-net | (12,873) | (7,946) | (6,602) | (107,365) |
| Loss on liquidation of unconsolidated subsidiaries | (506) | (1,003) | (453) | (4,220) |
| Loss on devaluation of investment securities | (6,915) | (7,676) | (1,360) | (57,673) |
| Gain (loss) on securities contributed to employees' retirement benefit trust (Note 5) | (3,641) | 6 | — | (30,367) |
| Employees' severance and retirement benefit expense (Note 2) | — | — | (18,110) | — |
| One-time amortization of net transition obligation (Notes 2 and 8) | — | (20,445) | — | — |
| Other-net | (9,311) | (14,403) | (20,561) | (77,657) |
| | (36,858) | (59,166) | (94,666) | (307,406) |
| **Income (loss) before income taxes and minority interests** | 32,483 | 18,611 | (18,116) | 270,918 |
| **Income taxes** (Note 9)**:** | | | | |
| Current | 23,463 | 24,925 | 9,383 | 195,688 |
| Deferred | (2,266) | (18,860) | (10,671) | (18,899) |
| | 21,197 | 6,065 | (1,288) | 176,789 |
| **Income (loss) before minority interests** | 11,286 | 12,546 | (16,828) | 94,129 |
| **Minority interests in net loss of consolidated subsidiaries** | 3,468 | 1,071 | 1,121 | 28,924 |
| **Net income (loss)** | ¥ 14,754 | ¥ 13,617 | ¥ (15,707) | $ 123,053 |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| **Amounts per share of common stock:** | | | | |
| Net income (loss) | ¥28.90 | ¥27.00 | ¥(31.54) | $0.24 |
| Diluted net income | 27.46 | 25.25 | — | 0.23 |
| Cash dividends applicable to the year | 13 | 13 | 12 | 0.11 |

See accompanying notes.

# Consolidated Statements of Shareholders' Equity

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2002, 2001 and 2000

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Net unrealized holding gain on securities, net of taxes | Foreign currency translation adjustments | Treasury stock, at cost |
| **Balance at December 31, 1999** | 497,989 | ¥177,665 | ¥169,456 | ¥36,361 | ¥ – | ¥ (729) | ¥ (8) |
| Net loss | | | | (15,707) | | | |
| Cash dividends paid (¥12.00 per share) | | | | (5,975) | | | |
| Bonuses to directors and corporate auditors | | | | (161) | | | |
| Shares issued upon conversion of convertible debentures | 3 | 1 | 1 | | | | |
| Increase resulting from increase in consolidated subsidiaries | | | | 46 | | | |
| Decrease resulting from increase in consolidated subsidiaries | | | | (5,554) | | | |
| Adjustments from translation of foreign currency financial statements | | | | | | (402) | |
| Purchases of treasury stock-net | | | | | | | (116) |
| **Balance at December 31, 2000** | 497,992 | 177,666 | 169,457 | 9,010 | – | (1,131) | (124) |
| Net income | | | | 13,617 | | | |
| Cash dividends paid (¥12.00 per share) | | | | (6,020) | | | |
| Bonuses to directors and corporate auditors | | | | (50) | | | |
| Shares issued upon conversion of convertible debentures | 7,721 | 4,471 | 4,464 | | | | |
| Shares issued upon share exchange between consolidated subsidiaries | 7,872 | 394 | 6,973 | | | | |
| Increase resulting from increase in consolidated subsidiaries | | | | 84 | | | |
| Increase resulting from liquidation of consolidated subsidiaries | | | | 4,223 | | | |
| Adjustments from translation of foreign currency financial statements | | | | | | 3,406 | |
| Purchases of treasury stock-net | | | | | | | (475) |
| **Balance at December 31, 2001** | 513,585 | 182,531 | 180,894 | 20,864 | – | 2,275 | (599) |
| Net income | | | | **14,754** | | | |
| Cash dividends paid (¥7.00 per share) | | | | **(3,592)** | | | |
| Bonuses to directors and corporate auditors | | | | **(100)** | | | |
| Shares issued upon conversion of convertible debentures | **1** | **0** | **0** | | | | |
| Increase resulting from increase in consolidated subsidiaries | | | | **497** | | | |
| Adoption of market valuation rule for available-for-sale securities | | | | | **64** | | |
| Adjustments from translation of foreign currency financial statements | | | | | | **(1,300)** | |
| Purchases of treasury stock-net | | | | | | | **(8,749)** |
| **Balance at December 31, 2002** | **513,586** | **¥182,531** | **¥180,894** | **¥32,423** | **¥64** | **¥ 975** | **¥(9,348)** |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Net unrealized holding gain on securities, net of taxes | Foreign currency translation adjustments | Treasury stock, at cost |
| **Balance at December 31, 2001** | $1,522,360 | $1,508,707 | $174,011 | $ – | $ 18,974 | $ (4,996) |
| Net income | | | **123,053** | | | |
| Cash dividends paid ($0.06 per share) | | | **(29,958)** | | | |
| Bonuses to directors and corporate auditors | | | **(834)** | | | |
| Shares issued upon conversion of convertible debentures | **0** | **0** | | | | |
| Increase resulting from increase in consolidated subsidiaries | | | **4,145** | | | |
| Adoption of market valuation rule for available-for-sale securities | | | | **534** | | |
| Adjustments from translation of foreign currency financial statements | | | | | **(10,842)** | |
| Purchases of treasury stock-net | | | | | | **(72,969)** |
| **Balance at December 31, 2002** | **$1,522,360** | **$1,508,707** | **$270,417** | **$534** | **$ 8,132** | **$(77,965)** |

See accompanying notes.

# Consolidated Statements of Cash Flows

Asahi Breweries, Ltd. and Consolidated Subsidiaries
Years ended December 31, 2002, 2001 and 2000

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 |
| **Cash flows from operating activities:** | | | | |
| Income (loss) before income taxes and minority interests | ¥32,483 | ¥18,611 | ¥(18,116) | $270,918 |
| Depreciation (Note 14) | 51,546 | 52,901 | 51,790 | 429,908 |
| Increase (decrease) in provision for employees' retirement benefits | — | (31,344) | 18,407 | — |
| Increase (decrease) in provision for employees' severance and retirement benefits | (2,306) | 47,945 | — | (19,233) |
| Increase in allowance for doubtful accounts | 6,391 | 10,934 | 2,191 | 53,303 |
| Interest and dividend income | (1,690) | (2,530) | (5,605) | (14,095) |
| Interest expenses | 5,861 | 8,136 | 12,426 | 48,882 |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | (666) | (197) | (51) | (5,555) |
| Loss on sale of securities-net | 107 | 2,216 | 40,972 | 892 |
| Loss on devaluation of investment securities | 6,915 | 7,676 | 1,360 | 57,673 |
| Loss on liquidation of unconsolidated subsidiaries | 506 | 1,003 | 453 | 4,220 |
| Loss on sale and disposal of property, plant and equipment-net | 12,873 | 7,946 | 6,602 | 107,365 |
| Decrease (increase) in notes and accounts receivable | 8,957 | 9 | (18,985) | 74,704 |
| Decrease (increase) in inventories | (1,118) | 1,695 | 8,183 | (9,325) |
| Decrease in notes and accounts payable (excluding construction) | (3,128) | (2,860) | (8,751) | (26,088) |
| Increase (decrease) in accrued alcohol tax payable | (6,268) | 3,556 | (1,798) | (52,277) |
| Decrease in accrued consumption taxes payable | (407) | (1,733) | (1,854) | (3,395) |
| Bonuses paid to directors and corporate auditors | (102) | (50) | (302) | (851) |
| Other | 4,084 | 2,940 | (3,820) | 34,063 |
| Subtotal | 114,038 | 126,854 | 83,102 | 951,109 |
| Interest and dividends received | 1,849 | 2,961 | 6,419 | 15,421 |
| Interest paid | (6,266) | (8,545) | (16,293) | (52,260) |
| Income taxes paid | (31,670) | (11,163) | (12,221) | (264,137) |
| Net cash provided by operating activities | 77,951 | 110,107 | 61,007 | 650,133 |
| **Cash flows from investing activities:** | | | | |
| Payments for time deposits | (2,961) | — | (3,937) | (24,695) |
| Proceeds from time deposits | 1,615 | 3,495 | — | 13,470 |
| Payments for purchases of marketable securities | — | — | (88,714) | — |
| Proceeds from sale of marketable securities | — | — | 90,105 | — |
| Payments for purchases of property, plant and equipment | (49,795) | (69,186) | (52,875) | (415,304) |
| Proceeds from sale of property, plant and equipment | 1,041 | 9,182 | 4,013 | 8,682 |
| Payments for purchases of intangible assets | (2,989) | (4,255) | (2,539) | (24,929) |
| Payments for purchases of investment securities | (5,855) | (11,470) | (5,456) | (48,832) |
| Proceeds from sale of investment securities | 15,538 | 21,310 | 24,495 | 129,591 |
| Payments for loans receivable | (4,417) | — | — | (36,839) |
| Proceeds from collections of loans receivable | 2,749 | 4,937 | 3,609 | 22,927 |
| Payments for purchases of business (Note 3) | (19,221) | — | — | (160,309) |
| Other | 2,787 | 9,286 | 7,018 | 23,244 |
| Net cash used in investing activities | (61,508) | (36,701) | (24,281) | (512,994) |
| **Cash flows from financing activities:** | | | | |
| Increase (decrease) in bank loans | 7,450 | (60,365) | 13,724 | 62,135 |
| Proceeds from long-term debt | 2,479 | 7,656 | 1,465 | 20,676 |
| Repayments of long-term debt | (13,325) | (25,169) | (39,906) | (111,134) |
| Proceeds from bonds and convertible debentures issued | 50,000 | 50,000 | 50,000 | 417,014 |
| Redemption of bonds | (62,270) | (47,950) | (72,014) | (519,350) |
| Payments for purchases of treasury stock | (8,749) | (475) | (116) | (72,969) |
| Cash dividends paid | (3,592) | (6,020) | (5,975) | (29,958) |
| Cash dividends paid to minority in consolidated subsidiaries | (115) | (116) | (511) | (959) |
| Other | 8,375 | 2,730 | (89) | 69,849 |
| Net cash used in financing activities | (19,747) | (79,709) | (53,422) | (164,696) |
| **Effect of exchange rate change on cash and cash equivalents** | (675) | 397 | (592) | (5,629) |
| **Net decrease in cash and cash equivalents** | (3,979) | (5,906) | (17,288) | (33,186) |
| **Cash and cash equivalents at beginning of year** | 19,352 | 24,743 | 37,948 | 161,401 |
| **Increase in cash and cash equivalents due to increase in consolidated subsidiaries** | 613 | 515 | 4,083 | 5,113 |
| **Cash and cash equivalents at end of year** (Note 3) | ¥15,986 | ¥19,352 | ¥ 24,743 | $133,328 |
| **Supplemental disclosures of cash flow information:** | | | | |
| Conversion of convertible debentures to common stock and additional paid-in capital | ¥ 0 | ¥ 8,935 | ¥ 2 | $ 0 |

See accompanying notes.

# Notes to Consolidated Financial Statements

Asahi Breweries, Ltd. and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

ASAHI BREWERIES, LTD. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at December 31, 2002, which was ¥119.90 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the presentation for 2002.

## 2. Significant Accounting Policies

**Consolidation**

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (30 domestic and 14 overseas subsidiaries for 2002, and 25 domestic and 13 overseas subsidiaries for 2001 and 2000). All significant intercompany transactions and account balances are eliminated in consolidation.

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

The excess of investment cost over net assets is amortized over five years on a straight-line basis.

**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.

**Consolidated statements of cash flows**

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

**Allowance for doubtful accounts**

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

## Securities

Prior to January 1, 2001, securities of the Company and its consolidated subsidiaries (the "Companies") were stated at moving-average cost.

Effective January 1, 2001, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, or (d) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). The Companies do not have trading securities.

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

In the year ended December 31, 2001, available-for-sale securities were stated at moving-average cost. The following table summarizes book value, fair market value, net unrealized holding loss equivalent and deferred income tax assets equivalent of available-for-sale securities with available fair market values as of December 31, 2001:

| | Millions of yen |
|---|---|
| | 2001 |
| Book value | ¥44,457 |
| Fair market value | 40,734 |
| Net unrealized holding loss equivalent | (2,166) |
| Deferred income tax assets equivalent | 1,557 |

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

In the year ended December 31, 2001, as a result of adopting the new accounting standard for financial instruments, income before income taxes and minority interests increased by ¥278 million. Also, based on the examination of the intent of holding each security upon application of the new accounting standard on January 1, 2001, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets.

Effective January 1, 2002, available-for-sale securities with available fair market values are stated at fair market value. Unrealized gain and unrealized loss on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gain and loss on sale of such securities are computed using moving-average cost.

In the year ended December 31, 2002, as a result of applying the new accounting requirement for available-for-sale securities with available fair values under the new accounting standard for financial instruments adopted in the previous year, net unrealized holding gain on securities, net of tax, deferred income tax liabilities and minority interests amounted to ¥64 million ($534 thousand), ¥49 million ($409 thousand) and ¥21 million ($175 thousand), respectively.

Prior to January 1, 2002, when devaluation of available-for-sale securities with fair market values was considered necessary, available-for-sale securities with fair market values were devalued based on the market price as of the balance sheet date. Effective January 1, 2002, when available-for-sale securities with fair market values are to be devalued, an average market price for one month immediately before the balance sheet date is used to exclude effects of temporary fluctuations of stock prices. As a result of this change, income before income taxes and minority interests decreased by ¥3,702 million ($30,876 thousand).

## Inventories

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

## Property, plant and equipment

Property, plant and equipment are carried substantially at cost. Depreciation is provided by the straight-line method with respect to production facilities and by the declining-balance method with respect to remaining assets, except for the buildings acquired on or after April 1, 1998, which are depreciated 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 | 3-50 years |
| Machinery and equipment | 2-20 years |

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

In addition to the above, in the years ended December 31, 2001 and 2000, for production equipment to be scrapped in connection with the closing of the Tokyo brewery, the portion not yet depreciated is depreciated based on the remaining period until the planned date of scrapping.

## Income taxes

The Companies recognized tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income or loss included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences.

## Employees' severance and retirement benefits

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

At December 31, 2000, the Companies accrued liabilities for lump-sum severance and retirement payments equal to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans in the year ended December 31, 2000.

Effective January 1, 2001, the Companies adopted the new accounting standard for employees' severance and retirement benefits ("Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998).

Under the new accounting standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

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

The excess of the projected benefit obligation over the total of the fair value of pension assets as of January 1, 2001 and the liabilities for severance and retirement benefits recorded as of January 1, 2001 (the "net transition obligation") amounted to ¥20,445 million. The entire net transition obligation amounting to ¥20,445 million was recognized as an expense in the year ended December 31, 2001. Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of mainly 10 years commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended December 31, 2001, severance and retirement benefit expenses increased by ¥18,772 million and income before income taxes and minority interests decreased by ¥18,772 million compared with what would have been recorded under the previous accounting standard.

(Changes in accounting policies)

The Company and its domestic consolidated subsidiaries provided 40% of the amount that would have been required if all eligible employees voluntarily terminated their employment as of the balance sheet date. However, effective in the fiscal year ended December 31, 2000, the Company and most domestic consolidated subsidiaries changed the accounting policy to provide 100% of such amount. And certain consolidated subsidiaries changed the accounting policy to recognize the liabilities in the amount equal to the present value of the estimated amount of lump-sum payments and annuities. These changes were made in line with the "Medium-Term Group Management Plan" adopted in October 2000, and reflect a review of the Company's and its consolidated subsidiaries' personnel policies primarily in sales operations. This measure addresses the age structure of employees and the increased number of expected service years of employees, and pertinent deliberations with regard to future retirement benefits payable.

As a result of these changes, in the year ended December 31, 2000, operating income decreased by ¥322 million and loss before income taxes and minority interests increased by ¥18,442 million compared with what would have been reported under the previous accounting policies.

**Translation of foreign currency accounts**

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to January 1, 2001, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective January 1, 2001, the Companies adopted the revised accounting standard for foreign currency translation ("Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999). Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations for the year ended December 31, 2001 of adopting the revised accounting standard was immaterial.

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

**Derivative financial instruments**

The new accounting standard for financial instruments, effective from the year ended December 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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

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

## 3. Cash and Cash Equivalents

A. Reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| Cash and time deposits | **¥18,517** | ¥20,307 | **$154,437** |
| Less: Time deposits with maturities exceeding three months | **(2,531)** | (955) | **(21,109)** |
| Cash and cash equivalents | **¥15,986** | ¥19,352 | **$133,328** |

B. Assets acquired and liabilities assumed in purchase of business in the year ended December 31, 2002 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Fair value of assets acquired | **¥19,315** | **$161,093** |
| Liabilities assumed | **(94)** | **(784)** |
| Cash paid | **¥19,221** | **$160,309** |

## 4. Inventories

Inventories at December 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Finished goods | ¥13,345 | ¥10,444 | $111,301 |
| Work in process | 40,567 | 39,668 | 338,340 |
| Raw materials | 24,246 | 25,868 | 202,219 |
| Supplies | 7,702 | 10,137 | 64,237 |
| Merchandise | 10,295 | 7,439 | 85,863 |
| Property for sale | 55 | 352 | 459 |
| Total | ¥96,210 | ¥93,908 | $802,419 |

## 5. Securities

A. The following tables summarize acquisition costs and book values of securities with available fair value as of December 31, 2002:

Available-for-sale securities:

| | Millions of yen | | |
|---|---|---|---|
| | 2002 | | |
| Type | Acquisition | Book value | Difference |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | ¥ 7,150 | ¥11,056 | ¥3,906 |
| Corporate bonds | 2 | 2 | 0 |
| | 7,152 | 11,058 | 3,906 |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | 20,223 | 16,434 | (3,789) |
| Corporate bonds | 1 | 1 | (0) |
| | 20,224 | 16,435 | (3,789) |
| Total | ¥27,376 | ¥27,493 | ¥ 117 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2002 | | |
| Type | Acquisition | Book value | Difference |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | $ 59,633 | $ 92,210 | $32,577 |
| Corporate bonds | 17 | 17 | 0 |
| | 59,650 | 92,227 | 32,577 |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | 168,666 | 137,065 | (31,601) |
| Corporate bonds | 8 | 8 | (0) |
| | 168,674 | 137,073 | (31,601) |
| Total | $228,324 | $229,300 | $ 976 |

B. Total sales of available-for-sale securities sold in the years ended December 31, 2002 and 2001 amounted to ¥15,538 million ($129,591 thousand) and ¥21,309 million, and the related gains amounted to ¥422 million ($3,520 thousand) and ¥843 million, and the related losses amounted to ¥529 million ($4,412 thousand) and ¥3,060 million, respectively.

C. The following tables summarize book values of securities with no available fair values as of December 31, 2002 and 2001:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| (a) Held-to-maturity debt securities | | | |
| Type | Book value | | Book value |
| Non-listed foreign securities | **¥10,479** | ¥21,493 | **$ 87,398** |
| (b) Available-for-sale securities | | | |
| Type | Book value | | Book value |
| Non-listed equity securities | **¥ 7,771** | ¥17,253 | **$ 64,812** |
| Preference shares | **13,500** | 13,500 | **112,594** |
| Others | **615** | 613 | **5,129** |

D. Available-for-sale securities with maturities and held-to-maturity debt securities as of December 31, 2002 and 2001 are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2002** | | | | |
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Available-for-sale securities: | | | | | |
| Corporate bonds | **¥82** | **¥ 15** | **¥1** | **—** | **¥ 98** |
| Held-to-maturity debt securities: | | | | | |
| Foreign securities | **—** | **10,479** | **—** | **—** | **10,479** |
| Total | **¥82** | **¥10,494** | **¥1** | **—** | **¥10,577** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2001 | | | | |
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Available-for-sale securities: | | | | | |
| Corporate bonds | ¥ 13 | ¥98 | ¥ 1 | — | ¥ 112 |
| Held-to-maturity debt securities: | | | | | |
| Foreign securities | 1,122 | — | 20,371 | — | 21,493 |
| Total | ¥1,135 | ¥98 | ¥20,372 | — | ¥21,605 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | **2002** | | | | |
| Type | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years | Total |
| Available-for-sale securities: | | | | | |
| Corporate bonds | **$684** | **$ 125** | **$8** | **—** | **$ 817** |
| Held-to-maturity debt securities: | | | | | |
| Foreign securities | **—** | **87,398** | **—** | **—** | **87,398** |
| Total | **$684** | **$87,523** | **$8** | **—** | **$88,215** |

Held-to-maturity debt securities amounted to ¥9,333 million were redeemed before maturities due to the exercise of call option by the issuer in the year ended December 31, 2002.

E. In November 2002, the Company contributed, receiving no cash, certain investment securities to its employees' retirement benefit trust. Upon contribution of these securities, a "loss on securities contributed to employees' retirement benefit trust" amounting to ¥3,641 million ($30,367 thousand) was recognized.

In November 2001, the Company contributed, receiving no cash, certain investment securities to its employees' retirement benefit trust. Upon contribution of these securities, a "gain on securities contributed to employees' retirement benefit trust" amounting to ¥6 million was recognized.

## 6. Derivative Financial Instruments

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

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

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

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

| Hedging instruments: | Hedged items: |
|---|---|
| Forward foreign exchange contracts | Foreign currency trade receivables and trade payables |
| Currency swap contracts | Foreign currency trade receivables and trade payables |
| Interest rate swap contracts | Interest on foreign currency bonds and loans payable |

Information on the derivative financial instrument contracts utilized by the Companies outstanding at December 31, 2002 and 2001 are not disclosed as all such contracts are effectively hedging the transactions.

## 7. Bank Loans, Commercial Paper and Long-term Debt

Bank loans at December 31, 2002 and 2001 were represented by short-term notes or overdrafts, bearing interest at average rates of 0.50% per annum for 2002 and 0.38% per annum for 2001.

The Company has entered into a yen domestic commercial paper program with a current maximum facility amount of ¥200,000 million ($1,668,057 thousand). There was an outstanding balance of ¥20,000 million ($166,806 thousand) at December 31, 2002 and outstanding balance of ¥19,000 million at December 31, 2001.

Long-term debt at December 31, 2002 and 2001 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| Domestic debentures: | | | |
| 1.60% debentures due in 2002 | **¥ —** | ¥ 10,000 | **$ —** |
| 2.70% debentures due in 2002 | **—** | 15,000 | **—** |
| 3.05% debentures due in 2002 | **—** | 15,000 | **—** |
| 2.50% debentures due in 2003 | **10,000** | 10,000 | **83,403** |
| 1.11% debentures due in 2004 | **30,000** | 30,000 | **250,209** |
| 1.54% debentures due in 2004 | **10,000** | 10,000 | **83,403** |
| 0.48% debentures due in 2005 | **5,000** | 5,000 | **41,701** |
| 0.50% debentures due in 2005 | **15,000** | 15,000 | **125,104** |
| 0.63% debentures due in 2006 | **5,000** | 5,000 | **41,701** |
| 0.66% debentures due in 2006 | **25,000** | 25,000 | **208,507** |
| 1.48% debentures due in 2006 | **20,000** | 20,000 | **166,806** |
| 0.55% debentures due in 2007 | **30,000** | — | **250,209** |
| 0.84% debentures due in 2009 | **20,000** | — | **166,806** |
| 0.95% convertible debentures due in 2002 | **—** | 8,419 | **—** |
| 1.00% convertible debentures due in 2003 | **15,451** | 15,451 | **128,866** |
| 0.70% convertible debentures due in 2005 | **29,997** | 29,997 | **250,183** |
| Various bonds and notes issued by consolidated subsidiaries | **7,680** | 21,494 | **64,053** |
| Long-term loans, principally from banks, insurance companies and agricultural cooperatives: | | | |
| Secured loans due through 2013 at interest rates of mainly 1.25% to 5.94% | **10,431** | 13,007 | **86,998** |
| Unsecured loans due through 2008 at interest rates of mainly 0.45% to 3.30% | **55,977** | 64,246 | **466,864** |
| | **289,536** | 312,614 | **2,414,813** |
| Amount due within one year | **(66,210)** | (74,330) | **(552,211)** |
| | **¥223,326** | ¥238,284 | **$1,862,602** |

The trust deeds, under which the 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, 2002 were as follows:

| | Yen | U.S. dollars |
|---|---|---|
| 1.00% convertible debentures due in 2003 | **¥1,165.00** | **$ 9.72** |
| 0.70% convertible debentures due in 2005 | **1,763.00** | **14.70** |

At December 31, 2002, 30,277 thousand shares of common stock were issuable upon full conversion of outstanding convertible debentures at the current conversion prices.

As for 1.00% convertible debentures due in 2003, there are certain restrictions on the payment of cash dividends as defined in the indenture as long as the bonds are outstanding.

Assets, at book value, pledged as collateral for short-term bank loans and long-term loans totaling ¥11,420 million ($95,246 thousand) and ¥18,108 million, respectively, at December 31, 2002 and 2001 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| Time deposits | **¥ —** | ¥ 2,000 | **$ —** |
| Land | **22,745** | 29,214 | **189,700** |
| Buildings and structures | **6,574** | 14,110 | **54,829** |
| Machinery and equipment | **7,732** | 11,674 | **64,487** |
| | **¥37,051** | ¥56,998 | **$309,016** |

The aggregate annual maturities of long-term debt at December 31, 2002 were as follows:

| Year ending December 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2003 | **¥ 66,210** | **$ 552,211** |
| 2004 | **63,663** | **530,967** |
| 2005 | **53,361** | **445,046** |
| 2006 | **50,942** | **424,871** |
| 2007 | **30,895** | **257,673** |
| 2008 and thereafter | **24,465** | **204,045** |
| | **¥289,536** | **$2,414,813** |

## 8. Employees' Severance and Retirement Benefits

As explained in Note 2. Significant Accounting Policies, effective January 1, 2001, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of December 31, 2002 and 2001 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2002** | 2001 | **2002** |
| Projected benefit obligation | **¥81,105** | ¥70,559 | **$676,438** |
| Less fair value of pension assets | **(22,852)** | (20,642) | **(190,592)** |
| Less fair value of employees' retirement benefit trust | **(14,530)** | (12,576) | **(121,184)** |
| Less unrecognized actuarial differences | **(14,200)** | (2,180) | **(118,432)** |
| Employees' severance and retirement benefits | **¥29,523** | ¥35,161 | **$246,230** |

Included in the consolidated statements of operations for the years ended December 31, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Service costs - benefits earned during the year | ¥3,570 | ¥ 3,584 | $29,775 |
| Interest cost on projected benefit obligation | 1,921 | 1,913 | 16,022 |
| Expected return on plan assets | (659) | (480) | (5,496) |
| Amortization of actuarial differences | 217 | — | 1,810 |
| One-time amortization of net transition obligation | — | 20,445 | — |
| Others | 345 | — | 2,877 |
| Severance and retirement benefit expenses | ¥5,394 | ¥25,462 | $44,988 |

The discount rates used by the Companies are mainly 2.0% and 3.0% as of the years ended December 31, 2002 and 2001, respectively. The rates of expected return on plan assets used by the Companies are mainly 2.0% and 3.0% for the years ended December 31, 2002 and 2001, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains/losses are recognized in statement of operations using the straight-line method over 10 years, beginning the following fiscal year of recognition.

## 9. Income Taxes

The Company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate normal effective tax rate of approximately 41.8% for the years ended December 31, 2002 and 2001.

The actual effective tax rate differed from the statutory tax rate, primarily as a result of expenses not deductible for tax purposes, bad debt expense not deductible for current year, loss on devaluation of investment securities, and loss on liquidation of consolidated subsidiaries not deductible for current year.

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

| | 2002 | 2001 |
|---|---|---|
| Statutory tax rate | 41.8% | 41.8% |
| Non-taxable entertainment expenses | 6.3% | 10.2% |
| Non-taxable dividend income | (1.1%) | (1.6%) |
| Per capita inhabitants' taxes | 0.9% | 1.4% |
| Valuation allowance | 22.5% | 16.0% |
| Reversal of valuation allowance on liquidation of consolidated subsidiaries | — | (31.3%) |
| Amortization of the excess of investment cost over net assets | (2.1%) | (3.4%) |
| Others | (3.0%) | (0.5%) |
| Effective tax rate | 65.3% | 32.6% |

Significant components of deferred income tax assets and liabilities as of December 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Deferred income tax assets: | | | |
| Allowance for doubtful accounts | ¥12,193 | ¥ 9,598 | $101,693 |
| Severance and retirement benefits | 14,302 | 14,755 | 119,283 |
| Accrued expenses for enterprise tax | 1,031 | 1,747 | 8,599 |
| Depreciation | 982 | 2,076 | 8,190 |
| Accrued expenses for write-offs of fixed assets | 1,121 | 753 | 9,349 |
| Loss on devaluation of investment securities | 4,753 | 2,875 | 39,641 |
| Loss on securities contributed to employees' retirement benefit trust | 1,522 | — | 12,694 |
| Net operating loss carry forwards | 9,336 | 4,970 | 77,865 |
| Unrealized gain on sale of non-current assets eliminated on consolidation | 14,583 | 14,317 | 121,626 |
| Others | 5,838 | 4,941 | 48,691 |
| | 65,661 | 56,032 | 547,631 |
| Valuation allowance | (12,012) | (4,542) | (100,183) |
| Total deferred income tax assets | 53,649 | 51,490 | 447,448 |
| Deferred income tax liabilities: | | | |
| Reserve deductible for Japanese tax purposes | (2,159) | (2,323) | (18,006) |
| Net unrealized holding gain on available-for-sale securities | (44) | — | (367) |
| Total deferred income tax liabilities | (2,203) | (2,323) | (18,373) |
| Net deferred income tax assets | ¥51,446 | ¥49,167 | $429,075 |
| Deferred income tax liabilities | | | |
| Net unrealized holding gain on available-for-sale securities | ¥ (26) | — | $ (217) |
| Total deferred income tax liabilities | (26) | — | (217) |
| Net deferred income tax liabilities | ¥ (26) | — | $ (217) |

## 10. Shareholders' Equity

Under the Code, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the board of directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions and certain other purposes by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Effective for the year ended December 31, 2002, the components of shareholders' equity are presented in accordance with the change in Japanese disclosure requirements. As the result of this change, additional-paid in capital is presented as capital surplus.

Also, the Company adopted "Accounting Standards on Treasury Stock and the Reversal of the Legal Reserve" (Corporate Accounting Standard No.1). The effect of this change on fiscal year 2002 income is negligible.

## 11. Commitments and Contingent Liabilities

At December 31, 2002, the Companies were contingently liable as guarantors for borrowings of unconsolidated subsidiaries, affiliated companies, employees and others, including letters of awareness and keep-well agreements, in the amount of ¥10,478 million ($87,389 thousand).

## 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.

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at December 31, 2002 was as follows:

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery | ¥ 52,934 | ¥33,629 | ¥19,305 | $ 441,485 | $280,475 | $161,010 |
| Furniture and fixtures | 100,912 | 58,793 | 42,119 | 841,634 | 490,350 | 351,284 |
| Others | 159 | 97 | 62 | 1,326 | 809 | 517 |
| | ¥154,005 | ¥92,519 | ¥61,486 | $1,284,445 | $771,634 | $512,811 |

Future lease payments as of December 31, 2002, net of interest, under such leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Due within one year | ¥25,321 | $211,184 |
| Due after one year | 40,524 | 337,982 |
| | ¥65,845 | $549,166 |

Lease payments, depreciation equivalents and amounts representing interest under the finance leases which are accounted for in the same manner as operating leases for the years ended December 31, 2002 and 2001 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2001 | 2002 |
| Lease payments | ¥30,384 | ¥32,282 | $253,411 |
| Depreciation equivalents | 25,498 | 25,838 | 212,661 |
| Amounts representing interest | 3,298 | 3,793 | 27,506 |

## 13. Subsequent Events

On March 3, 2003, the board of directors of the Company approved that the Company would sell all shares of ASAHI BEER PAX CO., LTD., a consolidated subsidiary, at an approximate amount of ¥100 million ($8,304 thousand) to ISHIZUKA GLASS CO., LTD. on April 1, 2003.

As a result of this sale, income before income taxes and minority interests for the year ended December 31, 2003 may decrease by ¥4,000 million ($33,361 thousand) approximately.

On March 27, 2003, 0.45% unsecured debentures due in 2007 in the aggregate principal amount of ¥10,000 million ($83,403 thousand) were issued by the Company.

Main items approved at the ordinary general meeting of shareholders of the Company held on March 28, 2003 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2002 year-end cash dividends (¥13.00 or $0.108 per share) | ¥6,536 | $54,512 |
| Bonuses to directors and corporate auditors | 48 | 400 |

Also, the ordinary general meeting of shareholders of the Company approved that the Company may acquire up to 50 million outstanding shares of its common stock and up to the total amount of ¥50,000 million ($417,014 thousand) in a period from the close of this general meeting of shareholders to the close of the next ordinary general meeting of shareholders, and that directors, corporate auditors and executive officers may be granted up to 645 share subscription rights of its common stock, which will be exercisable from March 28, 2005 to March 27, 2013. The maximum number of shares to be issued is 645,000 for directors, corporate auditors and executive officers.

## 14. Segment Information

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

Business segment information for the years ended December 31, 2002, 2001 and 2000 was as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| **Year ended December 31, 2002** | Alcoholic beverages | Soft drinks | Food and pharmaceuticals | Others | Elimination and/or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | **¥1,057,029** | **¥173,773** | **¥ 14,232** | **¥130,233** | **¥ —** | **¥1,375,267** |
| Intersegment | **47,395** | **4,438** | **201** | **53,936** | **(105,970)** | **—** |
| Total sales | **1,104,424** | **178,211** | **14,433** | **184,169** | **(105,970)** | **1,375,267** |
| Operating expenses | **1,035,279** | **182,297** | **14,425** | **180,314** | **(106,389)** | **1,305,926** |
| Operating income (loss) | **¥ 69,145** | **¥ (4,086)** | **¥ 8** | **¥ 3,855** | **¥ 419** | **¥ 69,341** |
| Identifiable assets | **¥ 920,688** | **¥ 97,303** | **¥ 13,183** | **¥171,080** | **¥ 92,484** | **¥1,294,738** |
| Depreciation | **41,963** | **5,119** | **649** | **3,811** | **4** | **51,546** |
| Capital investments | **33,719** | **3,080** | **1,075** | **3,368** | **15** | **41,257** |
| Year ended December 31, 2001 | Alcoholic beverages | Soft drinks and food | Real estate | Others | Elimination and/or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | ¥1,179,412 | ¥201,772 | ¥ 3,058 | ¥ 49,122 | ¥ — | ¥1,433,364 |
| Intersegment | 2,104 | 5,180 | 457 | 657 | (8,398) | — |
| Total sales | 1,181,516 | 206,952 | 3,515 | 49,779 | (8,398) | 1,433,364 |
| Operating expenses | 1,088,881 | 208,437 | 1,682 | 50,595 | 5,992 | 1,355,587 |
| Operating income (loss) | ¥ 92,635 | ¥ (1,485) | ¥ 1,833 | ¥ (816) | ¥ (14,390) | ¥ 77,777 |
| Identifiable assets | ¥ 933,195 | ¥101,691 | ¥105,746 | ¥ 38,896 | ¥161,575 | ¥1,341,103 |
| Depreciation | 41,900 | 5,627 | 1,162 | 1,707 | 2,505 | 52,901 |
| Capital investments | 47,473 | 8,834 | 2,302 | 1,607 | 4,613 | 64,829 |
| Year ended December 31, 2000 | Alcoholic beverages | Soft drinks and food | Real estate | Others | Elimination and/or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | ¥1,127,737 | ¥216,191 | ¥ 4,194 | ¥ 50,986 | ¥ — | ¥1,399,108 |
| Intersegment | 2,113 | 4,678 | 366 | 153 | (7,310) | — |
| Total sales | 1,129,850 | 220,869 | 4,560 | 51,139 | (7,310) | 1,399,108 |
| Operating expenses | 1,043,076 | 218,860 | 1,843 | 51,897 | 6,882 | 1,322,558 |
| Operating income (loss) | ¥ 86,774 | ¥ 2,009 | ¥ 2,717 | ¥ (758) | ¥ (14,192) | ¥ 76,550 |
| Identifiable assets | ¥ 869,290 | ¥108,158 | ¥111,700 | ¥ 24,289 | ¥276,390 | ¥1,389,827 |
| Depreciation | 40,008 | 4,667 | 1,508 | 1,855 | 3,752 | 51,790 |
| Capital investments | 51,105 | 10,203 | 231 | 2,552 | 2,427 | 66,518 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| **Year ended December 31, 2002** | Alcoholic beverages | Soft drinks | Food and pharmaceuticals | Others | Elimination and/or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | **$8,815,922** | **$1,449,316** | **$118,699** | **$1,086,180** | **$ —** | **$11,470,117** |
| Intersegment | **395,288** | **37,014** | **1,676** | **449,842** | **(883,820)** | **—** |
| Total sales | **9,211,210** | **1,486,330** | **120,375** | **1,536,022** | **(883,820)** | **11,470,117** |
| Operating expenses | **8,634,521** | **1,520,408** | **120,308** | **1,503,870** | **(887,314)** | **10,891,793** |
| Operating income (loss) | **$ 576,689** | **$ (34,078)** | **$ 67** | **$ 32,152** | **$ 3,494** | **$ 578,324** |
| Identifiable assets | **$7,678,799** | **$ 811,534** | **$109,950** | **$1,426,856** | **$771,343** | **$10,798,482** |
| Depreciation | **349,983** | **42,694** | **5,413** | **31,785** | **33** | **429,908** |
| Capital investments | **281,226** | **25,688** | **8,966** | **28,090** | **125** | **344,095** |

Corporate assets in the Elimination and/or corporate column in 2002, 2001 and 2000, amounted to ¥113,367 million ($945,513 thousand), ¥314,181 million and ¥471,137 million, respectively, which are mainly the financial assets of the Company and subsidiaries related to the group finance.

Sales outside Japan and sales to foreign customers are less than 10% of the Company's consolidated net sales for 2002, 2001 and 2000.

## Change in the classification of businesses

The Company defines the three-year period from this year as the period for the improvement of the Company's group competitive ability and growth of the Company's group, and reexamines its businesses in order to intensify the soft drink business, the food business, and the pharmaceuticals business as core businesses, as well as the alcoholic business.

Along with this reexamination, effective for the year ended December 31, 2002, the Company has revised its classification of businesses. The food business, which was included in the soft drinks and food division, is integrated with the pharmaceuticals business, which was included in the others division, and the food and pharmaceuticals division is disclosed as a separate segment.

Also, the wholesale business, which was included in the alcoholic beverages division, and the distribution business, which was included in each segment, are transferred to the others division.

As the result of this change, the Company classifies its businesses into four segments, the alcoholic beverages division, the soft drinks division, the food and pharmaceuticals division, and the others division.

According to the revised classification of businesses, business segment information for the years ended December 31, 2001 was as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended December 31, 2001 | Alcoholic beverages | Soft drinks | Food and pharmaceuticals | Others | Elimination and/or corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | ¥1,101,620 | ¥192,526 | ¥14,561 | ¥124,657 | ¥ — | ¥1,433,364 |
| Intersegment | 42,270 | 4,631 | 297 | 56,718 | (103,916) | — |
| Total sales | 1,143,890 | 197,157 | 14,858 | 181,375 | (103,916) | 1,433,364 |
| Operating expenses | 1,067,081 | 199,236 | 14,452 | 178,899 | (104,081) | 1,355,587 |
| Operating income (loss) | ¥ 76,809 | ¥ (2,079) | ¥ 406 | ¥ 2,476 | ¥ 165 | ¥ 77,777 |
| Identifiable assets | ¥ 941,838 | ¥ 98,480 | ¥12,341 | ¥182,075 | ¥106,369 | ¥1,341,103 |
| Depreciation | 43,735 | 4,823 | 584 | 3,754 | 5 | 52,901 |
| Capital investments | 49,989 | 7,487 | 1,179 | 6,159 | 15 | 64,829 |

Corporate assets in the Elimination and/or corporate column amounted to ¥124,929 million in accordance with the revised classification of businesses.

## Change in the method of allocating operating expenses

Effective for the year ended December 31, 2002, along with the development of the alcoholic business, for the Company's internal control purpose, operating expenses incurred in the management of Company's headquarter and research and development expenses are charged to the alcoholic beverage division in order to monitor the operating result by each alcoholic beverage category.

As the result of this change, operating expenses of the alcoholic beverage division increased by ¥12,948 million ($107,990 thousand) and operating income decreased by the same amount, compared with what would have been recorded under the previous method of allocating operating expenses.

# Report of Independent Public Accountants

**To the Shareholders and the Board of Directors of**
**ASAHI BREWERIES, LTD.:**

We have audited the accompanying consolidated balance sheets of ASAHI BREWERIES, LTD. (a Japanese corporation) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2002, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards 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. and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, ASAHI BREWERIES, LTD. and its consolidated subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for financial instruments and employees' severance and retirement benefits and the revised accounting standard for foreign currency translation effective from the year ended December 31, 2001 and, effective from the year ended December 31, 2002, the new accounting requirement for available-for-sale securities with available fair values under the accounting standard for financial instruments adopted in the previous year. Also, effective January 1, 2000, ASAHI BREWERIES, LTD. and its consolidated subsidiaries changed the method of accounting for employees' severance and retirement benefits as referred to in Note 2 and, effective January 1, 2002, changed the classification of business segments and the method of allocating operating expenses in the segment information as referred to in Note 14, with which we concur.

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 28, 2003

# Investor Information

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Sumida-ku, Tokyo 130-8602, Japan
Tel: +81-3-5608-5126
Fax: +81-3-5608-7121
URL: http://www.asahibeer.co.jp

**Fiscal Year-End Date**
December 31 on an annual basis

**Dividends**
Year-end: To the recorded shareholders on December 31
Interim: To the recorded shareholders on June 30

**Date of Establishment**
September 1, 1949

**Paid-in Capital**
¥182,531 million

**Number of Shares of Common Stock Issued**
513,585,862

**Number of Shareholders**
67,425

**Major Shareholders**
The Dai-ichi Mutual Life Insurance Company
Sumitomo Mitsui Banking Corporation
The Master Trust Bank of Japan, Ltd. (Trust account)
Japan Trustee Services Bank, Ltd. (Trust account)
Fukoku Mutual Life Insurance Company
Asahi Kasei Corporation
State Street Bank and Trust Company
Mizuho Corporate Bank, Ltd.
Sumitomo Life Insurance Company
The Norinchukin Bank

**Number of Domestic Offices and Facilities**
Regional Headquarters: 9
Branch Offices: 41
Breweries: 9
Laboratories: 6

**Number of Overseas Offices**
Business Coordination Department: 1
Business Offices: 5

**Number of Employees**
3,995

**Stock Exchange Listings**
Tokyo, Osaka, Nagoya, and Fukuoka stock exchanges

**Newspaper for Official Notice**
*Nihon Keizai Shimbun*

**Transfer Agent and Registrar**
UFJ Trust Bank Limited.
Corporate Agency Department
10-11, Higashisuna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Tel: +81-3-5683-5111

**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.

(As of December 31, 2002)

ASAHI BREWERIES, LTD.

http://www.asahibeer.co.jp

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