Management's Discussion and Analysis

Overview

Market Trends

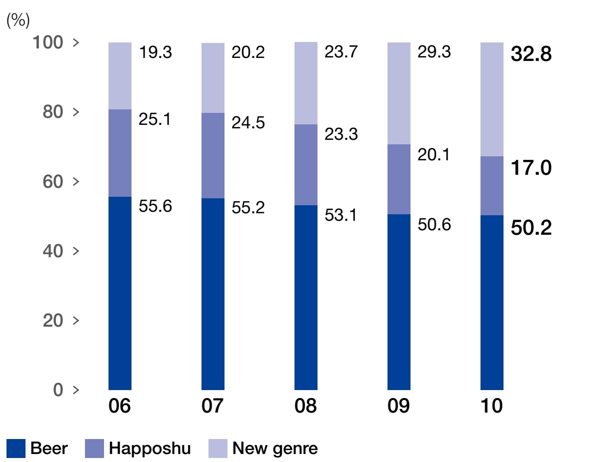
In the fiscal year ended December 31, 2010, Japan's economy continued to face harsh conditions, marked by the effect of rapid yen appreciation, steady deterioration in the employment environment and lackluster consumer spending. The trajectory of these metrics remained largely unchanged despite signs that the economy is headed toward recovery thanks to government-backed economic stimulus measures and a rebound in economies overseas.

In the alcoholic beverages industry, while sales of new genre beverages rose substantially, reflecting more conservative consumer spending habits due to weak economic conditions, sales of beer and happoshu faltered. As a result, sales in the overall market for beer-type beverages ended 2.8% lower year on year on a taxable shipment volume basis. Sales in alcoholic beverages other than beer-type beverages were flat overall, despite healthy performance in the markets for ready-to-drink (RTD) beverages and whisky and spirits.

In the soft drinks industry, overall industry sales volume is estimated to have climbed by around 3%, mainly due to unusually hot weather during the summer.

In this climate during the first year of Medium-Term Management Plan 2012, the Asahi Group worked to enhance profitability in several ways. In addition to channeling management resources into core products in each segment, the Group continued to reinforce cost competitiveness, keeping its sights set on its Long-Term Vision 2015.

Product Share in the Beer-Type Beverages Market by Genre



* Based on taxable shipments

Net Sales

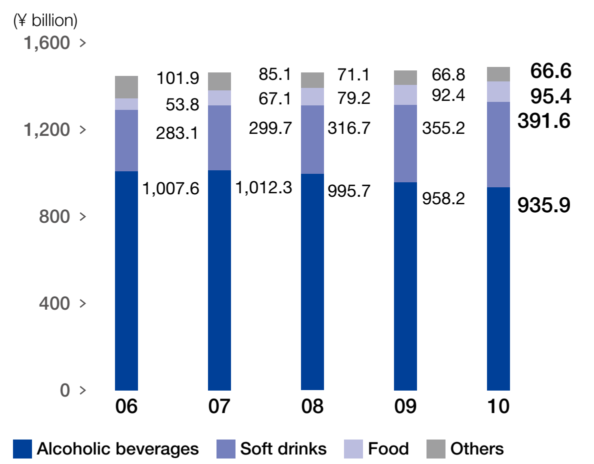
In fiscal 2010, net sales for the Asahi Group increased ¥17.0 billion, or 1.2%, year on year, to ¥1,489.5 billion.

Sales in the alcoholic beverages business declined ¥22.3 billion, or 2.3% year on year, to ¥935.9 billion, largely reflecting lower sales for beer-type beverages. In the soft drinks business, sales rose ¥36.4 billion, or 10.2%, to ¥391.6 billion, while sales in the food business increased ¥3.0 billion, or 3.3%, to ¥95.4 billion.

In sales composition by segment, the alcoholic beverages business share decreased from 65.1% in the previous fiscal year to 62.8%, while the soft drinks business' share increased from 24.1% to 26.3%, and the food business' share increased from 6.3% to 6.4%.

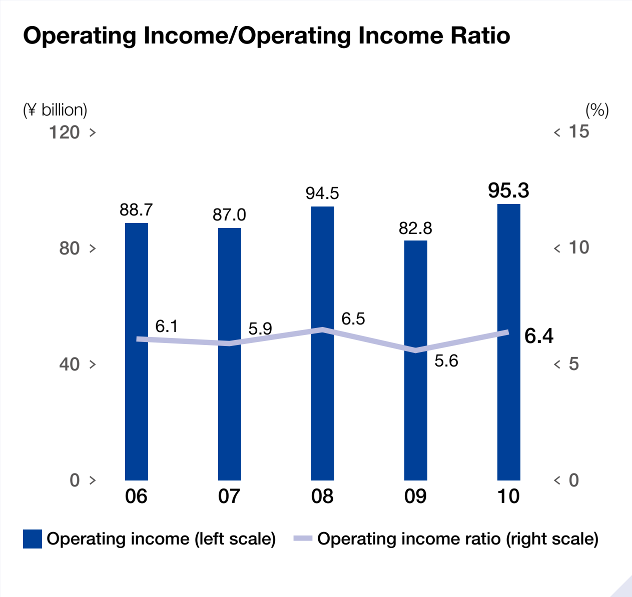
Sales from the alcoholic beverages business and the soft drinks business include net sales from the Group's overseas business. Overseas sales increased ¥19.3 billion, or 24.6%, year on year, to ¥97.8 billion, primarily due to the inclusion of sales from Schweppes Australia for January to March.

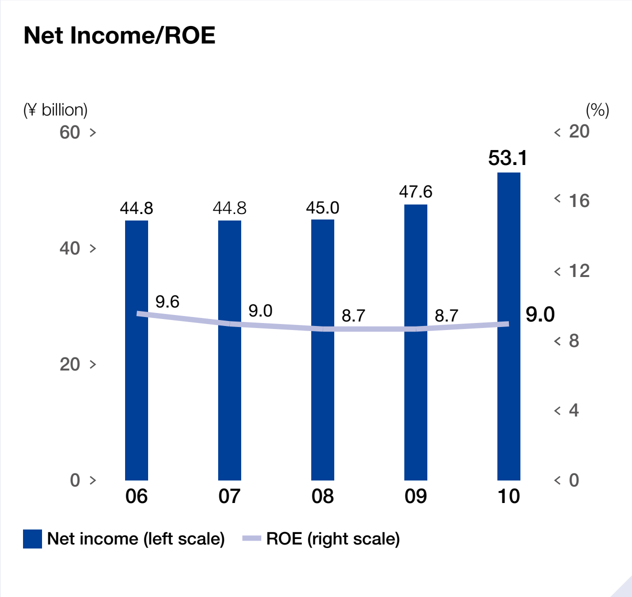
Net Sales by Segment



Operating Income

For the consolidated fiscal year, operating income increased ¥12.6 billion, or 15.2%, year on year, to ¥95.3 billion. This result owed to cost reduction efforts in the alcoholic beverages business such as curbing the cost of raw materials, and improved contribution from the soft drinks business as Asahi Soft Drinks Co., Ltd. saw higher sales volume in Japan and benefits from a revised profit structure. Meanwhile, in the food business, Asahi Food & Healthcare Co., Ltd expanded its sales and improved production efficiency, while logistics operations in other businesses also saw improved profits.





Other Income and Expenses

Other loss of ¥2.9 billion was recorded, a turnaround of ¥8.2 billion reversing income posted in the previous year. Other loss was largely attributed to loss on factory restructurings of ¥19.8 billion associated with the reconfiguration of the Group's breweries. In other expenses, the Group recorded an impairment loss of ¥13.6 billion on certain assets held for leasing purposes in Japan and on a part of goodwill, coupled with a loss on liquidation of subsidiaries and affiliates of ¥1.3 billion associated with the sale of overseas subsidiaries. Positive factors include a gain on sales of subsidiaries and affiliated companies of ¥32.3 billion, as well as a decline of ¥3.8 billion in the loss on sale and disposal of property, plant and equipment—net.

Income Taxes

The actual effective tax rate, including the corporate tax for fiscal 2010, decreased from 47.1% in the previous fiscal year to 44.3%. The difference between the actual effective tax rate of 44.3% and the statutory tax rate of 40.4% was primarily caused by the positive effects of 7.9% in amortization of goodwill (including impairment loss), and 1.9% in non-deductible expenses, and the negative effects of 4.3% in equity in net income of unconsolidated subsidiaries and affiliated companies, as well as 2.4% in temporary differences on investment in affiliated companies. The major factor behind the decrease in the actual effective tax rate was the decline in valuation reserves of 7.2%, despite an increase of 5.5% in amortization of goodwill.

Net Income

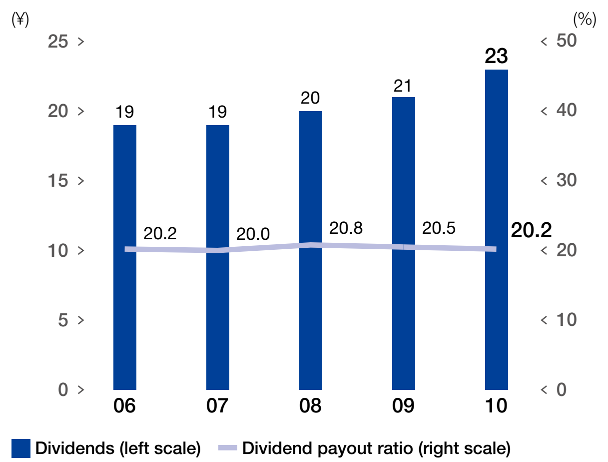
Net income rose 11.4%, or ¥5.4 billion year on year, to ¥53.1 billion. The net income ratio was 3.6%, up 0.3 percentage points from the previous fiscal year. ROE was up 0.3 percentage points year on year, at 9.0%. Net income per share (diluted) increased from ¥102.42 to ¥114.00.

Dividends

Asahi Breweries, Ltd. places priority on returning profit to shareholders. The Company's basic policy when providing shareholder returns is to take business performance and a range of other factors into account, seeking to enhance profitability and ensure a stronger financial position. We strive to make consistent and stable dividend payments and aim to increase dividends by generally referring to a benchmark of at least 20% for the consolidated dividend payout ratio. In tandem, we repurchase our own shares whenever the timing is appropriate, with the goal of ensuring a well-rounded and comprehensive shareholder return program.

Based on this policy, we paid an ordinary full-year dividend of ¥23.0 per share, which included a ¥1.5 increase in the year-end dividend to ¥12.5 per share, and an interim dividend of ¥10.5 per share. In fiscal 2011, ending December 31, 2011, we plan to pay an interim dividend of ¥11.5 and a year-end dividend of ¥11.5 per share, for a full-year dividend of ¥23.0 per share.

Dividends/Dividend Payout Ratio



Review of Operations by Segment

Sales and Operating Income by Segment (2010/2009)

	Millions of yen		
	2010	2009	Percent change
Sales			
Alcoholic beverages	**¥935,850**	¥958,156	(2.3)
Soft drinks	**391,566**	355,162	10.2
Food	**95,440**	92,400	3.3
Others	**66,605**	66,751	(0.2)
Operating income			
Alcoholic beverages	**84,567**	78,879	7.2
Soft drinks	**4,922**	695	608.2
Food	**3,633**	2,745	32.4
Others	**1,505**	889	69.3

Alcoholic Beverages Business (Related information on page 28)

The domestic alcoholic beverages business is being affected by a decline in the drinking-age population and more consumers, particularly younger consumers, showing preference for beverages other than beer. In this climate, guided by the slogan, "Move to Embrace Change," we took steps to reinforce our core brands *Asahi Super Dry* and *Clear Asahi*. At the same time, we promoted profit structure reforms that included reducing the cost of raw materials and integrating breweries with the view to raising production efficiency.

These initiatives spurred sales growth in the new genre beverages category and in the shochu, RTD beverages, whisky and spirits, and wine category, reflecting more conservative spending habits among consumers given the weak economic conditions. The result, however, was a slight dip in sales in the beer category and a sharp drop in happoshu sales. Consequently, overall sales in the alcoholic beverages segment declined 2.3% year on year, to ¥935.9 billion. Operating income was up ¥5.7 billion, or 7.2% year on year, to ¥84.6 billion, with growth spurred by benefits from efforts to curb prices for raw materials and other cost-cutting measures.

Asahi Breweries, Ltd.

Beer-type beverages

In the domestic beer market, we took action to broaden the appeal of our core product in the beer category, *Asahi Super Dry*, among more customers by developing "Extra cold" (–2°C to 0°C) as a new value proposition for enjoying the product. In generating information and developing sales promotion activities to highlight the product we initiated a project called "Refreshingly Sustainable." Promoted in each of Japan's 47 prefectures, the project donates a portion of proceeds from sales of *Asahi Super Dry* to the protection and preservation of the natural environment and important cultural treasures in each region.

The result was annual sales volume of over 100 million cases*[1] for a 22nd consecutive year, retaining the 50.6%*[2] of Japan's beer market achieved in the previous year. This achievement notwithstanding, beer sales volume decreased 4.2% year on year to 11.6 million cases, with beer sales declining ¥26.2 billion, or 4.0%, to ¥620.4 billion.

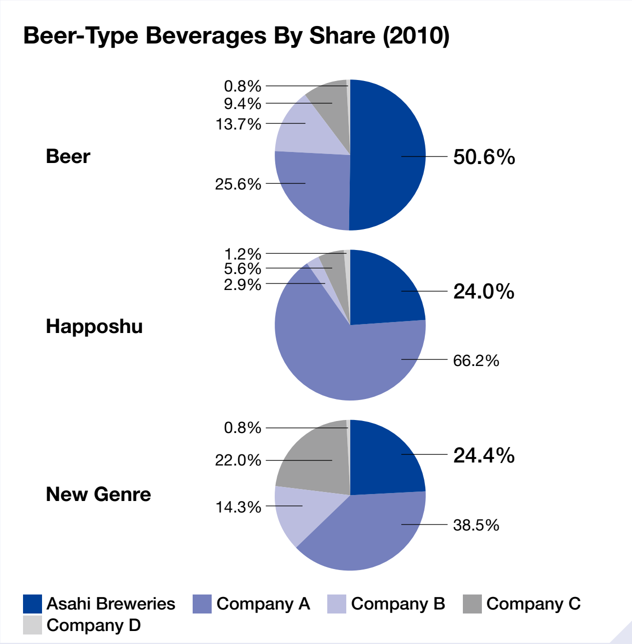
In happoshu, we revitalized the market through quality improvements to *Asahi Style Free*, a pioneering product in the "zero carbohydrates"*[3] category, and via consumer campaigns. Despite these efforts, however, happoshu sales volume declined 25.8% year on year. As a result, sales of happoshu decreased ¥24.7 billion, or 25.7%, to ¥71.5 billion. Asahi Breweries, Ltd.'s share of the domestic happoshu market also decreased 2.6 percentage points to 24.0%.

In new genre beverages, we channeled management resources primarily into *Clear Asahi* and *Asahi Off*, with the intent of establishing a solid position in the growing malt liquor*[4] market. Actions here included the launch in March of *Clear Asahi* in kegs for the commercial-use sector. We also proposed products tailored to customers' diverse needs around new genre beverages, among them *Asahi Strong Off* released in March and *Asahi Kutsurogi-Jikomi <4VG>* sold in September. From these initiatives, sales volume rose 18.9% from the previous year and Asahi Breweries, Ltd.'s share of the domestic market for new genre beverages rose 2.1 percentage points to 24.4%. Sales in this category increased ¥19.0 billion, or 18.8%, to ¥120.6 billion.

Taxable shipment volume for domestic beer-type beverages from Asahi Breweries, Ltd. declined 2.8% year on year to 172.2 million cases. The company's share of the overall domestic beer-type beverages market was 37.5%, unchanged from the previous fiscal year.

As a result, sales of beer-type beverages declined ¥31.8 billion, or 3.8% from the previous year, to ¥812.5 billion.

*[1] One case is equivalent to 20 large bottles (663ml each).
*[2] Beer market share based on statistical data on taxable shipment volume from Japan's top five beer companies.
*[3] Based on nutrition labeling standards, sugar content of less than 0.5g (per 100ml) is indicated as "zero carbohydrate."
*[4] "Malt liquor" refers to a new wheat beverage genre that blends malt-based happoshu (malt content of less than 50%) with wheat-based spirits (liquor).



Alcoholic beverages other than beer-type beverages

Overall sales of other alcoholic beverages—shochu, RTD beverages, whisky and spirits, and wine—increased ¥5.3 billion, or 4.3%, to ¥128.4 billion. As customer needs in this area diversify, we worked to cultivate and enhance uniquely advantaged leading brands while making progress on profit structure reform, which focused largely on striving to use advertising and sales promotion expenses more efficiently. As a result of these efforts, we achieved an operating income ratio of 7%.

Shochu

For shochu, we conducted aggressive sales promotion activities designed to reinforce the *Kanoka* brand. These included the revamp of *Imo-jochu Kanoka Kurokoji-Jikomi*, and the launch of *Honkaku Imo-Jochu Satsuma Koku-Murasaki* in May. Despite these efforts, however, sales declined 4.0% year on year to ¥48.3 billion.

Ready-to-Drink (RTD) beverages

In Ready-to-Drink (RTD) beverages, we strengthened the line-up of *Asahi Slat*, a beverage that has both *Asahi Chu-Hi Kajitsu-no-shunkan* and the lowest number of calories*1 in its class, and our *Asahi Cocktail Partner* series. We also took steps to cultivate new brands. In March we launched *Asahi Chu-Hi Kajitsu-no-shunkan*, a new brand made from domestically produced fruit juice, and in July we launched *Asahi Sparx*, a new brand with 7% alcohol content and 70% less sugar*2. As a result, sales of RTD beverages rose 2.1% year on year to ¥31.2 billion.

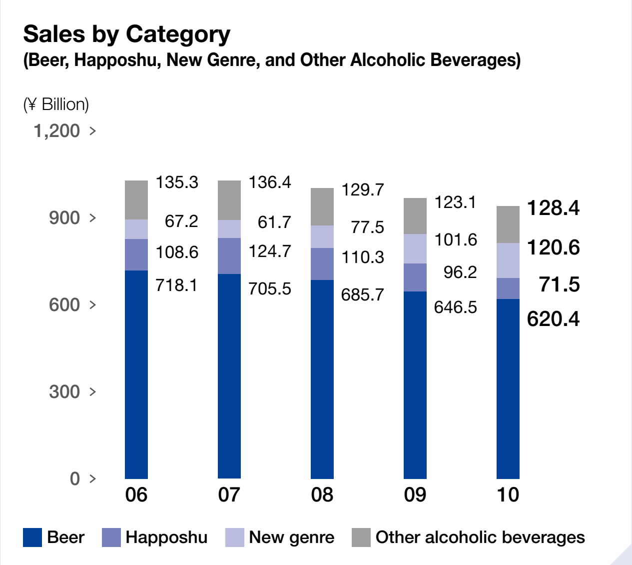
Whisky and Spirits

In whisky and spirits, brisk sales of core brand *Black Nikka Clear Blend* continued, leading to year-on-year growth for a fourth consecutive year. The quality of the *Nikka* brand, moreover, was recognized on the world stage when *Taketsuru 21 Years Old* was named "World's Best Blended Malt Whisky" at the World Whiskies Awards*3 in February 2010 for a third time and for two consecutive years running. As a result, sales rose 16.9% from the previous year to ¥30.4 billion.

Wine

In wine, we revamped our *Antioxidant-Free Organic Wine* series of domestic wines to further boost the value of the *Sainte Neige* brand. For imported wines, we strove to expand sales through a diverse product lineup centered on key brands like *Louis Latour* and *Zonin*. However, sales declined 7.0% to ¥11.5 billion.

*1 Based on comparison of products sold in the canned chu-hi market as of December 2010.
*2 Compared to average sugar found in fruit-flavored canned chu-hi from Asahi Breweries.
*3 An international contest focused exclusively on whisky, chiefly sponsored by U.K.-based *Whisky Magazine*.



Overseas Alcoholic Beverages Business

(Related information on page 42)

In the overseas alcoholic beverages business, we moved to improve profitability in the beer business in China by strengthening our strategic partnership with Tsingtao Brewery Co., Ltd. (Tsingtao Brewery). This included the start of contract production of *Tsingtao Beer* brand products at Hangzhou Xihu Beer Asahi Co., Ltd. (Hangzhou Beer) and Beijing Beer Asahi Co., Ltd. (Beijing Beer) from August 2010. Similarly, we raised the profile of the *Asahi* brand in our beer business in the Asia and Oceania region as well, steadily expanding sales particularly for *Asahi Super Dry* in South Korea, Taiwan, Hong Kong, Thailand, Australia, and other markets.

As a result, sales from the overseas business, including the overseas soft drinks business, rose ¥19.3 billion, or 24.6%, to ¥97.8 billion. The operating loss associated with the overseas business declined by ¥1.7 billion year on year to ¥1.1 billion.

Soft Drinks Business (Related information on page 34)

In the domestic soft drinks business, Asahi Soft Drinks Co., Ltd. took measures to invigorate growth based on fundamental strategies for growth and structural reform. As a result, sales in the soft drinks business rose 10.2% year on year to ¥391.6 billion. Operating income, meanwhile, increased 608.2% to ¥4.9 billion, as higher prices for raw materials, brand investment activities and other income-reducing factors were offset by better-than-expected progress on cost reductions. Benefits from increased internal production of PET bottles were particularly effective.

Asahi Soft Drinks Co., Ltd.

In the domestic soft drinks market, we concentrated marketing investment to continue strengthening the core brands *WONDA*, *Mitsuya Cider* and *Asahi Juroku-cha* at Asahi Soft Drinks Co., Ltd. We also pursued initiatives for revitalizing the market, including the May launch of *Asahi TeaO*, a "zero sugar"* beverage that preserves the lightly sweet tea taste that consumers enjoy. In addition, we acquired production and sales rights to *Rokko no Oishii Mizu* mineral water from House Foods Corp. These decisions culminated in record sales volume for Asahi Soft Drinks for an eighth consecutive year.

In the area of structural reform, we took steps designed to both improve quality and reform the profit structure by striving to reduce prices for raw materials and improve production and logistics efficiency. This included the introduction of a cutting-edge production line at the Ibaraki Brewery, including equipment to produce PET bottles.

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

Carbonated beverages

For our mainstay *Mitsuya Cider* brand, the continuation of brisk sales of *Mitsuya Cider All Zero*, launched in May 2009, revitalized the entire brand, leading to increased sales volume for a seventh consecutive year. This outcome led to an annual sales volume of 37.9 million cases for *Mitsuya Cider* brand beverages. This figure represented an increase of 1.1% from the previous year, and another year of sales of more than 30 million cases for the brand. As a result, the total sales for carbonated beverages increased 4.8% year on year to 43.2 million cases.

Coffee

Amid stagnation in the coffee market, overall sales volume for our core brand *WONDA* was down 3.4% year on year to 35.7 million cases, despite sales promotion activities.

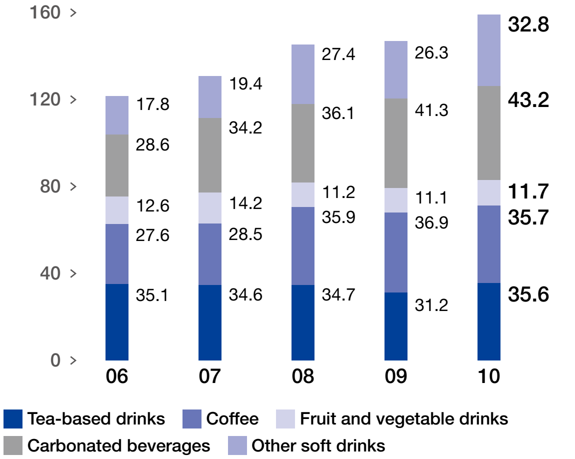
Tea-based drinks

During the year, we sought to revitalize the market through brisk sales of core brand *Asahi Juroku-cha* spurred by aggressive brand investment. As a result, annual sales volume for the *Asahi Juroku-cha* brand rose 11.1% year on year to 16.4 million cases. Our promotion efforts extended to the entire tea-based drinks category, including the launch in May of *Asahi TeaO*. Consequently, annual sales volume for the entire tea-based drinks category climbed 14.3% year on year, to 35.6 million cases.

Other soft drinks

In other soft drinks, total sales volume was up 18.9% year on year to 44.5 million cases. Growth was primarily due to contributions from newly acquired *Rokko no Oishii Mizu* mineral water, coupled with the effects of unusually hot summer temperatures. The improvement came despite lower sales volume for *Asahi Fujisan no Vanadium Tennensui* mineral water.

Sales by Category
(Carbonated Beverages, Coffee, Tea-Based Drinks, Fruit and Vegetable Drinks and Other Soft Drinks)
(Million cases)



Overseas Soft Drinks Business (Related information on page 42)

In the overseas soft drinks business, Schweppes Australia continued to reinforce existing brands and vigorously develop new sales channels in the Australian market. In China, we sought to further entrench the market position of China-based Tingyi-Asahi Beverages Holding Co., Ltd. To this end, we conducted consumer campaigns and other sales promotions around core products to build a firm business base.

Food Business (Related information on page 45)

In the food business, Asahi Food & Healthcare Co., Ltd. strove to expand its business and strengthen its business foundation by upholding the basic strategies of sales growth, achieving a stronger corporate structure, and reinforcing a brand reputation for safety and quality.

The successive launch of new and revamped products coupled with aggressive advertising and sales promotions prompted sales growth in our core products—*MINTIA* breath mint tablets, *BALANCEUP* nutritionally balanced snack bars, *Ippon Manzoku Bar* nutrition bars, quasi-drug product *EBIOS, Dear-Natura* brand supplements, and our *Slim Up Slim* line of diet support food.

Wakodo Co., Ltd., meanwhile, pursued initiatives designed to reinforce its business base and expand business, guided by a management policy of "establishing a management base for the next stage of growth." Leveraging its expertise in "infant-safe quality" honed in baby products over the years, Wakodo continued to revamp and enhance existing product lineups. The outcome was brisk performance from mainstay brands, including baby food brand *Goo-Goo Kitchen*, which resulted in sales growth over the previous year.

Meanwhile, Amano Jitsugyo Co., Ltd. worked to expand its business and boost profitability, with the aim of emerging as the undisputed leader in Japan's freeze-dried food market. In its direct marketing business, the company saw significant year-on-year growth led by firm growth in its mainstay freeze-dried miso soup products. Sales volume also increased in commercial-use sales, reflecting expansion in the number of stores handling its products. These factors culminated in record sales for the year.

As a result of the above actions, which led to strong growth in sales of core products, sales in the food business climbed 3.3% year on year to ¥95.4 billion. Operating income rose 32.4% year on year to ¥3.6 billion, mainly reflecting sales growth and improved productivity at Asahi Food & Healthcare Co., Ltd.

Other Businesses

In other businesses, expanded operations in our restaurants and logistics businesses helped sales stay largely flat year on year despite an adverse climate. As a result, total sales for other businesses decreased just 0.2% year on year to ¥66.6 billion. Operating income climbed 69.3% year on year to ¥1.5 billion, on improved earnings from the logistics business.

Outlook for Fiscal 2011

As the second year of Medium-Term Management Plan 2012, fiscal 2011 will see management resources channeled into strengthening brands for core products in each business, and a continued push to enhance cost competitiveness, in a bid to bolster the earnings power of the entire Group. Similarly, we will implement optimal financial and cash flow strategies with the goal of lifting the corporate value of the Asahi Group as a whole. In terms of investment, with a focus primarily on the alcoholic beverages and soft drinks businesses, we are exploring and enacting strategic business investments and business alliances both domestically and overseas, giving priority to strengthening our growth base. Meanwhile, our transition to a holding company structure in July 2011 will clarify authority and accountability in each business division, and allow a pursuit of specialization that should reinforce our business base. At the same time, this change will enable a bolder distribution of management resources to growth fields both in and outside of Japan, as we aim to achieve dramatic growth going forward.

Consequently, we are forecasting net sales of ¥1,490.0 billion (up 0.0% year on year), operating income of ¥107.0 billion (up 12.2%) and net income of ¥57.0 billion (up 7.4%) for the fiscal year ending December 31, 2011.

Liquidity and Capital Resources

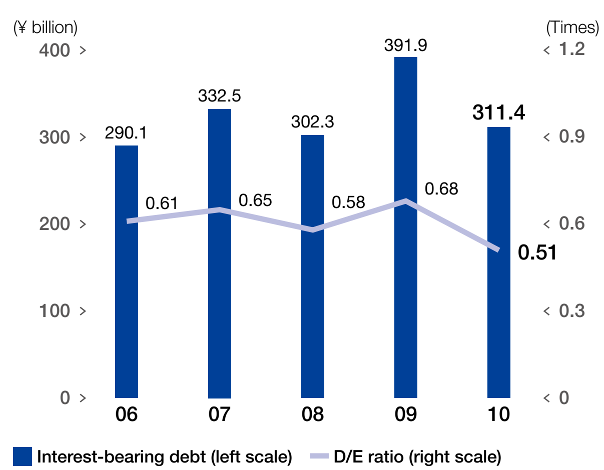
Asahi Breweries, Ltd. gains its capital resources principally from cash flows generated by operating activities, loans from financial institutions, and the issuance of company bonds, and as a management policy, regards the reduction of interest-bearing debt as a priority issue. However, we make flexible use of our financial liabilities according to the need for capital resources to invest. Potential investments include capital expenditure to enhance the management base and increase efficiency, and strategic investments such as M&As. When financing needs arise, we respond with due consideration to procurement methods that will result in the lowest possible interest cost. Daily financing needs are, in principle, met through short-term loans and the issuance of commercial paper.

The Asahi Group has also introduced a cash management service (or CMS) that channels excess funds of each Group company to Asahi Breweries, Ltd., where these funds are centrally managed. This service enables the Company to take steps aimed at both improving capital efficiency and minimizing financing costs.

The outstanding balance of interest-bearing debt amounted to ¥311.4 billion as of the end of 2010, down ¥80.5 billion from the previous fiscal year-end. This balance primarily reflected the repayment of short-term loans. The outstanding balance was below one-fifth of its all-time peak in fiscal 1992. In addition, during the year under review the debt-equity ratio had improved to 0.5, compared to 4.9 in fiscal 1992.

The Asahi Group has earned an A+ rating from Rating and Investment Information, Inc., an AA– rating from the Japan Credit Rating Agency, Ltd., an A– rating from Fitch Ratings, Ltd.

Interest-Bearing Debt and D/E Ratio



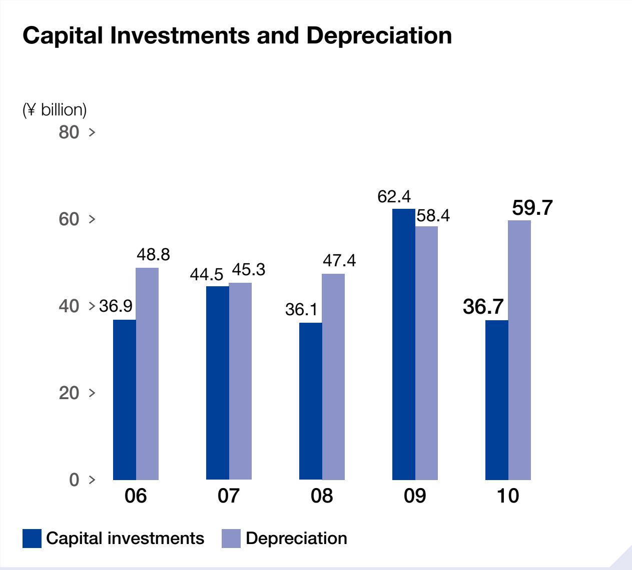
Capital Investments

Capital investments for the fiscal year ended December 31, 2010, decreased ¥25.6 billion from ¥62.4 billion in the previous fiscal year to ¥36.7 billion. This decline resulted primarily from the absence of expenditures associated with the acquisition of Schweppes Australia trademarks in the soft drinks business in fiscal 2009, although the Group did make capital investments for improving quality and streamlining production. The investments included ongoing capital investment in the alcoholic beverages business mainly for construction work to upgrade existing facilities and energy-efficiency measures. Meanwhile in the soft drinks business, we continued to conduct strategic capital investment to enhance production system efficiency primarily at Asahi Soft Drinks Co., Ltd. In the food business, Wakodo Co., Ltd. made strategic investments in expanding business fields that included augmenting production facilities at its production site in Tochigi.

Moreover, the Group plans to launch a new production framework for beer-type beverages in the alcoholic beverages business, with the consolidation of the production functions of the Nishinomiya Brewery (Nishinomiya, Hyogo Prefecture) and at the Suita Brewery (Suita, Osaka Prefecture) from September 2011.

Losses associated with this realignment of breweries are posted under loss on factory restructurings for fiscal 2010.

Consolidated depreciation costs totaled ¥59.7 billion.



Assets, Liabilities and Net Assets

Consolidated total assets as of the end of fiscal 2010 decreased by ¥28.3 billion, or 2.0% compared with the previous fiscal year-end, to ¥1,405.4 billion. This decline was mainly attributable to reductions in property, plant and equipment and intangible assets, which overcame an increase in investment securities from investment in Chinese food product and distribution giant the Ting Hsin Group. Return on assets (ROA) recovered 0.5 points to 7.1%.

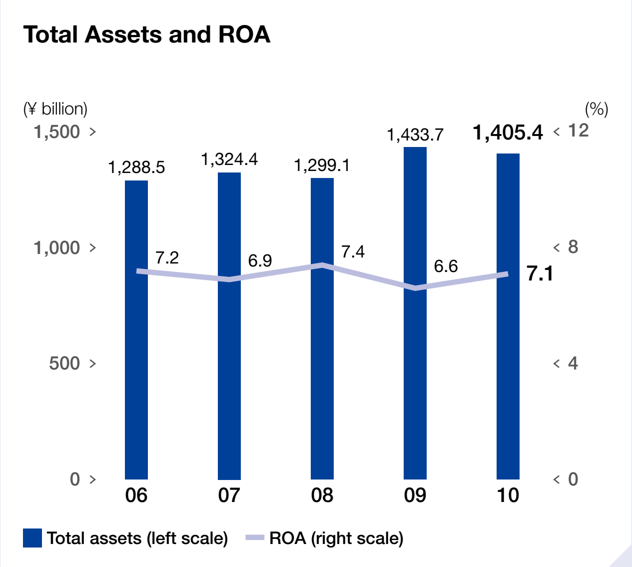
Current assets decreased ¥7.0 billion, or 1.6%, year on year, to ¥421.1 billion. This was mainly due to a decrease in cash and time deposits. Trade receivable turnover improved to 5.4 times from 5.5 times in the previous fiscal year. Inventories turnover was 15.5 times, increasing from 15.1 times recorded for the previous year.

Property, plant and equipment decreased ¥4.2 billion, or 3.7%, year on year, to ¥577.1 billion. The main reason was a decrease in machinery and equipment, vehicles, and buildings and structures, largely due to production base reconfiguration in Japan. Investments and other assets increased ¥20.7 billion, or 5.1% year on year, to ¥427.2 billion, mainly reflecting a decrease in investment securities from investment in the Ting Hsin Group and an increase in deferred income tax assets.

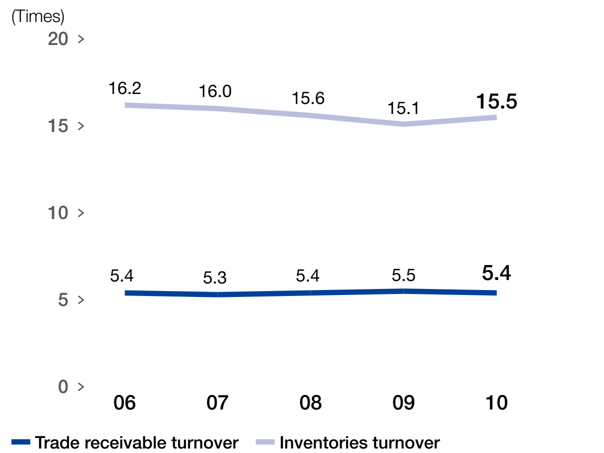
Total liabilities decreased ¥63.3 billion, or 7.4%, from the previous fiscal year-end, to ¥792.7 billion. Current liabilities decreased ¥73.9 billion, or 12.9% year on year, to ¥499.9 billion. This reflected a 48.1% fall in bank loans, a 64.0% decrease in long-term debt due within one year, and a 53.3% decline in commercial paper. Long-term liabilities rose ¥10.6 billion, or 3.8%, to ¥292.8 billion, primarily due to an increase of 3.7% in company bonds and a 65.7% increase in lease obligations.

Total net assets increased ¥35.0 billion, or 6.1%, to ¥612.7 billion. Shareholders' equity minus minority interests was ¥612.2 billion, up ¥38.7 billion, or 6.3%, compared to ¥573.5 billion in the previous fiscal year. This resulted from the posting of consolidated net income, which outweighed a decrease in foreign currency translation adjustments from exchange rate fluctuations and a decline in the valuation difference on available-for-sale securities, principally from the impact of stock market prices.

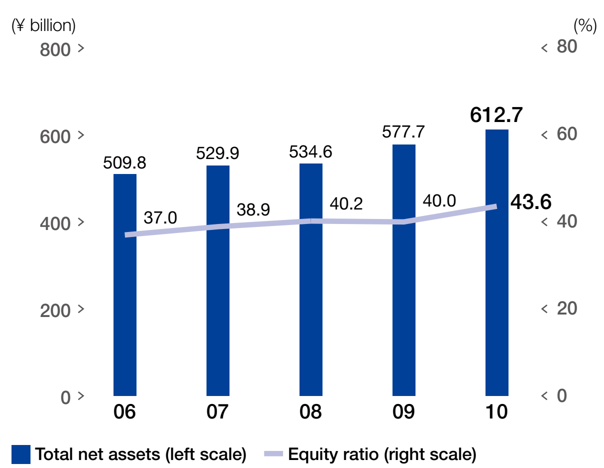
As a result, the equity ratio climbed 3.6 percentage points to 43.6%.



Trade Receivable Turnover and Inventories Turnover



Total Net Assets and Equity Ratio



Cash Flows

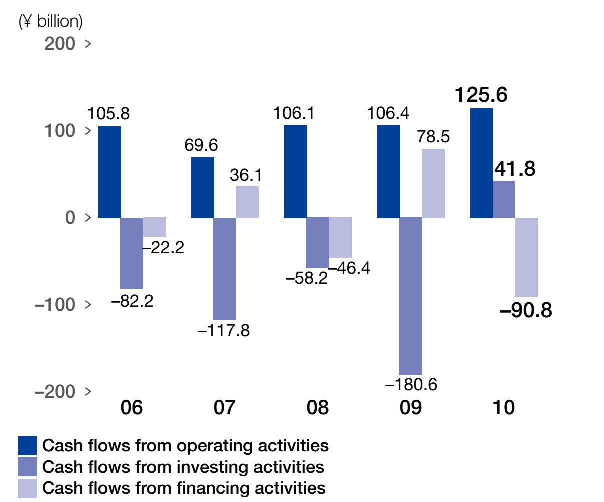
For the fiscal year ended December 31, 2010, net cash provided by operating activities increased ¥19.3 billion year on year to ¥125.6 billion. This result was due in large part to an increase in income before income taxes and minority interests, and an increase in factory restructuring losses and other noncash expenses.

Net cash used in investing activities went primarily toward business investment, most notably acquisition of the *Rokko no Oishii Mizu* mineral water business. As a result, outflows for investing activities decreased ¥138.8 billion from the previous year to ¥41.8 billion. This decrease mainly reflected the absence of acquisitions in the previous year, namely a soft drinks business in Australia and shares in Tsingtao Brewery.

Net cash used in financing activities increased to ¥90.8 billion, a change of ¥169.4 billion from cash provided by financing activities in the previous yea. This was primarily due to repayment of short-term loans and other financial obligations.

As a result, cash and cash equivalents at the fiscal year-end decreased ¥7.3 billion to ¥10.8 billion.

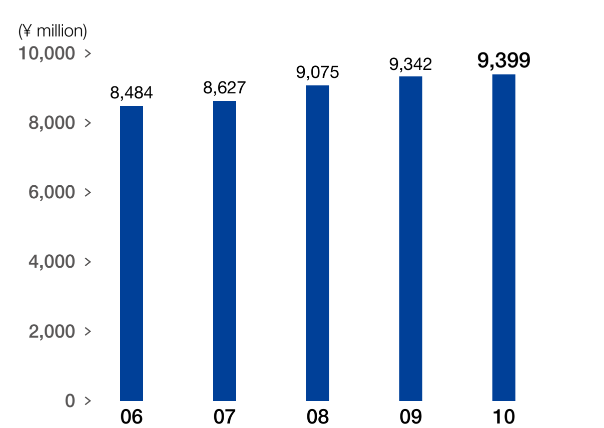
Cash Flows



Research and Development (Related information on p. 46)

R&D expenses for the year under review were ¥9.4 billion, representing an increase of 0.6% year on year.

R&D Expenses



Business Risk

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

The alcoholic beverages business accounts for approximately 63% of sales for the Asahi Group, a considerable portion of which is generated by the Japanese market. Future trends in the Japanese economy may have a significant effect on domestic consumption of alcoholic beverages. Furthermore, a continually declining population, fewer childbirths and the ongoing aging of the Japanese population may affect consumption of soft drinks and food as well as alcoholic beverages, and in turn may affect the business performance and financial condition of the Asahi Group.

2. Higher liquor tax rates

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

3. Dependence on a specific product

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

4. Food safety

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

5. Fluctuations in material prices

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

6. Effects of weather conditions, natural disasters and others

With respect to the alcoholic beverage and soft drink sales of the Asahi Group, stagnant markets caused by abnormal weather or variable weather conditions may affect the volume of sales. Furthermore, sudden occurrences of various catastrophes, natural disasters and unforeseeable accidents that could damage production and logistics facilities may result in loss of assets, the reporting of losses on unshipped products, expenditures on facility repairs and opportunity loss due to disruptions in production and logistics, and in turn, affect the business performance and financial condition of the Asahi Group.

7. Risks related to information systems

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

8. Risks related to overseas operations

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

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

9. Risks related to the environment

The Asahi Group endeavors to thoroughly implement waste recycling, energy conservation, reduction of CO_2 emissions, and the recycling of containers, and complies with the relevant environmental laws and regulations while conducting its businesses. Nevertheless, regulatory revisions that drive significant increases in costs due to investments in new facilities and changes in methods of waste disposal may affect the business performance and financial condition of the Asahi Group.

10. Risks related to changes in laws and regulations

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

11. Trends in the control of alcoholic beverages

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

12. Risks related to litigation

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

13. Fluctuations in value of owned assets

Sudden drops in the value of land, marketable securities, and other assets owned by the Asahi Group, or changes in the business environment, could affect the business performance and financial condition of the Asahi Group.

14. Retirement benefits

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

15. Business and capital alliances

The Asahi Group pursues business and capital alliances with companies in Japan and overseas to establish bases for growth in line with its medium-term management plan. There is the possibility, however, that these alliances could fail to yield synergies as initially projected due to the impact of changes in the business environment on the Asahi Group, its alliance partners, or companies in which the Group is invested, or other factors.

Moreover, changes of this kind in the business environment could cause deterioration in the businesses, management, or financial condition of alliance partners and invested companies. Adverse effects of this type could negatively impact the businesses, operating results and financial condition of the Asahi Group.

Furthermore, the need to amortize a substantial amount of goodwill stemming from investment, or to post significant impairment losses caused by slumping business performance at invested companies, could adversely affect the operating results of the Asahi Group.