

# Asahi

Asahi Group Holdings, Ltd.

# Integrated Report

For the Year Ended December 31, 2016

# 2016





Cover Story

# 01

## **Striving to be a corporate group trusted around the world through the Kando of food (deliciousness, happiness and innovation)**

The Asahi Group defines Kando as deliciousness, happiness and innovation surpassing customer expectations in the products and services it provides. Through efforts to expand Kando from Japan to the rest of the world, we are striving to be a trusted corporate group.











Cover Story

## Seek to achieve sustained corporate value enhancement by pursuing satisfaction for all stakeholders

Besides pursuing customer satisfaction, we have formulated our vision for stakeholders including business partners, society, employees and shareholders as a whole. We have also clarified our decision-making criteria for management strategies. Through these actions, we seek to achieve sustained corporate value enhancement.



# Letter from the CEO

## Further Developing Management for Corporate Value Enhancement Grounded in the Corporate Philosophy

### Issuance of Integrated Report 2016

With Asahi Group Holdings, Ltd. as a pure holding company, the Asahi Group runs its Alcohol Beverages, Soft Drinks, and Food Businesses—as well as its Overseas Business in these same domains—while upholding a shared corporate philosophy. In addition, to help achieve a sustainable society, which is indispensable for the execution of our corporate activities, we have defined three activity areas and materiality (priority themes). We strive to address social issues in these areas through our business activities.

Given the changes in the external business environment, we renewed our Long-Term Vision in 2016, adding our vision for our businesses 10 years into the future. Our Medium-Term Management Policy for realizing this vision has laid out three key priorities: i) Strengthening of earning power, ii) asset and capital efficiency improvement, and iii) reinforcement of ESG initiatives. We have aimed to further develop the management for corporate value enhancement under the policy.

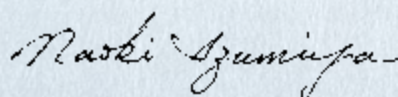
Integrated Report 2016 is edited based on the entire Group's efforts and discussions aimed at enhancing corporate value, centered on the Long-Term Vision and Medium-Term Management Policy. The compilation process and content of this report are appropriate.

We will continue to use the Integrated Report as a tool for engagement (constructive dialogue), seeking to deepen our dialogue with all stakeholders such as shareholders and investors, and aiming at sustained corporate value enhancement.

We would appreciate it if you take the time to read the report and give us your frank opinions and impressions.

May 2017

*Chairman and Representative Director, CEO*  
**Naoki Izumiya**





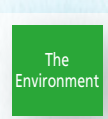
## Corporate Philosophy

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

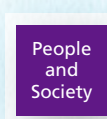
## Activity Areas for Addressing Social Issues and Materiality



- Responsible Drinking
- Food Safety and Reliability
- Health and Nutrition



- Climate Change
- Recycling-Based Society
- Biodiversity



- Human Resource Development and Diversity
- Healthy and Affluent Society
- Sustainable Water Resources
- Sustainable Supply Chains

## Long-Term Vision

Striving to be a corporate group trusted around the world through the Kando of food (deliciousness, happiness and innovation)

### [ Future Vision for Our Business ]

As a comprehensive beverage and food business group whose core business is alcohol beverages, we aim to be an industry leader in Japan with high added value as a key area of focus and establish a unique position as a global player that leverages strengths originating in Japan

Seek sustained corporate value enhancement by pursuing satisfaction for all stakeholders

### [ Our Vision for Our Stakeholders ]

<b>Customers</b>	Continue to create new value based on strengths nurtured in Japan and achieve the No. 1 ranking for customer satisfaction in Japan and each region of the world.
<b>Business partners</b>	Develop relationships with our business and alliance partners that support mutual growth and create new value for all parties.
<b>Society</b>	Contribute to the resolution of social problems through the Group's businesses in areas such as development of a wholesome food culture.
<b>Employees</b>	Develop an environment in which employees can work vigorously and experience personal growth together with corporate growth.
<b>Shareholders</b>	Enhance corporate value (stock value) through sustainable profit creation and shareholder returns.

## Editorial Policy

Since 2014, we have issued the Integrated Report combining the conventional Annual Report and CSR Communication Report into one.

In compiling Integrated Report 2016, we have referred to the Integrated Reporting Framework issued by the International Integrated Reporting Council. In doing so, we have created a communication tool that systematically combines financial and non-financial information as part of our value creation story, aiming to further develop management for corporate value enhancement.

We will continue working to enhance the content of the report, in the hope that it will promote deeper understanding of the Group among a broad range of readers including our shareholders and investors.

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## A Value Creation Story Aimed at Further Developing Management for Corporate Value Enhancement

### Cover Story

Vision for the Asahi Group

This section presents an overview of our vision centered on the Long-Term Vision, which originates from the Group's shared corporate philosophy.

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#### 05 Corporate Philosophy/ Long-Term Vision

#### 06 Editorial Policy/Contents

### Our Business

Value Creation Process of the Asahi Group

Here we give an overview of our businesses and history. We also explain our value creation process based on our cultivated strengths, combining both financial and non-financial information.

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### Medium-Term Management Policy

Initiatives on Key Priorities of the Medium-Term Management Policy

We provide an explanation of our direction and specific initiatives regarding the key priorities of the policy: i) strengthening of earning power, ii) asset and capital efficiency improvement, and iii) reinforcement of ESG initiatives, mainly through the president's message.

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Period Covered:

January 1, 2016–December 31, 2016

\* Including some information outside this period

Scope:

Asahi Group Holdings, Ltd. and Group companies

Forward-Looking Statements

The current plans, forecasts, strategies and performance presented in this report include forward-looking statements based on assumptions and opinions arrived at from currently available information. We caution readers that actual future 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, market competition, foreign exchange rates, taxes, and other systems influencing the Company's business areas.

## Review of Operations

Review of Operations by Segment

## Financial and Corporate Information

Financial and Corporate Information

With regard to iii) reinforcement of ESG initiatives in particular, we provide examples of specific initiatives based on materiality, dialogues with the CEO and outside directors, and other material.

We explain the external operating environment and risks for each business segment as a basis for introducing the Medium-Term Management Policy. We also present our results for 2016 and direction and topics for 2017.

This section presents a summary of financial and non-financial data for the past 11 years and an analysis of our management results for 2016, along with stock information and an explanation of various information tools.

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Chairman and Representative Director, CEO  
Naoki Izumiya

×  
Outside Director  
Tatsuro Kosaka

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# Our Business

## Asahi Group's Business Domains



## ALCOHOL BEVERAGES

### Business Domain

Comprehensive alcohol beverages business producing and selling whisky and spirits, *shochu*, wine and RTD\* low-alcohol beverages in addition to beer-type beverages, including our flagship brand, *Asahi Super Dry*

\* RTD: Ready-to-Drink. Beverages that can be consumed immediately upon purchase, such as canned *chuhai*

### Main Categories and Brands

Beer, happoshu, new genre, whisky and spirits, wine, *shochu*, RTD low-alcohol beverages, non-alcohol beer-taste beverages, etc.



From left: Asahi Super Dry / Asahi Style Free / Clear Asahi / Black Nikka Clear / Santa Helena Alpaca / Kanoka / Mogitate / Asahi Dry Zero

## SOFT DRINKS

### Business Domain

Comprehensive soft drinks business centered on long-standing mainstay brands including *Mitsuya Cider*, *WONDA*, *Asahi Juroku-cha*, and *Calpis*

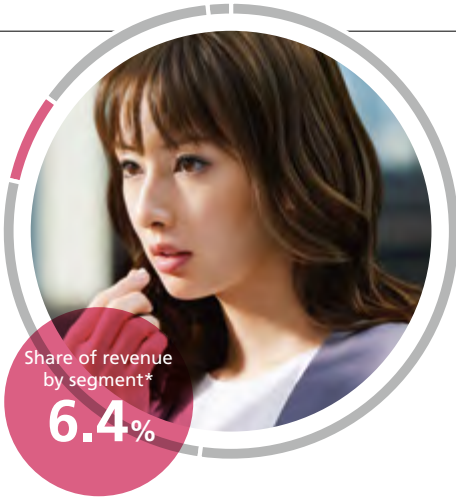
### Main Categories and Brands

Carbonated drinks, coffee, tea, mineral water, lactic acid drinks, chilled drinks, fruit drinks, sport drinks, etc.



From left: Mitsuya Cider / Wilkinson / WONDA / Asahi Juroku-cha / Asahi Oishii Mizu / Calpis / Tea





## FOOD

### Business Domain

Business focusing on leading brands and businesses within the category, including mint tablets, baby food, and freeze-dried food

### Main Categories and Brands

Confectionery, supplements, quasi-drugs, powdered baby milk, baby food, nursing care food, freeze-dried miso soup, etc.



From left | MINTIA / Dear-Natura / EBIOS / Infant formula Lebens Milk Hai Hai / Goo-Goo Kitchen / Itsumono Omisoshiru

## OVERSEAS

### Business Domain

Manufacturing and sales of alcohol beverages and soft drinks in Europe, Oceania, Southeast Asia, and China as main markets

### Main Categories and Brands

Beer, RTD low-alcohol beverages, ciders, mineral water, carbonated drinks, coffee, etc.



From left | Asahi Super Dry / Peroni Nastro Azzurro / Pilsner Urquell / Vodka Cruiser / Somersby / Cool Ridge / Schweppes / Wonda Original

\* Not including revenue from intersegment transactions

# Strengths Shaped by Our Ambitions and Growth

## Sources of Corporate Value Creation (History)

Since our foundation, we have worked to innovate in every part of our value chain through a long history of challenges, as illustrated by the 1987 launch of *Asahi Super Dry*, a product that dramatically increased our share of the beer market. Moreover, from the late 1990s when the Japanese market became saturated, we have expanded our business portfolio by stepping up M&As and so forth, including overseas expansion. Through this journey, we have cultivated a corporate culture of taking on challenges for innovation. Going forward, we will refine our strengths, namely brand strength, cost competitiveness, human resource (organizational) capabilities, and social collaboration ability. These are the source of our sustainable corporate value creation.

# STRENGTHS »

 <p><b>Our Founding and the Birth of Asahi Beer</b></p>	 <p><b>Establishment of Asahi Breweries, Ltd.</b></p>	 <p><b>Start of Reforms</b></p>	 <p><b>Claiming the Top Share of Japan's Beer Market</b></p>
<p>In 1889, Osaka Beer Brewing Company, the forerunner of Asahi Breweries, Ltd., was founded with the goal of developing an authentic Japanese beer led by a Japanese brewer. In 1900, we launched Japan's first bottled draft beer, and received numerous accolades and awards at fairs and expositions in Japan and abroad. We have been developing our corporate culture of taking on the challenge of innovation since the founding.</p> <p><b>1889</b> Osaka Beer Brewing Company was established.</p> <p><b>1892</b> Asahi Beer was launched.</p> <p><b>1900</b> Japan's first bottled draft beer was launched, and <i>Asahi Beer</i> won a gold medal at the 1900 Paris Expo.</p> <p><b>1907</b> <i>HIRANO CHAMPAGNE CIDER</i> (now <i>Mitsuya Cider</i>) was launched.</p> <p><b>1930</b> <i>EBIOS</i> (a pure brewer's yeast preparation tablet) was launched.</p>	<p>In 1949, Asahi Breweries, Ltd. was established through a corporate breakup under post-war economic decentralization reforms in Japan. Thereafter, Asahi Breweries expanded its business fields by entering into sales agreements for new soft drink brands and acquiring a stake in The Nikka Whisky Distilling Co., Ltd. In 1958, Asahi Breweries launched Japan's first canned beer alongside reinforcing the R&amp;D of draft beers and other products, driving innovation even further.</p> <p><b>1949</b> Asahi Breweries, Ltd. was established.</p> <p><b>1951</b> Asahi entered into sales agreements to market overseas soft drink brands in Japan. <i>Bireley's Orange</i> and <i>Wilkinson Tansan</i></p> <p><b>1954</b> Asahi acquired a 60% stake in The Nikka Whisky Distilling Co., Ltd.</p> <p><b>1958</b> Asahi launched Japan's first canned beer using <i>Asahi Beer</i>.</p>	<p>In 1982, we expanded the scale of the Soft Drinks Business by taking steps such as establishing Mitsuya Foods Co., Ltd. (now Asahi Soft Drinks Co., Ltd.). Meanwhile, we were facing a persistent decline in our share of Japan's beer market. In response, we boldly renewed our corporate culture by instituting reforms such as establishing a management philosophy and introducing a corporate identity, laying the groundwork for the Group's rapid growth thereafter.</p> <p><b>1982</b> Mitsuya Foods Co., Ltd. (now Asahi Soft Drinks Co., Ltd.) was established.</p> <p><b>1982</b> Asahi entered into a collaborative business agreement with the German brewery Löwenbräu.</p> <p><b>1983</b> Asahi acquired the trademark rights to <i>Wilkinson</i>.</p> <p><b>1985</b> Asahi made a corporate identity declaration.</p> <p><b>1987</b> Asahi entered into a collaborative business agreement with Bass Brewing, Ltd. of the U.K.</p>	<p>In 1987, we launched <i>Asahi Super Dry</i>, Japan's first dry draft beer. Thereafter, we enhanced brand value through innovation in overall supply chain management. Measures included establishing a quality standard for freshness in beer and reducing CO<sub>2</sub> emissions through the development of new technologies for the boiling stage of the brewing process. In 1998, we claimed the top share of Japan's beer market.</p> <p><b>1987</b> <i>Asahi Super Dry</i> was launched.</p> <p><b>1992</b> Asahi Beer Food, Ltd. (now Asahi Group Foods, Ltd.) was established.</p> <p><b>1993</b> Asahi formed the Fresh Management Committee.</p> <p><b>1994</b> Asahi entered the Chinese market.</p> <p><b>1998</b> Asahi gained the top share of Japan's beer market*.</p> <p><small>* Based on the taxable shipment volumes of Japan's five major beer companies</small></p>



# Shaping Strengths through Our Ambitions and Growth

## Brand Strength

- Strong brand assets including *Asahi Super Dry* and *Mitsuya Cider* and the ability to foster those assets
- A corporate brand that ensures food safety and reliability

## Cost Competitiveness

- Top-class productivity in overall SCM in the industry by leveraging manufactured and intellectual capital
- Ability to generate cost synergies globally by leveraging human capital

## Human Resource (Organizational) Capabilities

- Human resources, organization and motivation to maintain a corporate culture of taking on the challenge of innovation
- Obtaining and managing diverse human resources through M&As and other activities

## Social Collaboration Ability

- Efforts to ensure social and business sustainability and communication capabilities
- Ability to build good relationships with all stakeholders



**Progress on Group Management**

In 2001, we entered the happoshu market and captured top shares of Japan's beer and happoshu markets, along with making The Nikka Whisky Distilling Co., Ltd. a wholly owned subsidiary. Through these and other measures, we pushed ahead with the development of a comprehensive Alcohol Beverages Business. Efforts were also made to expand the Group's business platform through entry into the Chinese soft drinks business and vigorous M&A activity in the Soft Drinks and Food Businesses.

**2001**  
Asahi captured top shares of the beer and happoshu markets\*.

**2001**  
Asahi made The Nikka Whisky Distilling Co., Ltd. a wholly owned subsidiary.

**2004**  
Asahi established a joint venture in soft drinks with Tingyi (Cayman Islands) Holding Corp. of China.

**2005**  
Asahi acquired the stock of LB Co., Ltd. (Saitama) and LB Co., Ltd. (Nagoya).

**2006**  
Asahi acquired the stock of Japan's largest baby food maker, Wakodo Co., Ltd.

**2008**  
Asahi acquired the stock of Amano Jitsugyo Co., Ltd., a major freeze-dried food manufacturer.



**Establishing a New Platform for Growth**

Since 2009, we have significantly expanded the business platform worldwide. Notably, we have entered the Oceania and Southeast Asia markets in earnest and acquired all the stock of Calpis Co., Ltd. In 2016, we announced major deals to acquire the European beer businesses that were owned by the former SABMiller plc. With these and other steps, we have embarked on a new quest to become a truly global player.

**2009**  
Asahi invested in Tsingtao Brewery Co., Ltd.

**2009**  
Asahi entered the Oceania market in earnest.

**2011**  
Asahi entered the Southeast Asian market in earnest.

**2012**  
Asahi acquired all the stock of Calpis Co., Ltd.

**2016**  
Asahi acquired the Western Europe business and the Central and Eastern Europe business of the former SABMiller plc.

Revenue

— 2 trillion yen

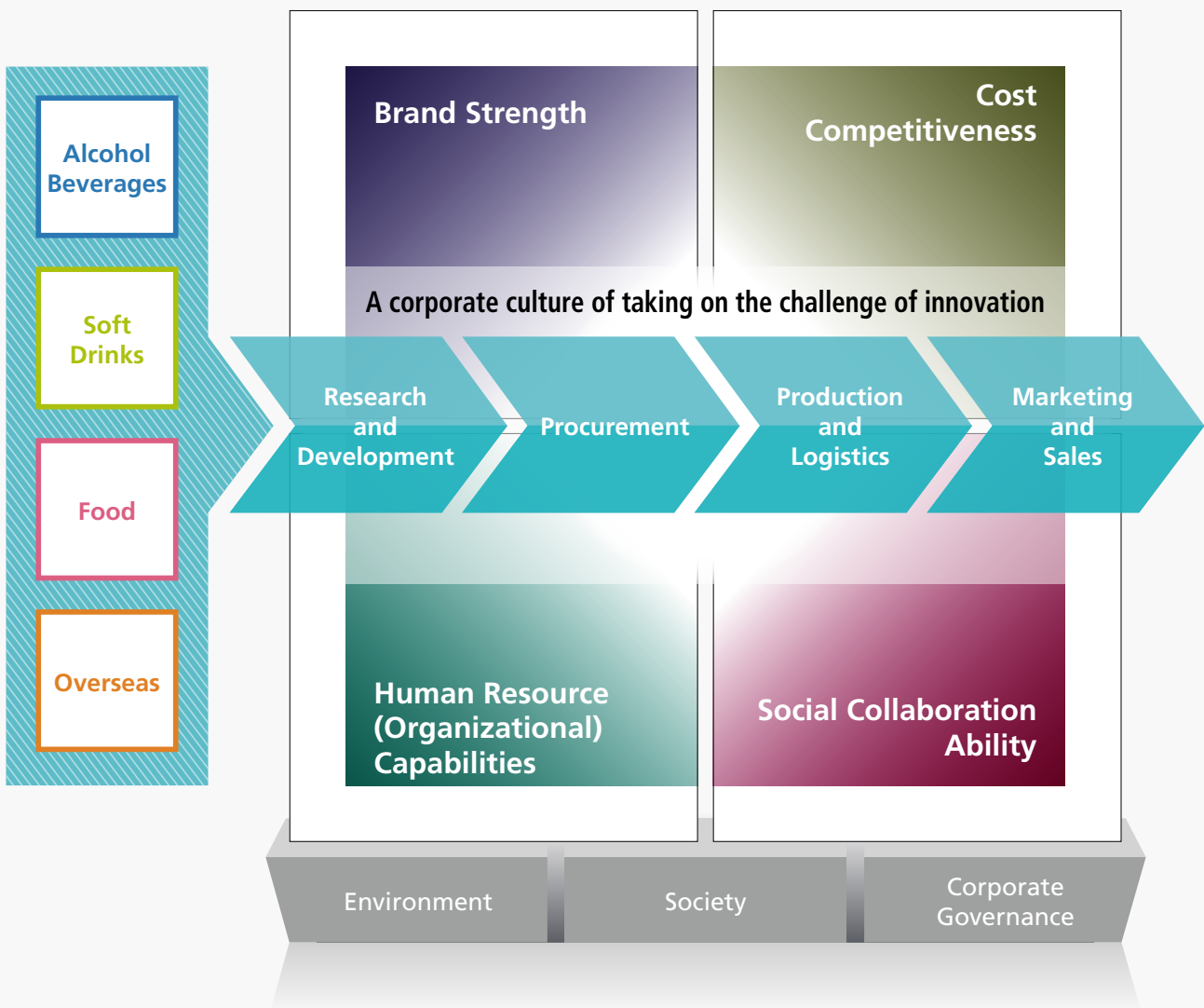
— 1 trillion yen

ALCOHOL BEVERAGES

— 0

We are taking on the challenge of sustained value creation by evolving the business model based on our strengths

### Our Business Model



Evolving our business model with

#### the Medium-Term Management Policy

page 20

- **Strengthening of earning power** by positioning the domestic profit base as the cornerstone of earnings and the overseas business as a growth engine..... page 28
- **Asset and capital efficiency improvement** that takes into consideration capital cost..... page 32
- **Reinforcement of ESG initiatives** to increase sustainability ..... page 35



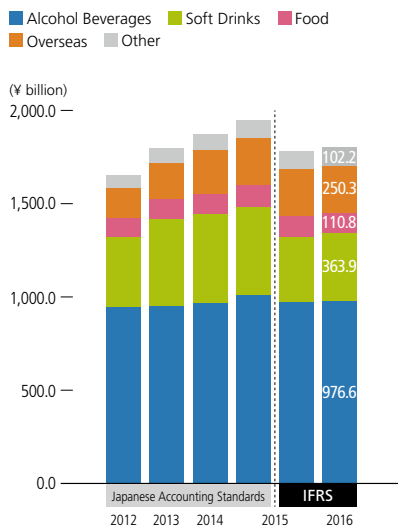
## Value Creation Process

The Asahi Group's business model is to provide products and services that contribute to healthy living and the enrichment of society in line with our corporate philosophy. We provide them through a value chain extending from R&D to sales, based on our corporate culture and the strengths we have developed over the years.

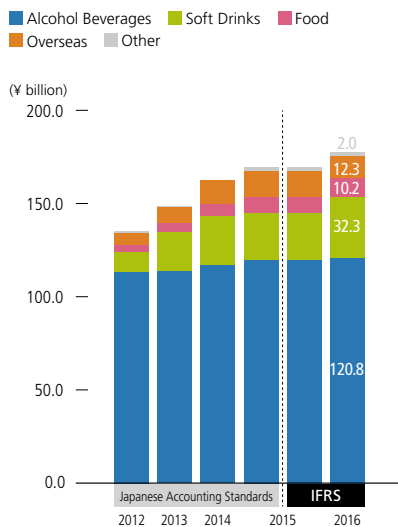
We have enhanced financial value by expanding revenues and profits. We have also evolved our overall business model in alignment with our Long-Term Vision and Medium-Term Management Policy. Through these activities, we are taking on the challenge of sustained value creation to meet the satisfaction of all stakeholders.

## Results of Business Activities

### Revenue



### Core Operating Profit



\* Excludes adjustment (corporate/elimination), amortization of acquisition-related intangible assets and corporate adjustment items (IFRS adjustments)

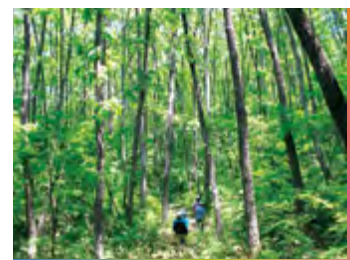
## Value Provided

### Healthy living and the enrichment of society

- The Kando of food (deliciousness, happiness and innovation)



- The satisfaction of all stakeholders



# 2016 Highlights

## The Asahi Group's Activities

### Management

Selected for the second straight year in the Health & Productivity Stock Selection as a company focused on and carrying out efforts with regard to its employees' health from a management perspective

Awarded the Minister of Agriculture, Forestry and Fisheries Award at the 25th Global Environment Award in recognition of contribution to farming materials development using beer yeast cell walls [page 39](#)

Selected as a Nadeshiko Brand for companies that have demonstrated outstanding performance in encouraging the empowerment of women in the workplace [page 44](#)

Selected for the second straight year in the Competitive IT Strategy Company Stock Selection as a company proactively using IT for management reform and strengthening of competitiveness

Acquired the highest ranking as a company with excellent advanced environmental initiatives under the Development Bank of Japan Inc.'s Environmentally Rated Loan Program



January

February

March

April

May

June

**Alcohol Beverages**

Significantly revamped the can design for *Clear Asahi Prime Rich* to strengthen its taste and convey a sense of luxury



**Food**

Launched limited edition packaging to mark the 20th anniversary of *MINTIA* [page 71](#)



**Soft Drinks**

**Food**

Restructured the Soft Drinks and Food Businesses to strengthen the domestic business base

**Alcohol Beverages**

Launched *Asahi Mogitate* made with fruit juice harvested within the previous 24 hours [page 63](#)



**Soft Drinks**

Launched *Asahi Juroku-cha Gotochi Sozai Blend*, a blend of local ingredients from seven different regions\* throughout Japan [page 67](#)





\* The seven regions of Hokkaido, Tohoku, Kanto-Koshinetsu, Chubu-Hokuriku, Kansai, Chugoku-Shikoku and Kyushu-Okinawa

### Operations





- Selected for the second straight year in the CDP Climate A List, the highest evaluation for a company responding to climate change 
- Acquired the Western Europe beer business owned by SABMiller plc through its owner, Anheuser-Busch InBev S/ANV  pages 28-31
- Selected as the only company from the region's beverage sector listed on the 2016 Asia-Pacific Index of the Dow Jones Sustainability Indices (selected for the ninth straight year)


- Concluded a stock purchase agreement for the Central and Eastern Europe beer business owned by SABMiller plc through its owner, Anheuser-Busch InBev S/ANV  pages 28-31 

**July                      August                      September                      October                      November                      December**


**Alcohol Beverages**

- Conducted the *Asahi Super Dry Tarunama Kanpai* Campaign, donating ¥1 to the Japan Olympic Committee and Japan Paralympic Committee for every liter of *Asahi Super Dry* sold


**Alcohol Beverages**

- Announced the opening of a joint distribution center and joint deliveries by railroad container in the Hokuriku area with Kirin Brewery Company, Limited  page 63


**Soft Drinks**

- Launched *Asahi Oishii Mizu Plus Calpis no Nyusankin* containing *Calpis* lactic acid  page 67

**Overseas**

- Won in the Premium International beer category for the third straight year with *Asahi Super Dry* at the Australian Liquor Industry Awards. *Asahi Soukai*, a beer for exclusive distribution within Australia, won the New Product of the Year Award 

**Food**

- Revamped infant formula for the first time in eight years ahead of its 100th anniversary in 2017 

## 2016 Highlights

# Financial Highlights

\* The Company's consolidated financial statements have been prepared based on Japanese accounting standards for years up to the fiscal year ended December 2015 and based on International Financial Reporting Standards (IFRS) from the year ended December 2016.

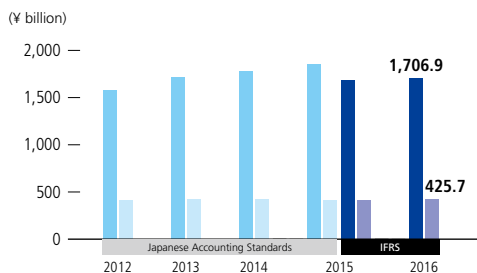
\* Revenue corresponds to net sales under Japanese accounting standards, while core operating profit corresponds to operating income, profit attributable to owners of parent corresponds to net income and total equity attributable to owners of parent corresponds to shareholders' equity.

### Revenue/Liquor Tax

**¥1,706.9 billion** (Revenue)

Revenue in the Alcohol Beverages Business increased due to growth in new genre and RTD low-alcohol beverages, along with efforts to strengthen brand strength focused primarily on core brands in the Soft Drinks Business. The Group also steadily collected liquor taxes.

■ Revenue ■ Liquor tax

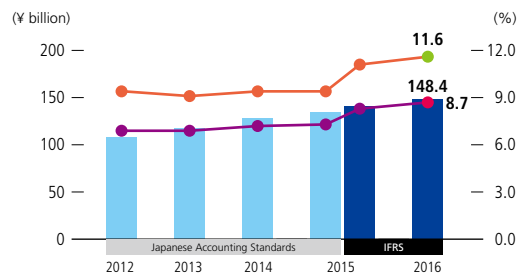


### Core Operating Profit\*/ Core Operating Profit Margin

**¥148.4 billion** (Core Operating Profit)

Profit increased due to mix improvements resulting from efforts to strengthen core brands in each business as well as enhanced cost competitiveness resulting from the creation of integration synergies and other factors. The core operating profit margin also increased steadily.

■ Core operating profit (Left axis)  
● Core operating profit margin (Incl. liquor tax) (Right axis)  
● Core operating profit margin (Excl. liquor tax) (Right axis)



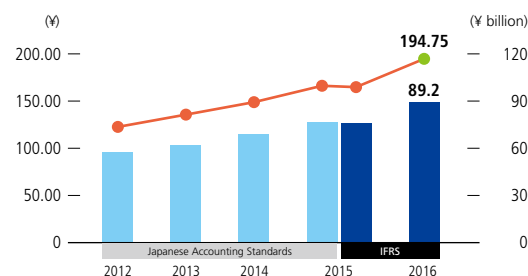
\* Core operating profit is the reference index for normalized business performance. Core operating profit = Revenue - (Cost of sales + Selling, general and administrative expenses)

### EPS/Profit Attributable to Owners of Parent

**¥194.75** (EPS)

Profit attributable to owners of parent increased due to an increase in core operating profit as well as gains on asset liquidation, such as the sale of investments accounted for using equity method and idle real estate. EPS also increased markedly.

● EPS (Left axis)  
■ Profit attributable to owners of parent (Right axis)

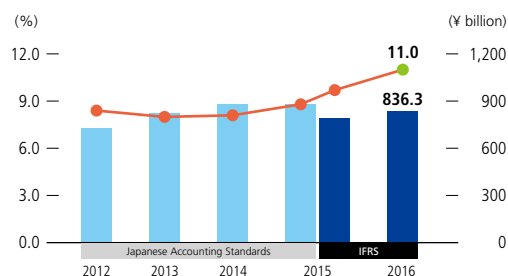


### ROE/ Total Equity Attributable to Owners of Parent

**11.0%** (ROE)

ROE exceeded the guideline in the Medium-Term Management Policy due to strengthening of the earning power of each business and an increase in capital efficiency, including stable dividend increases.

● ROE (Left axis)  
■ Total equity attributable to owners of parent (Right axis)





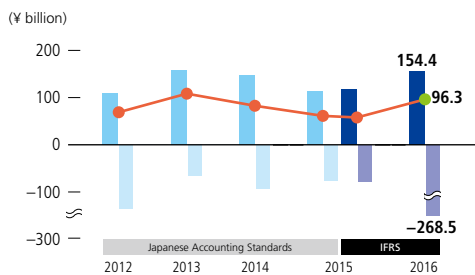
## Cash Flows

# ¥96.3 billion (Free Cash Flow)

Free cash flow increased, reflecting increased cash flow generation ability in our core businesses, while cash flows from investing activities increased significantly due to acquisition of the Western Europe business.

\* Free cash flow = Cash flows from operating activities ± Acquisition of property, plant and equipment and intangible fixed assets

■ Cash flows from operating activities ● Free cash flow  
■ Cash flows from investing activities

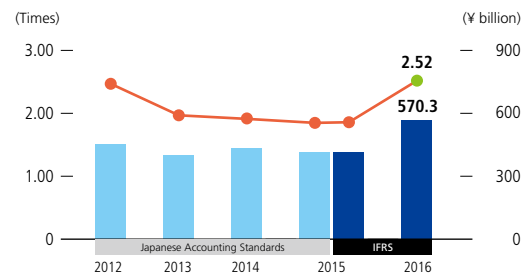


## Net Debt/EBITDA\*/Interest-Bearing Debt

# 2.52 times (Net Debt/EBITDA)

Net debt/EBITDA increased despite efforts to increase cash flow generation ability in our core businesses and liquidate assets as interest-bearing debt increased following the acquisition of the Western Europe business.

● Net debt/EBITDA (Left axis) ■ Interest-bearing debt (Right axis)



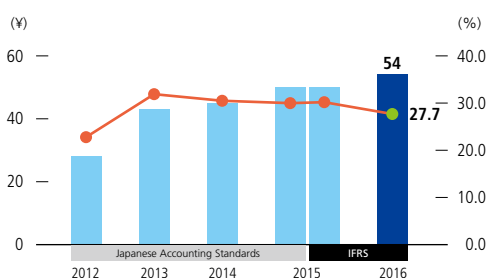
\* Under IFRS, EBITDA = Core operating profit + Amortization of intangible assets + Depreciation  
Under Japanese accounting standards, EBITDA = Operating income + Amortization of goodwill + Depreciation

## Dividend per Share/Dividend Payout Ratio

# 27.7% (Dividend Payout Ratio)

Dividend per share was increased by ¥4. The dividend payout ratio dropped below 30% with the introduction of IFRS, but our policy is to bring it back to 30% by 2018.

■ Dividend per share (Left axis) ● Dividend payout ratio (Right axis)

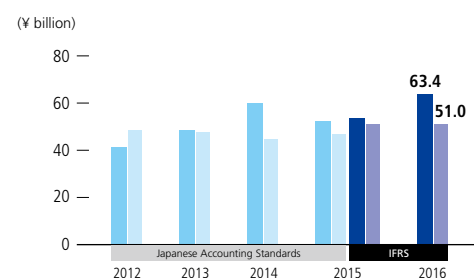


## Capital Investment/Depreciation and Amortization\*

# ¥63.4 billion (Capital Investment)

Capital investments increased as we made investments to increase production capacity of whisky and spirits and to diversify our product lines in the beer and beer-type beverages category in the Alcohol Beverages Business. Additional investments for streamlining also contributed, such as SCM integration in the Oceania business.

■ Capital investment ■ Depreciation and amortization



\* The above capital investment and depreciation and amortization amounts do not include lease assets or trademarks at the time of acquisition of subsidiaries.

2016 Highlights

# Non-Financial Highlights

## Food and Health

Activity Areas for CSR

● Activities and Track Record by CSR Key Theme



### Responsible Drinking

Number of educational tools for primary school students

**32,294** copies

Asahi Breweries, Ltd. produces educational tools for primary school students as a means of helping to prevent underage drinking and distributes copies of these tools free of charge upon request. By encouraging the broad use of these tools in schools and other locations, Asahi Breweries provided support so that school children could take an interest in and learn about the impacts of underage drinking.



### Food Safety and Reliability

Number of presentations on food safety and reliability at academic conferences

**15** presentations

We are pushing ahead with our advanced quality assurance system across the entire Group, including overseas operations, from a technical standpoint. We held presentations at international academic conferences on themes such as the development of new inspection methods for microorganisms that impact the quality of beer.



### Health and Nutrition

Number of participants in *Wakodo Nutrition Consultations*

**Approx. 121,000** participants

Asahi Group Foods, Ltd. holds *Wakodo Nutrition Consultations*, where our certified dietitians provide consultations on weaning diets and so forth. As in previous years, many people, including the guardians of infants, attended the consultations in 2016 as a result of these efforts.



## The Environment

Activity Areas for CSR

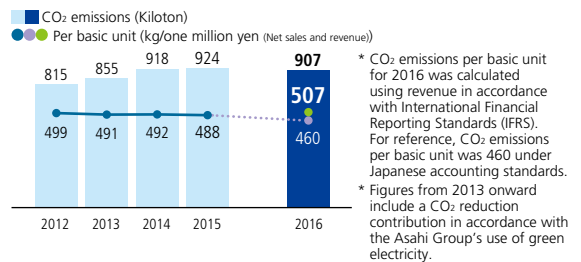
● Activities and Track Record by CSR Key Theme



### Climate Change

CO<sub>2</sub> emissions

**907** kilotons



We are stepping up our efforts to reduce CO<sub>2</sub> emissions through business operations, such as by using green electricity. In 2016, we received the highest evaluation for the second straight year in a survey by CDP, an international nonprofit organization.



### Recycling-Based Society

Recycling ratio of by-products and waste

**100%**

We are working on recycling of our by-products and waste with the goal of building a recycling-based society. In 2016, we maintained a recycling ratio of 100% at the Asahi Group Head Office and manufacturing bases in Japan.



### Biodiversity

Number of sites, events and participants involved in forest preservation activities

**12** sites, **140** events, and **6,577** participants

We proactively undertake forest preservation activities in the water source areas of manufacturing bases and in forests close to work-places. With the participation of employees and their families, as well as local residents, the Group conducted tree planting, undergrowth clearing, and other activities.



## People and Society

Activity Areas for CSR

### Activities and Track Record by CSR Key Theme

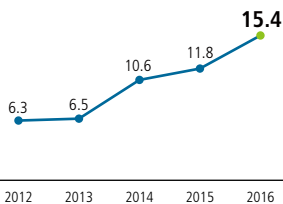


### Human Resource Development and Diversity

Ratio of female managers

**15.4%**

● Ratio of female managers (%)



\* Figures for 2012–2013 are from the main operating companies in Japan, and from the entire Group for 2014–2016.

Goals were set for promoting women’s success at each major operating company, and the ratio of female managers improved as a result of efforts to achieve them. Going forward, we will continue aiming to ensure that women are included in the decision-making process.

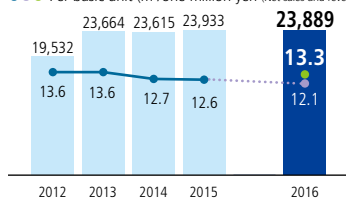


### Sustainable Water Resources

Water consumption

**23,889 thousand m<sup>3</sup>**

■ Water consumption (Thousand m<sup>3</sup>)  
● Per basic unit (m<sup>3</sup>/one million yen (Net sales and revenue))



\* Water consumption per basic unit for 2016 was calculated using revenue in accordance with International Financial Reporting Standards (IFRS). For reference, water consumption per basic unit was 12.1 under Japanese accounting standards.

Efforts are undertaken to reduce water consumption across the entire Group by reducing water use at manufacturing bases and promoting the reuse of water. Proactive efforts are also being made to reduce water consumption not only within the Group but also throughout the entire supply chain.



### Healthy and Affluent Society

Social contribution expenditure

**¥1,390 million**

We undertook social contribution activities with the theme of creating affluent local communities where people have mutual respect for diverse values. Activities included artistic and cultural activities and support for disaster-affected areas. The Group plans to continue its activities to support the Great East Japan Earthquake reconstruction effort until 2020.



Asahi Beer Oyamazaki Villa Museum of Art



### Sustainable Supply Chains

Number of companies participating in Asahi Group Procurement Policy Presentations

**111 companies**

We held presentations on procurement policy and related matters for major domestic suppliers, which represent just over 80% of our transaction value with suppliers. To provide safe and reliable products and services, we are working to build solid relationships of trust and long-term cooperative ties with our suppliers.




# Medium-Term Management Policy

## Initiatives on Key Priorities of the Medium-Term Management Policy

### Further Development of Management for Corporate Value Enhancement

To achieve the Long-Term Vision, which has been renewed in anticipation of changes in the external environment, we set the new Medium-Term Management Policy in 2016. In the policy, we have shifted from the previous action plan-style content to a format that emphasizes management policy, including ESG initiatives.

The Medium-Term Management Policy presents guidelines for major indicators looking around three years into the future without setting fixed quantitative targets. At the same time, the policy sets out three key priorities and we have aimed to further develop management for corporate value enhancement.



Promote constructive dialogue  
by positioning **three** key priorities  
as an **engagement agenda**



### **Strengthening of earning power**

by positioning the domestic profit base as the cornerstone of earnings and the overseas business as a growth engine

- Promote innovation and demonstrate leadership in the industry with high added value and differentiation as key areas of focus
- Reform the earnings structure and evolve the business model through business integration and value chain sophistication
- Acquire foundations for growth, mainly in overseas markets, by leveraging strengths originating in Japan



### **Asset and capital efficiency improvement**

that takes into consideration capital cost

- Improve capital efficiency with an emphasis on the equity spread (ROE – cost of shareholders' equity)
- Restructure business administration and business portfolio utilizing ROIC (return on invested capital) as a performance indicator



### **Reinforcement of ESG initiatives**

to increase sustainability

- Upgrade intangible assets such as natural, social and relationship capital and personnel, and develop them toward a CSV (creating shared value) strategy
- Implement growth-oriented corporate governance that contributes to the practice of management for corporate value enhancement



# Message from the President



## Driving Strategies for Growth by Leveraging Our Strengths based on Opportunities and Risks

### Strengths of the Business Portfolio and the External Environment

In our Alcohol Beverages Business, which is the Asahi Group's largest business domain, we boast the top share in the domestic beer-type beverages market. Market share solely in the beer category is around 50%, particularly thanks to our flagship brand, *Asahi Super Dry*. In addition, we have category-leading brands and businesses, such as the clear, carbonated drink *Mitsuya Cider* and the lactic acid drink *Calpis* in the Soft Drinks Business and breath mint tablets, baby food, and freeze-dried products in the Food Business, and we have been steadily increasing the profitability of these businesses. Moreover, overseas we have been developing a prominent global network, including a robust business base in Oceania, Malaysia, and other regions, as well as the acquisition of European beer businesses.

On the other hand, as the alcohol beverages and soft drinks markets in Japan mature with

the declining birthrate and aging population, we anticipate further increases in consumption tax and graduated revision of liquor taxes. Against that backdrop, we assume even greater diversification in consumption and values. Overseas as well, at a time of increasing uncertainty in the overall global economy, a wide variety of growth opportunities and risks are expected to emerge, such as a major global-scale reorganization.

Under such circumstances as market contraction and harsh price competition as a result of deflation, we have achieved record-high earnings for the 16th straight year and have worked on the development of a comprehensive Alcohol Beverages Business, reinforcement of brand strength and generation of integration synergies through M&As. In addition, with the upcoming Tokyo 2020 Olympic and Paralympic Games and the registration of Japanese

# Speeding Up the Progress of Management Reforms to Further Develop Management for Corporate Value Enhancement

After the transition to a pure holding company in 2011, we steered toward management with an emphasis on corporate value and have steadily delivered results, including an increase in our market capitalization. Looking ahead over the next few years, amid increasing uncertainty in Japan and overseas, various further opportunities and risks are likely to emerge.

In this environment, we enhanced the profitability of our three domestic businesses last year and accelerated our efforts to further develop management for corporate value enhancement, including the large-scale acquisition of European beer businesses. In this section, we confirm our medium- to long-term management strategy and discuss our progress based on the external environment.

President and Representative Director, COO  
Akiyoshi Koji

*Akiyoshi Koji*

cuisine as an Intangible Cultural Heritage by UNESCO, we anticipate further opportunities for growth by leveraging our strengths originating in Japan.

Based on this external environment, we will

improve the Asahi Group's signature strengths such as its brand strength and cost competitiveness, while driving forward strategies for growth, including by expanding business investments to capture opportunities.

## SWOT Elements of the Business Portfolio ● Japan ● Overseas

Strengths		Weaknesses	
<ul style="list-style-type: none"> <li>• Top share in the domestic beer-type beverages market (market share of approx. 50% for beer alone)</li> <li>• Third in share in the domestic soft drinks market</li> <li>• Category-leading food brands and businesses</li> <li>• Powerful networks in Europe, Oceania, and Southeast Asia</li> </ul>	<ul style="list-style-type: none"> <li>• Maturation of the alcohol beverages and soft drinks markets due to the declining birthrate and aging of the population, among other factors</li> <li>• Continuation of fierce competition in a deflationary environment</li> <li>• 15% sales contribution from the Overseas Business</li> <li>• Increasing oligopolization by large global companies</li> </ul>		
<ul style="list-style-type: none"> <li>• Value variation in consumption behavior due to escape from deflation, revision of tax regulations, and other factors</li> <li>• Continuation of high added value, including in health functional products and other categories</li> <li>• Holding of the Tokyo 2020 Olympic and Paralympic Games and registration of Japanese cuisine as an Intangible Cultural Heritage by UNESCO</li> <li>• Growth in the alcohol beverages and soft drinks markets, mainly in emerging countries</li> <li>• Increase in market entry opportunities due to factors including global restructuring</li> </ul>	<ul style="list-style-type: none"> <li>• Greater-than-expected market contraction resulting from factors including economic stagnation</li> <li>• Deterioration of competitive environment due to tax regulation revisions</li> <li>• Economic slowdown in regions in which the Group operates (Europe, Oceania, and Southeast Asia)</li> <li>• Intensification of competition due to an offensive by large global companies, among other factors</li> </ul>		
Opportunities			Threats

Message from the President



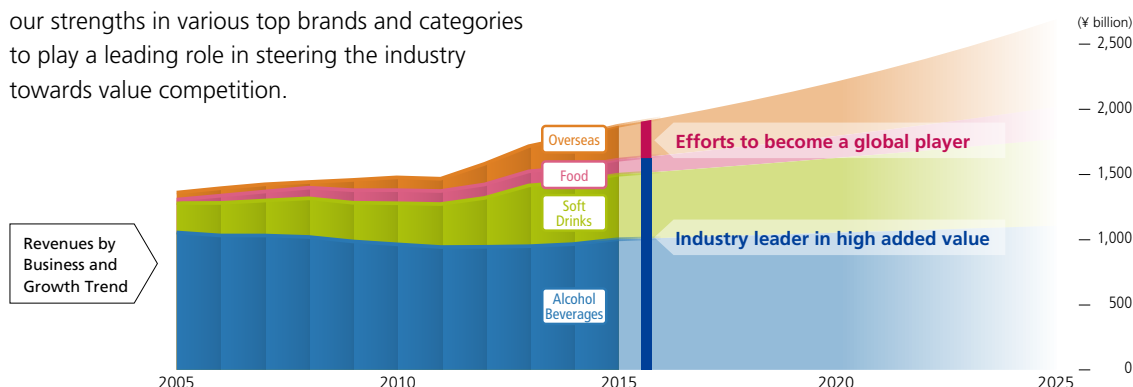
## Implementing Speedy Decision-Making based on the Long-Term Vision and Medium-Term Management Policy

### The Long-Term Vision for Our Business

Based on the external environment I have mentioned so far, we have cited a future vision for our business 10 years from now in the newly updated Long-Term Vision. This new vision for the future is As a comprehensive beverage and food business group whose core business is alcohol beverages, we aim to be an industry leader in Japan with high added value as a key area of focus and establish a unique position as a global player that leverages strengths originating in Japan.

As the overall market in Japan matures, consumption will diversify and demand for added value will expand. In this environment, we will leverage our strengths in various top brands and categories to play a leading role in steering the industry towards value competition.

Overseas, we will work towards establishing a differentiated, unique position as a global player by leveraging our strengths in high-quality brand development and cost competitiveness, such as the development of *Asahi Super Dry* as a global brand in the premium market. These are strengths that we have honed in Japan under a harsh deflationary environment.





## Three Key Priorities in the Medium-Term Management Policy

The Medium-Term Management Policy for realizing the Long-Term Vision has laid out three key priorities aiming to further develop the management for corporate value enhancement that we have been practicing to date.

We are focusing on strengthening earning power as our top priority. In Japan, we will aim to demonstrate leadership of the entire industry through product mix improvements and innovation centered on high added value. Furthermore, we will enhance our earning power overseas by expanding our new foundation for growth that leverages our strengths, as seen with the acquisition of European beer businesses, in addition to implementing the strategies for growth for our existing businesses.

Acquisition of European Beer Businesses [page 28](#)

The second key priority is improvement of our

asset and capital efficiency. We are making efforts to improve capital efficiency in terms of capital cost, such as the equity spread. With regard to maintaining and growing ROE, we are not relying solely on capital policy such as financial leverage, but also engaging in business management utilizing indicators such as ROIC and restructuring our business and product portfolios. [Message from the CFO page 32](#)

The third key priority is reinforcement of ESG initiatives. Operating companies will face increased pressure to emphasize sustained growth and medium- to long-term corporate value in their management going forward. Against this backdrop, we are further strengthening our ESG initiatives, aiming to increase sustainability as an indispensable element for developing business activities.

ESG Initiatives of the Asahi Group [page 35](#)

## Summary of 2016

In 2016, we consolidated the position of our three domestic businesses as the cornerstone of our profit base by bolstering the value of our core brands. At the same time, we continued to develop the Overseas Business as a growth engine. Specifically, in the Alcohol Beverages Business, revenues from our new genre brand *Clear Asahi* and RTD\* low-alcohol beverages *Asahi Mogitate* expanded dramatically above the industry average. Moreover, in the Soft Drinks and Food Businesses, we pursued sustained growth in our core brands such as *Wilkinson* carbonated drink and *MINTIA* breath mint tablets, and achieved a major boost in profitability from the expansion and development of high added value products such as foods with function claims.

Overseas, we made progress in brand development and integration synergy expansion in growing categories such as *Asahi Super Dry*, mainly in Oceania. In October, we acquired leading

premium brands *Peroni* and *Grolsch* and businesses with extensive sales networks in Europe. These actions extended our growth platform overseas and strengthened our earning power in Japan and overseas.

Furthermore, we reviewed our asset holdings, including the sales of investment accounted for using equity method in China and cross-shareholdings, and we are making steady advances with our key priority of increasing asset and capital efficiency.

Since my appointment as president, I have felt that our current management needs to speed up and optimize decision-making. I have requested this from the heads of our Group companies, and have also implemented it myself. Last year, we intensified our focus on the core competences of each of our businesses through truly swift decision-making, and I believe we have achieved the necessary management reforms.

\* RTD: Ready-to-Drink. Beverages that can be consumed immediately upon purchase, such as canned *chuhai*

Message from the President

## Steady Progress on Guidelines of the Medium-Term Management Policy for KPIs

### 2017 Initiatives and Progress on Guidelines

In 2017, we will strengthen and accelerate our initiatives to further develop management for corporate value enhancement.

In the Alcohol Beverages Business, we will further bolster our brand strength by stimulating consumption of intangible aspects centered on *Asahi Super Dry*, which will mark the 30th anniversary of its launch. In the Soft Drinks and Food Businesses, we will concentrate on demonstrating leadership in value competition by increasing the value of our core brands and driving innovation in health functions. Overseas, we will focus on stable growth of our existing businesses, and reinforce our foundation as a global player with growth centered on the premium market, including the newly consolidated Central and Eastern Europe beer business.

Furthermore, we plan to continue our zero-based review of all of our assets in Japan and overseas and further optimize our business portfolio.

In our performance outlook including these 2017 initiatives, we are forecasting steady progress on the guidelines of the Medium-Term Management Policy. Revenues are expected to show steady growth discounting the impact of the transition to International Financial Reporting Standards (IFRS). Core operating profit is expected to achieve a compound annual growth rate (CAGR) of 10% or more with the addition of the consolidation effect of the Western Europe business.

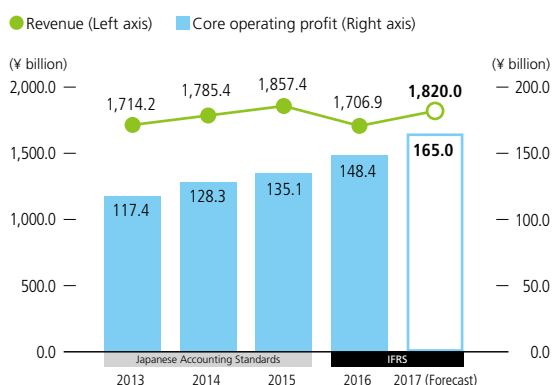
As a result, EPS, one of our KPIs, is expected to achieve a CAGR of 12%, with ROE rising to 11%, exceeding the guideline target of 10%.

### Key Performance Indicator Concept and Guidelines for the Medium-Term Management Policy

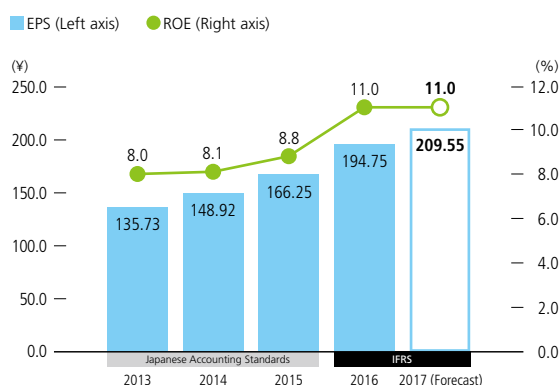
	2015 Results	Guidelines for 2016 to 2018
Revenue	¥1,857.4 billion	· Stable growth from main businesses – Business restructuring + New M&As
Core Operating Profit	¥135.1 billion	· Existing businesses (CAGR in the high single digits) + Impact of new M&As
EPS	¥166.3	· CAGR of approx. 10%
ROE	8.8%	· Maintain and grow to 10% or higher

Notes: 1. The above indicators take into account the impact of the transition to IFRS at the end of 2016.  
2. The calculation basis excludes special factors such as foreign exchange impact and one-off extraordinary items.

#### Revenue/Core Operating Profit



#### EPS/ROE



# Striving for True Globalization through the Acquisition of European Beer Businesses

## Acquisition of European Beer Businesses

In October 2016, we acquired the Western Europe beer business of SABMiller plc, after it was acquired by the largest global beer manufacturer, Anheuser-Busch InBev SA/NV. Furthermore, in March 2017, we completed procedures for the acquisition of SABMiller's Central and Eastern Europe beer business.

The purpose of this acquisition is to acquire a growth platform overseas in line with the Long-Term Vision and Medium-Term Management Policy. I believe that in seizing this opportunity we have acquired the capability to compete as a global player in the beer business, which is our core strength. With this, we have confirmed our strategy for growth in the Overseas Business, centered on growth in the premium market as a brand owner and using our strong, mainstream business as a cash generative base.

Looking ahead, we will aim to be a global beer manufacturer with strong competitiveness centered on our leading premium brands like *Asahi Super Dry* and acquired brands such as *Peroni*, *Grolsch*, and *Pilsner Urquell*. In Europe, our second largest market after Japan, we will harness synergies with the strengths we have cultivated in Japan to further enhance our earning power overseas.

Acquisition of European Beer Businesses page 28



## Moving on the Real Global Stage

Guided by our corporate philosophy of contributing to the promotion of healthy living and the enrichment of society worldwide, we have cultivated a corporate culture of taking on challenges and striving to innovate. This is demonstrated by the rapid growth of *Asahi Super Dry* in Japan. I believe that the acquisition in Europe last year, the largest in the Company's history, positioned us to demonstrate anew our corporate DNA of taking on challenges to realize our corporate philosophy.

Furthermore, this acquisition has brought the proportion of non-Japanese Group employees to around 60%. We will now seek to manage the company in a way that welcomes not only consumers

from around the world, but also employees. One of the key priorities under the Medium-Term Management Policy is reinforcement of ESG initiatives. Promoting our new-found diversity is another way that we will seek to become a truly global company going forward.

Using the large-scale European acquisition as a springboard, we aim to transform from Japanese Asahi to global Asahi. We also endeavor to achieve sustained growth driven by rebuilding our business portfolio and position the domestic profit base as the cornerstone of earnings. I hope all our stakeholders will continue to support us in our efforts.





## Strengthening of earning power

by positioning the domestic profit base as the cornerstone of earnings and the overseas business as a growth engine

**Feature**

## Acquisition of European Beer Businesses

We saw an opportunity with the acquisition by Anheuser-Busch InBev SA/NV, the largest global beer manufacturer, of SABMiller plc, the second largest brewer, and purchased SABMiller's beer businesses in western, central and eastern Europe.

By acquiring these businesses, our overseas revenue is expected to rise to comprise about 30% of overall revenues and we have obtained global premium brands, as well as the human resources and expertise crucial for our strategy for growth going forward.

This section gives an introduction of the acquired businesses and policies for strengthening earning power looking ahead.

# Growth Engine

## → Western Europe Business

### Operations Overview

In addition to forming a stable earnings base in Italy and the Netherlands, the Western Europe business is becoming steadily more profitable in conjunction with rising margins as *Peroni* and *Grolsch* drive growth and expansion as global brands in the U.K. and other third countries.

In Italy, *Peroni* has a history of 150 years and has the No. 1 share in its home market. *Grolsch* has a history of 400 years and occupies the No. 2 position in its home market of the Netherlands.

In the U.K., *Peroni Nastro Azzurro* is the No. 1 brand in the super premium market, and together with *Meantime*, a pioneer modern craft beer, is rising in presence in the growing category. In regard to third country developments, rigorous, globally unified marketing has firmly established the positions of our premium brands, and the human resources and expertise that succeeded with this strategy are a significant strength in the Western Europe business.

**U.K.** 

**Peroni Nastro Azzurro** 


Super premium  
No. 1 brand

**Brand share**  
(3%) **No. 10**

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**Meantime** 

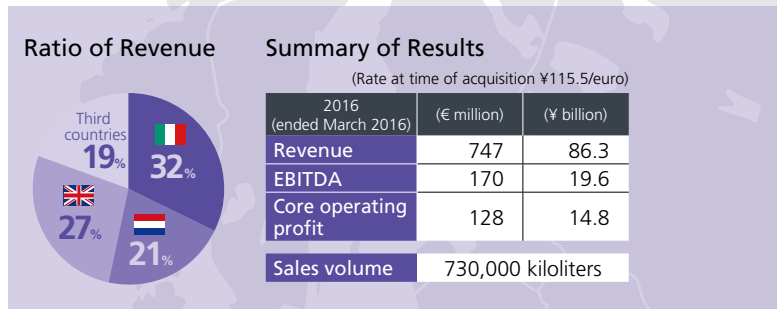
A pioneer of  
modern craft beer

**Netherlands** 

**Grolsch** 

Swing-top bottled beer  
with 400 years of history

**Brand share**  
(12%) **No. 2**



**Italy** 

**Peroni** 

No. 1 Italian brand  
cultivated over a history  
of 150 years

**Brand share**  
(13%) **No. 1**

\* Source: Canadean (Brand share is on a volume basis)

## Future Direction

Since closing the deal in October 2016, the medium-term strategy has been rebuilt mainly by the Business Integration Team set up at Asahi Europe Ltd, the Western Europe headquarters.

The new Asahi Europe Ltd will leverage its strengths and past success models so far, take on challenges and become a global premium beer powerhouse. As guidelines for envisioned business performance over the next three years or so, we aim to have an average annual growth in the high single digits for revenue and an average annual growth of about 10% for core operating profit.

Using “Growth Engines & Rockets” as a strategic key phrase, we will work toward sustainable growth by using Italy, the Netherlands and the U.K. as stable growth engines and further developing premium brands in third countries as expansion rockets.

In addition to these standalone plans, our vision is to broaden our strategic options by geographically expanding our global premium brands, including *Asahi Super Dry*, and creating synergies that leverage strengths originating from Japan such as cost competitiveness and innovation.

# Growth Engine

## → Central and Eastern Europe Business

### Operations Overview

Similarly to the Western Europe business, closing the deal to acquire the Central and Eastern Europe business in March 2017 secured manufacturing, sales and marketing companies formerly owned by SABMiller plc for five central and eastern European countries (Czech Republic, Slovakia, Poland, Hungary and Romania) and global brands including the original pilsner beer, *Pilsner Urquell* distributed in over 50 geographies globally.

Market shares of the acquisitions are the top in each country, except for Slovakia where we are a close No. 2, including a 44% share in the Czech Republic, which has the highest per capita beer consumption. Total sales volume is 250 million cases, about 1.5 times the size of the Japanese market. With the background of a strong operations base, the Central and Eastern Europe business is highly profitable with an EBITDA margin of 30%.

The Czech Republic, Slovakia and Poland account for 73% of revenue. Overall growth has been affected by changing competitive dynamics predominantly in Poland. This has resulted in flat growth over the last 3 years, however recent performance shows indications of a reversed trend.

### Future Direction

As with the Western Europe business, the objective of acquiring the Central and Eastern Europe business was to gain an overseas foundation for growth based on the Long-Term Vision and Medium-Term Management Policy. This case, in particular, will enable construction of a network for firm growth across all of Europe and shows strong compatibility in terms of brand development and management at scale, with the Western Europe business having been under the same SABMiller umbrella.

While volume growth going forward may be limited given high per capita consumption and changing consumer and trade dynamics, there is opportunity in managing promotions, brand and channel mix and as well as further portfolio premiumization providing healthy top and bottom line expectations going forward. The Central and Eastern Europe business is strongly cash generative and present across all segments of their markets with a consolidated position in mainstream and further growth opportunities in premium and above.

Asahi Breweries Europe Ltd, the Central and Eastern Europe headquarters, will, as with the Western Europe business, prioritize stable growth on a standalone basis before fusing with the Asahi Group's strengths to create synergies to further enhance value.

## Letters from CEOs

### **Asahi Europe Ltd** (Western Europe Business)

Asahi Europe Ltd's vision is to become a global premium beer powerhouse. We have the brands, expertise and talent to achieve this. Asahi Group Holdings is supportive of our efforts to be at the vanguard of premium brand-building in Europe in order to succeed in this region. All share this ambition and I am confident that we are strongly positioned to achieve it.

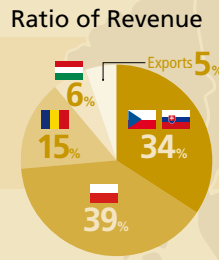
On 11 October, 2016 we celebrated the creation of Asahi Europe Ltd by giving our associates a clear vision of our future as part of Asahi Group Holdings and creating a sense of connection. Our integration with Asahi is almost complete. We are now turning our attention towards realising potential synergies between our organisations. Another area of focus will be *Asahi Super Dry's* success in Europe as a premium brand. We are well-prepared for and excited about the challenge.

The relationship between our management and the Head Office is extremely positive and constructive. I am confident that the recent incorporation of Asahi Breweries Europe Ltd will generate substantially greater opportunities for the Group.



Asahi Europe Ltd CEO  
**Hector Gorosabel**





**Summary of Results**  
(Rate at time of acquisition ¥120/euro)

2016 (ended March 2016)	(€ million)	(¥ billion)
Revenue	1,641	197.0
EBITDA	494	59.3
Core operating profit	355	42.6
Sales volume	3,170,000 kiloliters	

\* Source: Canadean (Market share is on a volume basis)

## Asahi Breweries Europe Ltd

(Central and Eastern Europe Business)

We are excited and delighted to be part of the Asahi Group and grateful for the warm welcome that we have received. We see many opportunities to share, learn and grow, as we start this new chapter of our history "powered by Asahi."

We will ensure that our traditional beer brands maintain the uniqueness and high quality that has made them so popular at home and abroad, while continuing to bring new flavours, low and no-alcohol beers and other specialties to market to excite consumers and expand the beer category. We especially welcome the opportunities for our beers in Asia and for brands such as *Asahi Super Dry* in Europe.

We have always relied on the professionalism and passion of our people for our brands and businesses and we now look forward to embracing new concepts like Kando, which will allow us to share that passion with our new colleagues across the Asahi Group.

This is the start of a new journey; here's to a successful future together.



Asahi Breweries Europe Ltd CEO  
**Paolo Lanzarotti**

Aiming at Sustained Corporate Value Enhancement through Asset and Capital Efficiency Improvement



## Asset and capital efficiency improvement that takes into consideration capital cost

Director and Corporate Officer, CFO  
Kenji Hamada

### Message from the CFO

## Adoption of International Financial Reporting Standards (IFRS)

We voluntarily adopted the International Financial Reporting Standards (IFRS) from the year-end financial report for 2016. We decided to adopt IFRS in order to provide our shareholders, investors and other stakeholders with more useful information by enhancing the comparability of our financial information with other companies worldwide, and by enriching the content of our financial disclosure. We also intend to enhance corporate value by bolstering management with an emphasis on asset and capital efficiency.

The main impact from our adoption of IFRS in the financial report for the previous fiscal year was a ¥183.4 billion decline in revenue compared with the Japanese accounting standards, reflecting

the deduction of rebates directly linked to sales. Moreover, we have presented core operating profit as the profit remaining after deducting cost of sales and selling, general and administrative expenses from revenue. However, as core operating profit does not reflect amortization of goodwill, it reflects an increase of ¥7.7 billion compared to operating income under the Japanese accounting standards.

Furthermore, core operating profit is not defined under IFRS, but we have decided to present it as a central reference index for the results of each business going forward because we believe it will be helpful for shareholders and investors as a reference index for normalized business performance.

### Impact of IFRS Adoption (2016 Results)

	IFRS	Japanese accounting standards	Difference due to IFRS adoption	(Billions of yen)
Revenue	1,706.9	1,890.3	-183.4	* Deduction of sales incentives from sales
Core operating profit*1	148.4	140.7	7.7	

\*1 The reference profit index for normalized business performance results.  
Core operating profit = Revenue - (Cost of sales + Selling, general and administrative expenses)

### Breakdown of impact of IFRS adoption on core operating profit (+¥7.7 billion)

	IFRS	Japanese accounting standards	Difference	
Total impact of IFRS adoption	-9.4	-17.1	7.7	
Amortization of goodwill	-6.2	-17.1	10.8	* Non-amortization of goodwill
Corporate adjustment items	-3.1	-	-3.1	* Adjustments arising in conjunction with IFRS adoption
Retirement benefit expenses adjustment	-2.6	-	-2.6	
Adjustment for depreciation and amortization, other	-0.5	-	-0.5	

Further details of the effect of the transition to IFRS page 78

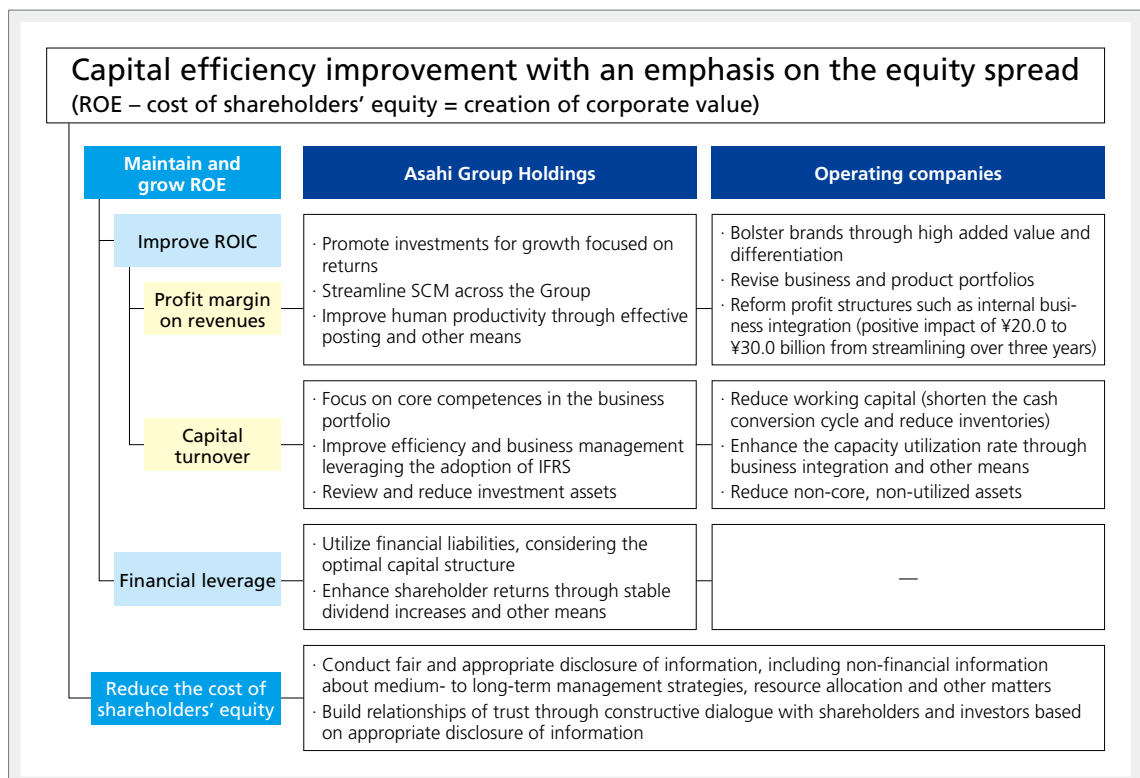
## Asset and Capital Efficiency Improvement That Takes into Consideration Capital Cost

Improvement of asset and capital efficiency is a key priority under the Medium-Term Management Policy. We are striving to expand the equity spread, which is the difference between the cost of shareholders' equity and ROE, as this is a source of corporate value.

Specifically, we have broken down ROE into ROIC and financial leverage, using them as reference points to define the respective activities of Asahi Group Holdings and its operating companies. This enables us to align the direction of activities for the entire Group. First, the operating companies primarily focus on strengthening earning power, one of the Medium-Term Management Policy's key priorities. Meanwhile, they are leveraging the sophistication of their business models through product portfolio selection and concentration and setting KPIs such as revenue structure reforms and reductions in operating capital. The holding company conducts M&As focused on returns and business portfolio restructuring. It also executes financial strategies in consideration of an appropriate capital structure, including balancing investments for growth and shareholder returns. In 2016, our efforts steadily

produced results. We made a significant investment in our European beer businesses, and worked swiftly to review our asset holdings, including the sale of investment accounted for using equity method in China and idle real estate.

Meanwhile, to reduce the cost of shareholders' equity, I believe it is most important to build trust relationships with our shareholders and investors. Our policy is to work to reduce the capital cost by continuing to provide appropriate information disclosure and conduct constructive dialogue.





## Message from the CFO

### Financial and Cash Flow Guidelines and Progress

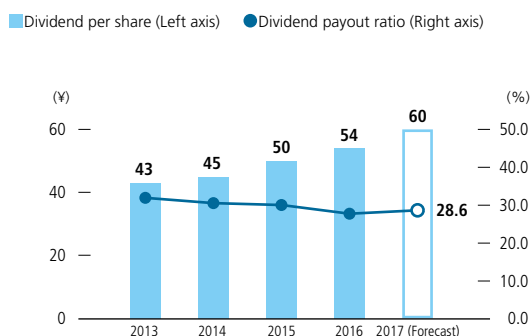
As a guideline in the Medium-Term Management Policy, we are targeting cumulative cash flows generated over the three years of ¥470.0 billion or above from cash flows from operating activities and review of assets. We are also planning to achieve free cash flow of at least ¥250.0 billion after deducting capital expenditures. We plan to utilize free cash flow, considering the balance between investments for growth and shareholder returns.

Investments for growth will amount to approximately ¥1.2 trillion in total, including the acquisition of the Western Europe beer business in 2016 and the acquisition of the Central and Eastern Europe beer business in 2017. To fund these investments, we plan to use our own capital and financial liabilities rather than equity finance, which has a high capital cost. We expect this to bring our D/E ratio to around 1.5, exceeding initial guidelines, and our net debt/EBITDA ratio to around 5.0. However, we expect the increase in cash flow generation from the acquisitions combined with further asset streamlining effects to reduce the D/E ratio to around 1.0 and the net debt/EBITDA ratio to around 3.0 by 2020. Our policy is to continue to maintain a certain degree of soundness while executing financial strategies that will contribute to enhancing corporate value.

With regard to shareholder returns, our dividend per share in 2016 increased by ¥4 year on year to ¥54, and in 2017, we plan to increase it by ¥6. The dividend payout ratio for 2016 was 27.7%, partly reflecting the transition to IFRS. We plan to successively increase dividends targeting a dividend payout ratio of 30% on an IFRS basis by 2018.

Looking ahead, taking into account the opportunities and risks in the external environment, we will seek to attain sustained increase in corporate value by investing to expand the Group's foundations for growth and enhancing shareholder returns.

#### Dividend per Share/Dividend Payout Ratio



#### Financial and Cash Flow Guidelines under the Medium-Term Management Policy

Cumulative Guidelines for 2016–2018	
Cash Flows	<ul style="list-style-type: none"> <li>Generate cash flows of ¥470.0 billion or more (Cash flows from operating activities + Maximization measures + Asset review)</li> <li>Capital expenditures of ¥180.0 to ¥220.0 billion</li> </ul>
Investments for Growth	<ul style="list-style-type: none"> <li>Active investment in M&amp;As and alliances to acquire foundations for growth (Maximum D/E ratio of approx. 1.0 acceptable if major capital demands arise)</li> </ul>
Shareholder Returns	<ul style="list-style-type: none"> <li>Stable dividend increases targeting a dividend payout ratio of 30% (IFRS basis) by 2018</li> <li>Flexible share buybacks taking into account an appropriate balance with investments for growth</li> </ul>



## Reinforcement of ESG Initiatives to increase sustainability

# ESG Initiatives of the Asahi Group

One of the three key priorities in the Asahi Group's Medium-Term Management Policy is reinforcement of ESG initiatives. To address this priority, we renewed our materiality structure in 2016 in conjunction with launching initiatives based on specific targets for each individual materiality theme.

Under the Medium-Term Management Policy, we also seek to achieve development toward a CSV (creating shared value) strategy as part of the reinforcement of ESG initiatives. We will work closely with stakeholders to drive development toward initiatives that balance the creation of both value for society and value for us, in conjunction with tackling the challenge of CSV initiatives unique to us.

## Positioning of ESG Priorities

Positioning within the Medium-Term Management Policy

# E

Environment

### Upgrading of intangible assets and their development toward a CSV (creating shared value) strategy

- Aim to upgrade intangible assets including natural, social and relationship capital by expanding environmental initiatives and collaboration with stakeholders.
- Strengthen upgrading of human capital essential for sustained growth through development of talent, promotion of diversity, and other means.
- Aim to develop the above initiatives into the CSV strategy utilizing the Group's strengths in addition to addressing them for CSR.

# S

Social

# G

Governance

### Promotion of growth-oriented corporate governance

- Implement further reforms based on the Corporate Governance Guidelines and Corporate Governance Code
- Strengthen Group governance to strengthen strategic functions and build medium- to long-term growth drivers

CSR Key Themes  
Constituting the CSR Materiality Structure

Food  
and  
Health

- Responsible Drinking
- Food Safety and Reliability
- Health and Nutrition

The  
Environment

- Climate Change
- Recycling-Based Society
- Biodiversity

People  
and  
Society

- Human Resource Development and Diversity
- Healthy and Affluent Society
- Sustainable Water Resources
- Sustainable Supply Chains

Refer to Corporate Governance  
See page 48

WEB <http://www.asahigroup-holdings.com/en/whoweare/governance.html>

## CSR of the Asahi Group

### Basic Philosophy

In this report, we set social collaboration ability as one of the Asahi Group's four strengths. We see this concept specifically as initiatives aimed at a sustainable society and enhancing overall communication with society. By harnessing our social collaboration ability for CSR activities, we aim to pursue stakeholder satisfaction as laid out in the Long-Term Vision.

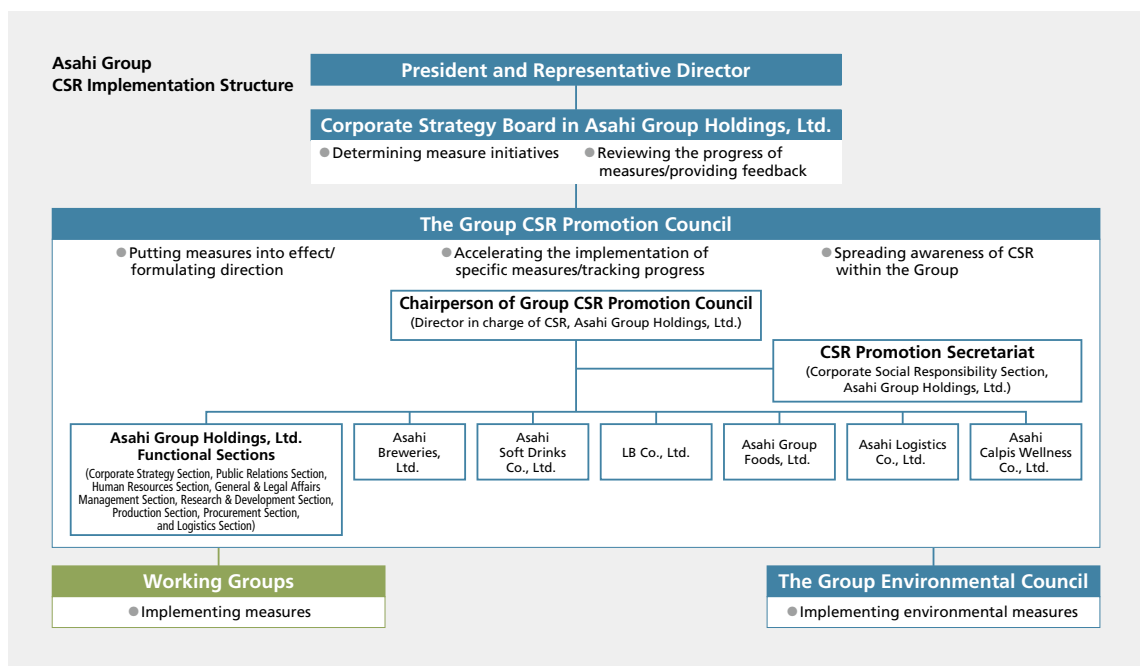
Moreover, the Medium-Term Management Policy also touches on development toward a CSV strategy. In keeping with this approach, we will foster cooperation with various stakeholders through our social collaboration ability, with the aim of contributing to the solution of social issues.

Through all of these initiatives, we will endeavor to create shared value between society and the Group, thereby enhancing our corporate value.



### CSR Implementation Structure

To ensure that CSR activities extend beyond the efforts of individual companies and effectively increase the corporate value of the entire Group, we have adopted a structure for promoting CSR across the Group. Specifically, we regularly hold the Group CSR Promotion Council and the Group Environmental Council to decide on specific policies and review progress. We consult with the Asahi Group Holdings, Ltd. Corporate Strategy Board before making decisions and we emphasize commitment with the Board of Directors.

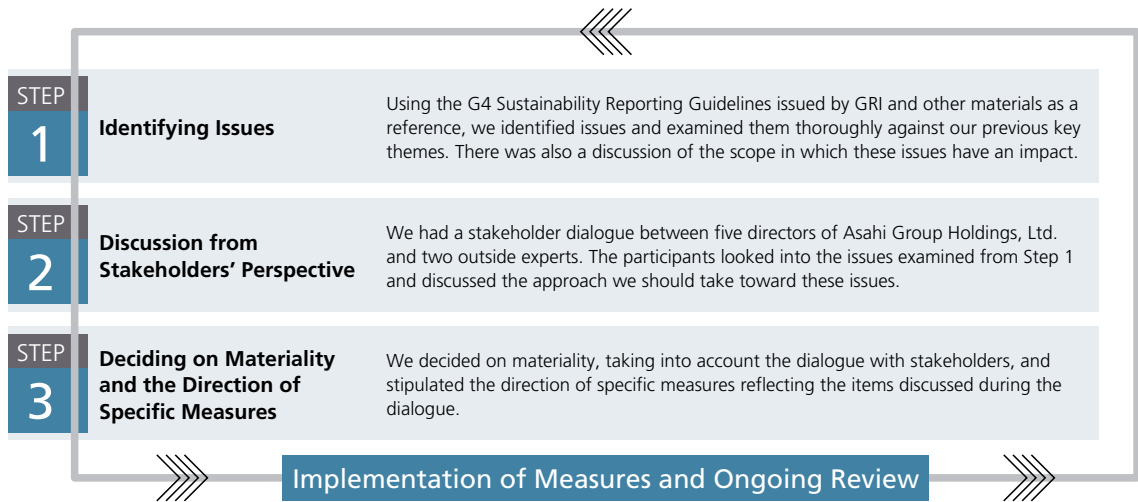




## Materiality Renewal Process

We renewed our materiality structure in 2016. Looking at the background to this process, in terms of society, a global direction for the future has emerged as a result of developments including the adoption of the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement on climate change. In terms of the Asahi Group, a key factor is the roll-out of the Medium-Term Management Policy that establishes reinforcement of ESG initiatives as one of its key priorities.

Against this backdrop, we renewed our CSR Key Themes following the process below. Currently, we are formulating specific initiatives aimed at attaining these themes and are promoting activities on a Group-wide basis, along with regularly reviewing initiatives in the Group CSR Promotion Council and other forums.



## CSR Key Themes and KPIs

In conjunction with renewing our materiality structure, we set key performance indicators (KPIs) for each CSR Key Theme, and are implementing related measures. We aim to steadily push ahead with these measures by implementing PDCA cycles through the Group CSR Promotion Council spanning the entire Group.

Activity Areas for CSR	CSR Key Themes	KPIs
Food and Health	<b>Responsible Drinking</b>	Distribute over 35,000 copies of educational tools for primary school students throughout 2017 to contribute to the prevention of underage drinking.
	<b>Food Safety and Reliability</b>	Achieve an average score of 90 points or higher (out of a total of 100 points) on 2017 customer questionnaires. (This questionnaire is for certain customers who have submitted comments on the products of Asahi Breweries, Ltd.)
	<b>Health and Nutrition</b>	Engage in dialogue with over 100,000 participants in 2017 through <i>Wakodo Nutrition Consultations</i> .
The Environment	<b>Climate Change</b>	Establish medium- to long-term environmental targets consistent with scientific knowledge within 2017.
	<b>Recycling-Based Society</b>	
	<b>Biodiversity</b>	
People and Society	<b>Human Resource Development and Diversity</b>	Achieve the targets for ratio of female managers set at each major company within the Group.
	<b>Healthy and Affluent Society</b>	In keeping with the policy of the 1% Club established by KEIDANREN (Japan Business Federation), pledge to spend around 1% of core operating profit on social contribution activities.
	<b>Sustainable Water Resources</b>	Establish medium- to long-term environmental targets consistent with scientific knowledge within 2017.
	<b>Sustainable Supply Chains</b>	Engage in direct dialogue with 13 suppliers within 2017, based on the findings of the Supplier CSR Survey undertaken in 2015.

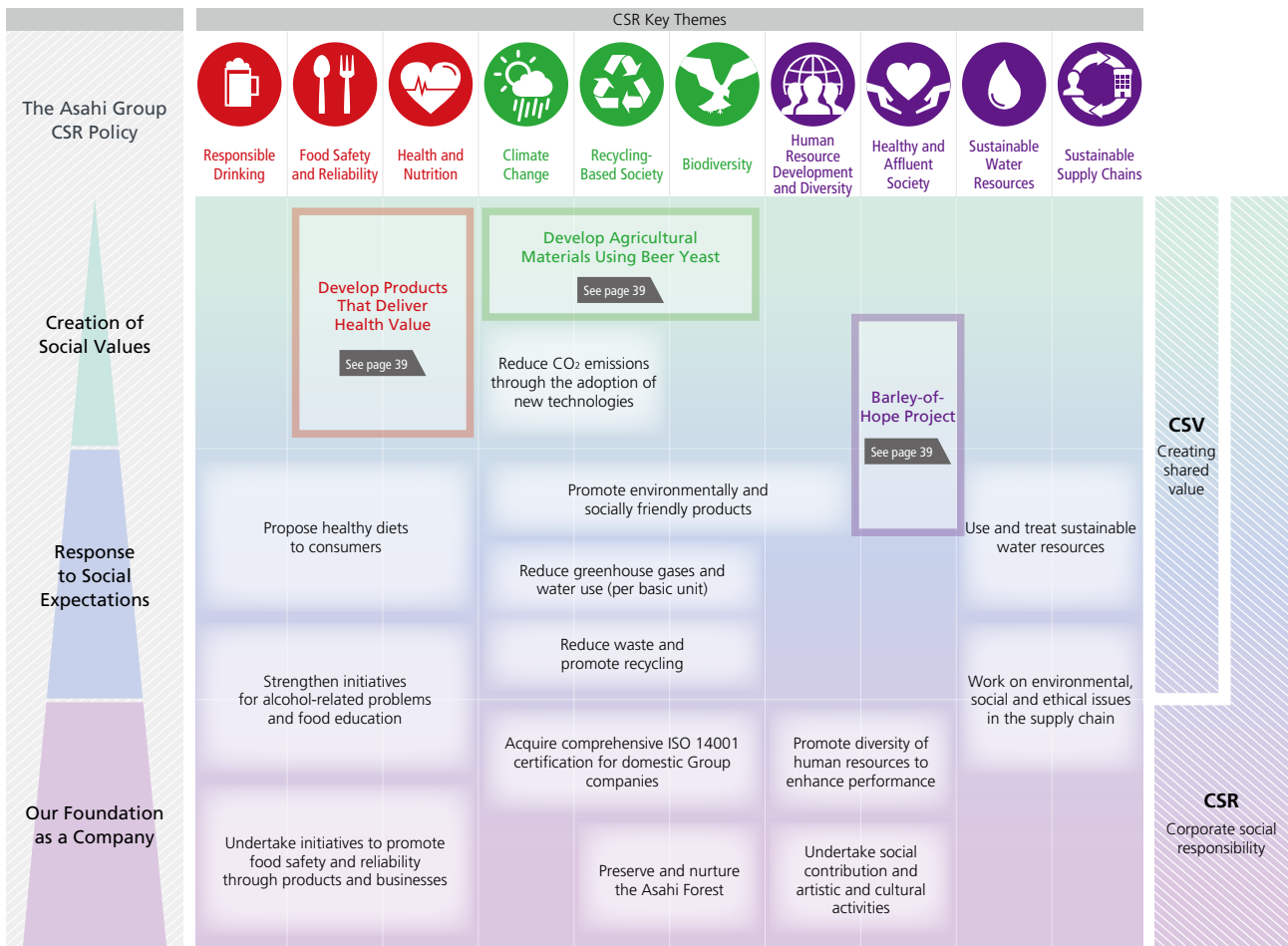
## Development toward a CSV Strategy

Under the Medium-Term Management Policy, we aim for development toward a CSV strategy as part of our reinforcement of ESG initiatives. Our operating companies possess an expansive range of resources and knowledge that has been amassed since the founding of each company. By maximizing these assets unique to the Asahi Group, we will contribute to the solution of social issues through our businesses. Combined with the creation of shared value with society, these efforts will help to increase the Asahi Group's corporate value.



## The Asahi Group's Basic Philosophy on CSV

The Asahi Group CSR Policy categorizes CSR activities into the three elements of "our foundation as a company," "response to social expectations" and "creation of social values." Of these, we consider activities related to "response to social expectations" and "creation of social values" to be CSV. Here, we actively promote activities leveraging the Asahi Group's strengths.



Food  
and  
Health

## Develop Products That Deliver Health Value

**Strengthening the Development of Products That Deliver Health Value**

We are strengthening the development of products that deliver innovative health value to customers.

We are incorporating materials and technologies we have developed internally into our product development, beginning with the lactic acid research and applied microbiology technologies we have pursued over many years. Besides foods for specified health uses (FOSHU) and foods with function claims backed by solid evidence, we will strengthen the health value of our various brands and endeavor to make new proposals leveraging the knowledge we have developed to date.

Going forward, we aim to continue playing a vital role in helping to enhance the health of our customers.

The  
Environment

## Develop Agricultural Materials Using Beer Yeast

**Contributing to Environmentally Friendly Agricultural Production through Beer Yeast Cell Walls**

We are developing an agricultural material (fertilizer) containing beer yeast cell walls, a by-product of the brewing process. We established a new company, Asahi Bio Cycle, in March 2017, in an effort to strengthen this business further.

This agricultural material is effective in increasing agricultural yields and improving the quality of agricultural produce by harnessing the ability of beer yeast cell walls to boost the immunity of plants. The use of the agricultural material will enable us to contribute in such ways as realizing environmentally friendly agriculture and reducing greenhouse gases.

Looking ahead, we will expand this business across a broad spectrum of agriculture with the aim of helping to address issues such as converted former rice paddies and abandoned farm land, which have become social concerns, thereby contributing to a sustainable society.

People  
and  
Society

## Barley-of-Hope Project

**Aiming to Spur the Development of Local Industries in Disaster-Hit Areas by Harnessing the Knowledge of Barley**

As part of our Great East Japan Earthquake recovery support activities, we are conducting the Barley-of-Hope Project to create new industries and interaction in disaster-hit areas. The project involves growing barley in disaster-hit areas, processing the harvested barley into products, and selling the products in collaboration with the Higashimatsushima Organization of Progress and Economy, Education, Energy.

In 2015, the harvested barley was processed into craft beer and snacks, and these products were sold primarily in the city of Higashimatsushima. Furthermore, the range of products made from the harvested barley has been expanding. Notably, in November 2016, we brewed Barley-of-Hope Ale at our craft beer brewery, Sumida River Brewing, and sold it through our restaurant operations.

We will continue the project activities to ensure that they take root as local industries.







# Promoting the Use of Sustainable Water Resources

We use the abundant bounty of nature to conduct business activities. Water, in particular, is used in many essential ways, such as growing raw materials and cleaning manufacturing equipment. We recognize water as a natural resource that is essential to business continuity and difficult to replace.

With this in mind, we endeavor to implement appropriate measures and management to minimize the environmental impact of water intake and drainage, in addition to constantly improving water usage efficiency at all sites that use water. Moreover, efforts are made to manage water resources not just within the scope of our own operations, but also across the entire supply chain through its business activities. In these and other ways, the Group is proactively working to preserve sustainable water resources.

**Activities to Preserve Water Source Areas**

In 2004, Asahi Breweries, Ltd.'s Shikoku Brewery commenced forest preservation activities in water source areas. Since then, these activities have been expanded to other manufacturing bases of the Asahi Group and are currently undertaken at 12 manufacturing bases in Japan.

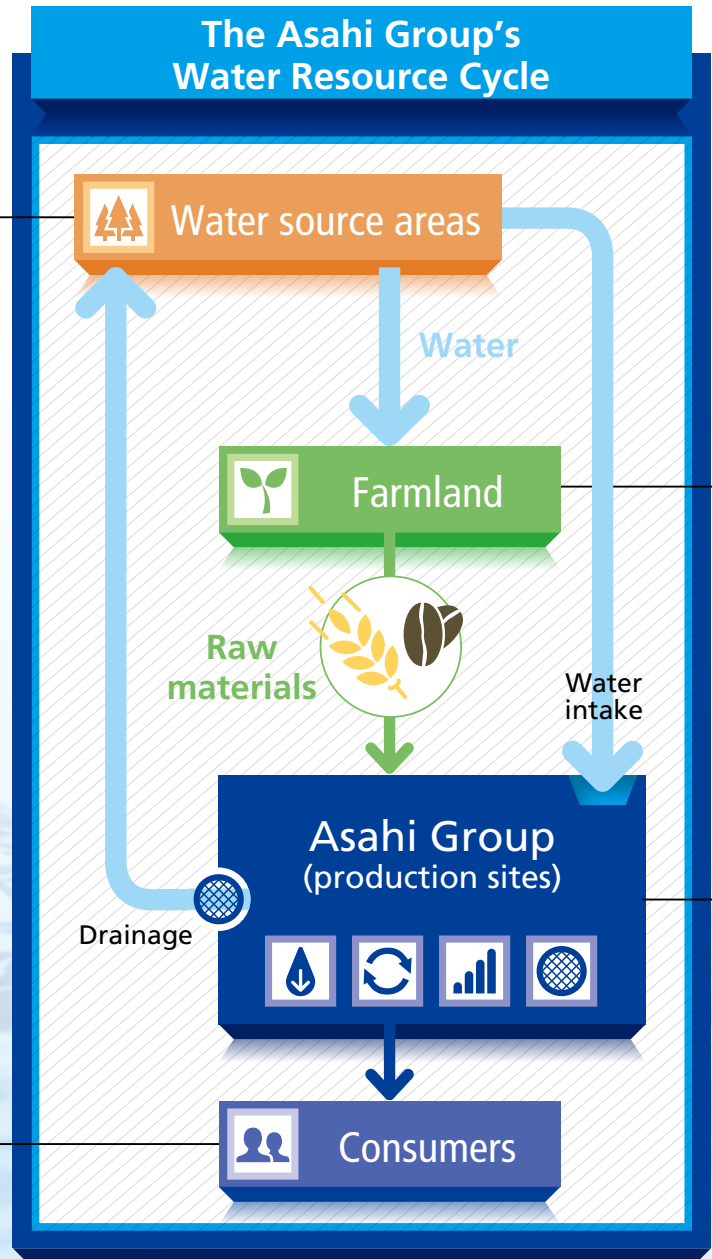
Group employees working at each manufacturing base and their family members participate in these activities. Working together with local NPOs, forestry cooperatives, government bodies and other partners, the participants conduct activities such as tree planting and weeding, as well as pruning and forest thinning. In addition, they develop and maintain the woodland paths needed to carry out these activities. In the course of these activities, the circle of participants has grown beyond people involved with the company to include local communities by taking steps such as inviting local residents to participate.



**Consumer Awareness**

In addition to conveying the importance of water resources, we also provide environmental education to encourage consumers to consider what they can do in their daily lives to preserve water resources. We believe that it is vital to communicate our activities to pave the way for activities to be undertaken by society as a whole. In parallel, we believe it is crucial to develop human resources capable of considering the needs of the environment and taking appropriate action.







## Water Risk Surveys

### Outline

- **Purpose:** To analyze water risk in our raw materials procurement process and evaluate the economic impact on our business
- **Analysis target:** Major raw materials procured from overseas that are used in bulk and difficult to replace in the manufacturing of our products
- **Analysis scope:** Survey of water scarcity in supplier areas, survey of the water footprint of raw materials in each region, evaluation of the cost of natural capital and comparison with market prices



### Result

The surveys clearly identified those suppliers for which risk measures should be implemented on a priority basis from among the Group's raw materials suppliers in 59 countries around the world.

### Response

Water-related items were added as checklist items to the supplier quality audit to grasp any changes in conditions. Through this process, we will work to deepen our understanding of measures to address water risk together with suppliers.



## Water Consumption Reduction

We are reducing water consumption by adjusting the shapes of nozzles that release water and the speed of water discharges, in tandem with ensuring proper cleaning and disinfection of tanks and pipes in production sites and containers such as cans and PET bottles.



Cleaning facilities for containers, such as beer bottles, spray a mixture of water and air at the containers in order to reduce water consumption and enhance cleaning power at the same time.



## Water Reuse

Water used to disinfect and clean cans, PET bottles and other containers is collected and treated using industrial water treatment facilities. After this process, the water is reused for other purposes, such as cleaning machinery, equipment, and bottle cases.



Water treatment facilities installed at a brewery of Asahi Breweries, Ltd. Water reused within the brewery is treated using these facilities.



## Data Management

To appropriately use and manage water resources, we ascertain the status of water use at all business sites, not just manufacturing bases, and use this information to manage water resources more effectively throughout the Group.

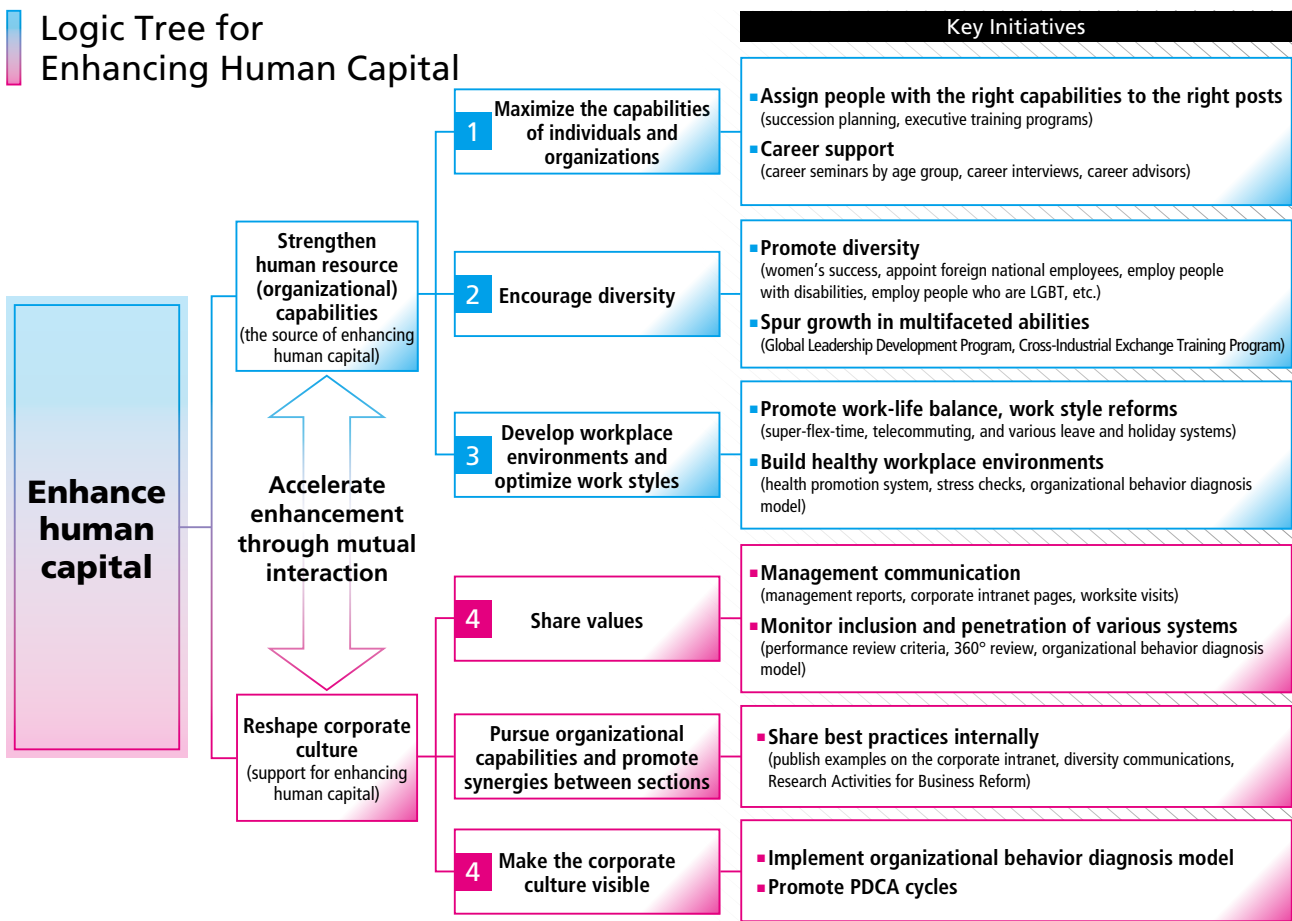


## Wastewater Management

Before releasing wastewater generated in the production process into the environment, we undertake wastewater treatment using anaerobic water treatment equipment and other facilities installed at production sites. Moreover, at certain production sites, we show consideration for the environment in such ways as putting wastewater through ozone treatment and activated carbon treatment, in addition to conventional treatment.

# Enhancing Human Capital

The Long-Term Vision set out our future vision for the Asahi Group as an industry leader in Japan with high added value as a key area of focus that has also established a unique position as a global player that leverages strengths originating in Japan. To realize this vision, we consider it vital to increase our human resource (organizational) capabilities—one of our four strengths—and have been promoting various initiatives to enhance our human capital.



The logic tree above forms the basis for implementation of plans and proposals for human capital enhancement measures made within the Asahi Group.

The primary driver for this enhancement of human capital lies in strengthening our human resource (organizational) capability itself. While promoting the growth of employees and our organization, we also aim to further enhance the capabilities of employees by providing an environment to enable diverse human resources to fully utilize their individual capabilities and support them

in living active lives.

We also consider it important to make a continuous effort to improve our corporate culture, which is the fundamental support for strengthening our human resource (organizational) capabilities. With numerous operating companies joining the Asahi Group as we expand our business scale, we will bolster our initiatives for creating a corporate culture, such as sharing our values, and establish a foundation for individual employees to continue striving for personal growth.



# 1 Maximize the Capabilities of Individuals and Organizations

## ● Career Support

We support human resource development through Group-wide programs and individual education programs tailored to rank and field of specialization.

Looking at the future vision for the Asahi Group described in the Long-Term Vision, our managerial personnel need to take a bird's-eye view over the entire Group and acquire a wide range of necessary

management skills. We are therefore implementing Group-wide education programs for them.

On the other hand, to ensure the growth of individual businesses, we aim to maximize employee capabilities by implementing specialized education programs for each rank and field of specialization to strengthen them.

## Executive Training Programs

The changes in the management environment enveloping us are accelerating with each passing year. In our global operations, the share of overseas revenues will increase dramatically following the expansion of our Western Europe business and Central and Eastern Europe business. In such an environment, it is now vital that we develop

managerial personnel with the capabilities to realize sustainable growth both in and outside of Japan.

We are implementing programs aiming to develop next-generation management candidates who can respond rapidly to these changes in our management environment. These programs are:

### ■ Asahi Executive Leader Program

The presidents and executives of Asahi Group Holdings hand-pick the participants for this program, which is aimed to develop corporate manager candidates for the next generation. This program is implemented with the objective of nurturing the participants' ability to develop strategies, lead and attain targets. Participants are also assigned to roles where they can put these skills into practice to ensure effective education.

### ■ Asahi Next Leader Program

Under this program, we select personnel who strongly aspire to become future corporate managers from among managers (aged 35 to 45) at operating companies and provide corporate management education from a medium- to long-term perspective. We have created opportunities for the participants to expand their horizons by gaining practical experience through job rotations after completing the program.



### ■ Global Leadership Development Program

This program is for general manager-level employees at overseas operating companies. The program aims to better participants' understanding of the history, corporate philosophy, and other aspects of the Asahi Group, and give them a global perspective and outlook. It is also intended to help them understand and build networks with employees in different regions.

## Education Programs Tailored to Rank and Field of Specialization

We implement education programs designed to help develop the expert skills needed for individual operating companies and divisions, and capabilities for specific ranks such as new recruits or managerial personnel. Going forward, we also plan to create

an environment that makes it easy for people to upgrade their skills, including the introduction of a quick-learning system that enables individuals to learn anytime, anywhere through their smartphones.

## 2 Encourage Diversity

### Promote Diversity

#### Basic Philosophy

We see the individual growth of employees with diverse characteristics utilizing their own capabilities and aptitudes as something that assists the growth of the entire Company. We therefore work to educate human resources and create a corporate

culture where employee diversity is respected, and employees of all nationalities, genders, ages, and levels of ability can participate. We are creating a Group-wide promotion framework to encourage diversity throughout the entire Group.



#### Promoting Women's Success

We have been promoting women's success based on the three policies outlined as follows. We have made a concerted effort to develop female leaders, for example by encouraging female employees to participate in various human resource development programs within the Group. As a result, the number of female managers and female executives has grown steadily over the past few years, and in 2017, two female presidents have been appointed within the Group.

In recognition of these activities, Asahi Group Holdings, Ltd. has been selected as a Nadeshiko Brand for two years running in 2016 and 2017.

The Nadeshiko Brand designation is a joint effort by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange to select companies that have demonstrated superior performance in encouraging women's success in the workplace. Looking ahead, we will continue to promote a wide range of activities to become a company where women can succeed.



#### Policies

- Enable greater participation by women in decision-making meetings (Corporate Strategy Board, etc.)
- Propose and pursue action plans tailored to each company's circumstances
- Set numerical targets and implement measures to attain those targets

### 3 Develop Workplace Environments and Optimize Work Styles

#### • Work Style Reforms

The Asahi Group aims to maximize the value that can be generated from the work of individual employees by promoting work style reforms in terms of work processes and workplace environments. We aim to create a beneficial cycle where enhancing operational productivity and creating time helps to improve employees' work-life balance, health management, and self-development, in turn helping individual employees to achieve their full potential.

Each Group company proposes its own specific initiatives.

Asahi Group Holdings, Ltd. encourages employees to use super-flex-time once a week and the telecommuting system once a month. We have set targets for each division and are actively promoting the use of the systems. We are also expanding efforts to encourage telework using external shared

offices. In 2017, we will strive to promote use of paid leave by setting paid leave usage targets for each division. We have come up with ideas to encourage use of paid leave, such as Happy Fridays, which recommends taking leave on Fridays, and "plus-one holidays" where employees can enjoy extended holidays by combining holidays with paid leave.

Asahi Breweries, Ltd. has expanded the availability period of days in lieu for employees who work on holidays from two months to six months, allowing employees to utilize them flexibly to suit their lifestyles.

The Asahi Group will promote work style reform perpetually as a theme for management and continue to promote its initiatives.



### 4 Share Values and Make the Corporate Culture Visible

#### • Organization Health Checks through Awareness Surveys

Every year, we conduct an awareness survey for approximately 9,000 employees at our main Group companies in Japan. The goal of the survey is to ascertain the status of such matters as employee career awareness, diversity promotion, and workplace environments, and to implement an appropriate PDCA cycle. Specifically, we employ the model of organizational health checks and seek to assess

employees' awareness regarding their careers and work-life balance, as well as the penetration of the Group vision, management policy, and so forth. We use the survey to identify issues to be addressed at each worksite throughout our entire Company and to formulate concrete countermeasures to enhance and strengthen our organization and human capital.



# Asahi Group's Management Team

(As of April 1, 2017)

**Katsutoshi Takahashi**  
Senior Managing Director and  
Senior Managing Corporate Officer

From March 2017



**Noboru Kagami**  
Director and Corporate Officer

From March 2016



**Atsushi Katsuki**  
Director and Corporate Officer

From March 2017



**Naoki Izumiya**  
Chairman and Representative Director, CEO

From March 2016



**Akira Muto**  
Standing Audit & Supervisory  
Board Member

From March 2015



**Mariko Bando**  
Outside Director

From March 2008

- Chancellor, Educational Corporation, Showa Women's University
- Chairperson of the Board, Showa Women's University
- Director, Institute of Women's Culture, Showa Women's University



**Tatsuro Kosaka**  
Outside Director

From March 2016

- President and Representative Director, Chugai Pharmaceutical Co., Ltd.



**Naoki Tanaka**  
Outside Director

From March 2009

- President, Center for International Public Policy Studies



**Yumiko Waseda**

**Outside Audit & Supervisory Board Member**

- From March 2015
- Partner, Tokyo Roppongi Law & Patent Offices
- Attorney at Law
- Other important concurrent position**
- Outside Audit & Supervisory Board Member, Kao Corporation



**Katsutoshi Saito**

**Outside Audit & Supervisory Board Member**

- From March 2014
- Advisor, The Dai-Ichi Life Insurance Company, Limited
- Vice Chairman, KEIDANREN (Japan Business Federation)
- Other important concurrent positions**
- Outside Director, Imperial Hotel, Ltd.
- Outside Corporate Auditor, Tokyu Corporation

**Yutaka Kawakami**

**Outside Audit & Supervisory Board Member**

- From March 2017
- Certified Public Accountant
- Other important concurrent position**
- Supervisory Director, Nippon Building Fund Inc.



**Yoshihide Okuda**

**Senior Managing Director and Senior Managing Corporate Officer**

From March 2017



**Kenji Hamada**

**Director and Corporate Officer, CFO**

From March 2017



**Akiyoshi Koji**

**President and Representative Director, COO**

From March 2016



**Tetsuo Tsunoda**

**Standing Audit & Supervisory Board Member**

From March 2016



**Shiro Ikeda**  
Senior Managing Corporate Officer

**Yasutaka Sugiura**  
Managing Corporate Officer

**Yukitaka Fukuda**  
Corporate Officer

**Tomomasa Kanda**  
Corporate Officer

**Yutaka Henmi**  
Corporate Officer

**Ryoichi Kitagawa**  
Managing Corporate Officer

**Taemin Park**  
Corporate Officer

**Manabu Sami**  
Corporate Officer

**Keizo Tanimura**  
Corporate Officer

# Corporate Governance

## Supporting Management for Corporate Value Enhancement

Naoki  
Izumiya



Tatsuro  
Kosaka

As part of the reinforcement of ESG initiatives under the Medium-Term Management Policy, we have set forth to implement growth-oriented corporate governance that contributes to the practice of management to enhance corporate value as one of its specific measures.

In this dialogue, Chairman, Representative Director and CEO Naoki Izumiya, who serves as Chairman of the Board of Directors, and Outside Director Tatsuro Kosaka were asked about the Asahi Group's priorities and future direction regarding pushing ahead with this key governance measure.

### Seeking to Realize a Transparent Board of Directors

— Could you please describe the features of the Asahi Group in terms of the functions of the Board of Directors and the roles of the Outside Directors?

Izumiya

In regard to the Asahi Group's governance, management aims to realize a Transparent Board of Directors by practicing speedy decision-making and sound risk-taking, in conjunction with ensuring both transparency and fairness.

To this end, it is vital to promote sharing of management information with the Outside Directors. Other priorities include enhancing the disclosure of decisions made by the Board of Directors, along with reflecting the

## Naoki Izumiya

*Chairman and Representative Director, CEO*





views of shareholders and other members of the public in management. By executing these priorities, I would like to make the notion of a Transparent Board of Directors a hallmark of the Asahi Group.

**Kosaka**

It has been one year since I was appointed as an Outside Director. Considering that the Asahi Group has voluntarily established the Compensation Committee and Nomination Committee, along with appointing a sufficient number of independent Outside Directors, I believe that its governance system ensures adequate transparency and fairness. Moreover, the Asahi Group has a highly diverse range of individuals serving as Outside Directors and Outside Audit & Supervisory Board Members. This ensures that the Board of Directors functions effectively through a lively exchange of various opinions. Based on these factors, I believe that the Asahi Group has an appropriate governance system that fits the realities of modern Japan.

Additionally, Mr. Izumiya sees the enhancement of corporate governance as a top management priority. I believe this is extremely crucial to enhancing the effectiveness of the Board of Directors.

**Izumiya**

Absolutely. To make this happen, we need to take proper steps to assess the effectiveness of the Board of Directors, along with working as one with the Outside Directors to discuss governance reforms. I'm confident that this will ultimately lead to a more trusted governance system in the eyes of our shareholders and other investors.

## Strengthening Governance from a Global Perspective following the Acquisition of European Beer Businesses

### — What kinds of discussions did management hold in regard to the acquisition of European beer businesses?

**Izumiya**

First, we discussed how we will structure the business portfolio to achieve sustainable growth and increase medium- and long-term corporate value, along with our future global strategies, policies on business resource allocation and other matters. We primarily acquired businesses in eight European countries. All of these businesses are conducted in their respective local markets. And each country has a different market and competitive environment. For this reason, we gathered information from many different angles on matters including geopolitical issues and economic conditions. We shared this information and discussed in meetings of the Board of Directors.

**Kosaka**

In addition to the discussion on strategies that just came up, there was an explanation of risks and opportunities and an analysis of appropriate corporate valuation based on due diligence. We also held discussions based on a variety of information, including governance after the completion of the acquisition and the prospects for generating synergies to boost value. As a result, the Board of Directors unanimously approved the acquisition.

*President and Representative Director,  
Chugai Pharmaceutical Co., Ltd.*

# Tatsuro Kosaka

*Outside Director*





Izumiya

That's right. Restrictions prohibit us from obtaining all the information we need before an acquisition. However, in order to minimize the post-acquisition risk as much as possible, we took the approach of executing "pre-merger integration" ahead of "post-merger integration." Even if somewhat higher costs were incurred, we put emphasis on gathering as much information as possible before the acquisition and sharing information on risks after the acquisition and other matters in meetings of the Board of Directors.

Kosaka

The market environment surrounding the Alcohol Beverages Business in Japan, the Group's main source of earnings, is under increasing pressure. In this environment, I commend the recent investment because it will help to transform the Overseas Business into an engine behind the Asahi Group's growth.

Meanwhile, it is also true that the operation of the European beer businesses for success will become one of its most important management priorities over the next three years or so. In the Board of Directors, I conveyed what I felt to be the key points to consider in regard to global management based on my own experience.

First of all, my basic approach is that management of the acquired operating companies should be up to local personnel. With this in mind, I believe the key points are to recruit and retain trusted local management personnel with leadership talent and to build relationships that enable close communication with the local management personnel, thereby avoiding any surprises on both sides. Moreover, I believe it will be increasingly crucial to clarify

governance and authorization standards, and to share responsibility and authority between Head Office and local management. Furthermore, in the course of steering the entire Group, I believe it is important for the Head Office to retain decision-making authority over medium-term management plans and single-year business performance, particularly core operating profits.

Izumiya

As you suggest, from the perspective of local personnel, we are the business owner. Unless we articulate a clear vision and medium-term strategic direction, and issues specific instructions, it will appear unreliable to local management. For this reason, since the completion of the acquisition, we have been taking steps to build even stronger relationships of mutual trust, such as holding several direct meetings with local management and conducting monthly reporting sessions.

Kosaka

Next on our list of priorities is to generate synergies. Our activities must consider how we will enhance the brand value of one another on the sales front, and how we will achieve efficient management on the cost front. Also, I believe that we can hone our competitiveness by sharing each other's technologies and expertise in manufacturing and R&D.

Another priority will be to address global compliance requirements. The Asahi Group must pay close attention to European laws and related regulations, without relying solely on its knowledge of laws and regulations in Japan.

In the course of improving how it addresses these priorities, the Asahi Group may need to consider the option of setting up an Advisory Board, as a means of obtaining advice from people well-versed in the European political and economic environment, the beer industry, and related fields.

## Driving Globalization through Human Resource Development and Diversity

### — What are your priorities for pursuing further globalization?

Kosaka

The Asahi Group will take a giant leap forward in terms of globalization as a result of the acquisition of European beer businesses. One urgent priority for pursuing further globalization will be to develop global human resources to lead the organization. Europe is a region with a complex tapestry of cultures and history. It will be extremely vital for personnel to understand and adapt to different cultures, and to demonstrate leadership skills, in addition to acquiring the language skills needed to communicate effectively with local personnel as a matter of course.

Izumiya

Exactly. At present, we are developing global human resources internally in conjunction with recruiting talent from outside the Company, including non-Japanese nationals and women. We will work to ensure that these efforts lead to stronger diversity and transform the Asahi Group into a more ambitious enterprise that is determined to scale new heights. Through these efforts, we aim to take our global human resource development to a higher level.

Kosaka

I believe that the ultimate goal of diversity is to foster a diverse workforce that will spark innovation and contribute to the enhancement of corporate value. To make this happen, I think the Asahi Group should pursue a little more diversity in terms of the nationalities of its workforce. There is an old Japanese proverb that says “improve yourself through new experiences.” By embracing diversity, it is vital to create an environment where different people are able to sharpen their skills through healthy competition with one another. For example, I believe that companies should proactively invest in human resource development, through such means as stationing middle-tier and younger employees overseas for at least three to five years, and creating opportunities for them to work together with local employees through on-the-job training programs.

## Aiming to Further Enhance Corporate Value through Growth-Oriented Governance

### — Could you please discuss the Asahi Group’s targeted direction for governance?

Izumiya

Going forward, requirements for governance from the capital markets and society will only continue to increase. We must structure a unique governance system that can adapt to or surpass those requirements.

I believe that the ultimate goal of the Board of Directors is to ensure sustained growth and enhance medium- to long-term corporate value.

To reach this goal, we must practice growth-oriented corporate governance as an approach for proactively taking risks and accelerating the enhancement of corporate value. We must also practice defensive corporate governance alongside growth-oriented governance, in order to ensure effective oversight of management functions.

To do so, we will need to strengthen our system to enable the Asahi Group to grow proactively and with transparency by putting the experience and knowledge of Outside Directors to even better use in management than before. Through this endeavor, I would like to aim for a progressive governance system that is one step ahead of the pack.

Kosaka

Bear in mind, however, that the Outside Directors do not have prior experience working for the Asahi Group, and there are time constraints on the Board of Directors meetings. The current reality is that it would be difficult for the Outside Directors to understand the Asahi Group in depth, including its history and the underlying historical background.

For example, in addition to holding individual meetings with Directors, it might be a good idea to encourage the Outside Directors to understand the deeper aspects of the Asahi Group by creating more opportunities for them to speak directly with front-line employees at factories, offices, and other sites. I would personally welcome these sorts of opportunities.

Izumiya

That is certainly an important observation. Going forward, as we pursue further globalization, we will need to enhance the quality of the entire process leading up to decision-making if we are to tackle the challenges of achieving new growth while assuming a certain degree of risk through the decision-making process.

To do so, it will be increasingly crucial to hold discussions from many more different perspectives than before and to obtain direct front-line information from objective third parties. Looking ahead, we will advance further changes, such as enhancing daily activities to deepen the understanding of the Asahi Group among the Outside Directors, as suggested by Mr. Kosaka. By doing so, we must aim to achieve the enhancement of corporate value, which lies in the shared interest of both management and our shareholders and other investors.





# Asahi Group's Corporate Governance System for Supporting Sustained Growth

## Basic Policy

We consider that strengthening the corporate governance of the Asahi Group is the utmost managerial priority in order to realize corporate activities that aim to satisfy all stakeholders, including shareholders and investors. Based on this concept, we endeavor to proactively strengthen Group management, enhance the trust relationship with society, and improve the sociality and transparency of the Group companies.

Moreover, under this concept, growth-oriented governance for transparent, fair, timely and decisive decision-making is indispensable for reinforcing management for corporate value enhancement.

In light of the introduction of the Corporate Governance Code targeting companies listed on Japanese stock exchanges, we practice the code appropriately and agree with the idea that ensuring sustained growth and improving corporate value for the medium to long term will contribute to the stakeholders and, eventually, the development of the overall economy. On this basis, we will endeavor to implement measures to further enhance our corporate governance.

**WEB** Corporate Governance Guidelines  
[http://www.asahigroup-holdings.com/en/csr/gov/internal/pdf/170328\\_guidelines\\_en.pdf](http://www.asahigroup-holdings.com/en/csr/gov/internal/pdf/170328_guidelines_en.pdf)

## Measures toward Enhancement of Our Corporate Governance

2000	<ul style="list-style-type: none"> <li>Corporate Officer System was introduced.</li> <li>Nomination Committee and Compensation Committee were established.</li> <li>Corporate Strategy Board was established.</li> </ul>
2007	<ul style="list-style-type: none"> <li>In order to respond swiftly to the changes in the business environment, we reduced the term of office for our directors to one year.</li> <li>The retirement bonus system for Directors and Audit &amp; Supervisory Board Members was abolished.</li> </ul>
2011	<ul style="list-style-type: none"> <li>The Company transitioned to a pure holding company structure.</li> </ul>
2013	<ul style="list-style-type: none"> <li>Takeover defense measures were abolished.</li> </ul>
2015	<ul style="list-style-type: none"> <li>Corporate Governance Guidelines were formulated.</li> </ul>



## Characteristic Features of Our Corporate Governance System

As a company with an Audit & Supervisory Board, we audit the execution of duties by the Directors utilizing the Audit & Supervisory Board, of which a majority of the board members are independent Outside Audit & Supervisory Board Members, while taking advantage of the characteristics of the Audit & Supervisory Board Member system with its independence, and in which the power of final decision-making is given to each person and which has Standing Audit & Supervisory Board Members.

In addition, the Nomination Committee and the Compensation Committee have been established voluntarily to act as advisory bodies to the Board of Directors, of which half the members of each committee are independent Outside Directors. Under the system of these discretionary bodies, we have created a structure that allows independent outside directors and Audit & Supervisory Board Members to monitor the management of the Company with high effectiveness.

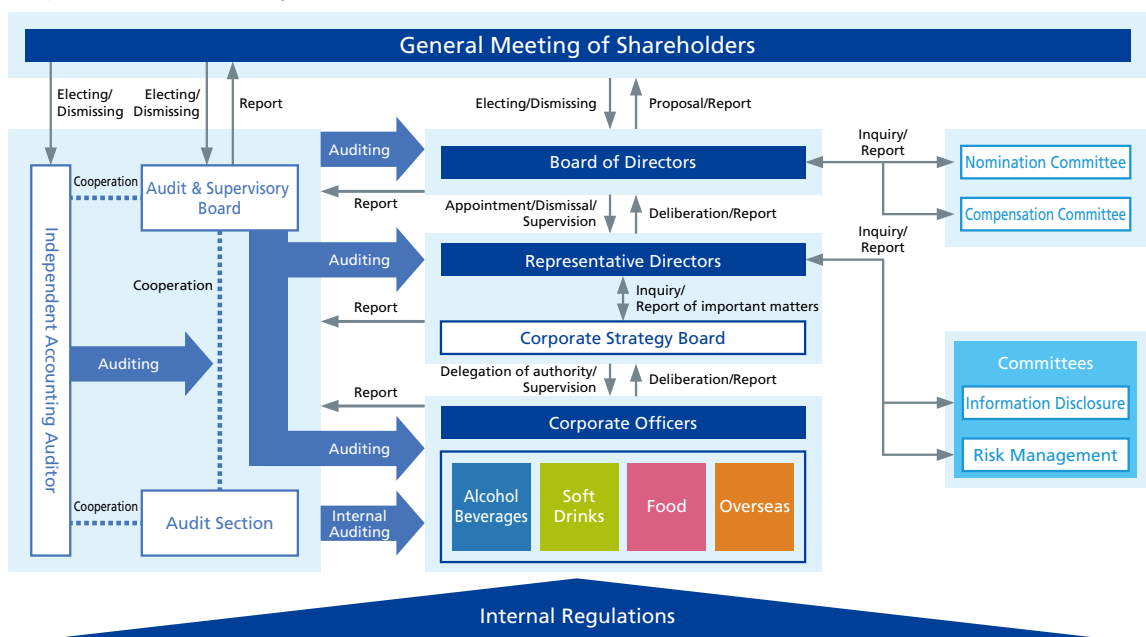
Other steps to build a corporate governance system for realizing corporate activities that meet the expectations of our stakeholders include the establishment of the Corporate Strategy Board, which provides reports on

its findings and views about evaluation of the legality, objectivity, and reasonableness of substantial matters concerning business execution in response to the inquiries referred from the Chairman and Representative Director or the President and Representative Director. It consists of internal Directors, Corporate Officers and Standing Audit & Supervisory Board Members.

### Details of the Corporate Governance System (as of March 28, 2017)

Structure of organizational design	Company with a Board of Directors and Audit & Supervisory Board
Number of Directors	10
Number of Independent Outside Directors included	3
Number of women	1
Directors term of office	1 year
Number of Audit & Supervisory Board Members	5
Number of Independent Outside Audit & Supervisory Board Members included	3
Number of women	1
Independent accounting auditor	KPMG AZSA LLC

### Corporate Governance System Chart



## Corporate Governance

### Directors and the Board of Directors

The Board of Directors consists of ten directors, including three outside directors who meet the requirements of independent directors/Audit & Supervisory Board Members as defined by the Company.

The Board of Directors appropriately fulfills its roles and responsibilities to achieve the sustained growth and corporate value enhancement of the Company over the medium to long term, as well as to improve earning capacity and capital efficiency, taking into account its fiduciary responsibility and accountability to shareholders. These roles and responsibilities include determining and executing important corporate strategies, such as the Long-Term Vision and Medium-Term Management Policy. The board also appropriately

supports management's risk-taking by maintaining the internal control system and risk management system.

The Outside Directors are elected from among corporate managers and experts in consideration of their experience, insight and professional background. Their presence ensures the balance of knowledge, experience, and ability, and the diversity of the entire board. The internal Directors are appointed after being comprehensively evaluated and judged based on their experience, insight and professional background with reference to the requirements for Directors, which are determined based on the corporate philosophy, action guidelines and management strategies of the Company.

### Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board of the Company consists of five Audit & Supervisory Board Members, of whom three are Outside Audit & Supervisory Board Members who meet the requirements of independent Directors/Audit & Supervisory Board Members as defined by the Company.

The Standing Audit & Supervisory Board Members attend important meetings such as the Corporate Strategy Board, examine important documents for approval, and collect information from the Directors, the sections in charge of internal audits, and so forth. They report the collected information to the Audit & Supervisory Board, discuss with the Outside Audit &

Supervisory Board Members, and conduct appropriate audits on the management of the Company.

The Outside Audit & Supervisory Board Members shall be elected from among corporate managers, lawyers and accounting experts who have a wealth of experience and broad insight.

By combining the information held by the Standing Audit & Supervisory Board Members and the high-level expertise of the Outside Audit & Supervisory Board Members, the system enables them to exercise their authority actively and assertively, making appropriate judgments and taking action from an independent and objective standpoint.

### Nomination Committee and Compensation Committee

To ensure complete fairness and transparency in decision-making regarding the appointment and remuneration of Directors, Audit & Supervisory Board Members, and corporate officers, we have established the Nomination Committee and the Compensation Committee as advisory bodies to the Board of Directors. The two committees are made up of Directors, including Outside Directors.

The Nomination Committee consists of two Outside Directors and two internal Directors, and an internal Director is cooperatively appointed as its chairperson. The committee held five meetings during 2016, and provided reports on its findings and views primarily about personnel affairs of officers, representatives of principal subsidiaries and the succession plan. The attendance rate of committee members was 100%.

The Compensation Committee consists of two Outside Directors and two internal Directors, and an Outside Director is cooperatively appointed as its chairperson. The committee held five meetings during 2016, and provided reports on its findings and views

primarily about officers' bonuses, the revision of the officers' remuneration plans and the introduction of a new Performance-Linked Stock Compensation Plan. The attendance rate of committee members was 100%.

#### List of Committee Members

Category	Name	Nomination Committee	Compensation Committee
Directors	Naoki Izumiya	◎	
	Akiyoshi Koji	○	
	Katsutoshi Takahashi		○
	Yoshihide Okuda		○
	Noboru Kagami		
	Kenji Hamada		
	Atsushi Katsuki		
	★ Mariko Bando	○	○
	★ Naoki Tanaka	○	◎
	★ Tatsuhiro Kosaka		
Audit & Supervisory Board Members	Akira Muto		
	Tetsuo Tsunoda		
	★ Katsutoshi Saito		
	★ Yumiko Waseda		
	★ Yutaka Kawakami		

Note: ★ denotes Outside Directors/Audit & Supervisory Board Members  
◎ denotes committee chairpersons ○ denotes committee members

## Reasons for the Election of Independent Directors and Audit & Supervisory Board Members

According to the Company's Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members, the Company deems that its Outside Directors and Outside Audit & Supervisory Board Members maintain sufficient independence with no potential conflicts of interest occurring between them

and the general shareholders. Moreover, as they meet the requirements for independent Directors/Audit & Supervisory Board Members as defined by the Tokyo Stock Exchange, the Company has reported them as independent Directors/Audit & Supervisory Board Members to the said exchange.

### Reasons for the Election of Outside Directors and Audit & Supervisory Board Members

Name	Reasons	Number of meetings attended	
		Board of Directors	Audit & Supervisory Board
Mariko Bando	Mariko Bando has a wide range of knowledge as an educator in addition to her diverse experience in public administration both in Japan and overseas. Accordingly, the Board of Directors deems that she possesses capabilities appropriate for an independent Outside Director.	13/13	—
Naoki Tanaka	Naoki Tanaka has abundant experience as a member of government councils and his broad knowledge as a specialist deeply versed in domestic and international economic policy. Accordingly, the Board of Directors deems that he possesses capabilities appropriate for an independent Outside Director.	12/13	—
Tatsuro Kosaka	Tatsuro Kosaka serves as the chief operating officer of a global corporation and has abundant experience and broad knowledge that include implementing medium-term management plans and various other business reforms. Accordingly, the Board of Directors deems that he possesses capabilities appropriate for an independent Outside Director.	10/11	—
Katsutoshi Saito	Katsutoshi Saito has long served as an operating officer of global corporations and has abundant experience and broad knowledge. Accordingly, the Board of Directors deems that he possesses capabilities appropriate for an independent Outside Audit & Supervisory Board Member.	13/13	7/7
Yumiko Waseda	Yumiko Waseda has long served as an attorney at law and has abundant experience and expert knowledge related to corporate legal affairs. Accordingly, the Board of Directors deems that she possesses capabilities appropriate for an independent Outside Audit & Supervisory Board Member.	13/13	7/7
Yutaka Kawakami	Yutaka Kawakami has served as a certified public accountant and has expert knowledge related to accounting and abundant auditing experience both in Japan and overseas. Accordingly, the Board of Directors deems that he possesses capabilities appropriate for an independent Outside Audit & Supervisory Board Member.	—	—

Notes: 1. The number of meetings attended for Board of Directors and Audit & Supervisory Board is for 2016.  
 2. As Director Tatsuro Kosaka was newly elected at the 92nd Annual General Meeting of Shareholders held on March 24, 2016, the above number of Board of Directors meetings held that he could attend is different from other Directors.  
 3. Audit & Supervisory Board Member Yutaka Kawakami was newly elected at the 93rd Annual General Meeting of Shareholders held on March 28, 2017.

### Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

The Company has established standards as set forth below for objectively assessing the independence of its Outside Directors and Outside Audit & Supervisory Board Members (herein this section the "Outside Directors/Audit & Supervisory Board Members") and accordingly deems that an Outside Director/Audit & Supervisory Board Member lacks sufficient independence for the Company if any of the following apply, such that he or she is:

1. A party who serves as an executive\*<sup>1</sup> of the Company or a subsidiary of the Company (herein this section collectively referred to as the "Group") or has served as an executive of the Group in the past;
2. A party for whom the Group is a major business partner\*<sup>2</sup> (or if the business partner is an incorporated entity, an executive thereof);
3. A party who is a major business partner of the Group\*<sup>3</sup> (or if the business partner is an incorporated entity, an executive thereof);
4. A consultant, certified public accountant or other accounting professional, or an attorney at law or other legal professional who has been paid substantial amounts of money or other financial benefits\*<sup>4</sup> other than Directors' and Audit & Supervisory Board Members' remuneration paid by the Group (or if the party receiving such financial benefits is an incorporated entity, association or other organization, then persons belonging to such organization);
5. A certified public accountant who belongs to the auditing firm which serves as the Accounting Auditor of the Group;
6. A major shareholder\*<sup>5</sup> of the Group (or if the major shareholder is an incorporated entity, an executive thereof);
7. An executive of an incorporated entity that is a major shareholder of the Group;
8. An executive of a company which has a relationship involving cross-assumption of office of Outside Directors/Audit & Supervisory Board Members\*<sup>6</sup>;
9. A party who receives substantial donations\*<sup>7</sup> from the Group (or if the party receiving such donations is an incorporated entity, association or other organization, then an executive thereof);
10. A close relative\*<sup>9</sup> of a party who falls under any of the above items from 1 to 9 (limited to important persons\*<sup>8</sup>, with the exception of item 1);
11. A party who has fallen under any of the above items from 2 to 10 during the past five (5) years;
12. A party who has exceeded the tenure for Outside Directors/Audit & Supervisory Board Members stipulated by the Company\*<sup>10</sup>; or
13. Notwithstanding the provisions of the respective items above, a party with respect to whom there are special grounds for deeming there to be potential for conflict of interests with general shareholders.

\*1. "Executive" refers to an executive as defined in Item 6, Paragraph 3, Article 2 of the Ordinance for Enforcement of the Companies Act, and includes both executive directors and employees, but does not include Audit & Supervisory Board Members.

\*2. "Party for whom the Group is a major business partner" refers to a party whose transactions in the most recent year amount to 2% or more of the consolidated revenue of the business partner's group.

\*3. "Party who is a major business partner of the Group" refers either to a party whose transactions in the most recent year amount to 2% or more of the Company's consolidated revenue, or a party who loans to the Group an amount equivalent to 2% or more of the Company's consolidated assets as of the end of the most recent year.

\*4. "Substantial amounts of money or other financial benefits" refers to money and other financial benefits amounting to 10 million yen or more annually, excluding Directors' and Audit & Supervisory Board Members' remuneration, for the most recent year (if such financial benefits are obtained by an incorporated entity, association or other organization, it refers to money or other financial benefits amounting to 2% or more of such organization's total revenues for the most recent year).

\*5. "Major shareholder" refers to a person or incorporated entity that directly or indirectly holds 10% or more of the Company's total voting rights.

\*6. "Relationship involving cross-assumption of office of Outside Directors/Audit & Supervisory Board Members" refers to a relationship where an executive of the Group serves as an Outside Director/Audit & Supervisory Board Member of another company, and an executive of that company serves as an Outside Director/Audit & Supervisory Board Member of the Company.

\*7. "Substantial donations" refers to annual donations of 10 million yen or more made during the most recent year.

\*8. "Important person" refers to directors (excluding outside directors), executive officers, corporate officers, and other executives in positions of general manager or above; certified public accountants belonging to auditing firms or accounting offices; attorneys at law belonging to law firms; councilors, directors, auditors or other officers belonging to incorporated foundations, incorporated associations, educational institutions and other incorporated entities; and other persons objectively and reasonably deemed to be in positions of similar importance.

\*9. "Close relative" refers to a spouse or persons within the second degree of consanguinity.

\*10. "Tenure of Outside Directors/Audit & Supervisory Board Members stipulated by the Company" means ten (10) years with respect to Directors and twelve (12) years with respect to Audit & Supervisory Board Members.



## Corporate Governance

### Remuneration for Directors, Audit & Supervisory Board Members, and the Independent Accounting Auditor

#### ● Basic Policy

We have determined remuneration for Directors and Audit & Supervisory Board Members by a resolution of the Board of Directors based on the following Basic Policy on Remuneration for Directors and Audit & Supervisory Board Members, after discussion by the Compensation Committee.

- Remuneration is conducive to acquiring superior human resources
- Remuneration is suitable for the magnitude of their roles and the scope of their responsibilities for each executive position
- Remuneration is motivational for the Company's corporate value enhancement and sustainable growth
- Transparency and objectivity will be assured with respect to the remuneration-setting procedures

Remuneration for directors consists of basic remuneration (monthly and fixed), bonuses (annual and short-term performance-linked), and performance-linked stock compensation (long-term performance-linked), forming a scheme giving consideration to motivation for sustained enhancement of corporate performance and value. The level of each item is set

according to each director's responsibilities and their status as internal or outside and by drawing on outside expert organization's survey data.

Basic remuneration is determined at the beginning of the term on the basis of one's position and magnitude of the role, and bonuses are determined using consolidated profit as a benchmark in proportion to the level of achievement of targets, which are set at the beginning of each year. For performance-linked stock compensation, points are granted according to the level of achievement of targets in terms of earnings per share (EPS), one of the performance benchmarks set in the Medium-Term Management Policy, and Company shares in the number equivalent to the cumulative number of these points will be delivered at the time of their retirement.

The bonuses and performance-linked stock compensation shall only be paid to internal Directors.

Remuneration for Audit & Supervisory Board Members consists only of basic remuneration following the abolition of the bonus system in April 2009.

The retirement benefit system and stock option system were abolished in 2007.

#### Remuneration for Directors and Audit & Supervisory Board Members (2016)

Category	Basic remuneration		Bonus		Total amount (Millions of yen)
	Number of persons remunerated	Total amount paid (Millions of yen)	Number of persons remunerated	Total amount paid (Millions of yen)	
Directors	13	334.1	10	131.1	465.2
[of which, Outside Directors]	(4)	(44.4)	(1)	(1.2)	(45.6)
Audit & Supervisory Board Members	6	99.3	—	—	99.3
[of which, Outside Audit & Supervisory Board Members]	(3)	(33.7)	(—)	—	(33.7)

Note: The figures above include Directors Katsuyuki Kawatsura, Shiro Ikeda and Ichiro Ito and Audit & Supervisory Board Member Yoshihiro Tonozuka, who retired upon the expiry of their terms of office at the conclusion of the 92nd Annual General Meeting of Shareholders held on March 24, 2016.

#### ● Independent Accounting Auditor Remuneration

In 2016, audit fees and other remuneration payable and so forth by the Company to the independent accounting auditor amounted to ¥229 million for an

attestation agreement and the total amount of remuneration payable and so forth by the Company and its subsidiaries to the independent accounting auditor amounted to ¥711 million.

### Succession Plan

Given that rapid and unprecedented changes are foreseen in the business environment surrounding corporations, we consider the succession of management and the reinforcement of its talent pipeline as the most important priorities in ensuring its sustained growth. Accordingly, we have formulated a succession plan for the chief executive officer (CEO) and other leading persons. It has a framework that takes into consideration not only individual capability requirements and selection criteria but also transparent and fair governance, and

the building of a talent pipeline enhanced in terms of both quality and quantity. The plan has been formulated with advice from the Nomination Committee with reference to the requirements for the corporate officers, which are determined based on the management philosophy, action guidelines and management strategies of the Company. The Board of Directors appropriately oversees the succession plan for the CEO and other leading persons, receiving reports from management as necessary.

## Evaluation of the Board of Directors

The Directors and Audit & Supervisory Board Members conducted an evaluation in 2017, on the basis of a self-evaluation questionnaire prepared by the Company's Board of Directors with reference to the opinions given by third-party external advisors. They then engaged in discussions based on the evaluation results during two meetings of the Board of Directors held in March 2017, and confirmed the content of the evaluations. An overview of the results and initiatives going forward are as follows. Please refer to the following website for details on the methods of analysis and evaluation and evaluation items.

**WEB** <http://www.asahigroup-holdings.com/en/whoweare/governance.html>

### Overview of Results of Analysis and Evaluation

The response "performed without incident" accounted for a high proportion of the answers to a vast majority of questions on the self-evaluation questionnaire of individual Directors and Audit & Supervisory Board Members regarding the effectiveness of the Board of Directors.

Meanwhile, we aim to generate sustainable growth and increase its corporate value over the medium to long term, and have accordingly been further developing our management for corporate value enhancement initiatives, which are based on the Medium-Term Management Policy. Moreover, the Company's Directors and Audit & Supervisory Board Members are aware that in order to promote such initiatives further improvements must be made with respect to the Board of Directors. To this end, each Director and Audit & Supervisory Board Member has furnished numerous suggestions for improving the Board of Directors.

Moreover, in "conducting succession planning oversight," which was designated as an issue to be addressed in the evaluation for 2015, we have substantially improved evaluation results due to efforts that have included formulating the succession plan through discussions among members of the Nomination Committee and ensuring that the Board of Directors

received a report. There were also opinions from each Director in the evaluation for 2015 concerning "providing more opportunities and information to promote a better understanding among the independent Outside Directors with respect to the Company's business environment" and "taking measures to ensure advice from independent Outside Directors is more strongly reflected in the management." As a result of efforts to provide extensive and concrete explanations of the related key proposals beginning with the review phase, many Directors are now of the mind that there are no problems in regard to those issues. We also noted improvement with respect to evaluations in regard to "taking steps to create a stronger balance and diversity of knowledge, experience and capabilities among respective Directors," "involving internal Directors in the management of the entire Group from a high point of view not limited to the jurisdiction they are in charge of," and "engaging in further discussion at the Board of Directors meetings on the matters concerning the reinforcement of ESG initiatives."

After having engaged in discussions regarding the above results, the Company's Board of Directors concluded that the effectiveness of the Board of Directors in 2016 was "effective overall" as in the previous year.

### Initiatives Going Forward

Having discussed matters based on results of the evaluation described above, the Company's Board of Directors will work to improve Board of Directors' effectiveness, premised on awareness of the three points listed below, as suggested by each Director and Audit & Supervisory Board Member.

**i) Devising means of improving discussions of the Board of Directors**

Initiatives will be taken that include adequately providing information on matters for deliberation by the Board of Directors and establishing a forum for free discussion and debate outside of the Board of Directors.

**ii) Promoting an approach to governance that addresses the matter of rapid globalization of the Company's business**

Initiatives will be taken that include promoting further development of internal control systems and risk management systems such that address the matter of increasingly global operations, and making further improvements regarding the approach of the Board of Directors in addressing the matter of increasingly global operations.

**iii) Promoting initiatives for enhancing corporate social value and ESG initiatives**

Initiatives will be taken that include promoting further discussion regarding the Company's social value with respect to addressing changes in the management environment.

## Corporate Governance

### Promotion of Engagement through IR Activities

We are pursuing the fair and broad disclosure of financial information, including operating results and non-financial information such as management strategies, business challenges and information related to risk and governance. At the same time, we have been actively engaged in dialogue with shareholders and investors as well as implementing management reforms to reflect their voices.

Looking ahead, we will promote IR activities with a medium- to long-term perspective based on key priorities laid out under the Medium-Term Management Policy as our Engagement Agenda (agenda for constructive dialogues), and continue striving to raise sustainable corporate value.

#### Major IR Activities in 2016

Activities	Frequency	Details
Financial Results Briefing for Analysts and Institutional Investors	Four times	Quarterly briefing sessions (Briefing sessions by the President and officers in charge for Q2 and Q4, and teleconferences by the IR/finance sections for Q1 and Q3)
Business Operation Briefing for Analysts and Institutional Investors	Once	Briefing sessions by General Managers (A briefing on Oceania business was conducted in 2016.)
Facilities Tour for Analysts and Institutional Investors	Once	Briefing sessions combined with facilities tours (The tour was conducted at Asahi Breweries, Ltd.'s Ibaraki Brewery in 2016.)
IR Interviews for Analysts and Institutional Investors	Approx. 300 times	IR interviews and teleconferences for analysts and institutional investors
Individual Visits for Japanese Institutional Investors	Twice	President's visits to approx. 20 shareholders and investors in Japan (Q2 and Q4)
Individual Visits for Overseas Institutional Investors	Three times	President's visits to approx. 50 overseas shareholders and investors (North America, Europe and Asia)
Briefing Sessions for Individual Investors	17 times	Briefing sessions by the President (Contents also made available on the website.) Briefing sessions by the IR officer also held at beer factories across Japan

#### IR Activity-Related Awards

##### 2014

- 2014 Securities Analysts' Awards for Excellence in Corporate Disclosure  
**The top company in the foods category**  
(12 consecutive years between 2003 and 2014)  
(The Securities Analysts Association of Japan (SAAJ))
- 2014 Annual IR Grand Prix Awards  
**2014 IR Grand Prix Award**  
(The Japan Investor Relations Association (JIRA))

##### 2015

- 2015 WICI Japan Award for Excellence in Integrated Reporting  
**Best Integrated Reporting Award**
- 2015 NIKKEI Annual Report Awards  
**Award for Excellence**

##### 2016

- 2016 Securities Analysts' Awards for Excellence in Corporate Disclosure to Individual Investors  
**Corporate excellence**  
(The Securities Analysts Association of Japan (SAAJ))



#### Inclusion in SRI Indexes

The Asahi Group has been included in several major Socially Responsible Investment (SRI) indexes and funds worldwide. SRI is an investment approach that uses valuation criteria for investment decisions based on social perspectives, such as environmental consideration and corporate citizenship, in addition to financial considerations.



Dow Jones Sustainability Indices were jointly developed by Dow Jones & Company of the U.S. and RobecoSAM AG of Switzerland.



The Ethibel Excellence Investment Register is an investment universe managed by Forum ETHIBEL, an NPO headquartered in Belgium.



The FTSE4Good Global Index is a stock index developed by FTSE International Limited, established by The Financial Times Ltd. and London Stock Exchange Group plc.



The Morningstar Socially Responsible Investment index is Japan's first socially responsible share index. Morningstar Japan K.K. selects for inclusion in the index 150 publicly listed Japanese companies that have been evaluated as possessing outstanding social credentials.

# Review of Operations



## ALCOHOL BEVERAGES

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

## SOFT DRINKS

- Asahi Soft Drinks Co., Ltd.
- Calpis Co., Ltd.
- LB Co., Ltd. and others

## FOOD

- Asahi Group Foods, Ltd.
- Asahi Food & Healthcare Co., Ltd.
- Wakodo Co., Ltd.
- Amano Jitsugyo Co., Ltd. and others

## OVERSEAS

### Europe

- Asahi Europe Ltd
- Asahi Breweries Europe Ltd

### Oceania

- Asahi Holdings (Australia) Pty Ltd

### Southeast Asia

- Etika Beverages Sdn. Bhd.

### China

- Asahi Beer (China) Investment Co., Ltd. and others



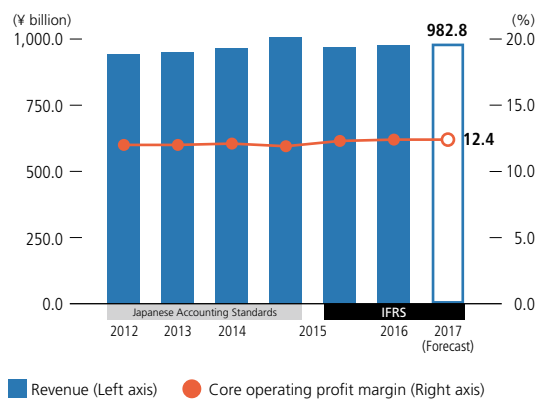
# ALCOHOL BEVERAGES



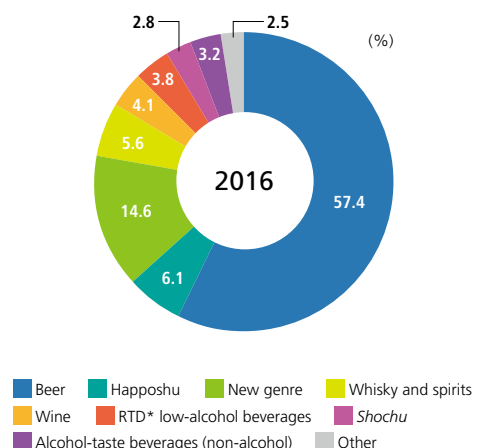
## Medium-Term Management Policy (Key Priorities)

- Demonstrate leadership in the industry with high added value and increase the profit pool of the industry as the No. 1 comprehensive alcohol beverages company
- Strengthen new value creation proposals through innovation and develop strong core brands in each category
- Reform the earning structure through value chain upgrading and collaboration, and evolve the business model including e-commerce

Revenue and Core Operating Profit Margin



Revenue by Category



\* RTD: Ready-to-Drink. Beverages that can be consumed immediately upon purchase, such as canned *chuhai*

## Business Environment (Opportunities and Risks)

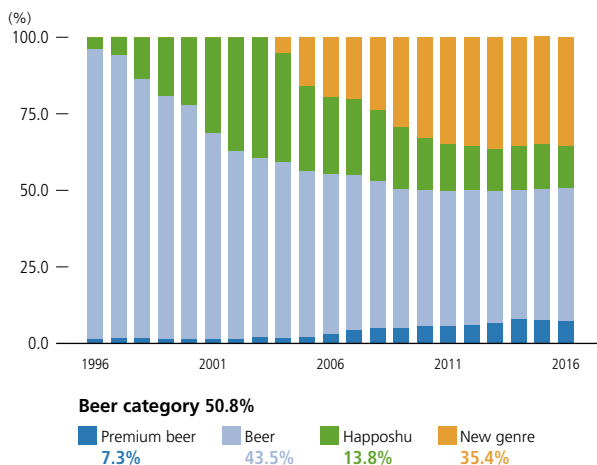
Japan's beer-type beverage industry has continued to shrink from its 1994 peak due to the falling birthrate and aging population as well as diversification in alcohol consumption. We anticipate a risk that beer-type beverage market shipments will continue to decline by around 1.0% annually. Meanwhile, the diversification of consumption and values has invigorated the market for premium beer and craft beer, and the market for functional beverages with fewer carbohydrates and purine bodies has also grown amid greater health consciousness among consumers. We expect a gradual return of consumers to the beer category through 2026 as the liquor

tax rates on all beer-type beverages will be unified gradually.

In the category of alcohol beverages other than beer-type beverages, markets such as whisky and spirits, wine, and RTD low-alcohol beverages are growing due to diversification of lifestyles and proposals for new ways to enjoy beverages. In addition, with the upcoming Tokyo 2020 Olympic and Paralympic Games and the registration of Japanese cuisine as an Intangible Cultural Heritage by UNESCO, we anticipate diverse opportunities for growth by leveraging our strengths in Japanese food culture and through expanding inbound tourism demand.

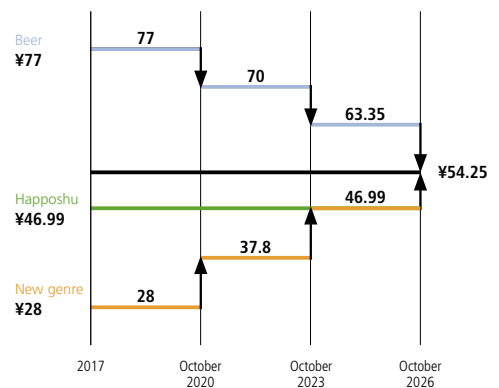
### Market Data

#### Market Share of Premium Beer\*, Beer, Happoshu, and New Genre



\* Composition ratio of premium beer has been estimated by Asahi  
 \* Taxed shipment volume of five major Japanese breweries

#### Revision of Liquor Tax (Tax per 350 ml)



Source: National Tax Agency

## Medium-Term Management Policy (Key Priorities)

Based on these opportunities and risks, as the Group's largest cash generative business, the Alcohol Beverages Business will strive to maintain and improve its high profitability as its priority mission.

As the No. 1 comprehensive alcohol beverages company with beer-type beverages and diverse leading brands and categories, our policy is to continue demonstrating leadership in adding value and improving the profit pool of the industry. Based on reinforcement of core brands by leveraging our brand development capabilities and our corporate

culture of taking on the challenge of innovation, we will strive to create new values and demand, aiming for first entry into new markets.

Furthermore, while enhancing our industry-leading cost competitiveness (core operating profit margin of 21% excluding liquor tax) across the entire value chain, we intend to undertake earning structure reforms through collaboration with our competitors and other measures, and evolve our business model using e-commerce and so forth.

## 2016 Results

In beer-type beverages, we concentrated efforts on improving *Asahi Super Dry* brand value, focusing on sales promotion activities designed for seasonal events. We greatly enhanced the profile of the *Clear Asahi* brand by updating existing products including *Clear Asahi Prime Rich* and releasing limited-time products.

In alcohol beverages other than beer-type beverages, we bolstered sales promotions for wine, centered on *SANTA HELENA Alpaca*, along with the release of *Asahi Mogitate* in RTD low-alcohol beverages. We also made an effort to stir up the market for alcohol-taste beverages (non-alcohol) by updating *Asahi Dry Zero*.

As a result of these endeavors, revenue grew 0.6% to ¥976.6 billion. Although spending on advertising increased, core operating profit rose 0.9% to ¥120.8 billion, reflecting higher sales and moves to reduce manufacturing costs, such as by using lighter can lids.



## 2017 Targets

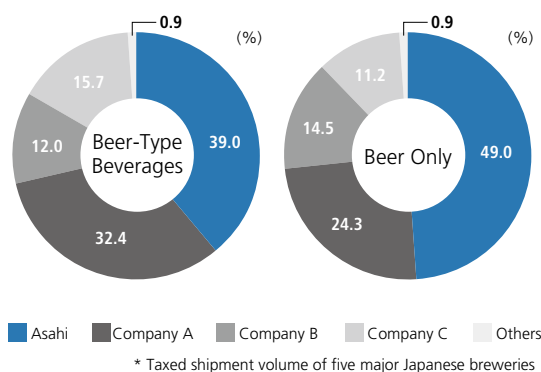
In 2017, we aim to improve cost competitiveness and create new values and demand through innovation, rallying around the slogan "Aim to be the leading company in alcohol beverages in Japan by nurturing No. 1 brands and structural reforms."

In beer-type beverages, we intend to step up our new value propositions with the release of *Clear Asahi Zeitaku Zero*, which has zero carbohydrates, as well as special-edition products commemorating the 30th year since the launch of *Asahi Super Dry*. In alcohol beverages other than beer-type beverages, we plan to renew *Asahi Mogitate* RTD low-alcohol beverages and expand the lineup of *SANTA HELENA Alpaca* wines in a bid to foster core brands.

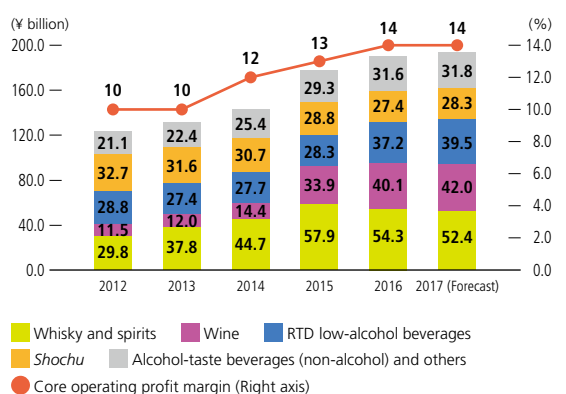
Through these initiatives, we are targeting revenue of ¥982.8 billion, up 0.6% year on year, and core operating profit of ¥122.0 billion, up 1.0%, by refraining from spending on advertising and cutting raw material costs.



### Market Share by Company in 2016



### Revenue by Category and Core Operating Profit Margin (Excluding Beer-Type Beverages)



# Topic 1

## Development of *Asahi Mogitate*, an RTD Product That Proposes New Value

In April 2016, Asahi Breweries, Ltd. introduced *Asahi Mogitate* in the RTD market, which has expanded continuously for the past eight years. First-year sales of this new product were a record-breaking 7.06 million boxes\* for the company.

*Asahi Mogitate* took roughly three years to develop. To differentiate from competing products, we concentrated our value creation efforts on the freshness of squeezed fruit juices, guided by the results of consumer surveys of about 5,000 people, a scale not undertaken since we developed *Asahi Super Dry*.

To make this fresh taste a reality, we partnered with suppliers able to deliver fruit juice squeezed within 24 hours of being harvested. We also developed production technologies to preserve the original flavor compounds of the fruit. By pasteurizing

at colder-than-normal temperatures, we were able to create a production method that preserves the original fresh taste of the fruit.

In 2017, we aim to enhance brand value by further refining the added value of our product. Specifically, we will bring out more of the natural fruit flavors by rebalancing the flavor profile of fruit juices and pulp.



\* One box = 24 x 250 ml cans

# Topic 2

## Start of Joint Distribution with Kirin Brewery Company, Limited for Greater Collaboration in the Logistics Field

From 2017, Asahi Breweries, Ltd. began coordinating transportation to the Hokuriku area using railway containers with Kirin Brewery Company, Limited. Our objective is to reduce environmental impact and address the social issue of a shortage of truck drivers in Japan.

Before this agreement, both companies used long-haul trucks to deliver products from their breweries in the Chubu and Kansai regions. Now, the two companies transport their products on the same freight train from Kansai to a locally established joint distribution center, from which trucks travel short distances to their destinations. In January, we established a railway transportation route up to Ishikawa Prefecture, and we plan to extend the delivery area to Toyama Prefecture this autumn.

We estimate that this joint initiative by both companies will cut CO<sub>2</sub> emissions by 56% (2,700 t)

by both companies compared with the previous transportation method.

We are committed to collaborating with our rivals in fields where such coordination is feasible in order to lessen our impact on the environment and take one step closer to a sustainable society.



Ceremony for the joint use of freight trains by Asahi Breweries and Kirin Brewery



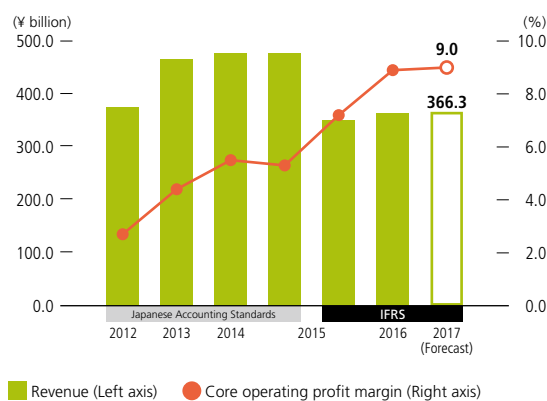
# SOFT DRINKS



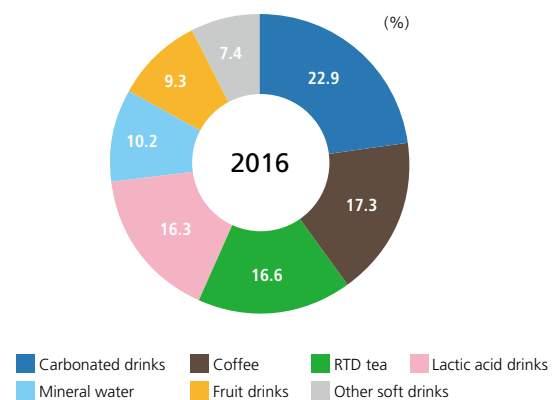
## Medium-Term Management Policy (Key Priorities)

- Establish a distinctive, prominent position centered on reinforcement of the brand strength of core products
- Offer higher added value in response to consumer health consciousness and propose new value through innovation, including in the chilled beverages business
- Reform the earning structure through such means as maximization of integration synergies, sales channel and container mix improvement, and SKU reduction

Revenue and Core Operating Profit Margin



Asahi Soft Drinks Co., Ltd. Cases Sold by Category



## Business Environment (Opportunities and Risks)

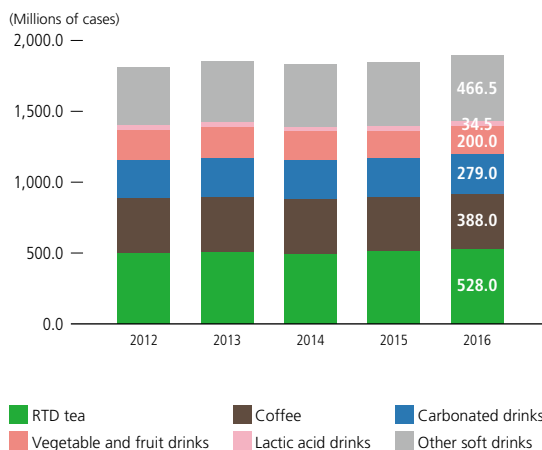
The Japanese soft drinks market has recorded compound average annual growth of around 1% over the past five years, and we do not expect significant growth in sales volume going forward. On the other hand, the sugar-free tea and mineral water markets have been expanding against a backdrop of rising consumer health consciousness and concerns for food safety and reliability. Furthermore, the soft drinks markets for foods for specified health uses (FOSHU) and foods with function claims are expanding, and opportunities for growth in each

category through provision of high added value are expected to expand.

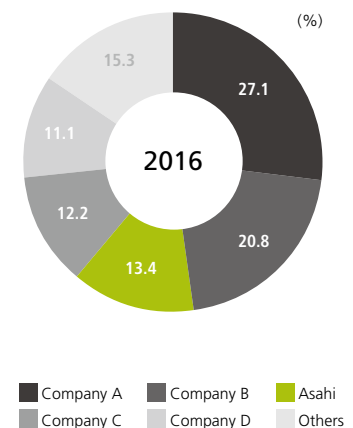
There is a risk that competition will continue to intensify in the Japanese soft drinks market due to the substantial number of large beverage manufacturers. However, the entire industry moves toward value competition emphasizing profitability. On the other hand, as a few top brands continue to draw a larger share of demand in each category, we also need to seek opportunities for growth by anticipating the restructuring of the beverage industry.

### Market Data

#### Japan's Beverage Market by Category



#### Market Share by Company



## Medium-Term Management Policy (Key Priorities)

In light of these opportunities and risks, we aim to realize growth in the profit of the Soft Drinks Business by establishing a differentiated position. We will avoid falling into a price competition by focusing mainly on total market share alone. We will seek to establish a unique, prominent position centered on the brand development capabilities we have cultivated, including our leading clear carbonated drink brand *Mitsuya Cider*. We will also aim to demonstrate strengths in health functionality. We

will take on the challenge of offering high added value in FOSHU and to create further innovation leveraging lactic acid technology.

Moreover, we will strive to establish a robust profit structure by maximizing our synergies with the fully integrated Asahi Soft Drinks Co., Ltd. and Calpis Co., Ltd., in such ways as building optimal production and logistics systems. Other initiatives will include improving our sales channels and container mix and reducing stock keeping units (SKUs).

## 2016 Results

In our core brands, we proposed new value utilizing our brand assets by selling *Mitsuya Sumikuru Cider* using clear fruit juice\*, *WONDA Kiwami* canned coffee produced under supervision of a venerable coffee shop, and *Wilkinson Tansan Dry Cola*, a sugar-free carbonated water with cola aroma, in addition to launching *Asahi Oishii Mizu Plus Calpis no Nyusankin*, which combines natural water with added lactic acid.

Moreover, we worked hard to enhance our presence in the health function domain through product proposals for FOSHU and foods with function claims. In chilled beverages, we expanded sales channels for small volume products in response to market needs.

As a result, revenue in the Soft Drinks Business was ¥363.9 billion, up 3.9% year on year. Core

operating profit was ¥32.3 billion, up 28.0% year on year due to improvements in the composition of product categories and types of containers, centered on increasing small PET bottles, in addition to initiatives aimed at building an optimal production and logistics systems.



\* Clear fruit juice contains no solids. Following the juicing of fruits and dispersion of solids, the solids are filtered from the fruits (turbid fruit juice).

## 2017 Targets

In 2017, we will work toward growth driven by focusing management assets on core brands and enhancing product competitiveness centered on health functionality. We will also promote earning structure reforms through optimized production efficiency and enhanced capacity utilization.

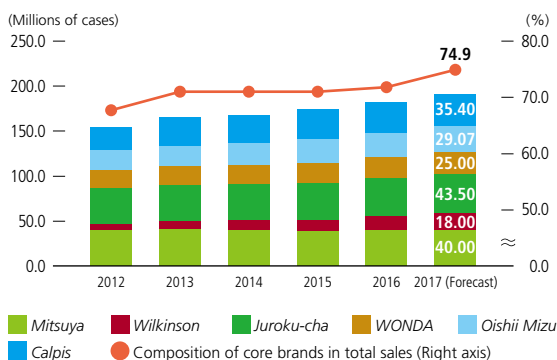
In addition to enhancing the product lineup of core brands such as *Mitsuya Cider*, *WONDA* and *Calpis*, we will also strengthen our pursuit of health value by expanding FOSHU and foods with function claims to create strong brands centered on high added value.

As a result of the above initiatives, we are aiming for revenue in the Soft Drinks Business of ¥366.3 billion, an increase of 0.7% year on year. We are

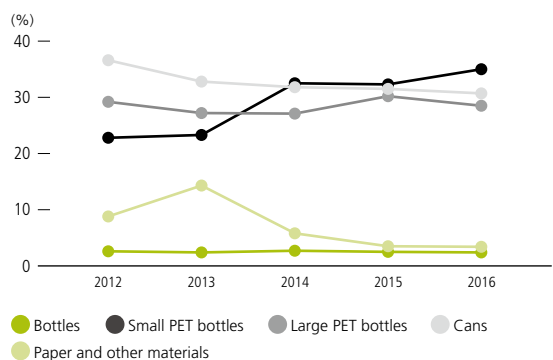
targeting core operating profit of ¥32.9 billion, a 1.7% increase year on year, by making improvements in our sales channels and container mix, as well as building optimal production and logistics systems.



### Revenue by Core Brand



### Asahi Soft Drinks Co., Ltd. Sales by Container Type



# Topic 1

## Using Asahi Soft Drinks and the Calpis Brand for New Value Proposals

In July 2016, we launched *Asahi Oishii Mizu Plus Calpis no Nyusankin* as a healthy flavored water utilizing the *Oishii Mizu* and *Calpis* brand assets to create new demand.

This new product takes the *Oishii Mizu* brand concept of water carefully selected to retain its most natural state and adds lactic acid from *Calpis*, our original health ingredient. It proposes a new way for customers who have a healthy habit of rehydrating with mineral water to meet their need for natural ingredients.

As a result, sales volume in 2016 was 1.23 million cases, the composition ratio of small PET bottles in mineral water rose, helping to improve the

container mix.

In 2017, we will pursue further health value through renewal of contents and packaging and enhance the brand value of healthy flavored water.



# Topic 2

## Locally Produced and Consumed *Asahi Juroku-cha* Further Contributes to Regional Revitalization

We launched the limited-volume series *Asahi Juroku-cha Gotochi Sozai Blend*, the first line of *Asahi Juroku-cha* products limited to a particular region, utilizing a brand asset to strengthen new value proposals.

*Asahi Juroku-cha* has been used to engage in regional revitalization activities since 2013 such as by using regional promotional characters on packaging. In 2016, we utilized the *Asahi Juroku-cha* product feature of having 16 ingredients to incorporate local specialties from seven different regions in Japan to stimulate new consumption in each region and promote local production and consumption.

Developing blends using local materials also generated topical interest. In 2016, 240.5 million cases of *Asahi Juroku-cha* were sold, the largest

sales volume since the product was launched in 1993.

In 2017, we will enhance brand value and contribute to revitalizing regions by launching local blends made using new ingredients and promote understanding of our rigorous selection of *Asahi Juroku-cha* ingredients.



Hokkaido Tohoku Kanto-Koshinetsu Chubu-Hokuriku Kansai Chugoku-Shikoku Kyushu-Okinawa



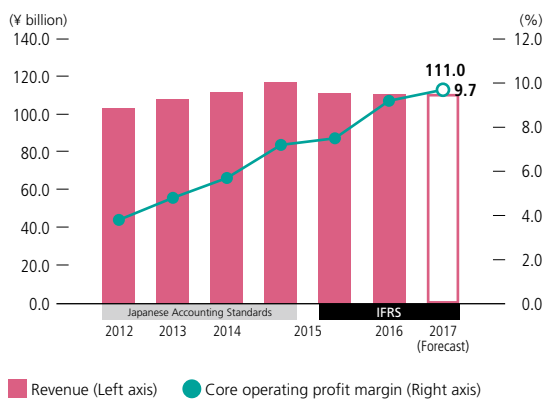
# FOOD



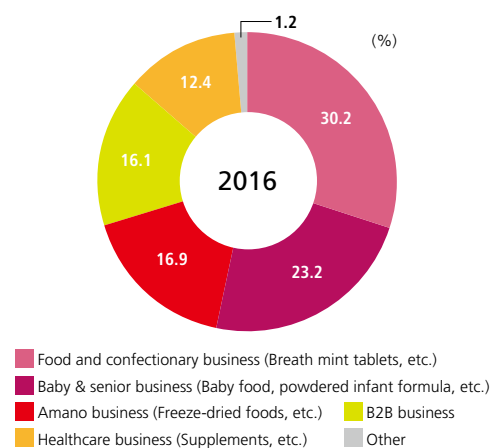
## Medium-Term Management Policy (Key Priorities)

- Enhance brand value and strengthen high added value product proposals through focus on existing categories where our strength lies
- Create new value and demand through innovation that leverages business integration in areas such as foods with function claims
- Reform the earning structure through focus on core competences, creation of integration synergies, and value chain optimization

Revenue and Core Operating Profit Margin



Revenue by Business



## Business Environment (Opportunities and Risks)

Although the domestic food market as a whole has been shrinking due to Japan's falling birthrate and aging population, changes in family structure and lifestyles have given rise to various growing categories. As seen in the alcohol beverages and soft drinks markets, the high added value category featuring high quality and health functionality, in particular, has also been expanding, reflecting consumers' multi-valued needs and rising consciousness about food safety and reliability. In addition, the breath mint tablet, supplement, baby food, and freeze-dried

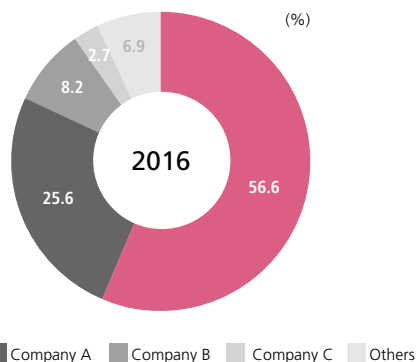
food markets, which we focus on, have been stably growing. Each company works to increase their core brands' value and propose new value leveraging their brand strength.

There are also risks that the deteriorating competitive environment could lead to a decline in profitability amid further fragmentation of the category. However, we believe that our competitive advantages in quality and technological superiority will open up opportunities for growth.

### Market Data

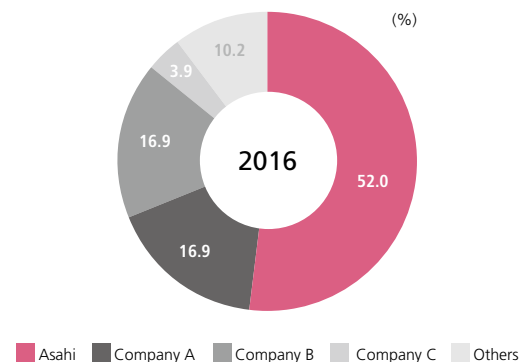
#### Market Share by Company

Breath Mint Tablet Market



Source: INTAGE Food SRI / candy (candy tablet market) / nationwide (excluding Okinawa) / all-industry, January 2016 to December 2016

Baby Food Market



Source: SDI Data, all-industry

## Medium-Term Management Policy (Key Priorities)

Considering the aforementioned opportunities and risks, we will focus on our strengths in the Food Business and leverage the integration of our three food companies to nurture the Group's next-generation growth base.

We will enhance our brand value and promote high added value products by focusing our management resources on existing brands and categories where we have strengths, such as *MINTIA*, the No. 1 brand in the breath mint category, as well as baby food and freeze-dried foods. Moreover, we will aim to create new values and demand through business

innovation in areas such as foods with function claims, with a focus on strengthening our R&D function.

We focus on our core competences of operations through the business integration of the three food companies. We also reinforce the cost competitiveness of our entire value chain through the integration of production and sales and increase management efficiency through better operational governance. Through such means, we intend to increase profitability even further.

## 2016 Results

We improved the value of the *MINTIA* brand of breath mint tablets by aggressively promoting sales and adding to the lineup of *MINTIA Breeze* (a large tablet type). In dietary supplements, we further developed foods with function claims by expanding the *Dear-Natura Gold* lineup and releasing *Schwabe Ginkgo Ginkgo Biloba Leaf Extract*. In addition, we launched a new line of *Tezukuri Ouen* powdered baby food. In freeze-dried foods, we increased the number of mass retailers that carry *Itsumono Omisoshiru*.

As a result, revenue in the Food Business declined 0.4% to ¥110.8 billion, owing to a review of the business portfolio, despite favourable sales

of core brands. Core operating profit totaled ¥10.2 billion, a year-on-year increase of 21.4% due to brisk sales of core brands and lower manufacturing costs, especially raw material costs.



## 2017 Targets

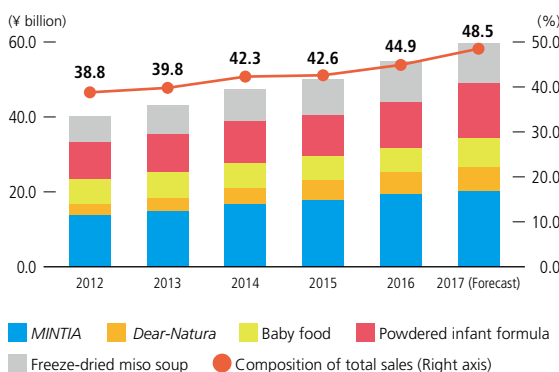
In 2017, we will focus on building a business foundation for sustained growth by nurturing brands in line with customer needs, in addition to generating synergies through business integration and by focusing more on our strengths.

We are planning a marketing push in infant formula to commemorate our 100th anniversary in this product category. We will also expand our product lineup and strengthen the *MINTIA* brand and other top brands in baby food and freeze-dried foods. In the B2B business, we plan to address low-margin products, while in the direct marketing business, we are transitioning to a business model focused on high added value products.

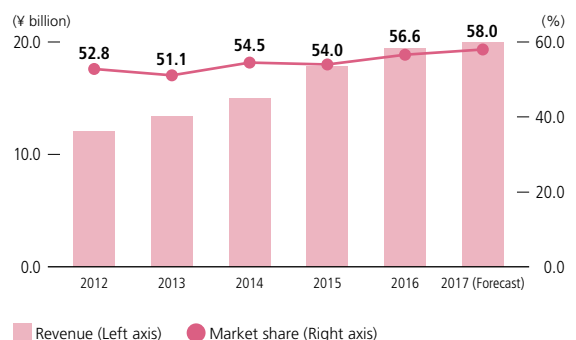
Through these initiatives, we are targeting revenue of ¥111.0 billion, an increase of 0.2%. Our target for core operating profit is ¥10.8 billion, a year-on-year increase of 5.3% driven by improvements in the sales channel and product mix and reductions in manufacturing costs.



Revenue by Core Brand and Category



Revenue and Market Share of *MINTIA*



# Topic 1

## Efforts to Improve *MINTIA* Brand Value

In 2016, we released limited-edition packaging for the *MINTIA* brand of breath mints to celebrate its 20th anniversary and promoted the brand in a consumer campaign. As a result, *MINTIA* brand sales grew and achieved a new record high for the 16th year in a row.

Launched in 1996, *MINTIA* was the first breath mint tablet made by a Japanese company. In 2003, we acquired the brand and have worked to improve the brand's strength. We have updated the packaging and flavor, while also expanding the lineup to include products suited to diverse lifestyles, ranging from mint to fruit flavors.

We have endeavored to enhance the value of the brand by improving added value and proposing new value while leveraging brand assets, as shown by the 2013 release of *Calpis* × *MINTIA*, a product jointly

developed with the *Calpis* brand, and the 2014 release of *MINTIA Breeze*, a large-sized mint tablet.

Through these efforts, we have steadily increased our market share, acquiring a top share in terms of sales value in 2007, while contributing to the expansion of the breath mint tablet market.



# Topic 2

## Fortifying the Food Business through Restructuring

Asahi Group Foods, Ltd. commenced operations in January 2016 after taking over the non-manufacturing functions of three domestic foods companies in the Group, including sales, marketing, R&D, SCM, and management divisions.

Through the business restructuring, we aim to build a robust business foundation. We plan to expand distribution channels through the integrated management of customers at each company, while investing management resources in core brands through focusing on core competences. We also aim

to generate cost synergies through optimal production and logistics systems. We will reduce procurement costs through economies of scale and develop joint deliveries through the integration of logistics bases, while enhancing in-house production.

In July 2017, we plan to merge the three production companies into Asahi Group Foods, Ltd. While reinforcing business governance through the integration of manufacturing and sales, we aim to maximize integration synergies.





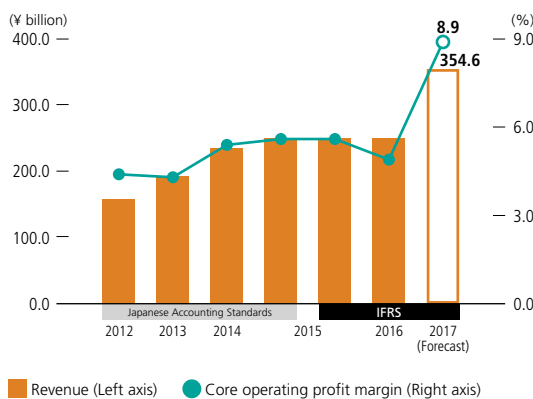
# OVERSEAS



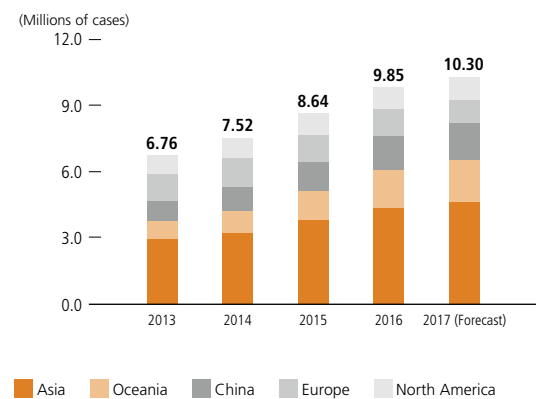
## Medium-Term Management Policy (Key Priorities)

- Implement strategies for growth centered on brand reinforcement and development of existing businesses in Oceania, Southeast Asia, and other regions
- Reform the earning structure through means including expansion of integration synergies and restructure the business portfolio by region
- Acquire new foundations for growth by leveraging strengths originating in Japan, such as brand strength and cost competitiveness

Revenue and Core Operating Profit Margin



Asahi Brand Overseas Net Sales Volume



## Business Environment (Opportunities and Risks)

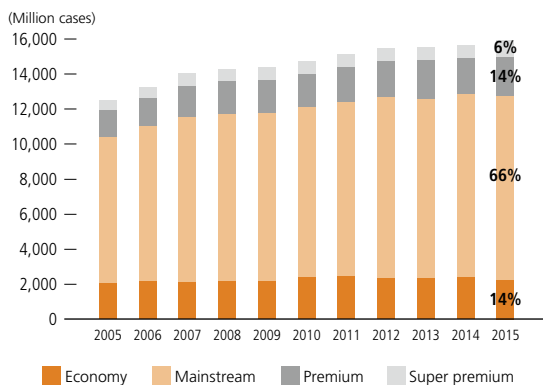
The world’s alcohol beverages and non-alcohol beverages markets overall have been expanding, mainly in emerging countries, although there is some regional variation. Depending on the degree of economic growth in each region, consumption habits and consumer values have diversified just as in Japan. We anticipate that demand will continue to shift to products in the high added value category such as premium beer and soft drinks featuring functionality, mainly among consumers in advanced countries.

In regions where we have operations, the

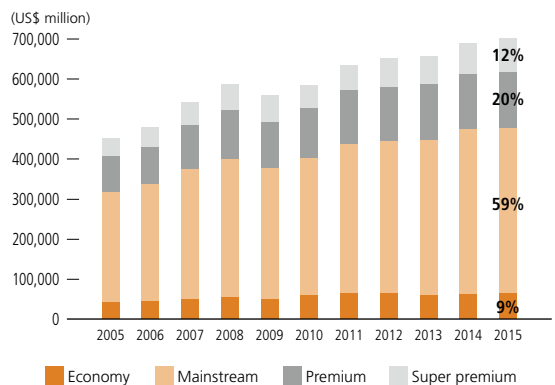
European market has matured overall, but demand has been growing for premium beer and flavored beer. In Oceania, demand has continued to shift toward mineral water in the soft drinks category and cider, imported beer, and others in the alcohol beverages category. On top of slower growth in Southeast Asia and China, there is a risk that competition will heat up as fewer major global players come to dominate markets. However, opportunities to invest for growth have been on the rise amid industry restructuring.

### Market Data

Global Market Scale and Composition (Volume)



Global Market Scale and Composition (Value)



Source: Canadean

## Medium-Term Management Policy (Key Priorities)

Considering the aforementioned opportunities and risks, our policy in the Overseas Business is to expand the global foundation for growth that leverages our strengths and drive the Group’s sustained growth.

In our existing businesses, we will focus mainly on Oceania and work to increase profits by strengthening and nurturing our brands in response to structural changes in the market and expanding integration synergies. We will also restructure our business portfolio by region, including Southeast Asia and China, and accelerate our strategies for growth leveraging our strengths.

Moreover, we took advantage of global reorganization and consolidation to acquire beer businesses in western, central and eastern Europe. With these acquisitions under our belt, we are working to create synergies by leveraging strengths cultivated in Japan, such as brand strength and cost competitiveness, and we are rebuilding our foundation for global growth. We will go on to build the Overseas Business into a growth engine by increasing the profitability of our existing businesses and expanding new business platforms.

## 2016 Results

In the Oceania business, we focused on enhancing the value of our brands, such as *Cool Ridge* mineral water and growing categories including *Asahi Super Dry* and cider.

In the Southeast Asia business, we strove to expand our own brands, such as by releasing *Calpis* in Malaysia. In the China business, we strengthened proposal-based marketing and acquired new accounts that offer draft beer.

In October, we completed the acquisition of beer business in western Europe, and undertook initiatives to generate synergies across a broad range of fields with an eye on expanding our business foundation in Europe for local global brands and the *Asahi Super Dry* brand.

As a result, revenue totaled ¥250.3 billion, largely unchanged from the previous fiscal year, as brisk

business in each region and better-than-anticipated performance in the European beer business offset the impact of yen appreciation. Core operating profit declined 11.5% year on year to ¥12.3 billion, owing to weakening in currencies such as the Australian dollar and one-off costs incurred for the acquisition of a beer business in western Europe.



Asahi Super Dry (Australia)



Cool Ridge (Australia)



WONDA Kopi Tarik (Malaysia)



Calpis Grape (Malaysia)

## 2017 Targets

In 2017, we are determined to build a business foundation with the aim of becoming a global player with growth centered on the premium market. We will therefore strengthen our core brands and improve profitability in existing businesses through synergies, as well as integrate our operations in Europe.

Mainly in Oceania and Southeast Asia, we aim to strengthen our earnings foundation by reinforcing our brands in growing categories and generating synergies in entire supply chain management. In Europe, including businesses in central and eastern Europe acquired in March, we will redouble efforts to create synergies and expand our global brands under the direction of the regional headquarters.

Through these initiatives, we are targeting growth of 41.7% in revenue to ¥354.6 billion and 155.9% in core operating profit to ¥31.6 billion from higher sales and the creation of synergies.



Peroni Nastro Azzurro (U.K.)



Pilsner Urquell (Czech)



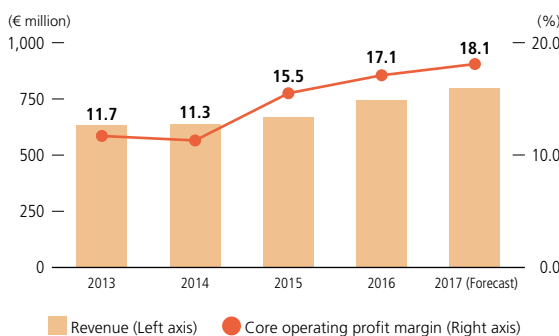
Frantelle (Australia)



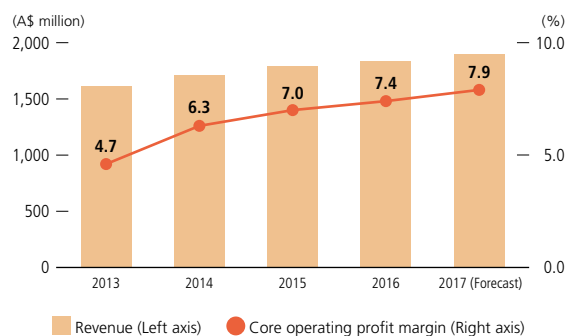
WONDA Extra Presso (Malaysia)

\* The aforementioned targets do not include earnings from the Central and Eastern Europe business acquired on March 31, 2017.

### Western Europe Business: Revenue (Excluding Liquor Tax) and Core Operating Profit Margin



### Oceania Business: Revenue (Excluding Liquor Tax) and Core Operating Profit Margin



# Topic 1

## Australia: Rapid Growth of Asahi Super Dry

In 1992, we introduced *Asahi Super Dry* in Australia through a sales licensing deal with the former Foster's Group Ltd. Thereafter, we acquired the Independent Liquor group and began selling on our own in the country in April 2012.

In the commercial-use market, we have distributed special beer glasses with the *Karakuchi* logo and other items to promote sales at iconic mid-range and high-end restaurants in each region. We have emphasized the product's unique characteristics, namely its sophisticated style and refreshing, crisp taste.

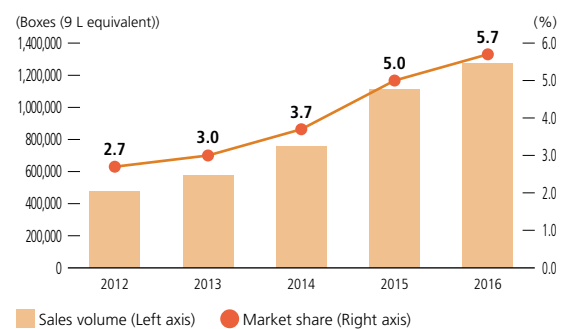
At retailers, we have prioritized initiatives to firmly associate our brand image with premium beer by pursuing strategies that consistently emphasized brand value, such as retaining premium pricing while updating the packaging to a more luxurious look.

As a result of these efforts, we have achieved

sharp growth of 30%\*<sup>1</sup> annually on average since 2012, carving out a position as the fourth-ranked player in the imported premium beer market.

\*1 Sales volume basis

### Sales Volume and Market Share\*<sup>2</sup>



Source: Aztec

\*2 Sales volume and market share of imported premium beer

# Topic 2

## Malaysia: Expand the Asahi Brand by Combining Strengths

In the Malaysia business, we endeavored to establish brands as new local growth drivers by leveraging the brand assets of Asahi Soft Drinks Co., Ltd.

We have promoted the *WONDA* brand of canned coffee since 2013 and the *Calpis* brand of lactic acid beverages since 2015. While taking advantage of Asahi Soft Drink Co., Ltd.'s manufacturing technologies, we coordinated from the development stage on fine-tuning flavor profiles for the Malaysia market, creating a brand that was the culmination of both companies' strengths, expertise, and insight.

We have developed the *WONDA* brand in particular by expanding the product portfolio and promoting sales with innovative newspaper and taxi ads that appeal to the five senses. As a result, it has grown to occupy the No. 2 position in the coffee market.

Moreover, sales have steadily increased for *Calpis* thanks to differentiation strategies with larger volume containers and the addition of flavors for local markets. We aim to improve its brand strength further by expanding the product portfolio in line with market needs.





# Eleven-Year Financial and Non-Financial Summary

Asahi Group Holdings, Ltd. and Consolidated Subsidiaries  
Years ended December 31

\* The Company's consolidated financial statements have been prepared based on Japanese accounting standards for years up to the fiscal year ended December 2015 and based on International Financial Reporting Standards (IFRS) from the fiscal year ended December 2016. The line items have been prepared based on International Financial Reporting Standards (IFRS).

	Japanese Accounting Standards				
	(Billions of yen)				
	2006	2007	2008	2009	2010
<b>Operating Results (For the year):</b>					
Revenue	1,446.3	1,464.0	1,462.7	1,472.4	1,489.4
Cost of sales	950.1	961.1	953.4	958.4	943.3
Selling, general and administrative expenses	407.5	415.9	414.7	431.2	450.7
Core operating profit* <sup>1</sup>	88.7	86.9	94.5	82.7	95.3
Profit attributable to owners of parent	44.7	44.7	45.0	47.6	53.0
EBITDA* <sup>2</sup>	139.6	134.6	145.8	145.7	157.6
Capital investment	36.8	44.4	36.1	32.5	27.8
Depreciation and amortization	48.7	45.2	47.3	55.9	54.6
Research and development expenses	8.4	8.6	9.0	9.3	9.3
<b>Financial Position (At year-end):</b>					
Total assets	1,288.5	1,324.3	1,299.0	1,433.6	1,405.3
Interest-bearing debt	290.1	332.4	302.2	391.8	311.4
Total equity	509.7	529.7	534.6	577.7	612.6
<b>Cash Flows:</b>					
Cash flows from (used in) operating activities	105.8	69.5	106.0	106.3	125.6
Cash flows from (used in) investing activities	(82.2)	(1,17.8)	(58.2)	(180.6)	(41.7)
Cash flows from (used in) financing activities	(22.2)	36.1	(46.3)	78.5	(90.8)
Cash and cash equivalents at end of period	23.7	11.7	12.6	18.0	10.8
<b>Per Share Data (In yen):</b>					
Profit attributable to owners of parent—basic	94.02	94.94	96.31	102.49	114.10
Profit attributable to owners of parent—diluted	93.85	94.74	96.14	102.42	114.00
Dividends	19.00	19.00	20.00	21.00	23.00
Equity attributable to owners of parent	1,012.77	1,089.33	1,122.13	1,233.25	1,315.51
<b>Financial Ratios:</b>					
Core operating profit margin (%)	6.1	5.9	6.5	5.6	6.4
ROE (Ratio of profit to equity attributable to owners of parent) (%)	9.6	9.0	8.7	8.7	9.0
ROA (Ratio of profit before tax to total assets) (%)	7.2	6.9	7.4	6.6	7.1
Total assets turnover (times)	1.15	1.12	1.12	1.08	1.05
Equity attributable to owners of parent ratio (%)	37.0	38.9	40.2	40.0	43.6
Net debt/EBITDA (times)	1.96	2.38	1.99	2.55	1.90
<b>ESG:</b>					
Number of employees at year-end	15,280	15,599	16,357	17,316	16,712
Number of directors (total) (at year-end)	12	11	11	13	13
Number of directors (outside) (at year-end)	3	2	2	3	2
Water consumption (thousand m <sup>3</sup> )* <sup>3</sup>	21,649	20,974	20,211	19,828	19,130
CO <sub>2</sub> emissions (kilotons)* <sup>3, 4</sup>	400	376	845	756	740
Social contribution expenditure (Millions of yen)	1,360	1,436	1,428	2,421	1,990

\* "Revenue" corresponds to "net sales" under Japanese accounting standards, while "core operating profit" corresponds to "operating income," "profit attributable to owners of parent" corresponds to "net income," and "total equity attributable to owners of parent" corresponds to "shareholders' equity."

\*<sup>1</sup> Core operating profit is the reference index for normalized business performance. Core operating profit = Revenue - (Cost of sales + Selling, general and administrative expenses)

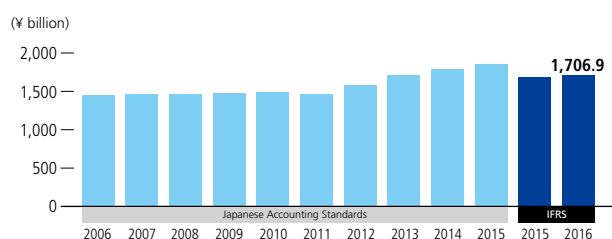
\*<sup>2</sup> Under IFRS, EBITDA = Core operating profit + Amortization of intangible assets + Depreciation. Under Japanese accounting standards, EBITDA = Operating income + Amortization of goodwill + Depreciation

\*<sup>3</sup> Companies included in data calculation: Water consumption 2010–2012: 12 companies, 2013: 29 companies, 2014–2015: 30 companies, 2016: 31 companies;

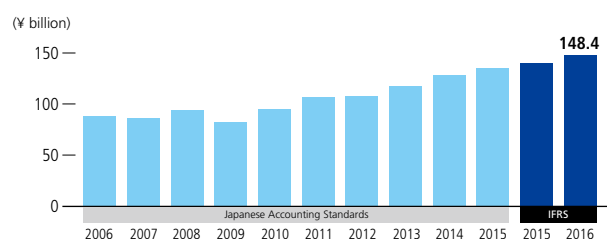
CO<sub>2</sub> emissions 2008–2012: 28 companies, 2013: 29 companies, 2014–2015: 30 companies, 2016: 31 companies

\*<sup>4</sup> CO<sub>2</sub> emissions data for 2013–2016 includes a CO<sub>2</sub> reduction contribution in accordance with Asahi's Certificate of Green Power.

## Trends in revenue

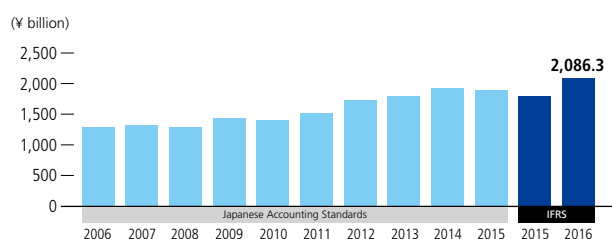


## Trends in core operating profit

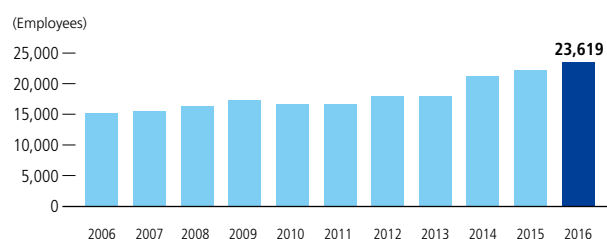


					IFRS		
(Billions of yen)					(Billions of yen)		(%)
2011	2012	2013	2014	2015	2015	2016	YoY change (2016/2015)
1,462.7	1,579.0	1,714.2	1,785.4	1,857.4	1,689.5	1,706.9	1.0
907.2	974.7	1,032.8	1,073.4	1,100.5	1,102.8	1,098.1	-0.4
448.3	495.9	563.9	583.7	621.7	445.9	460.2	3.2
107.1	108.4	117.4	128.3	135.1	140.6	148.4	5.5
55.0	57.1	61.7	69.1	76.4	75.7	89.2	17.8
166.8	170.9	183.6	192.3	197.9	197.2	205.8	4.3
30.6	41.1	48.4	59.8	52.0	53.5	63.4	18.5
50.7	48.5	47.7	44.5	46.6	50.8	51.0	0.3
8.9	9.6	10.8	10.7	10.3	10.3	9.5	-8.2
1,529.9	1,732.1	1,791.5	1,936.6	1,901.5	1,804.6	2,086.3	15.6
390.0	456.2	403.7	434.7	414.9	414.4	570.3	37.6
643.7	726.8	827.4	896.5	891.8	803.6	846.1	5.3
108.5	109.2	157.2	146.7	112.7	116.4	154.4	32.6
(171.2)	(134.3)	(65.7)	(92.1)	(75.5)	(77.0)	(268.5)	-
67.0	43.0	(84.9)	(35.8)	(73.0)	(75.2)	119.5	-
16.1	34.3	41.1	62.2	43.2	43.2	48.4	11.9
118.36	122.75	135.73	148.92	166.25	164.82	194.75	18.2
118.28	122.67	126.26	148.80	166.18	164.75	194.75	18.2
25.00	28.00	43.00	45.00	50.00	50.00	54.00	8.0
1,378.19	1,553.35	1,772.47	1,904.64	1,916.69	1,723.97	1,825.57	5.9
7.3	6.9	6.9	7.2	7.3	8.3	8.7	
8.8	8.4	8.0	8.1	8.8	9.7	11.0	
7.6	7.0	7.0	7.1	7.6	6.5	7.7	
1.00	0.97	0.97	0.96	0.97	0.93	0.88	
41.9	41.8	45.7	45.5	46.2	43.7	40.1	
2.24	2.47	1.97	1.92	1.85	1.86	2.52	
16,759	17,956	18,001	21,177	22,194		23,619	
11	10	11	9	9		10	
3	3	3	3	3		3	
18,966	19,532	23,664	23,615	23,933		23,889	
728	815	855	918	924		907	
1,998	1,515	1,836	1,456	1,210		1,390	

## Trends in total assets



## Trends in the number of employees at year-end



# Discussion and Analysis of 2016 Business Results

## Analysis of Business Results

### Voluntary Adoption of International Financial Reporting Standards (IFRS)

Effective from 2016, our Group has voluntarily adopted International Financial Reporting Standards (IFRS) to improve the international comparability of our financial information and enhance the content of our disclosure. The main changes and impacts due to the adoption of IFRS are as follows:

Main Changes and Impacts due to the Adoption of IFRS



### Overview of Business Results

During 2016, the global economy followed an overall pattern of gradual recovery, mainly reflecting the U.S. economy's continued recovery, countered by the slowdown in the business conditions of emerging economies such as China and increasing uncertainty caused by Brexit and other issues. In the Japanese economy, business conditions remained on a mild recovery track, primarily as a result of an upturn in personal consumption against a backdrop of improved employment and income environments, despite signs of sluggish exports and production.

Under these conditions, we continued working to further develop management for corporate value enhancement based on the three key priorities laid out in our Medium-Term Management Policy.

Notably, one of the key priorities is the strengthening of earning power. In Japan, we have positioned the domestic profit base as the cornerstone of earnings with high added value and differentiation as key areas of focus. Overseas, we have been working to acquire foundations for growth by leveraging strengths originating in Japan, in conjunction with implementing strategies for growth centered on brand reinforcement and development of existing businesses.

As a result we posted revenue of ¥1,706.9 billion, up 1.0% year on year. Core operating profit was ¥148.4 billion, up 5.5%, and operating profit was ¥136.8 billion, up 41.7%. Profit attributable to owners of parent was ¥89.2 billion, up 17.8%.

### Revenue

In the Alcohol Beverages Business, revenue increased, mainly due to higher sales volume of beer-type beverages and a rise in sales of alcohol

beverages other than beer-type beverages and of alcohol-taste beverages (non-alcohol), along with the addition of revenue from a newly consolidated subsidiary. Furthermore, in other businesses, we saw higher sales volumes of carbonated drinks and coffee in the Soft Drinks Business, steady performance in all areas in the Overseas Business, and additional revenue from European businesses. As a result, consolidated revenue was ¥1,706.9 billion, up 1.0%, or ¥17.3 billion, year on year.

### Core Operating Profit

In the Overseas Business, profit decreased due to the impact of the depreciation of currencies such as the Australian dollar, and the recording of one-off costs in connection with the acquisition of European businesses. However, in Japan, profit increased, mainly owing to improvement in the category and container mix and the optimization of the production and logistics structure in the Soft Drinks Business, as well as reduced manufacturing costs in the Alcohol Beverages Business and Food Business.

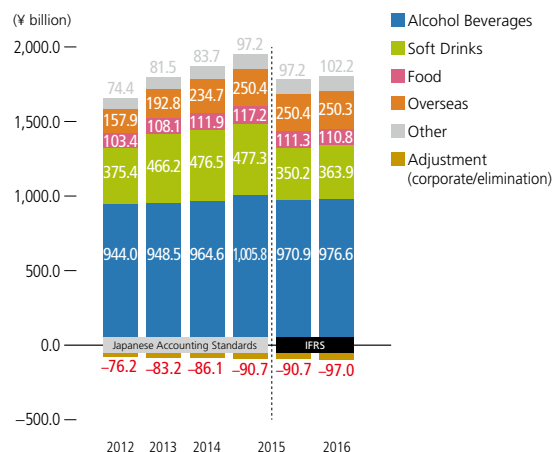
As a result of the above, consolidated core operating profit increased 5.5%, or ¥7.7 billion, to ¥148.4 billion.

### Operating Profit

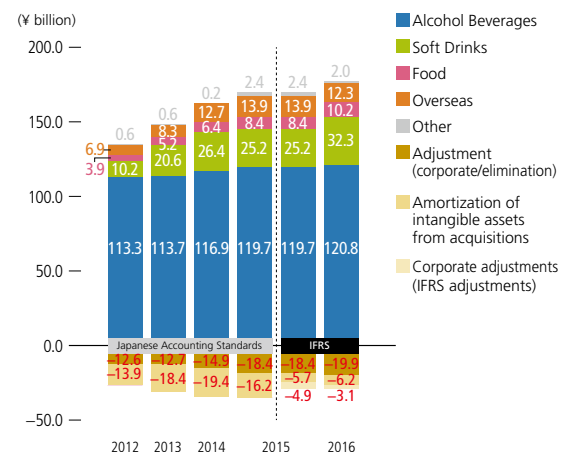
In addition to the increase in core operating profit, we liquidated assets through the sale of idle real estate and posted a decline in impairment losses. These and other factors lifted consolidated operating profit to ¥136.8 billion, up ¥40.2 billion, or 41.7%, year on year.

\* Core operating profit is the reference index for normalized business performance. Core operating profit = Revenue - (Cost of sales + Selling, general and administrative expenses)

### Revenue Trend



### Core Operating Profit Trend





### Profit Attributable to Owners of Parent

Profit attributable to owners of parent was ¥89.2 billion, an increase of 17.8%, or ¥13.4 billion, year on year. This result marked a record high for the

16th consecutive year. The increase mainly reflected the recording of a gain on sales of investments accounted for using equity method. The gain was partially offset by an increase in income tax expenses.

## Analysis of Financial Position

### Assets

Total assets at the end of the fiscal year stood at ¥2,086.3 billion, up ¥281.7 billion from the end of the previous fiscal year. The increase reflected a growth in assets due to the inclusion of new acquisitions overseas in the scope of consolidation. Meanwhile, there was also a decrease in assets due to the cash conversion of assets through means including the sale of investment securities and shares of affiliates.

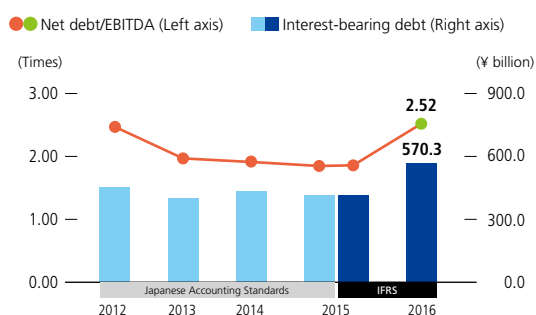
### Liabilities

Total liabilities at the end of the fiscal year stood at ¥1,240.2 billion, up ¥239.2 billion from the end of the previous fiscal year. The increase mainly reflected an increase in financial debt (the sum of short-term loans payable, current portion of long-term loans payable, current portion of bonds, commercial paper, bonds payable, and long-term loans payable).

### Equity

Total equity at the end of the fiscal year stood at ¥846.1 billion, up ¥42.4 billion from the end of the previous fiscal year. The result primarily reflected an increase in retained earnings due to the recording of profit attributable to owners of parent. This was partially offset by a decrease in retained earnings due to the payment of dividends. As a result, the equity attributable to owners of parent ratio was 40.1%.

### Net Debt/EBITDA\*/Interest-Bearing Debt



\* Under IFRS,  
EBITDA = Core operating profit + Amortization of intangible assets + Depreciation  
Under Japanese accounting standards,  
EBITDA = Operating income + Amortization of goodwill + Depreciation

## Analysis of Cash Flows

### Cash Flows from Operating Activities

Operating activities provided net cash of ¥154.4 billion, ¥37.9 billion more than the previous year. The main factors increasing cash were non-cash items such as depreciation and amortization and impairment losses. Meanwhile, the main factor decreasing cash was income taxes paid due to fluctuations in operating funds, such as trade receivables.

### Cash Flows from Investing Activities

Investing activities used net cash of ¥268.5 billion, ¥191.4 billion more than the previous year. The main use of cash was for the purchase of European subsidiaries' stocks. There were also cash inflows mainly from the proceeds from sales of financial assets and investment in an entity accounted for using equity method.

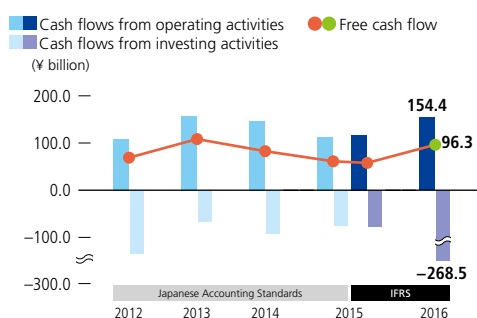
### Cash Flows from Financing Activities

Financing activities provided net cash of ¥119.5

billion, ¥194.8 billion more than the previous year. The main source of cash was an increase in interest-bearing debt due to proceeds from long-term borrowings.

As a result of the above, cash and cash equivalents at end of period stood at ¥48.4 billion, up ¥5.1 billion from the end of the previous year.

### Cash Flows



\* Free cash flow = Cash flows from operating activities ± Acquisition of property, plant and equipment and intangible fixed assets

## Liquidity and Capital Resources

We gain our capital resources principally from cash flows generated by operating activities, loans from financial institutions, and the issuance of Company bonds. As a management policy, we regard 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 by

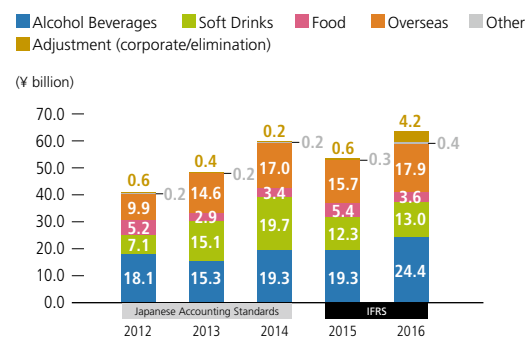
carefully considering procurement methods that will facilitate the lowest possible interest cost. We meet working capital needs, in principle, through short-term loans and the issuance of commercial paper.

With regard to the liquidity of funds, we and our major consolidated subsidiaries have introduced a cash management system that channels excess funds of each Group company to us, so that we can centrally manage these funds. This service enables us to both improve capital efficiency and minimize financing costs.

## Capital Investment

Capital investment during 2016 amounted to ¥63.4 billion. In the Alcohol Beverages Business, we focused on strategic investments to renew existing facilities and improve profitability. In the Soft Drinks Business, we made capital investments mainly to improve the efficiency of logistics and production systems in conjunction with business integration. In the Food Business, we made strategic investments to expand sales by enhancing production systems and to achieve continuous earnings improvement. In the Overseas Business, we made capital investments to increase efficiency based on a strategy of continuously improving earnings.

### Capital Investment Trend by Business



\* The above capital investment and depreciation and amortization amounts do not include lease assets or trademarks at the time of acquisition of subsidiaries.

## R&D Expenses

Group-wide R&D expenses for 2016 amounted to ¥9.5 billion. Our R&D activities in each business are aimed at developing innovative and differentiated products as well as the foundation technologies that underpin them. In addition, we conduct R&D

for the creation of new businesses in support of the next generation. We are also working to speed up R&D by utilizing the resources of external research institutions around the world.

## Profit Distribution Policy and Dividends

Regarding the use of free cash flow, we will give priority to global M&A deals and other initiatives to acquire foundations for growth based on the Medium-Term Management Policy. Meanwhile, in terms of shareholder returns, we are aiming for stable dividend increases by targeting a dividend payout ratio of 30% (IFRS basis) by 2018. In addition, we plan to strive to enhance shareholder

returns by considering flexible share buybacks taking into account an appropriate balance with investments for growth.

For 2016, we paid a full-year ordinary dividend of ¥54 per share, up ¥4 from the previous fiscal year. In addition, in fiscal 2017, we plan to pay a full-year dividend of ¥60 per share, up ¥6 from 2016.

## Consolidated Statement of Financial Position

(Millions of yen)

	(Transition date) As of January 1, 2015	As of December 31, 2015	As of December 31, 2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	62,236	43,290	48,459
Trade and other receivables	365,239	372,043	397,340
Inventories	122,207	129,494	136,460
Income tax receivables	10,279	4,525	14,161
Other financial assets	5,299	6,360	3,428
Other current assets	18,992	21,832	31,934
Subtotal	584,254	577,547	631,784
Assets held for sale	—	—	3,241
Total current assets	584,254	577,547	635,026
<b>Non-current assets</b>			
Property, plant and equipment	541,067	518,576	570,771
Goodwill and intangible assets	240,046	223,485	491,538
Investments accounted for using equity method	225,158	190,563	141,398
Other financial assets	173,364	236,110	198,586
Deferred tax assets	30,184	21,932	18,825
Net defined benefit assets	19,412	25,354	18,942
Other non-current assets	12,590	11,103	11,293
Total non-current assets	1,241,825	1,227,126	1,451,355
<b>Total assets</b>	<b>1,826,080</b>	<b>1,804,673</b>	<b>2,086,381</b>

(Millions of yen)

	(Transition date) As of January 1, 2015	As of December 31, 2015	As of December 31, 2016
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Trade and other payables	274,956	273,092	332,639
Bonds and borrowings	280,856	249,209	281,870
Income tax payables	27,430	23,476	34,957
Other financial liabilities	28,066	27,038	26,352
Other current liabilities	147,420	143,770	142,828
Subtotal	758,731	716,588	818,649
Liabilities directly related to assets held for sale	—	—	907
Total current liabilities	758,731	716,588	819,556
<b>Non-current liabilities</b>			
Bonds and borrowings	153,435	165,231	288,490
Net defined benefit liabilities	24,073	23,391	25,789
Deferred tax liabilities	41,168	37,245	49,302
Other financial liabilities	55,753	55,746	54,127
Other non-current liabilities	2,964	2,787	3,009
Total non-current liabilities	277,395	284,402	420,719
Total liabilities	1,036,126	1,000,991	1,240,276
<b>Equity</b>			
Issued capital	182,531	182,531	182,531
Share premium	120,895	120,524	118,668
Retained earnings	493,129	549,084	589,935
Treasury shares	(58,176)	(77,377)	(76,709)
Other components of equity	36,154	14,657	21,927
Total equity attributable to owners of parent	774,534	789,420	836,354
Non-controlling interests	15,419	14,261	9,750
Total equity	789,953	803,682	846,105
<b>Total liabilities and equity</b>	<b>1,826,080</b>	<b>1,804,673</b>	<b>2,086,381</b>



## Consolidated Statement of Profit or Loss

	(Millions of yen)	
	Previous year (ended December 31, 2015)	Current year (ended December 31, 2016)
<b>Revenue</b>	1,689,527	1,706,901
Cost of sales	(1,102,839)	(1,098,173)
<b>Gross profit</b>	586,688	608,728
Selling, general and administrative expenses	(445,996)	(460,241)
Other operating income	3,514	8,004
Other operating expense	(47,580)	(19,600)
<b>Operating profit</b>	96,626	136,889
Finance income	3,011	3,106
Finance costs	(5,095)	(4,066)
Share of profit (loss) of entities accounted for using equity method	17,627	1,974
Gain on sales of investments accounted for using equity method	—	12,163
Gain on remeasurements relating to business combinations	5,394	—
<b>Profit before tax</b>	117,563	150,068
Income tax expense	(42,962)	(62,952)
<b>Profit</b>	74,600	87,115
<b>Profit attributable to:</b>		
Owners of parent	75,770	89,221
Non-controlling interests	(1,170)	(2,105)
Total	74,600	87,115
Basic earnings per share (Yen)	164.82	194.75
Diluted earnings per share (Yen)	164.75	194.75

## Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Previous year (ended December 31, 2015)	Current year (ended December 31, 2016)
<b>Profit</b>	74,600	87,115
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Changes in fair value of financial instruments measured at fair value through other comprehensive income	(1,073)	(3,010)
Remeasurements of defined benefit plans	2,992	(6,333)
Share of other comprehensive income of entities accounted for using equity method	(4)	30
<b>Items that might be reclassified to profit or loss</b>		
Cash flow hedges	(197)	(7,628)
Translation difference on foreign operations	(29,759)	10,137
Share of other comprehensive income of entities accounted for using equity method	6,532	(18,683)
Total other comprehensive income	(21,509)	(25,488)
Total comprehensive income	53,090	61,627
<b>Total comprehensive income attributable to:</b>		
Owners of parent	55,722	64,366
Non-controlling interests	(2,631)	(2,738)

## Consolidated Statement of Changes in Equity

Previous year (ended December 31, 2015)

	(Millions of yen)					
	Equity attributable to owners of parent				Other components of equity	
	Issued capital	Share premium	Retained earnings	Treasury shares	Changes in fair value of financial instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
<b>Balance as of January 1, 2015</b>	182,531	120,895	493,129	(58,176)	36,460	—
<b>Comprehensive income</b>						
Profit			75,770			
Other comprehensive income					(1,074)	3,024
<b>Total comprehensive income</b>	—	—	75,770	—	(1,074)	3,024
<b>Transfer to non-financial assets</b>						
<b>Transactions with owners</b>						
Dividends			(21,629)			
Purchase of treasury shares				(20,031)		
Disposal of treasury shares		(370)		831		
Changes through business combinations						
Share-based payment transaction						
Transfer from other components of equity to retained earnings			1,813		1,210	(3,024)
Other increase (decrease)						
<b>Total contributions by owners and distribution to owners</b>	—	(370)	(19,815)	(19,200)	1,210	(3,024)
<b>Acquisition of non-controlling interests without change in control</b>						
<b>Total changes in the ownership interest in subsidiaries</b>	—	—	—	—	—	—
<b>Total transactions with owners</b>	—	(370)	(19,815)	(19,200)	1,210	(3,024)
<b>Balance as of December 31, 2015</b>	182,531	120,524	549,084	(77,377)	36,596	—

	Equity attributable to owners of parent					
	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Cash flow hedges	Translation difference on foreign operations	Total other components of equity			
<b>Balance as of January 1, 2015</b>	(305)	—	36,154	774,534	15,419	789,953
<b>Comprehensive income</b>						
Profit			—	75,770	(1,170)	74,600
Other comprehensive income	(197)	(21,800)	(20,048)	(20,048)	(1,461)	(21,509)
<b>Total comprehensive income</b>	(197)	(21,800)	(20,048)	55,722	(2,631)	53,090
<b>Transfer to non-financial assets</b>	364		364	364		364
<b>Transactions with owners</b>						
Dividends			—	(21,629)	(475)	(22,104)
Purchase of treasury shares			—	(20,031)		(20,031)
Disposal of treasury shares			—	460		460
Changes through business combinations			—		1,949	1,949
Share-based payment transaction			—			
Transfer from other components of equity to retained earnings			(1,813)			
Other increase (decrease)			—			
<b>Total contributions by owners and distribution to owners</b>	—	—	(1,813)	(41,201)	1,474	(39,726)
<b>Acquisition of non-controlling interests without change in control</b>						
<b>Total changes in the ownership interest in subsidiaries</b>	—	—	—	—	—	—
<b>Total transactions with owners</b>	—	—	(1,813)	(41,201)	1,474	(39,726)
<b>Balance as of December 31, 2015</b>	(138)	(21,800)	14,657	789,420	14,261	803,682

## Financial and Corporate Information

Current year (ended December 31, 2016)

(Millions of yen)

	Equity attributable to owners of parent					
	Equity attributable to owners of parent				Other components of equity	
	Issued capital	Share premium	Retained earnings	Treasury shares	Changes in fair value of financial instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
<b>Balance as of January 1, 2016</b>	<b>182,531</b>	<b>120,524</b>	<b>549,084</b>	<b>(77,377)</b>	<b>36,596</b>	<b>—</b>
<b>Comprehensive income</b>						
Profit			89,221			
Other comprehensive income					(2,967)	(6,301)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>89,221</b>	<b>—</b>	<b>(2,967)</b>	<b>(6,301)</b>
<b>Transfer to non-financial assets</b>						
<b>Transactions with owners</b>						
Dividends			(23,817)			
Purchase of treasury shares				(21)		
Disposal of treasury shares		(302)		689		
Changes through business combinations						
Share-based payment transaction		44				
Transfer from other components of equity to retained earnings			(24,553)		18,252	6,301
Other increase (decrease)						
<b>Total contributions by owners and distribution to owners</b>	<b>—</b>	<b>(258)</b>	<b>(48,370)</b>	<b>668</b>	<b>18,252</b>	<b>6,301</b>
<b>Acquisition of non-controlling interests without change in control</b>		(1,597)				
<b>Total changes in the ownership interest in subsidiaries</b>	<b>—</b>	<b>(1,597)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total transactions with owners</b>	<b>—</b>	<b>(1,855)</b>	<b>(48,370)</b>	<b>668</b>	<b>18,252</b>	<b>6,301</b>
<b>Balance as of December 31, 2016</b>	<b>182,531</b>	<b>118,668</b>	<b>589,935</b>	<b>(76,709)</b>	<b>51,881</b>	<b>—</b>

	Equity attributable to owners of parent					
	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Cash flow hedges	Translation difference on foreign operations	Total other components of equity			
<b>Balance as of January 1, 2016</b>	<b>(138)</b>	<b>(21,800)</b>	<b>14,657</b>	<b>789,420</b>	<b>14,261</b>	<b>803,682</b>
<b>Comprehensive income</b>						
Profit			—	89,221	(2,105)	87,115
Other comprehensive income	(7,652)	(7,933)	(24,854)	(24,854)	(633)	(25,488)
<b>Total comprehensive income</b>	<b>(7,652)</b>	<b>(7,933)</b>	<b>(24,854)</b>	<b>64,366</b>	<b>(2,738)</b>	<b>61,627</b>
<b>Transfer to non-financial assets</b>	<b>7,571</b>		<b>7,571</b>	<b>7,571</b>		<b>7,571</b>
<b>Transactions with owners</b>						
Dividends			—	(23,817)	(489)	(24,306)
Purchase of treasury shares			—	(21)		(21)
Disposal of treasury shares			—	386		386
Changes through business combinations			—	—	155	155
Share-based payment transaction			—	44		44
Transfer from other components of equity to retained earnings			24,553	—		—
Other increase (decrease)			—	—	312	312
<b>Total contributions by owners and distribution to owners</b>	<b>—</b>	<b>—</b>	<b>24,553</b>	<b>(23,406)</b>	<b>(21)</b>	<b>(23,428)</b>
<b>Acquisition of non-controlling interests without change in control</b>			—	(1,597)	(1,750)	(3,347)
<b>Total changes in the ownership interest in subsidiaries</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,597)</b>	<b>(1,750)</b>	<b>(3,347)</b>
<b>Total transactions with owners</b>	<b>—</b>	<b>—</b>	<b>24,553</b>	<b>(25,004)</b>	<b>(1,771)</b>	<b>(26,776)</b>
<b>Balance as of December 31, 2016</b>	<b>(219)</b>	<b>(29,734)</b>	<b>21,927</b>	<b>836,354</b>	<b>9,750</b>	<b>846,105</b>

## Consolidated Statement of Cash Flows

	(Millions of yen)	
	Previous year (ended December 31, 2015)	Current year (ended December 31, 2016)
<b>Cash flows from (used in) operating activities</b>		
Profit before tax	117,563	150,068
Depreciation and amortization expenses	70,745	71,131
Impairment losses	27,099	6,336
Interest and dividend income	(2,698)	(2,836)
Interest expenses	3,875	3,763
Share of loss (profit) of entities accounted for using equity method	(17,627)	(1,974)
Gain on sales of investment in an entity accounted for using equity method	—	(12,163)
Losses (gains) on sales and disposals of property, plant, and equipment	3,766	(1,324)
Gains on remeasurements related to business combinations	(5,394)	—
Decrease (increase) in trade receivables	(13,387)	(9,821)
Decrease (increase) in inventories	(4,242)	(607)
Increase (decrease) in trade payables	(3,032)	6,369
Increase (decrease) in accrued alcohol tax	(173)	497
Increase (decrease) in net defined benefit assets and liabilities	(2,811)	(2,096)
Other	6,441	(2,623)
Subtotal	180,123	204,718
Interest and dividends received	8,801	5,546
Interest paid	(3,776)	(3,658)
Income taxes paid	(68,677)	(52,153)
Net cash flows from (used in) operating activities	116,471	154,452
<b>Cash flows from (used in) investing activities</b>		
Purchase of property, plant and equipment	(47,975)	(50,357)
Proceeds from sales of property, plant and equipment	5,239	11,923
Purchase of intangible assets	(10,573)	(7,791)
Purchase of investment securities	(3,822)	(2,286)
Proceeds from sales of financial assets	2,279	30,870
Proceeds from sales of investments in an entity accounted for using equity method	—	36,440
Purchase of shares of subsidiaries and others resulting in change in scope of consolidation	(21,257)	(290,893)
Other	(975)	3,587
Net cash flows from (used in) investing activities	(77,083)	(268,507)
<b>Cash flows from (used in) financing activities</b>		
Increase (decrease) in short-term borrowings	(36,328)	(10,793)
Payments of finance lease liabilities	(11,220)	(10,765)
Proceeds from long-term borrowings	13,828	205,310
Repayments of long-term borrowings	(14,113)	(7,479)
Proceeds from issuance of bonds	34,815	—
Redemption of bonds	(20,000)	(30,000)
Purchase of treasury shares	(20,031)	(21)
Dividends paid	(21,629)	(23,817)
Proceeds from share issuance to non-controlling shareholders	—	312
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(2,773)
Other	(571)	(418)
Net cash flows from (used in) financing activities	(75,250)	119,554
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(4,558)	642
<b>Net increase (decrease) in cash and cash equivalents</b>	(40,422)	6,141
<b>Cash and cash equivalents at beginning of period</b>	62,236	43,290
<b>Increase (decrease) in cash and cash equivalents resulted from change in scope of consolidation</b>	21,476	—
<b>Cash and cash equivalents transferred to assets held for sale</b>	—	(972)
<b>Cash and cash equivalents at end of period</b>	43,290	48,459



# Corporate Profile/Stock Information (As of December 31, 2016)

## ■ Corporate Profile

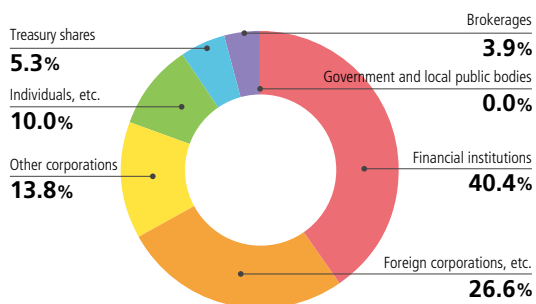
Date of Establishment	September 1, 1949
Paid-In Capital	¥182,531 million
Number of Employees	285 (consolidated: 23,619)
Number of Group Companies	Consolidated subsidiaries: 137 Equity-method affiliates: 138
Total Number of Issued Shares	483,585,862
Trading Unit	100 shares
Number of Shareholders	115,017
Stock Exchange Listing	Tokyo Stock Exchange
Securities Code	2502
Fiscal Year-End Date	December 31
Ordinary General Meeting of Shareholders	March
Administrator of Shareholder Registry	Sumitomo Mitsui Trust Bank, Limited
Independent Accounting Auditor	KPMG AZSA LLC

## ■ Major Shareholders

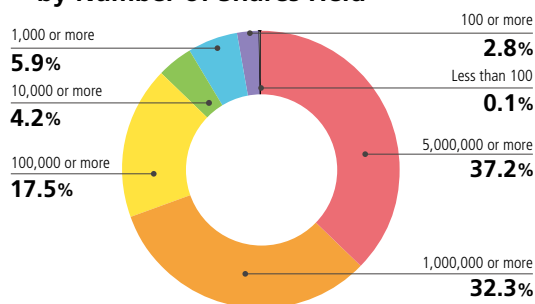
Name of shareholder	Number of shares held (in hundreds)	Percentage of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	318,785	7.0
Japan Trustee Services Bank, Ltd. (Trust Account)	234,654	5.1
The Dai-ichi Life Insurance Company, Limited	169,200	3.7
Fukoku Mutual Life Insurance Company	155,000	3.4
Asahi Kasei Corporation	137,853	3.0
Sumitomo Mitsui Banking Corporation	90,280	2.0
Sumitomo Mitsui Trust Bank, Limited	81,260	1.8
JPMorgan Securities Japan Co., Ltd.	74,399	1.6
STATE STREET BANK WEST CLIENT – TREATY 505234	61,716	1.3
THE BANK OF NEW YORK MELLON SANV 10	61,173	1.3
<b>Total</b>	<b>1,384,320</b>	<b>30.2</b>

Notes: 1. The Company holds treasury shares numbering 254,535 hundred shares. However, the Company is excluded from the above list of major shareholders.  
2. Shareholding percentages are calculated based on the total number of issued shares less the number of treasury shares.

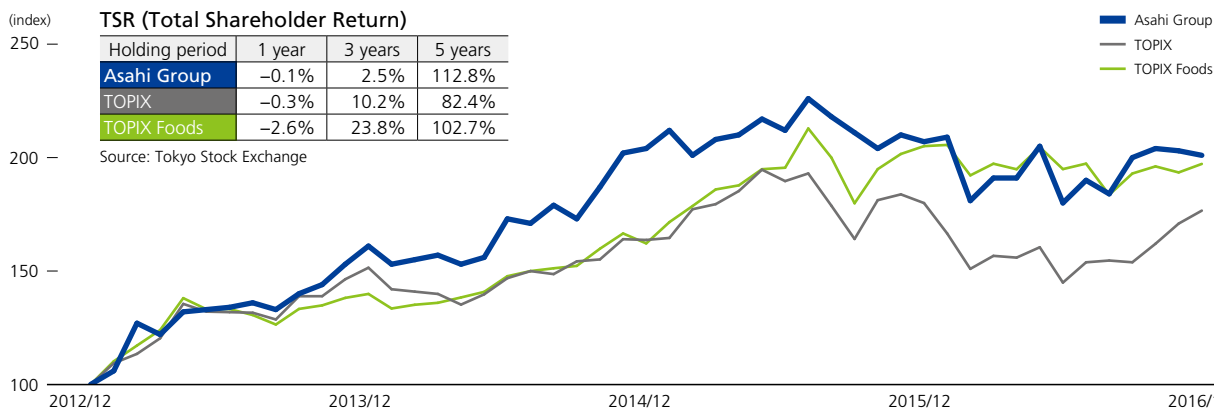
## ■ Breakdown of Shareholdings by Investor Type



## ■ Breakdown of Shareholdings by Number of Shares Held



## ■ Stock Price



Notes: 1. Taking the closing price on December 28, 2012 as 100.  
2. The holding period for TSR is based on the closing price on December 31, 2016.

## Explanation of Various Information Tools

### Information Site for Shareholders and Investors <http://www.asahigroup-holdings.com/en/ir/index.html>

With the purpose of providing appropriate and fair information to shareholders and investors, we use the website to proactively develop IR activities.



#### Main contents to be featured

- Latest financial results and presentation materials
- Timely disclosure and other IR news

<b>Management Information</b> <ul style="list-style-type: none"> <li>▶ Management Message</li> <li>▶ Long-Term Vision</li> <li>▶ Medium-Term Management Policy</li> </ul> <p style="text-align: right;">Others</p>	<b>Financial Information</b> <ul style="list-style-type: none"> <li>▶ Financial Highlights</li> <li>▶ Segment Information</li> <li>▶ Financial Data</li> </ul> <p style="text-align: right;">Others</p>	<b>IR Library</b> <ul style="list-style-type: none"> <li>▶ Financial Results</li> <li>▶ Fact Book</li> <li>▶ Integrated Report/Annual Report</li> </ul>
<b>IR Events</b> <ul style="list-style-type: none"> <li>▶ IR Calendar</li> <li>▶ Annual General Meetings for Shareholders</li> </ul>	<b>Stock and Bonds</b> <ul style="list-style-type: none"> <li>▶ Stock Information</li> <li>▶ Stock Ownership</li> <li>▶ Dividend Information</li> </ul> <p style="text-align: right;">Others</p>	<b>Other Information</b> <ul style="list-style-type: none"> <li>▶ Inclusion in SRI Indexes</li> <li>▶ Contact IR</li> </ul>

### Others

We also provide non-financial information such as Asahi Group's CSR and environmental activities in a timely and up-to-date manner.

#### Responsibility

<http://www.asahigroup-holdings.com/en/csr/index.html>



#### ▶ Main contents to be featured

- President's Message
- CSR of Asahi Group
- Dialogue with the Stakeholders

### Contact

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#### CSR Section

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# Asahi

