We will enhance our awareness of various risks to a level greater than ever before and pursue more intricate yet bold risk control measures.

Atsushi Katsuki
Managing Director and Managing Corporate Officer, CFO

In June 2020, the Asahi Group completed its acquisition of Carlton & United Breweries (CUB). Through large-scale investments that have been accelerated since 2016, the ratio of overseas core operating profit has grown tremendously, and with this growth interest-bearing debt has also seen a substantial increase. Accordingly, we will enhance our awareness of various risks to a level greater than ever before and make use of our newly established risk management structure. While doing so, we will pursue more intricate yet bold risk control measures. Engaging in these endeavors is the most fulfilling part of serving as CFO, and I have renewed my determination to work tirelessly to support the CEO in various ways.

Achieving Profit Growth in Our Overseas and Food Businesses and Making Further Accomplishments with Cost Reductions

In the fiscal year ended December 31, 2019, we continued to see steady profit growth in our Overseas and Food businesses. On the other hand, profits declined in the Alcohol Beverages Business, due to ongoing market contraction, and in the Soft Drinks Business, due to the impact of unfavorable weather. In addition, the impact of foreign exchange rates placed downward pressure on revenue and core operating profit to the extent of ¥49.2 billion and ¥6.1 billion, respectively. As a result, consolidated revenue declined 1.5%, to ¥2,089.0 billion, and core operating profit decreased 3.8%, to ¥212.9 billion.

In terms of cost reductions, we are targeting an impact of over ¥30.0 billion from efforts to enhance cost efficiency over the three-year period of our Medium-Term Management Policy, ending in 2021. To that end, we are promoting earnings structure reform through such means as optimizing our supply chain, starting with procurement. In fiscal 2019, the first year of the policy, we achieved approximately ¥16.0 billion in total cost reductions, including a cost reduction of ¥6.8 billion in the Overseas Business as a result of efforts to enhance the efficiency of IT systems.
At the beginning of the year, we released our full-year forecast for our business performance in fiscal 2020. However, due to the spread of COVID-19, the outlook on matters such as when the virus will be contained in each region has become increasingly uncertain, and it is therefore difficult for us to make an estimate regarding the virus’s impact on our business performance at this time.

Accordingly, we stated our forecasts as undetermined when we announced our financial results for the first quarter of fiscal 2020. Going forward, taking into account such factors as the outlook for COVID-19’s containment, we intend to announce our revised forecast by the time we release our first-half results, including the impact of incorporating the CUB business into the scope of consolidation.

In light of the current situation, we will swiftly promote efforts to prioritize brand investments both in Japan and overseas and enhance the overall efficiency of fixed costs, thereby working to thoroughly curtail any negative impact on our business performance. Additionally, we will take further steps to curb non-urgent capital expenditure and reduce working capital, among other efforts. By doing so, we will give priority to securing cash flows and financial soundness as we diligently prepare ourselves for further growth during the period of recovery and the “new normal” era that will follow thereafter.

Improving and Strengthening Our Financial Base with a View to Future Growth Investments

After acquiring the Europe business, we moved forward with asset management and other initiatives, and by fiscal 2019, our net debt/EBITDA improved to the level of three times or less. However, with the acquisition of CUB, net debt/EBITDA now exceeds four times. Initially, we expected to once again reach a level close to three times over the upcoming three years, but this may take a bit longer than expected due to the impact of the spread of COVID-19. With that said, we will strive to realize a swift recovery in our business performance and promptly repay interest-bearing debt using the cash flow generated from our operating activities, including the CUB business. We will continue to proactively examine investments, including M&As, that will contribute to future growth. However, we aim to implement such investments after we have once again realized net debt/EBITDA of around three times or less. Also, the approximately ¥1,200.0 billion used to acquire CUB was procured through a bridge loan from financial institutions, and we are examining ways to secure permanent financing for this loan within a year. As part of this permanent financing, we are considering raising ¥300.0 billion in equity credit attributes, in combination with the issuance of common stock (including the use of treasury shares), totaling up to ¥200.0 billion, and subordinated bonds (assuming 50% as equity credit attribute), with the aim of securing financial soundness and maintaining our credit rating.

While we have set an upper limit on the issuance of common stock to raise capital, we will flexibly consider the scale and timing of this issuance taking into account trends in the stock market and fundraising environment. As for the remaining amount of the bridge loan, we will examine a broad range of fundraising methods with the aim of steadily procuring funds, reducing interest rate costs, and diversifying repayment periods. We understand that there are concerns that our weighted average cost of capital (WACC) will rise due to this capital funding. However, if we look at the overall balance, debt financing makes up the majority of this fundraising, which means that our WACC is likely to decrease instead. Under the basic approach of maintaining our current credit rating, we will further enhance our dialogue with credit rating institutions to ensure that they continue to have a sufficient understanding of the Asahi


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<td><strong>Cash Flow</strong></td>
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<td>FCF*: Above ¥170.0 billion (annual average)</td>
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<td><strong>Investment for Growth / Debt Reduction</strong></td>
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<td>Prioritize M&amp;As for the expansion of growth foundations and promote debt reduction for the enhancement of investment capacity</td>
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<td>Net debt/EBITDA: Below 2 times by the end of fiscal 2021</td>
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<td><strong>Shareholder Returns</strong></td>
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<td>Stable dividend increases with the aim of achieving a dividend payout ratio of 35%*2 (by fiscal 2021) (aiming for dividend payout ratio of 40% in the future)</td>
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*1 On June 1, 2020, we completed the acquisition of the CUB business. In relation to this acquisition, we have been examining financing plans, including fundraising. The information on the above guidelines does not take into account the impact of the CUB acquisition and associated fundraising. Accordingly, we intend to review our Medium-Term Management Policy taking into consideration the impact of acquiring the CUB business.
*2 Free cash flow = (Cash flows from operating activities + Proceeds from sales of property, plant and equipment) – Purchase of property, plant and equipment
*3 Adjusted profit attributable to owners of parent, used for calculation purposes, excludes one-off special factors including business portfolio restructuring.
Group’s medium- to long-term growth story. We will also maintain our stance of engaging in active dialogue with our shareholders and investors. Although the full-year forecast for our business performance has been left undetermined, we have decided to leave our full-year dividend forecast as is based on the fact that we anticipate relatively stable cash flows from our businesses even with the fluctuations in the economic environment. This allows us to raise funds without issue at this time, knowing that the decline in our business performance is a short-term matter and we have confidence in the continuity of our businesses. Going forward, there will be no change to our shareholder return policy of working to steadily increase dividends with a target payout ratio of 40% in the future, and with a payout ratio of 35% by 2021 serving as a milestone in this process. We will respond to shareholders’ day-to-day support by steadily increasing income gains and leveraging growth investments to realize higher capital gains.

Further Enhancing Efforts to Improve Asset and Capital Efficiency
As a means to verify capital efficiency, we are conducting monitoring activities from the perspective of return on invested capital (ROIC). Every period, we confirm that the level of Company-wide ROIC is sufficiently higher than our WACC. However, it does us no good to simply observe our Company-wide ROIC, and so every quarter we analyze figures that comprise the ROIC tree of each business, thereby evaluating the results of our efforts to improve asset efficiency. At the same time, we are pursuing efforts to improve our asset efficiency. I believe that these are the important points of ROIC management. Our Company-wide ROIC has declined temporarily due to the acquisition of CUB. However, through sustainable profit growth centered on our Overseas Business as well as the reinforcement of our monitoring activities of each business, we expect to steadily improve ROIC, including in the CUB business.

In terms of our global cash management, 2019 was a year in which we made significant advancements. For example, we reached the completion of efforts to visualize cash flows from important overseas subsidiaries. We also moved forward with cash pooling, where we pool together surplus funds between companies. For the visualization of cash flows, we achieved results that go beyond simply enhancing asset and capital efficiency, including improving the operational efficiency of departments in charge of fund management.

Aim and Outline of the Financing Plan for the CUB Business Acquisition (Securing Approx. ¥1.2 trillion in Permanent Financing)
- Considering to raise ¥300.0 billion of equity credit attributes in order to secure financial soundness and maintain current credit rating
- Minimizing dilution for existing shareholders in combination with the issuance of common stock, including the use of treasury shares, and subordinated bonds

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<th>Funding Methods</th>
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<td>Public Offering</td>
<td>Issuing common stock including use of treasury shares* (Approx. 25.50 million shares) (Maximum amount: ¥200.0 billion)</td>
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<td>Subordinated Bonds</td>
<td>Issuing subordinated bonds (assuming 50% as equity credit attribute) to secure financial soundness and maintain credit rating (Equity value: Approx. ¥300.0 billion)</td>
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<td>Debt</td>
<td>Considering to diversify funding methods in order to reduce total cost of capital and interest (Approx. ¥800.0 billion)</td>
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* We intend to execute a subordinated loan (assuming 50% equity) as a backup plan in the event that fundraising through the issuance of common stock does not go as planned.

Dividend per Share / Dividend Payout Ratio*

* Both pre-adjustment and post-adjustment figures are provided for the dividend payout ratio. Post-adjustment figures exclude one-off special factors such as the impacts of business portfolio restructuring and foreign exchange movements. As our business performance forecasts for fiscal 2020 have yet to be determined, we are unable to calculate the dividend payout ratio for fiscal 2020 at this time.
management and reinforcing internal controls. Furthermore, even amid the spread of COVID-19, we expanded our Group financing framework in such ways as adjusting surpluses and shortages of funds at our subsidiaries in Japan and overseas. We made use of this expanded framework to respond to fund shortage risks. In the CUB business, we intend to swiftly introduce and apply these kinds of cash management systems.

**Implementing Well-Balanced Resource Allocation Focused on Current Demand and Medium- to Long-Term Growth**

In fiscal 2019, capital expenditures totaled ¥86.1 billion. As I explained earlier, in fiscal 2020 we will move forward with the review of future capital expenditures in light of the impact from the spread of COVID-19. With that said, growth investments from a medium- to long-term perspective are not something we should refrain from, and accordingly we intend to proactively invest in such areas as expanding our production facilities in Europe, where there is a risk of our production capacity becoming tightened, in order to meet demand. Additionally, we will actively invest in expanding cross-selling initiatives of global brands, such as Asahi Super Dry, Peroni Nastro Azzurro, and Pilsner Urquell, and fostering growth drivers for the next generation, including non-alcohol beer.

In Japan as well, we will implement well-balanced resource allocation toward businesses that are expected to see stable demand and have a high potential for growth going forward, including whisky and freeze-dried foods. At the same time, we will continue to invest in the optimization of our supply chain, including promoting the shift to hybrid factories that can steadily produce positive impacts. Our first priority will be to establish growth foundations in our three core regions of operation. However, in terms of expansion in other regions, we will further enhance our capabilities regarding information collecting, analysis, insight, and marketing while bolstering our ability to propose value. Through such efforts, we will further increase the potential for global growth in our business portfolio so that we do not let opportunities to expand into new regions pass us by.

When it comes to medium- to long-term growth, what is important is that we not focus our attention solely on investments to reduce costs but rather on ensuring we are able to effectively allocate resources in ways that better secure future growth and contribute to the top-line growth of the Group. This includes allocating resources toward disruptive innovation and digital transformations. We are already thoroughly engaged in such investments, and in April 2019 we established Asahi Quality & Innovations, Ltd., an independent research subsidiary. Through this subsidiary, we are accelerating investments geared toward the next generation. Under our conventional organizational structure, it tended to take quite some time to make decisions on next-generation investments. However, as we have made various efforts—including investments in external venture companies—to become an organization that can flexibly conduct examinations and make decisions, my job as CFO is to further increase the speed of next-generation investments while controlling risks by adhering to a consistent level of financial discipline. I therefore hope to boldly allocate resources so that we can capitalize on the opportunities before us.

**Enhancing Dialogue and Developing Financial Strategies That Strike a Balance with Sustainability**

Sustainability has become an essential part of management following the growing need for management that emphasizes social, environmental, and economic sustainability from a medium- to long-term perspective. In light of this, we will revamp our material issues and incorporate sustainability into the core of our business strategies. A sustainable performance in terms of corporate finance has become essential as well. As stakeholder interest in sustainability has been rising, my job as CFO is to not only pursue profits but also monitor the sustainability of procurement and other areas that have a financial impact. At the same time, I am responsible for further promoting the sustainable allocation of resources in order to generate value for the future. Additionally, from 2020 we will disclose our financial results denominated in yen as well as constant foreign currencies. This is one example of how we are considering disclosure methods that allow our stakeholders to better understand our global business activities and the sustainability of these activities. Furthermore, we have introduced enterprise risk management and announced the Asahi Group Risk Appetite Statement, which are both efforts that not only help us control risks within the Group’s financial strategies but also ensure stable value creation for all our stakeholders. We expect that these efforts will also further enhance our dialogue with stakeholders. Going forward, we will work harder than ever before to collect information and draw on our inventiveness. At the same time, from the perspective of both finance and sustainability, we will continue to push forward with strategies that can earn the trust of our shareholders, investors, and all other stakeholders.