

# Kirin Group Financial Results for the First Quarter of 2011

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**Kirin Holdings Company, Limited**

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# 1. First Quarter Results

## ■ Record-high sales, operating income, ordinary income

Pharmaceuticals and biochemicals business had considerable increases in revenue and profit, and Group cost reductions contributed to pushing up profit

		1Q 2011 (¥ bn)	YoY change (¥ bn)	YoY change (%)
Sales	Domestic alcohol beverages	169.3	(15.0)	(8.2)
	Domestic non-alcohol beverages	65.1	(9.3)	(12.6)
	Overseas beverages	117.6	54.3	85.8
	Pharmaceuticals and biochemicals	112.6	14.4	14.7
	Other	24.0	1.7	8.0
Sales		488.9	46.1	10.4
Operating income	Operating income before goodwill amortization	43.6	11.3	35.0
	(Goodwill amortization)	(10.7)	(2.1)	-
Operating income		32.9	9.1	38.3
Ordinary income	Equity in earning of affiliates	(0.4)	(1.9)	-
		29.3	8.7	42.3
Income before income taxes and minority interests	Special income and expenses	(3.1)	(1.4)	-
		26.2	7.2	38.1
Net income	Income taxes	21.6	12.8	146.0
	Minority interests	6.7	2.6	65.4
Net income		(2.1)	(8.2)	-

□ Effects of the earthquake reduced sales volumes in both domestic alcohol and non-alcohol beverages businesses; but sales, operating income and ordinary income increased significantly (record high levels for each) due to the increases in revenue and profit in the pharmaceuticals and biochemicals business plus the effects resulting from last year's change in accounting period for the Australia non-alcohol beverages business.

□ The effects of cost reductions led by the Cross Company Teams and cuts in sales promotion expenses contributed to the increase in the operating income in addition to the increase in gross profit.

□ Due to the effects of last year's change in accounting period for the Australia non-alcohol beverages business, with no results reflected in the previous year results, the entire first quarter results for this business helped to increase profit.

(Sales: ¥ 59.4 bn, Operating income: ¥ 0.6 bn)

## 2.1. Group initiatives (1)

### ■ Pursuit of further profitability and efficiency improvements

#### Cross Company Teams: Cost synergies

(billion yen)

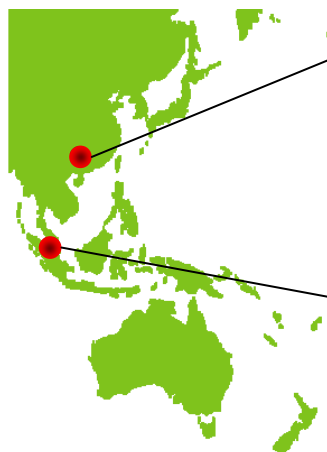
	2011 target	First quarter	Progress rate
Production / distribution	4.7	1.6	34%
Purchasing	4.0	1.0	25%
IT, etc.	0.7	0.2	28%
Total	9.4	2.8	30%

#### Other Group initiatives

- Continued to promote the selection and concentration of business portfolio to further focus on activities on core businesses from 2010
  - Sold all shares of Kyowa Hakko Chemical (March)
  - Transferred Mercian's fish feed business (April)
  - Transferred shares of Kirin Australia, malt manufacturing subsidiary in Australia (April)
  - Transfer Mercian's pharmaceuticals and chemicals business (planned in July)
- Achieved about ¥61.0 billion of the annual goal for asset liquidation of ¥70.0 billion  
(\* including sale of Kyowa Hakko Chemical shares)

## 2.2. Group initiatives (2)

### ■ Accelerate overseas expansion, centered around non-alcohol beverages business and pharmaceuticals business



#### Non-alcohol beverages business in China

- Agreement reached with China Resources Enterprise to establish a joint venture to conduct non-alcohol beverages business in China; Efforts underway to close the deal at the end of June

#### Non-alcohol beverages business in Southeast Asia

- Fraser and Neave will become an equity method affiliate from the second quarter
- Further strengthened non-alcohol beverages business in Vietnam by acquiring the management rights of Interfood, a Vietnamese soft drink manufacturer
- Assigned about 10 Kirin staff to Kirin Holdings Singapore and Interfood; accelerated to create new organization closely oriented toward local communities



#### Pharmaceuticals business

- Acquired ProStrakan in UK
  - Completed making a subsidiary of Kyowa Hakko Kirin because the Scheme of Arrangement\* became effective
  - Aim to establish own distribution systems in the US and Europe

※ A recommended cash acquisition by Kyowa Hakko Kirin of the entire issued and to be issued share capital of ProStrakan by way of a court-sanctioned scheme of arrangement

### 3.1. Overview of each business (1) Domestic companies

Kirin Brewery	<ul style="list-style-type: none"> <li>□ Promoted value-creating product development geared towards the creation of new categories, such as <i>Kirin Koiaji (Zero-carbohydrate)</i> and <i>Makkoi Umesu</i></li> <li>□ Announced overview of new company “Kirin Beer Marketing Company, Limited” New company in charge of sales and marketing of Kirin brewery will be started in January 2012</li> </ul>
Mercian	<ul style="list-style-type: none"> <li>□ Achieved year-on-year change of 104% for Jan-Mar sales volume of domestic wine; Table wines centered around core brands performed strongly</li> </ul>
Kirin Beverage	<ul style="list-style-type: none"> <li>□ Continued to strengthen sales and marketing activities, by focusing on key brands; year-on-year change for Jan-Mar sales volume of key black tea category was 101%</li> </ul>
Kyowa Hakko Kirin	<ul style="list-style-type: none"> <li>□ Revenue and profit in pharmaceuticals business increased due to strong sales of core pharmaceuticals, <i>NESP</i> and <i>REGPARA TABLETS</i>, and to increased demand for antiallergic agents as a consequence of higher amounts of airborne pollen</li> </ul>

## 3.2. Overview of each business (2) Lion Nathan National Foods

- LNNF continued to make progress in improving mix and efficiency through brand focused business strategy.
- Rising interest rates and power costs, increased saving and the ongoing economic uncertainty have impacted consumer spending in both Australia and New Zealand. Furthermore, some relatively high input costs and a cold summer made conditions more challenging.
- Since late December 2010, floods in Queensland and two earthquakes in New Zealand have affected consumer demand. While some of our sites were affected, significant effort has been made to minimise the impact.

### Alcohol beverages



- While premiumisation and improvements in mix lifted revenue per litre by around 4%, lower volumes due to the cold summer and other one-time factors lead Lion Nathan Australia (LNA) to deliver revenues down by 11%
- LNA's master brand portfolio, such as XXXX, grew its share of portfolio mix through focused brand investment.
- Despite ongoing challenging market condition as in Australia, NZ revenue per litre improved, and also sales revenue grew by 9% assisted by the inclusion of wine brands acquired from Pernod Ricard.

### Soft drinks and foods



- To deliver sustainable growth over the long term, LNNF continued to invest its core assets- its people, brands, and production assets.
- Dare Iced Coffee, one of our master flavored milk brands, performed well and is growing into a national brand.
- The former National Foods (NF) and Dairy Farmers businesses integration is making good progress. The results of a review of its cheese manufacturing assets as part of the ongoing integration were announced in March.
- The white milk market has seen deep discounting on private label, and NF is experiencing significant margin pressures, with NF's white milk volume declining by 11%

## 4.1. Earthquake-related information: State of damage

- Two of Kirin Brewery's plants and other facilities sustained damage, but restoration has proceeded swiftly except for Sendai plant. Operations have returned to virtually normal at the end of April
- While estimating all of the damages, some of the losses have been recorded in the first quarter results

### Current state of key damaged facilities

- Kirin Brewery's Sendai Plant: Operations are currently suspended, but core functions, such as manufacturing equipment, have been confirmed to be safe; Actions will be taken for recovery in this autumn
- Kirin Brewery's Toride Plant: Operations had been temporarily suspended due to damaged equipment; but recovery is almost complete, packaging line for cans will be intensified to improve capabilities by early May
- In addition, although each of the distribution centers had sustained some damage, recovery is by and large complete, and operations have returned to virtually normal at present

### Impact on profit and loss (first quarter)

- ¥5.1 billion of the losses incurred as a result of the Great East Japan Earthquake have been recorded in the first quarter as special expenses
- Major breakdown
  - ¥ 2.1billion : Loss on disposal or write-down of inventories, such as merchandise, finished goods ,work in process and raw materials
  - ¥ 2.0billion : Cancellation of advertisement

(Breakdown of special expenses for each company) (billion yen)

Company	Amount
Kirin Brewery	4.2
Kirin Beverage	0.5
Kyowa Hakko Kirin	0.1
Other companies	0.2
Total	5.1



## 4.2. Earthquake-related information: State of recovery & future outlook **KIRIN**

- Condition of our companies in each supply chain is improving at the end of April; actions are being taken to secure the product supply system the same as it was before the earthquake disaster
- Closely monitor the variable factors for the market

### State of each supply chain

- Supply system equivalent to prior to earthquake is being secured in part through increased production at each plant
- Each company has secured distribution routes to Tohoku region
- Business resumed at all operating bases in stricken area

### Future outlook of each company

Upper: Current situation
Lower: Future variable factors

⇒ See pages 10-12 for details of each company

Kirin Brewery	<ul style="list-style-type: none"> <li>▪ Supply system same as it was before the earthquake is being secured through increased production at each plant; supply of materials is also recovering smoothly</li> <li>▪ The impact of power-saving on the restaurant industry, consumer confidence and economic conditions/household budgets</li> </ul>
Mercian	<ul style="list-style-type: none"> <li>▪ Although there is an undersupply of materials, there is nothing wrong with equipment</li> <li>▪ Market trend of on-premise / off-premise - dairy wines</li> </ul>
Kirin Beverage	<ul style="list-style-type: none"> <li>▪ Although there is an undersupply of materials, there is nothing wrong with equipment</li> <li>▪ The high demand for the necessities such as water, short supply of materials and power outage in summer</li> </ul>
Kyowa Hakko Kirin (pharmaceuticals)	<ul style="list-style-type: none"> <li>▪ Contracted manufacturers sustained damage at their plants, but the product supply system has been secured by manufacturing at own plants</li> <li>▪ A counteraction to the sudden increase in shipments of ethical drugs following the earthquake disaster in March is anticipated in April and beyond</li> </ul>

### Support activities for stricken area

Kirin group is supporting the area through donations and contribution of food and beverages.  
Group-wide supporting activities are going to continue

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## (Reference) Earthquake-related information (Kirin Brewery)

### (1) Conditions of facilities and equipment

State of damage	Outlook for recovery
<ul style="list-style-type: none"> <li>❑ Sendai Plant (production capacity of 190ML): In addition to the collapse of 4 beer storage tanks, the packaging equipment and warehouses were inundated and the stock flowed out due to the tsunami</li> <li>❑ Toride Plant (production capacity of 400ML): Tilting and deformation of beer storage tanks. Some buildings also sustained damage, but there was no major damage</li> <li>❑ Automated warehouses in Tokyo metropolitan area and Toride are run down</li> </ul>	<ul style="list-style-type: none"> <li>❑ Sendai Plant: Confirm no major damage to manufacturing equipment; Formulate recovery schedule for a resumption of operations in this autumn</li> <li>❑ Toride Plant: Full resumption of manufacturing processes; Intensify packaging line for cans by early May and strengthen function 2-fold</li> <li>❑ Plan to restart operation in mid-April</li> </ul>

### (2) Impact on supply chain

	Variable factors	Current and future initiatives
Purchasing	<ul style="list-style-type: none"> <li>▪ Stabilization of material supplies (cans)</li> </ul>	<ul style="list-style-type: none"> <li>▪ In March, canned products were constrained by the effects of a short supply of cans materials due to the damage on can manufacturers; but they are resolved at the end of April. Further efforts will be made to stabilize purchasing to prepare for the high season</li> </ul>
Production	<ul style="list-style-type: none"> <li>▪ Power outages and saving in summer</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Yokohama Plant (production capacity of 500ML), utilizes in-house power generation by which it can produce normally during power-saving times</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>▪ The trend in fuel supply</li> <li>▪ Securing of distribution bases and routes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fuel supplies are returning to normal at the end of April</li> <li>▪ Shipments in the Kanto area are returning to the same level as it was before the earthquake, and shipments to the Tohoku area are also recovering</li> <li>▪ New distribution center will be set up in mid-May</li> </ul>
Sales	<ul style="list-style-type: none"> <li>▪ Activities of branch offices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business activities have returned to normal in the Tohoku area</li> </ul>

### (3) Market outlook

- The impact of power-saving on the demand for eating out, the pace at which consumer confidence improves, and in economic activity and household budgets are the variable factors
- While consumption in Eastern Japan will be significantly affected by the factors mentioned above, that in Western Japan basically remains steady
- More 3-5% reductions are expected against our initial estimation of 2-3% reductions in the beer, low-malt beer, and new genre markets on a full-year basis

## (Reference) Earthquake-related information (Kirin Beverage)

### (1) Conditions of facilities and equipment

- No major damage to Shonan Plant (Kanagawa), Maizuru Plant (Kyoto), manufacturing subsidiary Kirin Chilled Beverages (Saitama), and Kirin Distillery Fuji Gotemba (Shizuoka), manufacturing subsidiary of *Kirin Alkali-Ion-no-Mizu* (water)

### (2) Impact on supply chain

	Variable Factors	Current and future initiatives
Purchasing	<ul style="list-style-type: none"> <li>▪ Stabilization of material supplies (PET bottles caps)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Switching to unified plain white caps according to an undersupply of caps decided in non-alcohol beverages market in mid-April</li> <li>▪ KBC will begin to switch to plain white caps from late April</li> </ul>
Production	<ul style="list-style-type: none"> <li>▪ Power outages and saving in summer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Make production more efficient at the hours to allow</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>▪ The trend in fuel supply</li> <li>▪ Securing of distribution bases and routes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Fuel supplies are returning to almost normal at the end of April</li> <li>▪ The Centers in Tohoku area resumed operations in late March to the beginning of April</li> </ul>
Sales	<ul style="list-style-type: none"> <li>▪ Activities of branch offices</li> <li>▪ Release of new products, campaigns</li> <li>▪ Power saving in summer</li> </ul>	<ul style="list-style-type: none"> <li>▪ Business activities in the 3 prefectures, Iwate, Miyagi and Fukushima are limited, those in other parts of the Tohoku area have returned to normal.</li> <li>▪ New products release and campaigns, which had been postponed, will now begin in series from late April</li> <li>▪ Save power by: turning off lights on vending machines all day, suspending refrigerating operations from 13:00 to 16:00 and saving power more than 25% from 10:00 to 21:00 in summer from July to September, announced on Apr 15<sup>th</sup></li> </ul>

### (3) Market outlook

- The domestic non-alcohol beverages market is forecast decline to 96-98% in year-on-year (99%: our initial estimation)
- The increase in demand for water, power saving in summer season and undersupply of materials will be the variable factors

## (Reference) Earthquake-related information (Mercian, Kyowa Hakko Kirin)



### Mercian

#### (1) Damage to facilities and equipment

- The automated warehouse at the Fujisawa Logistics Center (Kanagawa) malfunctioned and operations were temporarily suspended, but recovery is almost complete at the end of April (no lasting impact on warehouse function)

#### (2) Impact on supply chain

Purchasing	<ul style="list-style-type: none"> <li>■ Different type of materials is used for some products at the moment until the supply of packaging materials stabilizes</li> <li>■ Release of some products (FRANZIA PET bottle) delayed</li> </ul>
Sales	<ul style="list-style-type: none"> <li>■ With regard to the bases in the stricken area, the northern Japan offices (Sendai, Morioka) are operating as usual</li> </ul>

#### (3) Market outlook

- While the demand for the on-premise market is expected to continue to decline (especially in northern Japan and the Tokyo metropolitan area), that for the off-premise market is expected to increase; Consequently, the outlook for total demand is fluid but the impact will be limited.

### Kyowa Hakko Kirin Group

#### (1) Damage to facilities and equipment

- Operations at Kyowa Hakko Chemical's Chiba Plant had been suspended, but with safety confirmed, operations resumed on March 21
- No major damage to any of Kyowa Hakko Kirin's plants

#### (2) Impact on supply chain

Production	<ul style="list-style-type: none"> <li>■ Contracted manufacturers of pharmaceuticals sustained damage at their plants; commenced production at own plants because it will take time for contractors to resume operations</li> </ul>
Sales	<ul style="list-style-type: none"> <li>■ With regard to the bases in the stricken area, the Tohoku Office (Sendai), Fukushima Office (Koriyama) and Mito Office (Mito) had initially sustained physical damage after the earthquake, but have resumed business</li> </ul>

#### (3) Market outlook

- A counteraction to the sudden increase in shipments of ethical drugs following the earthquake disaster in March is anticipated in April and beyond