

Record of telephone conference:

Third-quarter results

Date and time: Friday, November 6, 2009, 5:00pm-6:00pm

Presenters: Mr. Ryoichi Yonemura General Manager Finance and Accounting Dept.,
Kirin Business Expert, along with relevant department heads of other companies

Company abbreviations

KB: Kirin Brewery

LN: Lion Nathan

KBC: Kirin Beverage

NFL: National Foods

KHK: Kyowa Hakko Kirin

■ Third-quarter results

Kirin Brewery

Q. Kirin FREE sales have been strong. Other companies have also been investing in the same category recently. What is the outlook?

A. (KB department head) Sales continue to be strong, and entries by other companies have also boosted the overall market. There has been a lot of media coverage, so it is a positive cycle. At volume retailers the range of products includes those of other companies, but *Kirin FREE* is maintaining a strong lead at convenience stores. In on-premise business, premises that do not stock Kirin brand beer are increasingly adopting the product. We expect to achieve further growth in on-premise business by maintaining stable pricing going forward.

Q. What else contributed to the ¥0.5 billion reduction in sales promotion and advertising expenses other than the items listed in the description? (3Q Financial Results, p.28)

A. (KB department head) The remainder is mainly attributable to beer-taste beverages. We did not carry out much advertising for this category until last year.

Q. Industry shipments for October were down by around 5%. Have sales volumes trends slowed compared with the first half of the year?

A. (KB department head) Conditions in the overall market are difficult, but this is partly due to the lack of new product launches by industry participants, in contrast to last year.

Consumption has declined considerably, and we expect the negative trend to continue in the next fiscal year.

Kirin Beverage

Q. How have sales been recently? What are your expectations for full-year earnings?

A. (KBC department head) The top line decreased from May due to reforms to our revenue structure, and, according to the latest November estimates, the percentage decrease will be almost double digit. However, through cost reductions and other measures we are developing a structure capable of generating profits even with a lower top line. In Japan, we reduced SKUs, advanced initiatives to focus on our brand, and reformed the revenue structure at KBC, while facing a downturn in overseas business. In China, the low-price strategies of competitors have hampered sales of premium-priced products. We are also proceeding with reforms to the overseas business and domestic subsidiaries of KBC, as we are doing in the case of KBC itself.

Q. What is your assessment of your revenue structure reform up to the third quarter?

A. (KBC department head) We have been working to reform our revenue structure since the start of the year, and the main efforts have been in the business conditions with clients. These measures began to produce results from May.

Q. The beverages industry is in an increasingly tough environment. Don't you expect that reducing points of sale as part of revenue structure reform could have a negative effect?

A. (KBC department head) Revenue structure reform and brand strengthening are equally important. However, one cannot invest in strengthening brands without first prioritizing revenue structure reform. I think that even though progress has been slow, we are heading in the right direction. There is some continuing top-line risk, but revenue structure reform has been producing results, so we aim to increase our investment in brands going forward.

Q. Could you provide a breakdown of the ¥8.2 billion reduction recorded in sales promotion and advertising expenses? (3Q Financial Results, p.28)

A. (KBC department head) Advertising expense reduction accounted for just under ¥2.0 billion. We plan to advance with investment in our brands from the next fiscal year on, provided we can achieve a certain level of revenue structure reform.

■ Full-year forecasts (revised)

Kirin Brewery

Q. You are forecasting an increase in other expenses of (¥13.6 billion). What accounts for the difference of ¥5.1 billion between this figure and the items listed in the description? (3Q Financial Results, p.33)

A. (KB department head) This is due to incorporating the depreciation losses on product inventory into the COGS, effective from this fiscal year. There are also other expenses that will be recorded in the fourth quarter in particular.

Q. You plan to reduce sales promotion expenses by ¥4.2 billion in the fourth quarter alone. Is this possible?

A. (KB department head) We are making the utmost effort to achieve this target.

Lion Nathan

Q. The LN actual results are included in the full-year forecast. Of this (¥7.7 billion), is it fair to see foreign currency translation gain or loss to amount to approximately ¥15.0 billion?

A. (Mr. Yonemura) That is correct.

National Foods

Q. Earnings increased by ¥3.6 billion up to the third quarter, but the full-year forecast is for ¥3.0 billion. So it seems that performance is slowing in the fourth quarter?

A. (NFL department head) Fourth-quarter earnings account for 50% or more of overall annual earnings. We continued to improve performance until the third quarter, and we believe that we can continue to do this.

Other

Q. Corporate costs had only increased ¥2.5 billion by the third quarter; why do you forecast an increase of ¥6.0 billion in the fourth quarter?

A. (Mr. Yonemura) These costs are related to IT integration and health and functional foods business promotion project.

■ Outlook for the next fiscal year onward

Kirin Brewery

Q. What are the trends for raw materials pricing?

A. (KB department head) We are currently negotiating with our suppliers and we cannot go into detail. We will be able to discuss this in more detail early next year in our 2010 business plan. Prices in the first half of next year may stabilize compared to the high raw

materials prices seen during the first half of this year.

Q. Do you expect *Kirin FREE* to continue its strong sales trends?

A. (KB department head) This year we expect to reach annual sales of 3.5 million cases. We are still compiling our estimates for next year, but we expect the growth trend to continue.

Q. What is your view of market trends?

A. (KB department head) We expect that beer will decline, new genre will increase, and overall sales will decline.

Q. Are further reductions in sales promotion expenses possible?

A. (KB department head) We still have room for improvement in terms of efficient use of sales promotion expenditure.

Q. (Regarding *Kirin FREE*) There was a beer-taste beverage boom in 2003—what is different this time?

A. (KB department head) Previously released products were not completely alcohol free, so they were not enough to create an entirely new market. With *Kirin FREE*, we have been able to communicate clearly to customers the value of a product that contains 0.00% alcohol. So we are confident that this is not merely a boom.

Kirin Beverage

Q. What is your view of the market?

A. (KBC department head) Overall market is flat, or contracting slightly. There is some room for increasing market share going forward, but the environment is not easy. In each category we will implement selection and concentration, as well as positioning. Coffee and black tea beverages are flat, but have potential for growth. In mineral water and green tea, it will be difficult to achieve previous growth levels. In black tea beverages, chilled and flavored teas performed strongly this year, and next year we intend to pursue initiatives that will revitalize the tea beverage market as a whole. In coffee we will pursue a unique position, while a strategic review will be necessary in mineral water and green tea beverages. In sales, we will also review our channels through selection and concentration. In particular, we will strengthen our convenience store distribution and continue to reform our revenue structure with regard to volume retailers and other targets. In the next fiscal year we will continue to emphasize profitability rather than top line.

Q. What is your view on retail price trends? As retail prices fall, do you think higher priced Kirin Beverage products will be able to compete in the market?

A. (KBC department head) We see no sign of halt in penetration of private brand products. We will continue to improve our earnings through selection and concentration in our brand and channels.

Kyowa Hakko Kirin

Q. What is the outlook for a recovery in the biochemical and chemical businesses?

A. (KHK department head)

The biochemical business mainly sells amino acids for use in API and health foods. Sales in the third quarter (the second quarter in the KHK fiscal year) fell short of targets. The main application for API-use amino acids is infusion solutions in the emerging markets. Some customers have been adjusting their inventories. However, this sector is resilient to economic downturns and is therefore expected to gradually recover. On the other hand, demand has declined in the health foods market, and this sector will continue to be affected until the business environment improves. However, since API-use amino acids account for the larger sales composition, the impact on sales and operating income should be relatively small.

The chemical business is recovering in line with naphtha price increases. Positive figures expected for October to December.

Other

Q. Do you expect any major extraordinary losses?

A. (Mr. Yonemura) No.