Telephone Conference Q&A:

Results for the First Quarter of the Fiscal Year Ending December 2010

Date and time: Friday, May 7, 2010, 17:00-18:00

Presenters: Akihiro Ito, General Manager of Finance and Accounting Dept., along with relevant department heads of Group companies

Company abbreviations

KH: Kirin Holdings, KB: Kirin Brewery, KBC: Kirin Beverage, LNNF: Lion Nathan National Foods, KHK: Kyowa Hakko Kirin, and KKF: Kirin Kyowa Foods

Overall Group:

Q: You achieved about 50% of 1H operating income target in the first quarter, compared with around 25% in 2009. The progress seems high, even allowing for the effect of a delay in recording expenses (“timing difference”). What are the reasons for this high achievement rate?

Mr. Ito: The timing difference was significant in the first quarter. On an annual basis, progress is in line with plans.

Q: “Other expenses” in the alcohol beverages and soft drinks & food segments, and “Elimination or corporate” are less than the figures given in the guidance at the beginning of the year. What are the factors for this?

Mr. Ito: The main reasons why “Elimination or corporate” was lower than anticipated were lower-than-expected expenses posted for back-office efficiency improvement projects and health and functional foods projects.

KB representative: With respect to “Other expenses,” management fees had an impact at KB (4.1 billion yen annually). The way in which expenses were incurred at KB did not change from the projection at the beginning of the year.

Q: Please comment on the results by company as compared to the projection.

Mr. Ito: Operating income exceeded projections in major Group companies. Consolidated operating income was also above the projection.

Q: In soft drinks & food segment, what comprised the increase of 1.7 billion yen in “others”?

Mr. Ito: The increase was mainly related to KKF, which accounted for 70-80% of the increase in income.

Q: Extrapolating from the present situation, income looks likely to decline by approximately 5.0 billion yen in the second quarter. What are the factors for this?

Mr. Ito: The primary factor is the timing difference of expenses, with KHK accounting for a large part of that. It seems unlikely that income will decline significantly at KB and KBC in the second quarter.

Q: In the first quarter, what profits did the Cross Company Team (CCT) generate in each of production, distribution and procurement?

Corporate Planning Dept. representative: I'm not able to disclose the figures, but progress is in line with plans on an annual basis.

Profit in the annual projection is set at 7.5 billion yen. Was the achievement about 2.0 billion yen, a quarter of the projected figure?

Corporate Planning Dept. representative: That may not necessarily be the case, because the figure differs from quarter to quarter. However, progress is in line with plans.

Kirin Brewery:

Q: Results were solid at KB, with net sales of 162.0 billion yen and operating income of 3.0 billion yen even after subtracting management fees. Does this mean KB is developing earnings strength?

KB representative: We plan to reduce selling costs by 3.1 billion yen and raw material costs by 2.2 billion yen on an annual basis and believe that the developments in the first quarter were in line with the annual projection.

Did KB outperform projections in the first quarter?

KB representative: KB did slightly better than projected as the timing difference in selling costs was large, given that it was the first quarter. Progress is in line with the annual projection.

Q: KB reduced raw material costs by 300 million yen. How was this progress in light of the annual projection of reducing raw material costs by 2.2 billion yen? Will KB achieve further reductions in raw material costs from the second quarter? Also, was the reduction in other expenses of 1.3 billion yen better than forecast?

KB representative: The reduction in raw material costs has to date been proceeding in line with plans. We anticipate reductions of 2.2 billion yen annually, with approximately 1.5 billion yen for the first half. Other expenses include the accumulation of personnel expenses, electric power charges and fuel costs. We would like to reduce selling costs by 3.2 billion yen from the previous year on an annual basis, as we had planned.

Q: Will expenses decrease going forward at KB?

KB representative: Although it depends on how we set sales promotion costs and how we launch advertisements and new products, we expect that expenses will decrease by a larger amount from the second quarter.

Q: Please tell us about the competitive environment for alcohol beverages.

KB representative: Price competition is intensifying in the new genre category as the overall market is shrinking and there is a strong trend towards lower-priced products, such as a shift from beer and happo-shu to the new genre products.

Kirin Beverage:

Q: Was the decline of 6% in domestic sales volume better than the company's plan? Was a bottom reached in the first quarter so that things improved in the second quarter?

KBC representative: Although the top line declined in the first quarter, we believe that the positive results of income structural reforms are becoming apparent in profits. While the sales volume was slightly below the projection, we will aim to reverse the decline and achieve growth with FIRE and Namacha, in addition to Gogono Kocha, which is doing well.

Of the 6% decline in sales volume, what was the negative percentage associated with transaction improvements? Were profits better than projected?

KBC representative: It is difficult to measure the effects of the transaction improvement. We estimate that sales volumes in the overall market were down 2% year on year. Compared with this, the sales volume of KBC declined 7%. We think that the gap with the market is shrinking and that we are beginning to see an improvement. Although profits slightly exceeded the projection, we expect that fixed costs will rise going forward along with progress in activities, given that the effect of the timing difference of fixed costs was large in the first quarter. On an annual basis, therefore, progress is in line with the projection.

Q: What is the competitive environment for soft drinks?

KBC representative: We estimate that the sales trend in the market is flat or declining slightly. KBC will continue to focus on major brands such as Gogono Kocha, FIRE and Namacha.

Q: Is it correct to assume that KBC will continue to reduce selling costs even from the second quarter?

KBC representative: Sales promotion and advertising expenses declined year on year. The decline consisted of variable selling costs, which are linked with sales, and advertising expenses, but the fall in advertising expenses was attributable to the timing difference, which will be posted from the second quarter. The decrease in variable selling costs was a result of reforms to the profit structure and is expected to be achieved as planned in the quarters ahead.

Australian businesses:

Q: What comprised the increase of 4.9 billion yen in operating income in the alcohol beverages business of LNNF?

Mr. Ito: The effective increase was 1.0 billion yen, and the foreign exchange effect was a little over 3.0 billion yen. The difference derived from the fact that the posting of head office expenses had been shifted from the alcohol beverages segment to the other segment.

Q: What is the breakdown of the effective increase of 1.0 billion yen?

LNNF representative: It was attributable primarily to an improvement in profits in the beer business in Australia. Profits in New Zealand and wines remained flat or were down slightly year on year.

Q: What was the performance of the soft drinks & food business of LNNF in the March quarter?

LNNF representative: Progress was largely in line with plans in the March quarter. Although the top line remained in line with the projection, the shift to low-end products was progressing more rapidly than expected, although this was offset by cost savings from the merger with Dairy Farmers. As a result, operating income was on a par with the plan.

Q: I believe that tax revisions were announced recently. What will be the impact on the alcohol beverages business of KH in Australia?

LNNF representative: The tax revisions in the fiscal 2011 budget announced by the government the other day will not have a short-term impact on the beer business. We need to closely monitor the government's policies over the medium term.

Q: Please tell us about the top line situation, such as volume momentum.

LNNF representative: Sales volumes of premium products continue to grow. In particular, functional products such as those with low carbo have done well, and we believe that we will be able to achieve target net sales.

Q: In the first quarter, operating income rose 9% year on year in the alcoholic beverages business in Australia. What are your expectations for operating income from the second quarter?

LNNF representative: Operating income is progressing steadily towards the annual target.