Record of telephone conference:

First quarter results for the fiscal year ending December 31, 2009

Friday May 8, 2009: 5:00pm-6:00pm

Presenters: Mr.Yonemura, General Manager Finance and Accounting Dept.,

Kirin Business Expert, along with relevant department heads of other companies

Company abbreviations:

KH: Kirin Holdings

KB: Kirin Brewery

KBC: Kirin Beverage

KHK: Kyowa Hakko Kirin

NFL: National Foods

■ How did performance in the first quarter compare with plans? Can you comment on each segment and company?

All companies generally progressed as planned.

KB: Sales volumes were ahead of plans. Sales and marketing costs were reduced in line with plans.

KBC: Results fell slightly short of plan. Vending machine sales were weaker and we did not achieve earnings targets. We have been proceeding with measures to increase profitability through improving the container mix, reducing SKUs and other such initiatives.

KHK: Overall consolidated results were ahead of plan.

Pharmaceutical products grew, with growth in hay fever-related products, and growth in NESP and ESPO from integration benefits.

Chemical products sales were below plan, with naphtha prices falling and the deteriorating economy leading to reduced overall demand.

Pharmaceutical R&D expenses were influenced by financial year overlaps, but even excluding that impact were above the planned level.

NFL: Sales were slightly short of plan but with the integration of Dairy Farmers were more than 100% higher year on year.

Sales of flavored milk and dairy products such as yoghurt were sound, but fruit juice and cheese sales struggled.

Operating income exceeded plan, aided by stability in raw dairy input prices and performance above plan in milk and dairy product operations. The absolute value of first quarter results is relatively small, but we see this as a good first step toward meeting the targets we have set for the full year.

■ KB, NFL: Looking at raw material costs for the current year, are there any changes from your initial plans for the year?

KB: No change to initial plans.

NFL: Raw milk contracts usually run from July through June. Contract prices through June are therefore already fixed, which means that the plan for the year is essentially unchanged. However, milk costs have recently fallen, and we do not expect to see the large price increases in the second half of the year (from July) that occurred last year. At the start of the year we envisaged milk cost increases of AU$30 million, but in fact it may not reach this level. At the same time, however, we import fruit juice concentrate on a U.S. dollar basis and a foreign currency translation loss is arising there. We are going to be closely assessing the final net impact of the improvement in milk costs versus the exchange loss on fruit juice.

Alcohol beverages business

■ How have sales volumes at KB progressed in April?

Beer + happo-shu + new genre together were largely flat. New genre has performed strongly with 20% growth.

■ Your decrease in sales and marketing expenses for beer have progressed ahead of your forecast for the year. Does this mean that your cost cutting will exceed initial plans? Other expenses are also not increasing much compared to your forecasts for the year.

We have not yet reached the peak sales season so at the moment we consider things to be progressing as planned for the year. We do not disclose a breakdown of sales and marketing expenses but we are reducing both. With regard to other expenses there is currently no change. We will announce any revisions should they become necessary.

■ Sales of beer were strong in the first quarter. What is your outlook for the second quarter? Do you think the rebound from last year and other factors could lead to a tough period? Are you seeing changes in the retail or on-premise markets, or any other trends emerging?

The taste of the new *Ichiban Shibori* is being widely acclaimed. The effect of using baseball star Ichiro Suzuki in our marketing has also been significant, so we are hoping to continue momentum through the second quarter and beyond. Looking ahead, in the on-premise market we want to promote the sale of bottled beer at premises that have not yet handled this format, in addition to the usual large kegs. In the retail market for home use, we are seeing an ongoing shift to happo-shu and new genre as consumers gravitate toward lower priced products. We are managing discount campaigns and other such sale events in strict accordance with our guidelines, aiming to increase our presence. The second quarter is also a Japanese gift-giving period, so we are boosting our activity in that regard.

■ Looking at sales of beer + happo-shu + new genre. It seems that the overall market for April has improved with a decline of 1%. How have volumes changed compared to forecasts of last year? What is the relationship between unit prices and retail pricing? And how to you see the peak summer sales period developing this year?

The overall industry was down 3.6% in the first quarter, which did improve to minus 1% overall for the April month. The driver for this was new genre. This is occurring more because of changes in consumer preferences than because of any change in our relationship with retailers. We think the shift from beer and happo-shu to new genre is likely to continue, and at the moment it is trending largely in line with our expectations for the year.

■ KB: There is a good possibility that there will be a rush of new products from all the breweries in the second half of the year. How do you see things developing from 2010 onward?

There has already been a rush of new products from competitors in the first half of the year. We intend to continue with our evidence marketing to marketing new products. Offering products that clearly demonstrate their value can help activate the overall market, but products that don’t have this clarity can end up causing confusion and clutter at the retail level, and this is something we will be working to avoid.

Soft drinks and food business

■ KBC: At KBC, container mix is improving although sales and marketing expenses have increased with the impact of new consolidations and other such factors. How do you see the soft drinks industry developing in Japan, and how do you intend to control sales and marketing expenses?

The operating environment is even tougher than expected. We think that in a deteriorating economy there is not a lot of scope for vending machine sales in particular to contribute to top line growth. Looking ahead, there is no room for complacency. At KBC we are maintaining sales development unit costs in each channel, but vending machine volumes are declining, and the channel mix is tending to become less favorable in terms of profitability. Total sales and marketing expenses are not decreasing. However, we are shifting the focus of our investment from specials on 2-liter containers to 500ml PET bottles and 190ml cans, looking to make qualitative improvements. We are seeing some results from our own efforts, but we need to do more on the matters that take a longer period of time to realize. We think that reductions in sales and marketing expenses will take place in stages.

■ KBC: I have heard from other companies that convenience store chains are demanding discounts. Is this a risk that you are facing at KBC?

There may be demands of that kind on an individual transaction basis, but we will not engage in business that doesn't make sense in terms of profitability.

■ KBC: Can you provide more detail on your efforts to make qualitative changes in your use of sales and marketing expenses?

At volume retailers, which focus on special pricing, our activities have included introducing 500ml PET bottles and 190g cans that can help boost the profitability of individual stores, and shifting the focus of our investment to core brands.

Also, we have been working to improve investment efficiency such as by reviewing the container mix for each channel in a way that meets customers' needs without reducing the number of flavors, and in the first quarter alone we have made a combined reduction of about 20% in new products and product renewals.The new president appointed in spring is emphasizing brand development as the most important strategic issue. And as No.3 in the industry, even as we prioritize short-term profitability, from a long-term point of view we are investing in ways that contribute to fostering our brands.

■KBC: For the full year you have forecast an impact of ¥3.0 billion from raw material cost increases. Has there been any impact in the first quarter?

In the first quarter, cost reductions of ¥0.1 billion have been achieved when netted against cost increases. On a cost reduction-only basis, we achieved savings of a little under ¥1.0 billion. Cost increases and reductions are in line with plans.

Pharmaceuticals and other businesses

■ KHK: What is your outlook for chemical products from the second quarter on? Also, the exchange rate assumptions for Kirin Holdings and KHK are different. How are you incorporating this into Kirin Holdings' estimates?

Because the year-ends for this year differ, KHK looked at the exchange rate in February and extrapolated this for nine months, while KH calculated the exchange rate as of November. The rates will be unified from next year.

Outcomes in the chemicals business depend on movements in naphtha prices, so we will be looking at market trends in developing an outlook. Recent naphtha prices were ¥30,000/KL, which is an improvement on the average of ¥27,000 for the period January through March. We expect to record a small loss in the second quarter, but not to the extent of the first quarter. We already had a loss incorporated into the plan for the second quarter, so business is actually progressing as planned.

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