

**Record of telephone conference:
2010 Medium-term Business Plan**

Date and time: Thursday, October 26, 2009, 5:00pm-6:30pm (Tokyo)
Presenters: Mr. Kazuyasu Kato (President and CEO), Mr. Yoshiharu Furumoto (CFO), along with relevant department heads of other group companies

Company abbreviations

KH: Kirin Holdings

KB: Kirin Brewery

KBC: Kirin Beverage

LNNF: Lion Nathan National Foods

KHK: Kyowa Hakko Kirin

MTBP: Medium-term Business Plan

Management summary from Mr. Kazuyasu Kato (as on presentation slides)

Review of 2010 Medium-term Business Plan

Q. What issues remain from the 2007 MTBP that still need to be addressed? What are the main priorities of the 2010 MTBP?

A. (Mr. Kato) There was some delay in progress during the 2007 MTBP in the areas of building a system to ensure cost competitiveness, and strengthening customer relations through personnel trainings. Resolving these two issues is a top priority of the 2010 MTBP, and something that we are strongly committed to.

2010 MTBP

■ Quantitative targets (slide 17)

Q. Could you provide a breakdown by business segment of the ¥77 billion target increase in operating income prior to amortization of goodwill?

A. (Mr. Furumoto) In this MTBP we have provided targets for the group as a whole. We are now formulating separate operating income targets by segment and business as we prepare annual targets for 2010.

Q. Taking 2010, 2011, and 2012 separately, what is your view of the pace of growth in operating income going forward?

A. (Mr. Furumoto) The targets of the 2010 MTBP are not based on the sums of forecast

figures for each year. We will publish the annual target for 2010 at the start of 2010. Also, in terms of synergies, while some initiatives such as system integration will take time, others such as integrating procurement, are expected to provide results at an early date.

■ Guideline targets for increases in operating income (slide 18)

Q. Does the operating income increase of ¥20 billion in domestic business include a large contribution from the domestic soft drinks business?

A. (Mr. Furumoto) We will work to improve profits while incorporating risks of declines in sales volumes by pursuing initiatives at KBC to shift the emphasis from pricing to value. We expect most of the ¥20.0 billion to derive from KB and market recovery in the KHK chemical and biochemical businesses.

We aim to achieve a recovery in profits at KBC through initiatives such as strengthening brands and streamlining through enhancing group alliances. KB and KBC will also enjoy a large share of the benefits of cost synergies generated through Cross Company Teams (CCTs). We expect that this will also increase earnings at KBC.

Q. Looking at the planned operating income increase of ¥20 billion in domestic business, what kind of growth do you expect to see in sales volumes of alcohol beverages and soft drinks?

A. (KB department head) We are operating on the assumption that sales volumes of alcohol beverages will not grow significantly, but remain roughly at current levels. We will achieve increases in earnings through cost reductions, streamlining investments, and product value enhancement.

(KBC department head) We don't expect major growth in sales volumes. We aim to create strong brands by reforming our revenue structure.

Q. The ¥23 billion increase in operating income deriving from Australia is quite substantial. What will provide the largest contribution to this?

A. (Mr. Furumoto) Organic growth at LNNF will form a major portion of this ¥23.0 billion. In the current situation we see a significant improvement in raw materials costs, and we can look forward to major benefit from synergies arising from integration with DF, which can be expected to be higher than initial plans. We will work to improve productivity, but we do not expect this to contribute a large amount.

■ Generating synergies using CCTs (slide 22)

Q. How are CCT teams comprised?

A. (Mr. Kato) HD directors lead each CCT, with additional members being comprised of delegates from operating companies. We have a considerable degree of certainty that we can achieve cost synergies of ¥20 billion through these CCTs.

Q. The target for generating in cost synergies through CCTs is described as ¥20 billion “plus”? Where do you see room for improvement on this? Do your targets for the CCTs not include reductions in marketing costs?

A. (Mr. Furumoto) The CCT target contributions do not include the targets of all CCTs, but indicate what we view as minimum targets that we must achieve. We will compile the rest as we go forward. As for marketing costs, we will control those at each business rather than through CCTs.

Q. What is the breakdown of the ¥11 billion in cost synergies from the procurement CCT?

A. (Mr. Kato) The scope of the procurement CCT spans a broad range of items. We have examined each item so we expect with a considerable degree of certainty to achieve these targets. We also expect to improve our procurement capabilities by integrating Group procurement operations. We will also work to standardize specifications and advance initiatives such as setting grades while reviewing cost performance.

Q. The CCTs relate to cost synergies among domestic Group companies. Do you have low expectations for cost synergies between LNNF and your domestic companies?

A. (Mr. Kato) CCTs are basically focused on domestic business, but if possible, we will promote generating cost synergies with our overseas subsidiaries as well

■ Overseas business

Q. The quantitative guideline for EBIT of LNNF in Australia in 2012 is A\$1.0 billion plus. What is the breakdown of that? (slide 38)

A. (Mr. Furumoto) LNNF was launched just the other day, so we will formulate details of the implementation plan as we go forward. We have not prepared a breakdown of the A\$1.0 billion.

However, raw materials procurement costs, which were the biggest negative factor to earnings at NFL last year, have recovered to previous levels, and we expect this to have considerable impact in 2010.

Q. You have forecast an exchange rate of A\$1 to ¥78. What is your basis for this, given that recently the rate has been at around ¥85?

A. (Mr. Furumoto) Exchanges constantly fluctuate, so it is meaningless to set targets on particular figures. Rather than forecasting specific figures, we have adopted the exchange rates that applied at the time of setting our targets. We have a neutral stance with regard to currency exchange rates.

Q. The MTBP makes no mention of either the alcohol or soft drinks businesses in China. Is there some barrier to improving earnings in China?

A. (Mr. Kato) The business climate in China has been changing dramatically. We have been hit somewhat by the economic downturn and it is by no means easy. We will continue to pursue our comprehensive beverages group strategy in China, with a priority on strengthening operations in the Yangtze Delta area. We do not think an aggressive strategy to increase the top line or earnings in China is realistic.

■ Financial strategy

Q. Looking at cash flow, can you describe your approach to shareholder returns and your overseas strategy?

A. (Mr. Furumoto) Although we have not defined an investment framework in the 2010 MTBP, we will positively consider opportunities in areas showing potential synergies. We intend to use the free cash flow arising from our increased operating cash flow from acquisitions to support shareholder returns and investment for growth. We will also use funds for our growth strategy overseas, while still aiming to enable a substantial increase in dividend.

Q. What is your 2012 target for total assets? And what are the specifics of your plans to reduce capex?

A. (Mr. Furumoto) Our aim with capex is to maximize capital efficiency rather than control it per se, within a guideline framework of 80% of depreciation. We also want to increase our asset turnover ratio from 0.69 to more than 0.80. Based on the forecast total assets at the end of 2009 of approximately ¥2.9 trillion, we would need to reduce assets by around ¥300 billion to achieve the 0.8 target. We aim to free up around ¥150 billion from the sale of investment securities and other such assets, and measures to reduce capex at each operating company will be reflected in higher cash flow. Decreasing the amount of sales receivables at operating companies will be achieved by tightening up collection period, while inventory assets will become possible through reducing SKUs.

With no defined growth investment framework, can you still stay strictly within the capital investment guideline?

We intend to maintain control within the guideline.

■ Other

Q. What benefits do you expect to generate from integrating your raw alcohol businesses?

A. (Mr. Furumoto) The raw alcohol businesses have been competing within the Group. Through integration we aim to increase our industry presence and enable cost synergies in procurement and distribution. However, given that we only signed the basic agreement today and details will be determined with an eye to completion next spring, no monetary amounts have been included in the CCT synergy table.

Q. How do you see the 2013 MTBP shaping up?

A. (Mr. Kato) The 2013 plan will be the final stage of KV2015, and will also be a period in which we develop our next long-term management framework. I imagine that we will be looking to incorporate elements supporting our leap in growth while also being aware of the need for ongoing stable growth and sustainability.

■ Liquor tax

Q. Although I understand that the impact of any liquor tax reform is not included in your figures, if reforms were undertaken would your target numbers change significantly?

A. (KB Department Head) Nothing at all has been decided on liquor tax reform, and no potential impact has been reflected in our MTBP.

Q. Suntory is proposing a large-scale acquisition of Orangina. What is Kirin's view on this transaction?

A. (Mr. Kato) We are unable to comment on that.

■ Integration with Suntory

Q. Would the integration with Suntory have a large impact on your financial strategy, fixed cost reductions or other aspects of your 2010 medium-term business plan?

A. (Mr. Kato) No.

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