

Thank you. My name is Senji Miyake, president and CEO of Kirin Holdings.

As you all know, the massive earthquake and tsunami disaster of March 11 has made this a very difficult year for Japan. At Kirin Group we had some significant problems to overcome. The worst damage we suffered was at Kirin Brewery's factory in Sendai. Thankfully, we had evacuated the factory when the tsunami warning came, so our staff were all safe. The Sendai factory was badly damaged, and everyone understood that recovering from this would be very difficult indeed. However, at no stage did anyone give up. Here is a short commercial we produced that shows what happened.

[PLAY VIDEO]

By pulling together as a group we were able to restore the Sendai factory, and the efforts of all our employees made me proud to be part of Kirin. It also reaffirmed my belief that Kirin Group has the strength to meet any challenge that comes our way.

Let's now turn to the future, with an explanation of the strategy that is putting Kirin Group on a new trajectory of growth.

## **P2**

In 2006 we announced KV2015, our ambitious long-term management vision for Kirin Holdings. We are now fully engaged in realizing that vision, pursuing broad business development in the domestic market under our integrated beverages strategy, while aggressively expanding operations outside Japan.

We have adopted a strategy to make maximum use of Kirin's strengths with the aim of becoming a leading company in Asia and Oceania. As you know, on November 4 this year we became the 100% owner of Schincariol, the second largest beer brewer in Brazil. This acquisition is driven by our determination to look ahead, even beyond Asia and Oceania, for new sources of future growth. I will explain Schincariol in more detail later in the presentation.

## **P3**

For the rest of the presentation I would like to address the three topics shown here.

## **P4**

First I will explain our core domestic alcohol beverages business.

There are four main players in Japan's domestic alcohol market, and overall sales volumes are trending down as Japan's consumer population declines. However, the Japanese market offers us a large, stable cash flow and it continues to be our largest source of profit. In Japan we are strengthening our core brands and developing innovative new categories, while focusing heavily on managing the company more efficiently. As a result, over the past 10 years we have become more competitive and increased our operating profit margin from 10% in 2000 to 15% in 2010. Our aim is to build on this management efficiency to create further demand and top-line growth.

The soft drinks market is too crowded, causing excessive competition. In light of this, since

2009 we have been focusing on profit growth rather than volume growth. We have eliminated some unprofitable sales channels, reduced SKUs, and squeezed higher profitability from some product lines even on lower volumes. Currently we are investing in core brands while making every effort to increase profitability.

**P5**

In Japan, there are different issues to address in the alcohol and the soft drinks markets, but the market itself is becoming progressively borderless. Accordingly, our approach at Kirin is to consider the markets together, expanding links between the two operations under our integrated beverages group strategy. By making synergies between the businesses and collaborating along our value chains we can operate more efficiently. I should point out that Japan's alcohol and soft drinks consumers are among the most critical in the world, which means that our strong reputation for marketing and product development has been earned in the toughest possible environment.

**P6**

Now I would like to briefly introduce a few of the products that demonstrate Kirin's strengths as a company. Let's first look at *Nodogoshi*, which I am sure many of you already know. The beer market in Japan is largely mature. The new genre category, since it started in 2005, has been popular for its relatively low price and wide variety, and has grown to become more than one-third of the total beer market. *Nodogoshi Nama* contains no malt or barley, and instead is brewed with soy protein using unique technology that we developed. *Nodogoshi Nama* has now led the new genre market for six consecutive years.

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Next I would like to introduce *Hyoketsu*. *Kirin Hyoketsu* is a great example of what we have achieved by offering products that meet new and developing interests among younger adults and women. The combination of this cool metallic package design and a production process that locks in the fresh fruit flavor has made *Hyoketsu* a leading brand since its launch in 2001. Despite the emergence of private brand RTD imports from Korea and elsewhere, we are confident that *Hyoketsu* can remain a strong national brand.

**P8**

*Gogo-no-Kocha Espresso Tea* was a big hit when we introduced it last year and has continued to perform strongly. *Espresso Tea* is a classic example of the cross-category innovation that drives our soft drinks business. This product is a completely new concept that has appealed to a new group of consumers among both tea and canned coffee drinkers.

**P9**

We are very active in joint product development among Group companies, and *Kirin FREE*, the world's first zero percent alcohol beer-taste drink, is a jointly developed product that has been a great success for Kirin. With increased awareness of the issue of drink driving, its zero alcohol content has strong appeal not only for drivers but also for pregnant women and others who either should not or do not want to consume alcohol.

Today we are launching Mercian's non-alcohol wine-taste product "Mercian Free" under the same FREE brand, and we think this has great potential.

**P10**

As part of our integrated beverages strategy we have been linking the alcohol and soft drinks value chains to drive out costs. This has been very successful, and our cross company project teams have significantly exceeded their targets in almost every area. We plan to expand the project teams to overseas group companies from next year.

**P11**

The cutting edge biotechnology techniques developed from Kirin's core skills in beer fermenting have also helped us succeed in pharmaceuticals. We have highly competitive technology in the promising area of antibody medicine, giving us the opportunity to develop a strong presence as a specialty pharmaceuticals company. We are steadily building our global sales network, for example through the acquisition this year of ProStrakan Group, the UK specialty pharmaceutical company that has strong distribution channels in Europe and in the United States. We are working to achieve the earliest possible commercialization of candidate drugs in our product pipeline.

**P12**

Now that I have introduced our domestic business, I would like to show how we are taking Kirin to the next stage of development by leveraging our strengths to succeed in overseas markets.

**P13**

Under KV2015, which I explained earlier, we aim to become a leading company in Asia and Oceania, so we have been investing actively in overseas business development. We already have a firm business foundation in Australia and Southeast Asia, and have decided to pursue further growth by entering Brazil.

There are two main features of our approach to overseas business development. The first is that we aim to leverage the skills gained in Japan from our integrated beverage group strategy. The second is that we believe that joining with the right partner in each market is the fastest and most effective route to success. Southeast Asia and the emerging market of Brazil have particularly high potential to drive top-line growth and earnings.

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In Southeast Asia we aim to expand our soft drinks business from a base in Singapore. Southeast Asia is home to a great diversity of nations, so our business has to match the market in each country. Working with the right partner is essential. In these partnerships, the local entity can provide product, market knowledge, and a distribution network, and Kirin can provide technology and product development. So these are true win-win relationships.

In July 2010 we joined hands with Fraser and Neave, who we think is an excellent partner to develop business throughout Southeast Asia. From Singapore, we will continue to develop our business in countries such as Malaysia, Vietnam, Thailand and Indonesia, where markets are growing at more than 5% every year.

One specific measure we are taking is to introduce Kirin products to Singapore and Malaysia through the F&N sales network. The initial launch is planned for around the middle of next year. In Vietnam, we plan to sell F&N products through the Interfood network. Through these cross selling measures we aim to realize synergies in Southeast Asia from the earliest possible stage. In the alcohol business in Southeast Asia, we are partners in the Philippines with San Miguel Brewery, which has a market share of more than 95%. This business has a dominant position, strong brands, and generates stable earnings. It also has potential to expand in Vietnam, Indonesia, Thailand and elsewhere.

#### **P15**

I would now like to talk about our activities in the emerging markets of China and Brazil. In China we have already successfully introduced *Gogo-no-Kocha Milk Tea*, mainly in Shanghai. The key to survival in this fiercely competitive market is being able to construct a strong distribution network. Our alliance with China Resources Enterprise, or C-R-E, has played a large part in addressing this issue. CRE has a dominant market share in the bottled water market centered on the Huanan region, which gives us access to an extensive distribution system. We are combining CRE's network with our product development skills, which few other companies can match. Our aim now is to develop rapidly nationwide and become the leading group in the industry. In the Chinese alcohol business, there is intense competition among the leading manufacturers, even more than in soft drinks. We are taking steps to improve the profitability of our existing operations while considering the optimal strategy to develop our business through partnerships, alliances and so on.

#### **P16**

In November of this year we decided on the 100% acquisition of Schincariol, the second largest beer brewer in Brazil. This acquisition is the first step in our plan for further growth beyond the goals of KV2015. The Brazilian beer market is growing in value at an annual rate of around 10%\*, driven by rapid population growth and a growing middle class. The Brazilian market is around twice the size of Japan's, and Schincariol's beer sales are already on a par with Kirin's. The soft drinks market in Brazil also has a high growth rate of around 12%\* in value per year, and Schincariol has the third largest share in carbonated drinks, which account for more than 60% of the soft drinks market. Schincariol is particularly strong in the northern and northeast regions of Brazil, where infrastructure development is expected to boost average incomes. We are now well positioned to benefit from economic growth in these areas. Although Schincariol already has a number of strong brands, we believe there is scope for us to leverage Kirin's product development strength in the premium category, which is growing as incomes increase. In terms of post-merger integration, our first steps within this year will be to put in place a new governance structure and map out our core strategic direction. After that, our aim will be to achieve annual sales growth of 10% and operating growth higher than that.

Data source: Euromonitor \*Nominal growth rate

#### **P17**

Australia is a very attractive market, with population growth from immigration and plentiful natural resources. Kirin's partner in Oceania is Lion, Australia's largest beverages and foods group. This group accounts for around 20% of Kirin's sales, so Australia is a key market for

us. Lion is one of the world's most successful breweries, which through excellent management has achieved a stable profit ratio around the 20% level. Although a cool summer caused a temporary slowdown in the overall market this year, Lion has recovered and is performing well. In soft drinks, the group is number one\* in the Australian milk and chilled juice market, with strong brands such as *Pura* white milk and *Berri* fruit juice. Our focus at the moment is developing products with higher added value, such as flavored milk and non-alcoholic RTDs. The operating environment for white milk is difficult, mainly due to the growth of private brands that have pulled prices down, combined with high raw material costs. We have taken comprehensive measures to address these issues.

It is more than 12 years since we first invested in Australia, and we continue to be very positive about our position in the market and the potential for growth.

\*Data source: Nielsen data

#### **P18**

I will finish by looking at our financial performance, strategy, and approach to shareholder returns.

#### **P19**

This table shows our progress against 2012 targets. We are behind schedule in sales and operating income, because of factors such as slower than expected growth in our Australian business and the sale of our chemicals business, but we have already reached our target for Cash ROE and we have almost achieved the target for operating margin before goodwill amortization.

#### **P20**

Turning to financial strategy, our priority is generating cash flow. In particular, we want to generate cash flow from our investments as rapidly as possible in the post-merger integration process. We aim to maximize free cash flow by increasing operating cash flow at the same time as controlling capex to improve investment efficiency and reduce assets.

For our capital structure we are comfortable with a maximum debt equity ratio of 1.0 times on a temporary basis, and 0.5 times longer term, allowing financial flexibility. The Schincariol acquisition has taken the debt equity ratio to 1.1 times, so we want to repay debt as quickly as possible while providing returns to shareholders.

#### **P21**

Our target consolidated payout ratio is over 30%, based on real earnings growth prior to amortization of goodwill, and we have steadily increased dividends since announcing KV2015 in 2007.

And as always, we will continue making every effort to increase enterprise value and meet the expectations of our shareholders. Thank you very much.