Making a world of difference through qualitative growth

Kirin Holdings Company, Limited 2010 Annual Report
Year ended December 31, 2010
Established in 1907, the Kirin Group is one of the leading food and beverage manufacturers in Asia and Oceania. Core businesses cover an extensive range of products from alcohol and soft drinks to dairy foods, health foods and pharmaceuticals. The Kirin Group is an international enterprise employing about 32,000 people worldwide.

The Kirin Group is expanding on a global scale, and aims to achieve a quantum leap in growth to become a leading food and health company in Asia and Oceania. To this end, Kirin views the ongoing advance into international markets as strategically important. Efforts are being made to accelerate business development in Southeast Asia and China as well with the aim of driving a quantum leap in growth. Kirin also seeks to create synergies through global alliances. At the same time, an important mission is to strengthen brand power and generate new products, categories and business models in Japan and the different markets of the world.

Kirin firmly believes it can make a world of difference to the people it serves. First, the Group will undertake continuous reform and expand Group synergies to realize a significant increase in total Group earnings and efficiency. Also, Kirin will focus on the development of appealing, value-added products for customers that offer new ways of enjoying food and health, and through business and other activities contribute to the development of a sustainable society.

Note: This Annual Report does not take into account the impact on business performance of the Great East Japan Earthquake that struck on March 11, 2011.
## Financial Highlights

**Kirin Holdings Company, Limited and Consolidated Subsidiaries**

**Years ended December 31, 2010 and 2009**

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Percentage change</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For the year:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>¥2,177,802</td>
<td></td>
<td>$26,724,776</td>
</tr>
<tr>
<td>Less liquor taxes</td>
<td>342,527</td>
<td>(0.4)</td>
<td>4,203,301</td>
</tr>
<tr>
<td>Net sales</td>
<td>1,835,274</td>
<td>(0.4)</td>
<td>22,521,462</td>
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<tr>
<td>Alcohol beverages</td>
<td>756,491</td>
<td>2.3</td>
<td>9,283,237</td>
</tr>
<tr>
<td>Soft drinks and foods</td>
<td>638,122</td>
<td>(13.2)</td>
<td>7,830,678</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>210,157</td>
<td>1.6</td>
<td>2,578,929</td>
</tr>
<tr>
<td>Other businesses</td>
<td>230,503</td>
<td>(3.1)</td>
<td>2,828,604</td>
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<tr>
<td>Operating income</td>
<td>151,612</td>
<td>18.0</td>
<td>1,860,498</td>
</tr>
<tr>
<td>Net income</td>
<td>11,394</td>
<td>(76.8)</td>
<td>139,820</td>
</tr>
<tr>
<td><strong>At year end:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥2,649,197</td>
<td>(7.4)</td>
<td>$32,509,473</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>962,476</td>
<td>(1.9)</td>
<td>11,810,970</td>
</tr>
</tbody>
</table>

|                                |                |                   |                           |
| Net income per share:         |                |                   |                           |
| Primary                        | ¥ 11.95        | 51.54             | 0.14                      |
| Diluted                        | 11.93          | –                 | 0.14                      |
| **Value indicators:**          |                |                   |                           |
| Operating income/sales        | 7.00%          | 5.60%             |                           |
| Operating income/net sales    | 8.30%          | 6.70%             |                           |
| Return on assets (%)          | 0.4            | 1.8               |                           |
| Return on equity (%)          | 8.8            | 5.2               |                           |
| Price/earnings ratio (times)  | 95.3           | 28.9              |                           |
| Price/book value ratio (times)| 1.1            | 1.5               |                           |
| Dividends per share (¥)       | 25.00          | 23.00             | 8.7                       | 0.30                      |

Notes:
1. The U.S. dollar amounts in this report are included for the convenience of readers, converted at the rate of ¥81.49=US$1.
2. Yen and U.S. dollar amounts are truncated.
3. ROE for 2010 is prior to amortization of goodwill. The figure excludes loss on impairment regarding goodwill, etc. of LNNF and gain on negative goodwill incurred by making Mercian the Company’s wholly owned subsidiary and others.

**FORWARD-LOOKING STATEMENTS**

Statements in this report that are not historical fact are forward-looking statements based on the current beliefs, estimates, and expectations of management. Various risks and uncertainties could cause results to differ materially from these projections. These risks and uncertainties include exchange rates, changes in domestic or overseas economic conditions, changes in consumer behavior or competitor activity, and changes in laws, regulations or policies in any of the countries where Kirin conducts operations. Kirin adopts measures to control these and other types of risks, but does not guarantee that such measures will be effective.

Please refer to the following URL for the financial statements and notes, including the auditor’s report, as well as for the data book:

In pursuit of qualitative growth

Q As company president, can you give us an insight into Kirin’s current management direction?

A The Kirin Group has in place a long-term business framework called “Kirin Group Vision 2015 (KV2015),” which embodies the Group’s commitment to meet higher challenges and continue to deliver real value to customers. In this framework, we aim to achieve consolidated sales of ¥2.5 trillion (excluding liquor tax) and an operating income ratio to sales of more than 10% (excluding liquor tax). We are also striving to generate more than 30% of our sales (excluding liquor tax) and operating income from markets outside Japan by 2015. We aim to be the leading food and beverage manufacturer in Asia and Oceania.

We have broken down KV2015 into three stages of implementation, with 2010 as the first year of the second stage of the Kirin Group’s Medium-Term Business Plan (MTBP) for 2010 to 2012. Under this plan, Kirin Holdings manages Group companies as a whole and aligns them in pursuit of greater corporate value. The Group will also take on the challenge of achieving qualitative growth. This entails achieving a quantum leap in profitability and enhancing efficiencies across the Kirin Group through ongoing structural reforms and expanding Group synergies. We will also pursue our strategy for becoming an integrated beverage group based on our own business model for increasing value by integrating the value chain for the manufacturing and marketing of alcohol and soft drinks. At the same time, we will implement lean management principles to eliminate strain (muri), waste (muda) and irregularity (mura).

Q How do you evaluate consolidated results for fiscal 2010 in relation to your goal of realizing qualitative growth?

A Consolidated net sales were down 4.4% year-on-year to ¥2,177.8 billion (¥1,835.2 billion on a liquor-tax exclusive basis), operating income was up 18.0% to ¥151.6 billion, ordinary income was down 2.5% to ¥140.9 billion and net income was down 76.8% to ¥11.3 billion in fiscal 2010.

In 2010, we steadily implemented a management policy firmly centered on generating Group synergies and realizing lean management to achieve qualitative growth. In that sense, we made significant progress towards our objective of eliminating strain, waste and irregularity in all areas. As a result, even though sales were down, I am extremely satisfied that we boosted profitability and efficiencies significantly.

We also increased efforts to realize cost synergies across the Group through Cross Company Teams (CCTs) and executed other cost-cutting programs at operating companies to increase profitability and efficiencies. Creative initiatives introduced at the individual level also helped.

We made considerable improvement in other important financial indicators as well. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 26.6% in year-on-year terms to ¥269.3 billion. Also, prior to amortization of goodwill, operating income increased 22.7% to ¥193.6 billion, the operating income ratio was 10.5% and ROE was 8.8%. As a result, 2010 results show that we are progressing well towards the goals of our long-term vision.

The year was also key in solidifying foundations for the future of the Kirin Group. Besides progress being made in reforming the business structure of Kirin Beverage (KBC), we enjoyed success with the first series of KIRIN Plus-i brand products owing to the generation of Group synergies through the Group-wide Health Project. We also acquired a stake in Fraser and Neave, Limited (F&N) and together commenced an all-new scenario in the Southeast Asian market, and started a joint venture with China Resources Enterprise, Limited (CRE) to expand soft drinks business in China.

Q Can you explain in more detail initiatives to reduce costs through Cross Company Teams?

A We slashed costs by ¥14.9 billion, or 198.6%, relative to the start-of-year target for CCTs in fiscal 2010. This shows that we have made a significant stride forward in terms of Group integration. Despite being an integral part of the Kirin Group, companies such as Kirin Brewery (KB), KBC and Mercian previously operated completely independently and sought optimization solely within the bounds of their own business. That way of thinking has been switched to “Group optimization,” which involves integrating functions across the board, from procurement and production through to logistics and IT infrastructure. The resulting economies of scale have
We are implementing a medium-term business plan for 2010 to 2012 to achieve qualitative growth on our way to becoming a leading company in the Asia-Oceania region.

enabled us to cut costs and raise profitability and efficiencies. This result is due to the hard work of each company under the guidance of Kirin Holdings.

One of your goals is to realize autonomous growth at operating companies. Can you achieve this in the alcohol beverages business despite overall market contraction and a deflationary trend?

Yes, I believe we can. We expect deflationary conditions to persist for a while yet and prolonged stagnation in the market due in part to political uncertainty in Japan. Competition has also intensified in the domestic alcohol beverages market. Amid these circumstances, it is important for us to go back to basics. This means keeping a close eye on customers. If we are preoccupied with competitors’ moves, price and sales conditions, it will detract from our ability to actually make sales and secure profit. Our focus must be on the customer. How have lifestyles changed? What do they desire? It is imperative that we propose new products that bring satisfaction based on the answers to these questions.

As one example, we created a new market segment with the world’s first beer-taste beverage with 0.00% alcohol content in response to growing social concerns about the dangers of driving under the influence of alcohol. The new product Kirin FREE has been a hit with consumers. We will continue to introduce products that meet customer needs and wants going forward.

Additionally we aim to strengthen the Kirin brand through selection and concentration. To this end, we will concentrate resources on growth categories and best-performing brands. It is key that we convey the goodness of the brands and their value to customers. The quality feel of key brands such as Kirin Ichiban Shibori has improved dramatically in recent times. Strong performance by Kirin Nodogoshi Nama has enabled Kirin to retain its No. 1 spot in the new genre category for the sixth year running. Although the happo-shu market is shrinking, Tanrei Green Label posted steady growth as other companies withdrew from the category. The Hyoketsu brand continues to drive the growing RTD market. We are making steady investment in these key brands. As a result, we continue to maintain strong customer support.

At the same time, it is important to enhance proposal-based marketing capabilities. That means coming up with ideas to boost sales at places customers come to drink and to
purchase drinks. This has major benefits for Kirin in terms of brand creation as it helps to build a brand that is trusted by customers and distributors alike.

Our brand marketing seeks to create value that meets the needs of customers. Although this requires investment in advertising and promotion, enhancing our marketing capabilities will enable us to expand sales even further by making it easier for customers to buy and consume Kirin products.

Through these initiatives, I am confident we can attain our sales targets for fiscal 2011 in each sector of the alcohol beverages business.

Q Can you explain business developments in the domestic soft drinks business as well as any similarities and differences with the alcohol beverages business?

A There are only five major beer companies in Japan so it is relatively easy to build brand loyalty. Conversely, there are numerous manufacturers and countless products in the soft drinks market, which makes it more difficult to ensure customers select Kirin products.

The tough market environment and fierce competition has forced prices down, putting pressure on profit levels. KBC has been striving for the past two years to reform earnings structure, specifically by going back to basics and conducting marketing that is not focused on price. KBC has also started to reform its transactional system and either improved or ceased transactions that do not generate profit.

We will remain dedicated to developing products that strengthen our key brands, however, such as *Kirin Gogo-no-kocha*, *Kirin Nama-cha* and *Kirin FIRE*. In 2010, we reinforced the backbone of these brands with new products, including *Gogo-no-kocha Espresso Tea*, and posted record sales of *Kirin Gogo-no-kocha*. At the same time, we have proposed new value to customers. The aim is to create a trusted Kirin brand. Rather than launch a number of new products, we are concentrating on raising brand power through a selection of key products that truly embody the Kirin name. These efforts started to bear fruit in 2010 and operating income has improved dramatically.

I would also like to emphasize that we will pour energy into functional tie-ups with other companies that are not capital based for the soft drinks business. We started an alliance with Glico Dairy Products Co. in 2011. Under the partnership, KBC consigns the distribution and sale of refrigerated drinks to Glico Dairy Products Co., Ltd. The tie-up is extremely beneficial for both companies since it combines the respective strengths of brand power in Kirin’s products with the distribution network of Glico Dairy Products.

Using this as a springboard, KBC will again seek to drive growth in 2011, targeting a 4% increase in sales on a year-on-year basis. To achieve this target, we will work to strengthen product appeal and marketing capabilities. Specifically, we will further bolster core brands, devise new products that create new categories and develop value-based proposals. We will promote these initiatives while continuing to reform earnings structure in order to grow sales.

Q Were there any positive results from Group synergies in 2010?

A In a project to promote health and functional food business development through cross-Group collaboration, KB, KBC, Koiwai Dairy Products and Kirin Kyowa Foods launched in April 2010 the first series of *KIRIN Plus-* brand products, all of which use the regenerative amino acid “ornithine,” an ingredient independently developed and manufactured by Kyowa Hakko Bio. The companies achieved strong sales for the five brands already released, clearing the annual target of

<table>
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<tr>
<th>2010-2012 Kirin Group Quantitative Targets</th>
<th>2010 actual</th>
<th>2011 plan</th>
<th>Change</th>
<th>2012 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,835.2</td>
<td>1,810.0</td>
<td>(1.4)</td>
<td>2,130.0</td>
</tr>
<tr>
<td>Operating income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior to amortization of goodwill</td>
<td>193.6</td>
<td>194.3</td>
<td>0.4</td>
<td>231.0</td>
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<td>After amortization of goodwill</td>
<td>151.6</td>
<td>152.0</td>
<td>0.3</td>
<td>188.0</td>
</tr>
<tr>
<td>OP ratio (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excl. liquor tax. Prior to amortization of goodwill</td>
<td>10.5%</td>
<td>10.7%</td>
<td>0.2% points</td>
<td>10.8%</td>
</tr>
<tr>
<td>Excl. liquor tax. After amortization of goodwill</td>
<td>8.3%</td>
<td>8.4%</td>
<td>0.1% points</td>
<td>8.8%</td>
</tr>
<tr>
<td>Cash ROE (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior to goodwill amortization</td>
<td>8.8%</td>
<td>10.5%</td>
<td>1.7% points</td>
<td>10% plus</td>
</tr>
<tr>
<td>Overseas sales ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excl. liquor tax</td>
<td>25.0%</td>
<td>30.0%</td>
<td>(5%) points</td>
<td>29.0%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>269.3</td>
<td>312.0</td>
<td>15.8</td>
<td>341.0</td>
</tr>
<tr>
<td>DER</td>
<td>0.81</td>
<td>0.65</td>
<td>(0.16)</td>
<td>0.5</td>
</tr>
<tr>
<td>Asset turnover ratio</td>
<td>0.67</td>
<td>0.70</td>
<td>(0.03)</td>
<td>0.80 plus</td>
</tr>
</tbody>
</table>
¥5.0 billion by a wide margin with a figure of ¥8.0 billion. Our efforts have also boosted awareness of ornithine. Kyowa Hakko Bio has strengthened its production system for ornithine and increased production capacity by around 50%. This year we will further reinforce our range of ornithine products while at the same time launching new materials in Kirin’s functional health and functional foods business.

In addition, we strengthened sales foundations through the integrated beverages group strategy. KB expanded sales of Mercian and KBC products, and sales volume of Mercian’s daily wines increased by 6% in year-on-year terms. Also, sales of Kirin Oolong Tea were brisk, surpassing the target by more than 20%. Meanwhile, Mercian combined with Lion Nathan, which owns a top winery in Australia, to develop wine for the Japanese market.

**Q** What is Kirin’s approach to global and local markets?

**A** It would be difficult to suddenly expand the Kirin beer brand around the world single-handedly. Beer, soft drinks and food are all sectors where local tastes and food culture are paramount. Customers will not love a brand that does not respect this principle. There is no guarantee that a hit product in Japan will automatically become popular in another country. It is therefore vital that we build a presence in local markets by teaming up with local partners. While selling the products of these local partners, this is also a good way to develop products that fit local tastes by combining our product development and technological capabilities with their local know-how and experience. I believe this is an integral step in becoming a unique international beverages manufacturer. So rather than set our sights on the global arena, we will pursue a policy of selection and concentration, and focus first on becoming the leading company in Asia and Oceania in our core domains.

**Q** What were the major trends in each region during the year?

**A** In Oceania, Lion Nathan National Foods (LNNF), the cornerstone of Kirin’s integrated beverages group strategy in Asia and Oceania, worked to improve brand strategy and product mix in the milk & milk beverage and fruit drink markets amid a tough environment characterized by rising raw material costs and a shift to lower-priced products. Going forward, the challenges are to continue strengthening these products and to create synergies in particular by optimizing production sites with Dairy Farmers following its acquisition in 2008.

In Southeast Asia, in addition to establishing a stronger presence in the Philippine beer market through San Miguel Brewery, Kirin acquired a 15% stake in F&N. F&N operates an extensive food and beverage business in Southeast Asia and commands No. 1 share of the soft drinks market in Malaysia and Singapore. This transaction will provide Kirin with opportunities to expand its business base in the fast-growing Southeast Asian market. In turn, this will enable us to promote our international integrated beverages group strategy. Kirin plans to work closely with F&N to enhance the enterprise value for both companies. Besides exchanging technologies in production, marketing and research, the two companies plan to facilitate mutual utilization of production sites, practice joint development of products and cultivate new markets together. I should be able to provide details of the fruits of these efforts in the latter half of 2011. We can also expect synergy effects with KBC and LNNF.

At the same time, the newly established Kirin Holdings Singapore has assumed responsibility for the entire Southeast Asia region, together with the commensurate authorities, resources and funding for recruitment of local staff. We plan to shift certain functions for marketing, technology and product development there. Kirin Holdings Singapore will be better placed to promptly respond to developments in the local region and will also be able to create synergies while identifying opportunities for growth and undertaking key investment decisions. Together with LNNF, which has responsibility for the Oceania region, Kirin Holdings Singapore will form the core of the overseas integrated beverages group strategy of the Kirin Group.

In China, Kirin entered into an agreement with CRE, a consumer goods company with core activities being retail, beer, food and beverage in China to establish a joint
An Interview with Senji Miyake, President and CEO

venture to operate non-alcohol beverage business there. Kirin, in China, has expanded its soft drinks business mainly in the Shanghai, Guangzhou and Beijing areas to date, with its major brands of Kirin Go-go-no kocha and Kirin FIRE and accumulated know-how on methods of marketing in China. However, we believed it was necessary to tie up with a partner that has strong business foundations throughout China in order to further develop our soft drinks business. On that point, CRE was viewed as an extremely attractive partner on account of its exceptional and extensive channel, strong distribution and supply capabilities, and more than anything, a deep understanding of the Chinese consumer. The new joint venture will also enable excellent synergies between the Kirin Group, with strengths in the development of value-added products and technologies, and CRE with its excellent distribution. By exploiting full potential of these synergies, the joint venture will speed up our foray into new product categories and markets throughout China as we aim to become a leading player in the rapidly growing soft drinks market.

What are the trends and challenges for the pharmaceuticals business?

In 2010, we saw integration benefits emerge from the merger between Kirin’s pharmaceutical operations with those of the Kyowa Hakko Group. The amalgamation of these organizations into Kyowa Hakko Kirin has enabled a smoother channel for the sale of antibody pharmaceuticals. A number of this company’s investigational antibody pharmaceuticals have been ranked in the top ten worldwide and it now occupies a strong position in the domestic market.

The next challenge is to build a sales network for investigational antibody pharmaceuticals in the United States. For that purpose, Kyowa Hakko Kirin has resolved to acquire ProStrakan Group Plc, which is headquartered in the United Kingdom and has sales networks in the United Kingdom and United States, in 2011.

Kyowa Hakko Kirin has also resolved to sell all of its shares held in its consolidated subsidiary Kyowa Hakko Chemical Co., Ltd. The capital gained from this transaction will be invested in the pharmaceuticals business to drive growth. This move is seen as highly significant from a strategic perspective for the Group’s future business portfolio.

What is your policy on shareholder returns?

To maximize our corporate value, we will focus our financial strategy on ensuring shareholder return as well as our financial integrity and soundness. More specifically, by generating synergy among Group companies, implementing lean management practices and streamlining assets, we aim to achieve significantly greater profitability and efficiency that will allow us to generate more cash flows to repay interest-bearing debts and to share with our shareholders. It is also our aim to maintain the consolidated dividend payout ratio at 30% or more, and increase dividends through substantive profit growth. We will seriously consider investments that fit with the direction of our MTBP and...
Kirin views the appropriate distribution of profits to shareholders as a key management issue, and has distributed a dividend to shareholders in every financial period since establishment in 1907. Management believes that shareholders’ needs can be met by providing a stable, continuous dividend based in each period on a comprehensive assessment of business performance, the target payout ratio and future capital requirements.

Retained earnings will be allocated to business and capital investments that contribute to enhancing future enterprise value, principally in the alcohol beverages, soft drinks and foods, and pharmaceuticals businesses. The Company will consider opportunities to acquire treasury stock as appropriate, based on the maintenance of medium-term to long-term credit rating and on progress in qualitative growth. Under this policy, and taking into account the effects of amortization of goodwill arising from investments made in pursuit of a quantum leap in growth, Kirin proposes a year-end dividend of ¥12.5 per share, which results in ¥25.0 per share for 2010, an increase of ¥2.0 from the previous year. The planned full-year dividend for 2011 is ¥27.0 per share.

Finally, is there anything you want to emphasize to readers?

Kirin is a well-established brand with over 100 years experience in Japan’s beer market. Throughout that time, we have grown together with our customers. I believe that one of our greatest strengths is the solid base of support we receive from our customers.

We will continue striving to foster a close relationship with customers through products and services that symbolize trust and vitality and that contribute to happiness in their everyday lives. It is no exaggeration to say that this is the motivating force behind each and every employee within the Kirin Group.

We are confident that this approach will continue to create outstanding value for shareholders and other stakeholders and help us achieve qualitative growth over the medium to long term.

Our brand is about the joy of tasty, healthy food and drink, and our task is to communicate that joy to customers across Asia and Oceania. The goal is to put a smile on their faces. I believe we can make a world of difference through the promotion of qualitative growth.

Addendum

On behalf of the Kirin Group, and as president of Kirin Holdings, I would like to offer my heartfelt sympathies to all those affected by the Great East Japan Earthquake that struck on March 11, 2011. The Kirin Group will provide as much support as possible to the areas and people afflicted by this disaster, both in its immediate aftermath as well as into the future. At this time, we will promote more than ever our Basic Action Stance of challenging spirit, commitment and collaboration (3Cs) to ensure the continuity of business and restoration of regional communities.

Senji Miyake
President & CEO
Business outline
The Kirin Group’s domestic alcohol business delivers great new tastes and pleasures through a diverse lineup of alcoholic beverages and spirits. Kirin Brewery Co., Ltd. (KB), which is one of Japan’s top manufacturers of beer, beer-type beverages and other alcohol products, is positioned at the core of this segment. The Kirin brand has pioneered the development of not only domestically brewed beer, but also segments such as happo-shu (low-malt beer) “new genre” products (no-malt beer, etc.) and non-alcohol beer-taste beverages. KB produces, distributes and markets Heineken and Buckweiser beer, and distributes and markets Guinness, in Japan. The Kirin Group is also a significant player in wine, liquors and ready-to-drink (RTD) products. Group subsidiary Mercian Corporation aims to be the unchallenged leader in the wine industry in Japan and is a leading domestic maker and distributor of wine in volume terms.

Abroad, Kirin owns extensive interests in breweries and distilleries in China, Taiwan, the United States and Europe. The Kirin Group has also built up a major presence in alcohol beverages markets in Australasia and Southeast Asia, targeting a strategic objective to be a leading integrated food and health enterprise in Asia and Oceania. Through subsidiary Lion Nathan National Foods Pty Ltd. (LNNF) the Kirin Group owns many of the top-selling beer brands in Australia and New Zealand, including XXXX, Tooheys, Hahn and Steinlager, as well as a thriving business in premium wines, spirits and RTDs. Philippines-based San Miguel Brewery, Inc., another Group affiliate, is one of Southeast Asia’s top beer producers.

2010 in review
Consolidated net sales in the alcohol beverages segment remained roughly unchanged from the previous year at ¥1,097.9 billion. Operating income (after goodwill amortization) increased 11.0% in year-on-year terms to ¥114.0 billion. These results reflected currency benefits from the translation of LNNF’s alcoholic beverages business earnings and also KB successfully reducing costs in Japan.

Domestic operations
Japanese market overview
The overall market for beer, happo-shu and new genre beverages contracted by 2.8% in 2010 relative to the previous year on a manufacturer shipment value basis. This reflected a dwindling birthrate and aging population and a more defensive spending posture by consumers in addition to unseasonable weather in the first half of the year, even though the hot summer led to a temporary spike in demand. The overall figure masked significant shifts in demand between different categories. Beer sales volumes fell 3.6% due primarily to heightened sensitivity among consumers to save money. Happo-shu sales volumes contracted by 17.7% year-on-year due in part to expansion of the new genre market. Sales of top brands and value-added products remained brisk; however, new genre products surged ahead, expanding by 8.7% in year-on-year terms to account for 32.8% of the entire beer-type beverages market by volume, the first time this figure has climbed over 30%. Established top brands continued to garner support as consumers tended to select familiar products over an array of new products from different companies.

KB recorded aggregate sales volumes of 168.6 million cases* in the combined beer/happo-shu/new genre segment. This was a year-on-year fall of 5.3% on par with the overall market. Aggregate sales volumes of beer were also down a similar amount to the overall market, while volumes exceeded the industry average in the happo-shu segment, despite falling 10.6%. Aggregate sales volumes in the new genre segment were up 1.9%, with annual sales of Kirin Nodogoshi Nama up for the third consecutive year for an historic high.

*One case is equivalent to 30 large bottles (1.86L).

Kirin Brewery
The key focus in 2010 remained on three strategic priorities: reinforcement of core brands to build up leading category positions; catering to increased health consciousness among consumers; and initiatives to stimulate overall demand.

While the beer and happo-shu markets have contracted under the pressure of heightened price-consciousness among consumers, KB was only able to maintain an average market share of Kirin Ichiban Shibori despite large-scale promotions following a brand revamp in 2009. Kirin Lager Beer reduced negative growth to single-digit figures owing predominantly to enhancements made in taste. In the happo-shu category, sales of the Tanrei series remained robust throughout the year amid a marked decrease in the overall market. The market share of Kirin’s happo-shu products on a taxed shipment volume basis rose to 66.2%, which was a record high, underlining a strong performance overall. Sales of Tanrei Green Label were up as a result of the positive effects of a new television commercial campaign.

The new genre market continues to post high growth despite adverse economic conditions. Over 47 million cases of Kirin
Nodogoshi Nama were sold during 2010, marking the highest annual quantity since its introduction in April 2005, thus maintaining its overwhelming top performer position in the category. The market introduction of the new product Kirin Honkaku Karakuchi Mugi helped secure a slight improvement in segment sales.

In the non-alcohol beer-taste beverage market, we released Kirin Yasumushi-no Aic: 0.00% in April as one of the first products in the Group-wide KIRIN Plus-i brand, supplementing Kirin FREE, which has continued to enjoy strong sales since its 2009 launch, to further stimulate the market.

In the RTD category, sales increased on a year-on-year basis due to strong performances from Sekai No Highball, a new product for the increasingly popular highball market, Four Roses Highball and I.W. Harper Highball in addition to the revamped Hyoketsu.

Merican
At Merican, although its mid-range to high-end imported wines for mainly the on-premise market were negatively affected due to growing budget-conscious consumers, sales of inexpensive domestic table wines for the home consumption market were favorable. Aggressive marketing efforts were made to stimulate the wine market for rosé wine, which has grown in popularity worldwide alongside wine in PET bottles that are both recyclable and environmentally friendly.

Additionally, in July we consolidated the raw alcohol businesses of Merican and Kyowa Hakko Bio Co., Ltd. to form a joint venture company, Daiichi Alcohol Co., Ltd.

As it came to light that in past years Merican’s fish feed business section had continuously engaged in misconduct, including false and circular transactions, Kirin adjusted accounts receivable and sales figures in accordance with the reports from internal and third-party committees.

Kirin judged it necessary to enhance Merican’s management infrastructure and corporate governance and to strengthen relations aimed at generating synergies, and in December acquired Merican as a wholly owned subsidiary.

**Overseas operations**

**Oceania**
Sales in LNNF’s alcohol beverages unit were up 18.3% in year-on-year terms to ¥185.8 billion, while operating income before amortization of goodwill grew 30.5% to ¥50.5 billion. The growth includes the benefits of favorable exchange rates and changes in business segmentation of LNNF.

Lion Nathan Australia (LNA)’s ‘master’ brand portfolio continued to grow its share of portfolio mix and now represents 82% of total volume. XXXX Gold continued its impressive growth. The Hahn Super Dry trademark also had a particularly strong year with volume growth of 31%. The Boag’s portfolio continues to grow, benefiting from the reach of LNA’s route to market and a significant increase in marketing investment. James Boag’s Premium volumes grew by 21%, while Boag’s Draught grew 11%.

**Asian Markets**
In China, Kirin agreed to sell its entire 25% stake in Dalian Daxue Brewery Co. to Anheuser-Busch InBev NV in February 2011. The move comes as part of Kirin’s strategy to review its Chinese beer operations as required while keeping a close eye on market changes. However, the focus will remain on enhancing profitability in existing businesses and strengthening Kirin Group brands.

In the Philippines, Kirin Group equity-method affiliate San Miguel Brewery Inc. (SMB) enjoyed about 95% share of the beer market in 2010. Sales and profits were solid during the year due to steady growth in the Philippine economy and the impact of the presidential elections.
For good taste, health and lifestyle benefits

**Business outline**
The soft drinks and foods business is the driving force behind Kirin’s strategy for becoming an integrated beverage group that spans the globe.

The Kirin Group is a major player in the Japanese soft drinks market through Kirin Beverage Co., Ltd. (KBC), which owns leading brands across the coffee, tea, mineral water, fruits & vegetables and carbonated soft drink segments of the market. Based on the business philosophy of “creating a new soft drink culture,” KBC is committed to helping customers live diverse and fulfilling lifestyles by offering them trend-setting new products and services.

The joint venture Kirin Tropicana, Inc. supplies fruit juice products for the Japanese market. Kirin MC Danone Waters handles the production and marketing of Kirin Alkali Ion Water as well as the marketing of Volvic in Japan. The Group also boasts a growing presence in soft drink markets across China and other parts of Asia.

Following the acquisition of leading Australian companies Lion Nathan and National Foods, the Kirin Group is the largest integrated food and beverages company within Australasia. The dairy food businesses of LNNF make a solid contribution to segment performance.

**2010 in review**
Consolidated net sales amounted to ¥638.1 billion, down 13.2% year-on-year. Operating income surged 56.4% to ¥11.1 billion. The sales decline reflected the change of LNNF’s settlement closing date (from December 31 to September 30 and therefore a nine-month accounting period in 2010), while operating income rose as a result of cost structure reforms by KBC.

**Domestic operations**

**Kirin Beverage**
The Japanese soft drinks market grew 2% year-on-year owing to record high temperatures during the summer period. Conditions remained tough in 2010, however, reflecting an increasingly frugal spending stance by consumers in response to the prolonged economic recession and persistent deflationary conditions. Excluding the effects of the hot summer, it is estimated that the market actually contracted by 1–2%.

KBC continued to promote reforms of its revenue structure, which it started to do in 2009, and channel its energy into creating strong brands. Among its leading brands, efforts were made to enhance the brand value of Kirin Gogo-no-kocha and Kirin FIRE based on the idea of proposals that reach beyond the conventional concept of core brand renewal and conventional categorization.

Within the Kirin Gogo-no-kocha series, which are the top brands in the black tea beverage market (based on 2010 research results by the Food Marketing Institute), KBC released in February Kirin Gogo-no-kocha Espresso Tea as a new option for short breaks at the workplace. Sales of this new product were brisk, exceeding the target four-fold for a total of 4.17 million cases. In June, KBC released Kirin Gogo-no-kocha Plain Tea as a new proposition to consumers in the unsweetened tea market, reinvigorating the black tea market. Also, thanks to strong sales of three core items re-launched in September—Kirin Gogo-no-kocha Straight Tea, Kirin Gogo-no-kocha Lemon Tea, and Kirin Gogo-no-kocha Milk Tea—total annual sales for the Kirin Gogo-no-kocha brand topped an unprecedented 44 million cases, driving growth in the black tea market. This was the first time in 13 years to exceed 40 million cases and a record high since its release in 1988.

KBC also pushed to create new types of drinkers and settings for drinking Kirin FIRE through the launch of Kirin FIRE SUGOUMA in a PET bottle and Kirin FIRE Coffee jelly, the very first canned coffee jelly drink, marketed as a convenient snack and alternative to a full meal. This has helped expand target base and create a new market. The Kirin FIRE series also saw a revamping in August of its leading products Kirin FIRE Premium Blend Hi-no Megumi, Kirin FIRE Black and Kirin FIRE Hikitate Bito.
Earnings structure reform efforts, commenced in the preceding year, are beginning to show steady and concrete results in a challenging business environment. KBC has strengthened its business infrastructure in an aim to build competitiveness and realize growth.

**Koiwai Dairy Products**
In September, Kirin Holdings took over direct control of Koiwai Dairy Products (KIW) through share acquisition. Through recapitalization and strengthening its financial standing, KIW seeks to focus its efforts even further into the dairy product business and improve its operating base. Due to adverse market conditions and the need to further develop the KIW brand while improving corporate value, it was decided that as of January 2011 KIW would no longer be given charge of the production, sales and distribution of KBC refrigerated drinks so that KIW could further specialize into the dairy product business. This company also seeks to further develop and strengthen its operating base by drastically reviewing cost structure and promoting leaner business practices.

**Kirin Kyowa Foods**
Kirin Kyowa Foods took on a new organization with its consolidation with Mercian’s processing liquors and fermented seasoning businesses in July. It worked toward enhancing its value proposal-based development and marketing structures in order to provide attractive products with improved profitability.

Kirin also launched new products under the Group-wide brand **KIRIN Plus-i**: **Otona-no-Kirin Lemon** and **Ukon Double** from KBC, **Otona-no-Yoghurt** from Koiwai Dairy, and **Cayu-na** from Kirin Kyowa Foods. All of these products were well received in the market.

**Overseas operations**
In overseas markets, discussions were initiated with F&N on generating synergies with a view to establishing a solid foundation for soft drink operations in Southeast Asia. The focus of efforts will be on sharing sales channels, joint product development and joint procurement of production materials. Meanwhile, the new partnership with CRE is seen as an important step towards developing a solid base in the soft drinks market in China.

In 2010, KBC engaged in restructuring business infrastructure to increase profitability from overseas markets, in part by aiming to significantly expand sales in China through a full renewal of Kirin Gogo-no-kocha, concentrating on **Tea Break** in Thailand to create a new category of English tea, and releasing the **KiRA** brand of fast-growing sweet green tea products in Viet Nam. Sales volume from overseas operations remained roughly on par with the previous year.

**Oceania**
While the soft drinks and foods division (NF) of LNNF continues to make progress towards its integration goals with the former Dairy Farmers business following its 100% acquisition in 2008 to generate synergies, the market environment remained very challenging, with relatively high input costs by historical standards and a very price competitive retail environment. Reflecting the difficult trading conditions, Kirin made changes to the carrying value of brands and goodwill on its balance sheet relating to the NF business following a strategic review of core brands. As a result, Kirin recorded an impairment loss against LNNF’s brands and goodwill in special expenses of ¥38.8 billion.

NF’s business recorded sales of ¥185.8 billion, down 30.0% in year-on-year terms mainly due to a nine-month accounting period in fiscal 2010. Operating income in this business stood at ¥7.8 billion, down 32.8%.

NF’s increased focus on brand investment delivered some significant successes during the year. **Dare Iced Coffee** was one of the fastest growing NARTD brands in the convenience store market, delivering volume growth of 30%. **Yoplait Formé** launched its **Satisfy** range, which saw instant success and cemented the brand as the leading weight-management brand in yoghurts.
Toward global health and well-being

Pharmaceuticals

Business outline
Kyowa Hakko Kirin Co., Ltd. (KHK), the core firm in this segment, applies its expertise in advanced therapeutic antibody technologies and R&D to develop medicines for cancer, kidney and immunological diseases and deliver new value to the medical industry. It aims to be a leading global pharmaceutical specialist.

2010 in review
The pharmaceuticals segment posted consolidated net sales of ¥210.1 billion, up 1.6% year-on-year. Operating income increased 13.4% to ¥38.9 billion.

Besides reductions in National Health reimbursement prices in April, domestic market conditions were challenging due to the promotion of generic pharmaceuticals, fiercer competition as domestic, European and American drug manufacturers shift their focus to cancer and other areas with unmet medical needs, and increased development of biopharmaceuticals. Accordingly, KHK strengthened its domestic sales operation to expand sales of core products and swiftly release new products.

KHK advanced its antibody pharmaceuticals to the next stage of clinical development worldwide, formed new technology/product licensing agreements, enhanced production facilities for investigational therapeutic antibodies, boosted competitiveness with a new research building in Tokyo Research Park and reorganized existing production facilities to enhance efficiency.

Domestic sales of ethical pharmaceutical products were broadly flat despite the reimbursement price reductions. Sales of renal anemia treatments Nesp and Espo, and of Regpara, a treatment for secondary hyperparathyroidism during dialysis therapy, increased. In technology licencing-out and pharmaceutical exports, revenues increased significantly due to higher one-time income from outlicensing and strong exports mainly to Asia.

Clinical development progress
In new drug development, in September, KW-0761 entered late Phase II clinical trials as a joint therapy with mLSG15 for CCR4-positive Adult T-Cell Leukemia-Lymphoma and as a treatment for peripheral T/NK cell lymphoma. In the renal therapeutic area, Nesp injection plastic syringe, a long-acting erythropoiesis stimulating agent, was approved and sales were launched in August. Overseas, in March, approval was gained in South Korea and Taiwan for Regpara. In the areas of immunology and allergy in Japan, in July, antiallergenic Allelock received additional approvals for children aged seven and above regarding effect/efficacy and dosing method and amount. Further, following receipt of approval, sales of Allelock OD Tablets, a disintegrating oral tablet developed in-house using KHK’s latest technology, began in November. In overseas markets, in June, approval was received for Allelock in China. In therapeutic antibody research and development, while strengthening its in-house development pipeline of antibody pharmaceuticals KHK also developed the global outlicensing of its POTELLIGENT® and COMPLEGENT® technologies via its U.S. subsidiary BioWa, Inc. To date, KHK has licensing agreements with sixteen companies for these technologies.

Other Businesses

Business outline
Biochemicals operations involve manufacturing value-added amino acids and other products in the pharmaceutical, healthcare and cosmetics sectors, primarily through Kyowa Hakko Bio Co., Ltd. (KHB). Chemicals operations supply solvents for paints and inks, raw materials for plasticizers, and other specialty chemicals for environment-friendly, high-performance materials, primarily through Kyowa Hakko Chemical Co., Ltd. (KHC).

2010 in review
Consolidated net sales were down 3.1% year-on-year to ¥231.5 billion and consolidated operating income was up 125.7% to ¥8.6 billion.

In Biochemicals, Kirin expanded sales of high-value-added products focused on amino acids for use in infusions and pharmaceutical raw materials despite rapid yen appreciation. In healthcare, Kirin strengthened its health food mail order Remake series and developed the market for in-house branded amino acid materials such as ornithine. In Chemicals, sales increased significantly in Japan due to recovery in demand for automobiles and household appliances, and price revisions reflecting rising fuel and raw material prices. In exports, sales improved due to strong sales of eco-friendly specialty chemicals and solid overseas market conditions for core products. KHK signed a basic agreement to sell all shares owned by KHK in KHC to KJ Holdings Inc. in March 2011 in order to focus resources on ethical pharmaceutical products business.
Future Strategic Perspectives

Changes in Segmentation

In the next consolidated fiscal year we will shift from existing segments broken down according to business types to reporting segments based on management approach in order to comply with new financial accounting standards for segment information disclosure.

Based on these changes, the Kirin Holdings Group will, for the purposes of segment classification, view its operating companies as business management units and group them based on consideration of their economic similarities. Our four new reporting segments will be: "Domestic Alcohol Beverages," consisting primarily of Kirin Brewery and Mercian; "Domestic Non-Alcohol Beverages," consisting primarily of Kirin Beverage; "Overseas Beverages," consisting primarily of Lion Nathan National Foods; "Pharmaceuticals and Biochemicals," consisting primarily of Kyowa Hakko Kirin and Kyowa Hakko Bio; and “Other,” consisting primarily of Kirin Kyowa Foods.

Future Strategic Perspectives

Future Strategic Perspectives
Fiscal 2011 outlook
The domestic alcohol beverages market is forecast to continue contracting in fiscal 2011. Kirin projects a slight decline of 2.4% in aggregate volume growth for beer/happo-shu/new genre products. Growth of 8.5% in the new genre category, 3.3% in the alcohol-free beer-flavored beverage category, and 8.1% in the RTD category is expected to offset a decline of 5.2% in beer and 11.3% in happo-shu sales volumes. Kirin expects consolidated net sales for the segment to decrease by 2.2% in year-on-year terms to ¥908.0 billion.

Despite a forecast decline in marginal profit of alcohol beverages in Japan in fiscal 2011, Kirin expects decreases in raw material costs such as malt, sales promotion and advertising expenses, and other costs including depreciation and labor costs. As a result, Kirin projects ¥73.5 billion in operating income for the Domestic Alcohol Beverages business, an increase of 0.4% in year-on-year terms.

Strategic initiatives at Kirin Brewery for 2011
Amid a fast-changing market environment for alcohol beverages in Japan, Kirin will aim to expand customer support and strengthen foundations by executing the various initiatives outlined below. The domestic alcohol beverages market is forecast to continue shrinking in volume terms over the medium to long-term as Japan’s population ages and its birthrate declines. This underscores the strategic importance for the Kirin Group of developing leading brands in key segments.

As the core company contributing to the growth of the entire Kirin Group, KB will continue to pursue an integrated beverages group strategy by using the combined resources of the Group aimed at further increasing the enterprise value of the Group.

1. Strengthen brand power through selection and concentration
KB will select and focus resources into growth categories and leading brands in the beer, happo-shu, new genre, non-alcohol beer-taste beverage and RTD categories, and actively create new categories to reinforce brand power and stimulate the alcohol beverages market in Japan.

In the beer category, KB will further strengthen the Kirin brand through a new advertising campaign promoting the world-class Kirin Ichiban Shibori with 100% malt that is fermented using only the very first wort hops, which contain less bitter-tasting tannins. In the happo-shu category, KB aims to gain stronger customer support through renewal of Taurei Green Label with 70% reduced carbohydrate content (compared to Kirin happo-shu products). KB will focus on Kirin Nodogoshi in the significantly expanded new-genre market and strive to further increase support through large-scale marketing and popular campaigns.

In the growing non-alcohol beer-taste beverage category, KB will renew Kirin FREE by refining taste and continue to lead the market.

In RTDs, KB will take steps to increase its customer base and bolster the entire Hyoketsu brand. Efforts will include renewal of the Hyoketsu Strong series with enhanced fruit flavor and zero sugar.

Delivering great new tastes through a diverse line-up of alcohol beverages that anticipate the lifestyle changes, preferences and values of customers
Create value to generate new products, categories and business models

Kirin will maintain its commitment to ongoing value creation designed to yield new products, categories and business models. This involves leveraging the Group’s leading position as a comprehensive beverages manufacturer to stimulate new demand.

The introduction of Kirin FREE in 2009 created a whole new category for 0.00% non-alcohol beer-taste beverages. The Company followed this up with Kirin-Yasumushi-no Aic. 0.00% in 2010. This product is enriched with ornithine, an amino acid found abundantly in freshwater clams. As the marketing of the product suggests, this is a drink for those occasions when you want to give your liver a rest. In 2011, Kirin will aggressively seek to generate new value by creating another novel new category. To this end, Kirin has linked research, marketing and sales functions to uncover latent customer needs and achieve innovation, the source of competitive advantage. Kirin will promote product and technological development based on the themes of taste, health and the environment in each alcohol beverage category.

Greater health consciousness is now an established trend among consumers in Japan. KB plans to launch Kirin Koi Aji in 2011, a low-calorie, zero-carbohydrate drink with a deep, rich flavor for the new-genre market based on a new concept for health-minded customers. KB will continue to lay out a greater product lineup that meets the expansion of this market.

In addition, KB will release Kirin Makkoi Umeshu, a liqueur made from plums featuring a full flavor and deep fruity aroma made using a special maturation process for rich, mellow seeds. This product aims to make the most of a growing plum wine market in Japan.

Additionally, KB will expand the sales channel for Four Roses Highball and I.W. Harper Highball, available for a limited time at convenience stores from November 2010, due to their market success.

Further innovate value proposal marketing

Kirin is also continuing its work in the area of value proposal marketing in the lead-up to the January 2012 launch of Kirin Beer Marketing Company, Limited, a new company to be formed through the integration of the existing sales division with Kirin Merchandising. Preparations involve consolidating sales infrastructure, and further strengthening the sales system to be more integrated with local communities in order to speed up decision-making and policy implementation.

In 2011, KB will endeavor to improve its standing as a comprehensive alcohol beverages manufacturer by leveraging Diageo’s western liquor brands such as JOHNNIE WALKER and the product lineup of Mercian in addition to a continued focus on Fuji Sanroku and Four Roses.

KB will also strongly promote the integrated beverages group strategy. Efforts will be made to strengthen marketing and sales for Kirin Oolong Tea, which was developed by KBC. In the mass-merchandise market, Kirin seeks to boost wine sales by conducting a structural review of sales at KB and Mercian.

Ensure agile response to market through direct control

In January 2011, KB took over direct control of four overseas operating companies that promote the Kirin beer brand outside Japan, as well as the export business,
from Kirin Holdings. The four companies are: Kirin Brewery of America (California, USA), Kirin Europe (Dusseldorf, Germany), Taiwan Kirin Co., Ltd. (Taipei, Taiwan), and Four Roses Distillery (Kentucky, USA), which handles developments for Four Roses brand products.

As brand owner, KB aims to bolster sales and exports overseas and expand the Kirin beer brand in the United States, Europe and Asia through direct management and control of Ichiban Shibori and other brands.

Additionally, Kirin is conducting test marketing in the United States of Kirin FREE, which has been a hit in Japan, with a view to expanding into overseas markets.

5  Boost productivity and cost competitiveness
Under the MTBP 2010-2012, the Kirin Group is committed to pursuing a lean management approach as a way of boosting productivity and improving profitability. The aim of lean management is to create customer value in a maximally efficient and cost-effective manner to ensure continued growth of the business even under harsh business conditions.

KB will continue reforming its business structure to strengthen cost competitiveness in response to changes in the environment, including an increasing number of private brands and fierce price wars.

As part of the MTBP cost-reduction program, KB rationalized the domestic production network in 2010 by consolidating 11 production sites into nine in order to increase overall production capacity utilization. This involved closing the Tochigi Plant and the Hokuriku Plant. In addition, the Shiga Plant was redesigned into a high-mix, low-volume production site. In 2011, KB aims to realize a more efficient manufacturing system by utilizing the nine plants nationwide to their fullest potential. The rationalization is expected to boost capacity utilization in fiscal 2011. The moves will also help reduce annual costs.

In logistics, KB aims to boost efficiency by integrating functions from ordering to delivery. Kirin Logistics Co. consolidated its seven branches into four in 2010. In 2011, KB will execute logistics process reforms and work to enhance productivity by standardizing procedures via a new logistics system.

By linking production, supply chain management (SCM) and sales operations, KB aims to reduce costs throughout the value chain. Efforts will center on reducing the quantity of products transferred, utilizing larger ton trucks for transportation and further promoting a program of total cost reform (TCR) measures aimed at reducing costs via inter-departmental cooperation. The TCR initiative focuses on cutting expenses by tackling issues that drive up costs. By trying to get to the root of problems and resolving the basic issues involved, it targets cost reductions across sectors from sales and marketing to production and SCM.

6  Develop personnel and enhance organizational power
In 2011, KB will continue developing personnel by way of a cross-functional project with a focus on changing awareness and behavior. Specifically, KB is fostering a more uninhibited organizational culture to promote independent thinking and better communication between lower and upper levels of the organization for faster
response time, penetrate the corporate philosophy through forums and workshops, and ensure activities aimed at making improvements are implemented on a daily basis.

**Focus on top performers and new endeavors at Mercian**

Mercian aims to achieve 6% volume growth in wine sales in year-on-year terms amid moderate expansion of the overall market. The company plans to concentrate marketing resources on core brands in the wine business such as anti-oxidizing, additive-free tasty wines, Frontera Cabernet Rose, a Chilean wine, and Franzia, a Californian wine, while pursuing a low-cost management approach to create a more robust earnings structure. Efforts will also focus on generating Group synergies through increased collaboration with KB, Kirin Merchandising and Nippon Liquor.

Mercian will newly launch eight wines from St. Hallett winery together with LNNF in 2011. This includes two wines, St. Hallett Tatiara, developed for the Japanese market that will be transported as bulk wine in 24kl holding containers, and bottled in Japan.

Domestic bottling improves quality consistency, in particular by reducing the delay between bottling and retail sale, while the use of lightweight Japanese bottles and packaging materials helps to reduce the environmental impact. The domestic bottling operation will provide an important new component in Mercian’s wine business to complement the existing line-up of domestic and imported wines.

Mercian has direct input into the final blending process in Australia in order to ensure that the wines satisfy the demands of the Japanese market while at the same time reflecting the characteristics of Australian wines. The Tatiara varieties represent a unique collaboration among winemakers and are the product of synergies within the Kirin Group designed especially for Japanese consumers. The word “Tatiara” means “Beautiful Country” in the language of Aboriginal Australians, and the Tatiara varieties boast a full flavor that conveys both the sincerity of the producer and the warmth of humanity and the natural environment.

Mercian will remain committed to providing a wide range of quality wines to suit every palate and every occasion in line with its philosophy of “creating good times with good wines.” Net sales at Mercian are forecast to increase by 2.9% in year-on-year terms to ¥80.0 billion in fiscal 2011.

**China developments**

In the highly competitive business environment in China, Kirin’s integrated beverages group strategy has been pursued focusing on increased sales in the Yangtze River Delta and Pearl River Delta to establish a solid foundation for the alcohol beverages business.
Highly trusted brands offer health and environmental benefits via trend-setting new products that make people smile

**Fiscal 2011 outlook**
Non-alcohol beverage consumption trends in Japan in fiscal 2011 are again expected to be impacted by a dwindling birthrate and an aging population coupled with a stagnating market caused by persistent deflationary conditions. The domestic non-alcohol beverage market is forecast to remain flat or contract by around 1% in year-on-year terms due to continued budget-conscious consumer habits caused by prolonged uncertainty in economic conditions and the reverse effect of unseasonably warm weather. Competition is also projected to be fierce, particularly on a price front. In addition, Kirin expects an increase in the number of private brands and low-price products as well as escalating costs for raw materials such as fruit juice, coffee beans and cans. Kirin expects the market for black tea to continue expanding and the market for carbonated drinks that cannot be made at home to grow, while the categories of mineral water and green tea that have been commoditized are projected to remain weak.

KBC is targeting single-digit volume growth for all core brands, including 2% for Gogo-no-kocha and 8% for Kirin FIRE. The only exception is Kirin Nama-cha, where an even greater 12% increase is projected. Overall, sales volume growth of 4% is forecast at KBC for 2011 relative to 2010. Kirin expects consolidated net sales for the Domestic Non-Alcohol Beverages business to decrease by 1.7% in year-on-year terms to ¥342.0 billion.

Kirin is forecasting consolidated operating income of ¥5.5 billion for the segment, a projected gain of 129.1% compared with the previous fiscal year. This figure reflects a significant increase in sales volume, though Kirin expects this to be partially offset by increases in raw costs as well as sales promotion and advertising expenses.

Amid these circumstances, KBC will continue working to improve product competitiveness and sales outcomes while at the same time reforming the revenue structure based on last year’s performance. In order to increase both sales and profitability in a highly competitive environment, KBC will seek to strengthen flagship brands, create new products and in turn new categories, and build strong brands, while at the same time pursuing value proposal marketing designed to deliver value to its customers.

**Philosophy on product development for 2011**
Faced with a mature, declining non-alcohol beverage market in Japan in 2011, a key strategic endeavor is to expand areas of comparative advantage by reinvigorating the market with new concepts and proposals. This means that Kirin is moving toward the creation of products with greater “offering appeal.” Under this concept, Kirin aims to create products that offer customers a great taste with health and environmental benefits, plus an additional appeal based on lifestyle or the drinking setting. In short, Kirin aims to supply consumers with products that make them feel good by delivering both physical and emotional benefits. As an example, KBC scored a hit with a line extension for the Kirin Gogo-no-kocha brand called Espresso Tea by proposing it as a new option for short breaks at the workplace. This attracted people who normally drink canned coffee.

**Overall brand strategy in 2011**
Under the 2010-12 MTBP, KBC aims to concentrate on generating higher margins by focusing more deeply and narrowly on core brands. It will reinforce the backbone of these brands by continuing with its policy of selection and concentration in 2011. Based on this policy, KBC plans to focus resources on best-performing brands to cultivate stronger customer loyalty. For Kirin Gogo-no-kocha...
kocha (black tea) and Kirin FIRE (canned coffee), KBC will remain dedicated to proposing new drinking settings and drinking styles and working to expand the customer base. In key strategic domains such as the high-volume water and sugar-free categories, where product differentiation is tough, KBC will make new proposals that transcend existing categories and strengthen product appeal. In challenging domains such as the fast growing carbonated beverage category and the fruit juice category, an area of relative strength, it will propose products that offer customers new value.

**Drive growth in tea beverages category**

KBC aims to maintain its position as a strong performer in the tea beverages market in Japan. To achieve this, KBC will drive sustained growth by proposing new drinking settings and increasing offering appeal by enhancing taste in its Gogo-no-kocha series. KBC will launch a number of sugar-free products in this series to appeal to the health-conscious consumer in 2011, including Espresso Tea Black Sugar-free that suppresses bitterness. The simple, high-quality design of the tea makes it ideal for any setting while also appealing to the health-conscious consumer. Another new product scheduled for release in 2011 is the black, sugar-free Espresso Tea Black where the tealeaves are roasted for a full, rich aroma.
Move away from competition in canned coffee sector
The canned coffee market has been undergoing a major price war in recent times. KBC intends to differentiate itself from its rivals to avoid being embroiled in the war. Its strategy for Kirin FIRE is to propose a new future for the canned coffee category in which consumer buying patterns are matched with drinking setting. As an example, KBC will propose the value of freshness through coffee made from freshly ground beans to mainstream consumers. It also plans to release an Ice Coffee and Ice Au Lait version that propose a new drinking style in a 245g can that matches the desires of consumers that purchase canned coffee from vending machines. KBC will launch Kirin FIRE Neo in 2011 in a PET bottle that improves customer convenience and enhances flavor by way of a low-temperature aseptic filling system.

Propose unique value
KBC will make further enhancements to the Kirin Nama-cha series of green tea and blended tea, which provide key value in the sector, and propose new value that transcends the bounds of the traditional sugar-free tea category. A survey of heavy users conducted in October 2010 showed that consumers feel like they get a real boost after drinking Kirin Nama-cha. To take advantage of this, KBC will re-launch its green tea beverage with enhanced flavor and aroma. In addition, KBC will advance the crisp, fresh feel of its blended tea, Nama-cha Asa-no-Ururou blend, in response to a solid increase in export sales volume in 2010.

KBC seeks to reinvigorate the mineral water sector and strengthen user loyalty for its key brand Volvic by emphasizing the health benefits offered from habitual consumption. Additionally, efforts will be made to enhance the value of Alkal-Ion-no-Mizu by conveying the benefits of optimum rehydration for the family’s health.

Product strategy by sales channel
While staying true to its philosophy of strengthening brand power, KBC will also pay close attention to the sales channels used by consumers in order to provide products that are a closer fit to desires. In the mass-merchandising sector, KBC will strengthen its lineup of large containers in response to an increase in family use. In the vending machine sector, KBC will differentiate its products using containers that stimulate customer interest. In the convenience store channel, KBC will propose limited products that closely match target users.

Strengthen chilled drinks business
KBC consigned chilled beverage sales and distribution to Glico Daily Products Co., Ltd. in February 2011. This group has 16 distribution centers and 22 sales
sites throughout Japan. Efforts will also be made to bolster sales of the Gogo-no-kocha Sweet & Zero series (500ml box) and the Tropicana series of homemade style fruit juice drinks (250ml slim box). Additionally, Kirin Chilled Beverage Co., Ltd. was established in January 2011 to reinforce development and production systems for chilled drinks.

**Reform revenue structure**

KBC will continue to promote a fundamental reform of revenue structure through optimization of production and sales systems with ongoing reform programs over the entire value chain. Through this, KBC can rebuild growth potential by leveraging product value and its sales force.

KBC will endeavor to work tirelessly to make improvements and create a strong revenue structure. One of the ways to achieve this goal is to boost profitability from its chilled beverages business. To this end, KBC will link up with Glico Dairy Products Co., Ltd. in cold drink distribution to boost sluggish sales in western Japan. The tie-up comes amid intensifying competition in the domestic non-alcohol beverage market and growing moves by companies to merge their operations.

KBC will also continue to pursue better efficiency and profitability through lean management designed to raise cost competitiveness, striving to eliminate strain, waste and irregularity without compromising customer value. Other efforts focus on cost structures with a view to developing a robust business organization that remains profitable even under harsh operating conditions.
Kirin aims to generate new forms of value through ongoing strategic advance into promising and untapped overseas markets

**Fiscal 2011 outlook**
Kirin is forecasting net sales in the Overseas Beverages business of ¥472.0 billion for fiscal 2011, an increase of 16.9% in year-on-year terms. This reflects a projected 18.7% rise in sales at LNNF, the core company in this segment, based on a 5.6% increase in sales of alcohol beverages and a 31.9% surge in sales of soft drinks and foodstuffs. The forecast increase in sales at LNNF is due in part to this company’s nine-month accounting period in fiscal 2010.

Overall, Kirin is forecasting consolidated operating income of ¥26.0 billion for the segment, a projected gain of 13.5% compared with the previous year. Operating income at LNNF is forecast to increase by 5.9% in year-on-year terms, with alcohol beverages up a projected 2.5% and soft drinks climbing a projected 70.0%.

**Ongoing strategic advancement overseas**
Kirin views the continued advance into global markets as strategically important. The domestic alcohol beverages market is projected to continue shrinking as Japan’s population ages and its birthrate declines. This underscores the strategic importance for the Kirin Group of building up operations in overseas markets where future demand is projected to grow.

Under its long-term plan KV2015 Kirin aims to derive at least 30% (liquor tax-exclusive basis) of sales and operating income from overseas operations. The percentage of overseas sales to consolidated sales in fiscal 2010 was 25%. Kirin is forecasting overseas sales and operating income to account for 30% in fiscal 2011.

Towards the achievement of this target, one priority area is the creation of a new paradigm for rapid growth predicated on overseas operations. To this end, and in line with Kirin Group’s medium-term management strategy, the Group is actively promoting the development of business and capital alliances with other companies overseas as part of measures to improve Kirin’s competitive position and achieve growth.

Meanwhile, Kirin’s international business has already grown to the point where exchange rate movements can have a significant impact on earnings. Kirin will continue to keep a close eye on trends as it moves forward with its Overseas Beverages business.

**Endeavoring to make a quantum leap abroad Asia and Oceania**
Kirin’s vision, as stated in its long-term strategic plan KV2015, is to be a leading company in Asia and Oceania in the area of food and health, and it has been pursuing its business strategy focused on growing profitability in these regions and areas. The Asia/Oceania region remains a critical sector for the Kirin Group’s overseas strategy, making up over 80% of total overseas sales in fiscal 2010.

In Southeast Asia, Kirin has commenced a program for creating synergies with F&N following an acquisition of 15% of its stock. Kirin Beverage and F&N, the foundation of Kirin’s new international integrated beverage group strategy, will promote collaboration in Southeast Asia and realize global synergies.

F&N is a Singapore Exchange-listed conglomerate involved in food and beverage, beer and real estate businesses. F&N’s food and beverage business is focused on soft drinks and dairy products, and operates through an extensive network in the Southeast Asian market including Singapore, Thailand and Malaysia.
The move enables Kirin to expand its business base in the fast-growing Southeast Asian market, and Kirin plans to work closely with F&N to enhance the enterprise value for both companies. The collaboration with F&N covers a range of areas including a sales and distribution partnership, sharing of production facilities, and joint product development and development of new markets.

Kirin is also working to strengthen the foundations of its alcohol beverage business in Asia and establish a stronger presence in the Philippine beer market through a tie-up with San Miguel Brewery, and consolidate the foundations of San Miguel International. San Miguel Brewery is the dominant beer market leader in the Philippines, enjoying an estimated 95% share of the market in 2010. Kirin will continue to work closely with San Miguel Brewery to take advantage of steady growth in the Philippine economy.

In Oceania, LNNF, the cornerstone of Kirin’s integrated beverages group strategy in Asia and Oceania, brings together great household brand names including Tooheys, Dairy Farmers, XXXX, PURA, Hahn, Berri, Speight’s, King Island Dairy, Boag’s, Yoplait, Wither Hills and COON.

LNNF is making progress in improving profitability and efficiency through its brand focused business strategy and continues to invest in its people and a focused portfolio of core high potential brands to drive sustainable results in the long term.

LNNF’s alcohol beverages business (LN) continues to drive premiumisation through its innovation pipeline. LN’s products accompany life’s sociable moments, which can be seen by its latest innovation, Hahn White – a Belgian white beer that comes in a 735ml wine shaped bottle to encourage consumers to share beer the same way they would with wine. LN will also launch a new advertising campaign for James Boag in February to drive further awareness of the masterbrand nationally. The new commercial will be based on the highly-awarded ‘Pure Waters’ creative concept.

In its soft drinks and foods business (NF), LNNF continues to strengthen its brand portfolio by focusing investment on core ‘master brands’ and by generating synergies from the integration with the former Dairy Farmers business, including the optimisation of its manufacturing footprint. As part of this process, NF will complete its cheese manufacturing assets review in February. The review was
Future Strategic Perspectives | Overseas Beverages

Driven by the need for NF to support its market leading brands and develop a long-term, sustainable business model based on modern and market leading manufacturing practices, NF has concluded that operating multiple manufacturing sites is not sustainable, and that future investment in world class manufacturing should be focused. As a result, all specialty cheese manufacture, other than King Island brands, will be consolidated into Burnie in Tasmania. This will allow NF to deliver an improved and efficient manufacturing platform to support future growth and innovation. The implementation of the cheese review will roll-out over the next two-three years.

Lion Nathan National Foods continues to invest in its people and a focused portfolio of core high potential brands to drive sustainable results in the long term.

Kirin Holdings Singapore
The newly established Kirin Holdings Singapore has responsibility for the entire Southeast Asia region in order to accelerate implementation of Kirin’s integrated beverages group strategy there. It will be better placed to promptly respond to developments in the local region and will also be able to create synergies while identifying opportunities for growth and undertaking key investment decisions.

Personnel will be deployed from Japan as a means to strengthen operational foundations, while local hiring practices will ensure the company has a solid footing in the local market. A personnel exchange program will be initiated to cultivate a global perspective among employees.

China
In China, the main age group of soft drink consumers covers the majority of the population (approximately 58% of the total population is aged 12-49). In addition, the water market grew by 17.5% and the non-alcohol beverage market by 19.3% between 2005 and 2010. Kirin seeks to take advantage of the booming Chinese market by increasing its presence there.

Through its partnership with CRE, Kirin plans to realize rapid market expansion and high growth through alliance with a strong local partner in prospective non-alcohol beverage business and build an optimum value chain.
and create synergies by providing strengths and complementing weaknesses. CRE will hold a 60% stake in the new joint venture and Kirin will hold the remaining 40%.

The areas of comparative strengths for Kirin lie in product development capabilities and technology in developing value-added non-alcohol beverages. Kirin has already achieved success there with Gogo-no-kocha and has a wealth of appealing new product ideas for the Chinese market. In addition, Kirin possesses production facilities and a sales network in East China.

Meanwhile, CRE has a deep knowledge of the local market and a proven track record there. It boasts high profitability and growth rate in its water business due to low-cost operations that can realize high margin in the competitive water market with its price reduction trend, as well as a strong distribution network. Its C’est bon brand of water commands No. 1 market share in bottled water products (23%) in Guangdong, the biggest non-alcohol beverage market in China.

The joint venture will also enable synergies with the Kirin Group through product line extensions, which meet local preferences by leveraging capabilities in product development and manufacturing techniques.

In terms of profitability, the joint venture will enable Kirin to maintain high growth rate exceeding the market average in China, particularly through the integration of a pricing strategy according to each area and controlling cost management. The joint venture company is targeting sales of 6 billion yuan (¥75.7 billion) by 2015.

**Strengthen group management capabilities**

During fiscal 2011, Kirin will set in place the foundations for the introduction of new frameworks and global management structures designed to promote autonomous growth and boost profitability in the medium to long term. Kirin envisions that these new global management structures will go a long way towards reinforcing its overseas as well as its domestic operations.

To this end, Kirin Group companies will be migrated to a model of “brand management predicated on customer value.” The model involves positioning of product brands on the basis of accurately identifying the value sought by customers and then supplying this value in the form of products that generate customer satisfaction. Through the introduction of effective support frameworks for this model, in combination with effective resource distribution and process reviews, Kirin will strive to further increase brand value.

**Global personnel**

As a means to further boost its overseas operations, in the medium to long term, Kirin aims to strengthen organizational ability through more aggressive global hiring, personnel training and positioning. Training programs will be used to develop talented overseas business managers and promote personnel exchanges between domestic and overseas Group companies, thereby contributing to the ongoing growth of the Kirin Group as a whole.
Unique and innovative technologies contribute to the fight against disease and contribute to the health and well-being of people globally

**Fiscal 2011 outlook**
Kirin forecasts consolidated net sales for the Pharmaceuticals and Biochemicals segment to decrease by 22.1% in year-on-year terms to ¥316.0 billion. This reflects a decline of 21.4% in sales at this segment’s core operating company, KHK, to ¥325.0 billion. Operating income in this segment is expected to be ¥40.0 billion, a decrease of 17.9% compared with fiscal 2010. KHK forecasts operating income of ¥37.0 billion, a projected fall of 18.5%.

**Pharmaceuticals**
In the Pharmaceuticals business, KHK expects sales to increase by 0.9% in year-on-year terms to ¥212.0 billion and operating income to decline by 10.8% to ¥34.7 billion.

KHK forecasts growth in sales due to a projected year-on-year increase in sales volumes of core products including antiallergic agent Allelock (up 11%), antiallergic ophthalmic solution Patanol (up 36%), and Regpara (up 17%), a treatment for secondary hyperthyroidism during dialyzer therapy. However, due to an expected large increase in R&D spending, KHK expects operating income to decline.

In light of uncertainty in the economic environment, KHK will further strengthen its domestic sales capabilities aiming for early market penetration of new products and expand sales of core products, while more actively promoting its global development.

**Strategic perspective**
KHK’s strategy is to develop leading positions in core areas as a global specialty pharmaceutical company. Technical alliances with a wide range of partners worldwide comprise a key strategic element.

The major therapeutic areas of strategic focus are oncology, nephrology/allergy and immunology. Using KHK’s original POTELLIGENT® antibody production and other technologies based on state-of-the-art biotechnology, KHK aims to become a global specialty pharmaceutical company that develops innovative drugs to satisfy unmet medical needs. During the 2010-12 MTBP period, KHK aims to add at least four products to the development pipeline each year.

**Accelerate growth**
KHK aims to accelerate the realization of integration benefits and develop as a global specialty pharmaceutical company. In Japan, KHK will apply for approval of blood cancer antibody drugs developed using its advanced proprietary technologies, while continuing to design and develop new candidate products. KHK will work to strengthen sales of core products in kidney disease and other areas while enhancing the marketing of new products. Outside Japan, KHK will expand its sales operations in China and the rest of Asia, and set up an Asian Development Department for reinforcing its development capability. In Europe and the United States, KHK will continue to develop its sales networks in accordance with product development.

**Acquisition of ProStrakan Group plc**
KHK and ProStrakan Group plc reached agreement in February 2011 on the terms of recommended cash acquisition of this Group by KHK. KHK believes the

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The three major MTBP themes are:

1. Efficiently use business resources to promote rapid progress in the development pipeline;
2. Ensure the launch from the second half of the plan period onwards of new pharmaceuticals developed in-house in U.S. and European markets; and
3. Improve sales organizations in U.S. and European markets in accordance with progress made on the development pipeline.
acquisition will represent a key strategic milestone in its development and provide it with an established European and U.S. marketing and sales platform, together with a portfolio of proprietary products. ProStrakan’s strong management team and talented and motivated sales force will be able to assist with the launch and marketing of KHK’s key pipeline products, including therapeutic antibodies, in European and U.S. markets.

The move will enhance KHK’s existing clinical development capabilities with ProStrakan’s solid track record of successful new drug approvals and regulatory expertise in the United States and Europe. It will also allow KHK to leverage the clinical, regulatory and marketing expertise of ProStrakan for certain medicines whose regional rights are already partially held by KHK. Further, it will reinforce KHK’s expertise in utilizing cutting-edge biotechnologies, based mainly on antibody engineering technology, to create new pharmaceuticals in the core therapeutic areas of oncology, nephrology and immunology/allergy.

**Strength in manufacturing**
The key to future success in antibody pharmaceuticals lies in an efficient and effective manufacturing system. To achieve this, KHK has identified three areas of strategic importance.

First, KHK will aim for world-class quality in its products. This includes applying biotechnologies accumulated in the development of Espo and Nes products, such as serum-free cell culture system technology to its antibody pharmaceuticals. Further, KHK will implement a manufacturing and quality assurance program compliant with tri-polar regulations (Europe, the United States and Japan). Second, KHK seeks to ensure rapid supply of a wide variety of antibodies. It will accelerate time to market by consolidating facilities, from R&D facilities to market launch. This will provide it with a solid platform for the swift and extensive supply of development antibodies. Third, KHK will improve cost competitiveness through in-house technologies. These include world-class, highly productive cell production technologies. Through these three initiatives, KHK can become more globally competitive.

KHK is also striving to reduce development time by establishing and improving its platform method. This refers to a manufacturing and analysis methodology applicable to a broad range of candidate molecules that allows rapid and flexible supply of multiple types of high quality therapeutic antibody pharmaceuticals.

**R&D pipeline (also see page 29)**
In R&D, KHK is focused on swiftly developing the current pipeline and on creating a world-class antibody technology business. Following the 2008 merger, work continues on consolidating R&D functions to raise efficiency and increase returns from selective investment of management resources. In 2010, Kirin completed a new research building at Tokyo Research Park, which is principally engaged in research into biopharmaceutical and next-generation drug development. The new facility aims to conduct research into next-generation new drug technologies and new drug targets, and create development candidate products for antibody pharmaceuticals. At the same time, the Antibody Research Laboratories will continue to carry out discovery research and the early development of therapeutic antibodies, and the Innovative Drug Research Laboratories will keep working to create new development candidates and discovery research of drug targets through the utilization of the strengths of chromosome engineering, cellular immunology, nephrology and natural product chemistry.

In 2011, KHK will follow through with plans to carry out clinical trials for products it is developing in Japan and abroad in the priority areas of cancer, kidney and immunity/allergy-related diseases. This includes
preclinical trials of seven POTELIGENT® antibodies and five KM-Mouse antibodies.

**Biochemicals**

In the Biochemicals business, Kirin expects sales to increase by 1.7% in year-on-year terms to ¥76.9 billion. Operating income is forecast to remain flat at ¥3.2 billion.

Kyowa Hakko Bio (KHB), the main company in this sector, will contribute to the health and well-being of people worldwide by creating new value with the pursuit of advancements in life science and technology.

In this business, KHB will aim to expand sales in the amino acid market, primarily those for pharmaceutical use in high-value-added areas, and promote the development of the market for in-house branded amino acid materials such as ornithine.

In 2011, KHB expects a decrease in revenues and profits due to the effects of a strong yen and a sluggish performance of core products at Daiichi Fine Chemical, despite an expected increase in sales volume of core amino acids and related compounds, and the mail order Remake series.

In addition to expanding sales routes for high-value-added amino acids, KHB will also seek further growth by strengthening its overseas marketing structures.

**Proceeding to the next generation as leader in new biotechnology**

There are growing expectations that new biotechnology will become a primary means of solving a host of problems – including health, food, energy and environmental problems – in areas that represent the foundations of people’s daily lives. KHB believes the key to sustaining its growth in the future will be to combine new biotechnologies with chemical synthesis technologies to develop internationally competitive new products.

At present, more than 150 staff – about one-fifth of the company’s employees – are engaged in R&D activities. Through the close cooperation and mutual interaction of the three research laboratories of Group Companies, KHB is progressing with innovative R&D in such areas as fine chemical products, health care products, agrochemicals, animal health products and aquacultural products. The company is also engaged in research in overseas countries, where it is focusing on the application of amino acids. In addition, KHB will participate in numerous joint projects with national and university research institutes as well as with other companies in 2011.
In Hong Kong, Malaysia, Singapore and Korea, an NDA of Romiplostim has been filed.

In Singapore, an NDA of Cinacalcet Hydrochloride has been filed.

In Thailand, Singapore, Malaysia and Philippines, an NDA of Darbepoetin Alfa has been filed.

(Note) In Taiwan, Korea and Vietnam, an NDA of Pegfilgrastim has been filed.

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(8) KW-0761 was sublicensed to Amgen Inc. on March 6th, 2008, and an exclusive right to develop and commercialize KW-0761 worldwide, except in Japan, Korea, China and Taiwan. BHK has retained the development and commercialization rights in these countries. In 2010, BHK paid Amgen US$20M for the buy-out of Amgen’s option to assume the development and commercialization of KW-0761 in oncology setting in Amgen’s licensed territory which was granted under the License Agreement.

(Note) In Taiwan, Korea and Vietnam, an NDA of Pegfilgrastim has been filed.

In Thailand, Singapore, Malaysia and Philippines, an NDA of Darbepoetin Alfa has been filed.

In Hong Kong, Malaysia, Singapore and Korea, an NDA of Romiplostim has been filed.

Kirin Holdings Annual Report 2010 29
Future Strategic Perspectives | Other

Products that create new value for customers, providing great taste and joy while also promoting health

**Fiscal 2011 outlook**
Consolidated net sales in the Other segment are forecast to amount to ¥102.0 billion, an increase of 11.0% in year-on-year terms. Operating income is projected to increase by 4.9% to ¥8.5 billion.

**Kirin Kyowa Foods**
Kirin Kyowa Foods Co., Ltd., the key operating company in this segment, was established in April 2009 from a merger of Kirin Food-Tech Co., Ltd. with Kyowa Hakko Food Specialties Co., Ltd. Both specialist producers were primarily engaged in the development, manufacture and sale of food additives and seasonings, which are based on expertise in fermentation technologies cultivated over many years. Kirin will continue with efforts to integrate the two businesses and derive cost synergies. Kirin Kyowa Foods utilizes its abundant technical expertise in supplying processed foods with tasty and healthy ingredients.

Kirin Kyowa Foods will also promote a value proposal-style business for customers in Japan and overseas by continuing efforts to solidify and strengthen the development and sales structures for its core business in the processing and commercial food ingredients market.

Kirin Kyowa Foods will continue looking to enhance its global production and sales network concentrated in Asia and Oceania, with the aim of establishing firm footing as a leading company in the food ingredient industry in those regions, and will deliver food ingredients that offer great taste and functionality to all customers worldwide.

**Moving forward from initiatives in 2010**
Kirin Kyowa Foods aims to capitalize on initiatives introduced in the previous fiscal year to rebuild sales and marketing structures and develop proposals for new, distinctive products that create novel value for customers. As part of efforts to foster Group synergy, Mercian’s processing liquors and fermented seasonings businesses were consolidated in Kirin Kyowa Foods. All of these moves are aimed at gaining greater market competitiveness and boosting earnings power in 2011 and beyond.

**Products that create new value for customers, providing great taste and joy while also promoting health**

-Freeze-dried rice gruel: Cayu-na
-Freeze-dried soup: Ippaino-zeitaku
-“Umami” seasoning: Inochiban
-Non-calory sweeteners: Cafino
Overview of R&D in 2010

Kirin Group R&D spending in fiscal 2010 was ¥55.6 billion, including ¥5.3 billion in the alcohol beverages business, ¥2.9 billion in the soft drinks and foods business, ¥40.0 billion in the pharmaceuticals business, and ¥4.6 billion in Kirin’s other businesses. Group-wide fundamental research activities are undertaken at the Central Laboratories for Frontier Technology, within a project to promote health and functional food business and at the research laboratories of each operating company. Around 2,253 employees in the Kirin Group were directly involved in R&D as of December 31, 2010.

The Central Laboratories for Frontier Technology conducts research to develop basic technologies for the area of food and health, including technology to comprehensively assess the safety of food materials and ingredients as well as food products that the Kirin Group uses and sells. The aim is to strengthen the technical expertise of the Group and contribute to the business activities of each operating company.

Key results in R&D in fiscal 2010 included successfully identifying the gene responsible for biosynthesizing linalool, a key contributor that gives hops, a raw material in beer, its distinct aroma and bitterness component. Research was conducted at the genetic level to achieve this result. In addition, a technology was developed in conjunction with KBC to further improve the strong flavor of coffee through reexamination of the coffee bean using the “Deep Body” technique that was employed with Kirin FIRE.

The Kirin Group has gained technical expertise in research and marketing that assesses customer needs; in cutting-edge fermentation and biotechnology that brings out the best in what nature provides; and in manufacturing that converts the customer needs into products. Kirin combines and integrates these technical competencies to deliver food and health products of distinctive value and high quality.
As a corporate group that provides new ways to enjoy food and health, Kirin considers corporate social responsibility (CSR) an integral part of business management. In addition to actively addressing social challenges through its business, Kirin promotes initiatives as a corporate citizen to help realize a sustainable society.

As an integral part of business operations

Striving to become a low-carbon corporate group
Climate change has global implications and its impact could seriously affect the Kirin Group’s businesses. That is why the Kirin Group has made “becoming a low-carbon corporate group” a central focus of CSR activities.

In August 2009, Kirin formulated medium- and long-term targets for reducing carbon emissions. These targets are applied across the value chain, from product development through to disposal and recycling. At the same time, Kirin develops and markets eco-friendly products with tangible green benefits through such means as making containers lighter.

Quantitative targets (Calculated on August 3, 2009)
Weighing the balance between the earth’s finite natural CO₂ absorption ability and the CO₂ emissions created by humankind, the Kirin Group will:

1. Reduce CO₂ emissions generated from the entire global value chain by half relative to the 1990 level by 2050.
2. Reduce CO₂ emissions resulting from global manufacturing, distribution and office operations by 1% or more annually through 2050.
3. Bring CO₂ emissions from manufacturing, distribution and office operations in Japan down to 35% below the 1990 level by 2015.

Efforts to eliminate drunk driving
As part of its CSR activities, KB supports efforts to eliminate drunk driving. In September 2009, it announced its support of the “Designated Driver” program being promoted by the Japan Traffic Safety Association, the Japan Foodservice Association and the Japan Automobile Federation (JAF). KB uses Kirin FREE, a non-alcohol, beer-tasting beverage, to get across its message concerning drunk driving. KB also holds public-awareness events, discuses the campaign with visitors on factory tours, and works to promote it with local governments.

Additionally, Kirin aims to spread correct information and increase awareness concerning alcohol beverages and people’s health through various brochures and its website.

Ensuring food safety
The Kirin Group aims to provide safe and reliable products and services to customers through a steady focus on quality in all aspects of its business activities ranging from the sourcing of raw materials through product development, manufacturing and inspection to distribution and marketing so as to retain their trust. This is a core declaration made in the Kirin Group Basic Policy on Quality.

Promoting diversity & inclusion
The Kirin Group aims to create a corporate culture that encourages a diverse array of human resources to

Corporate Social Responsibility

Customers | Employees | Shareholders | Society

The Kirin Group – Focused on people, nature and craftsmanship to redefine the joy of food and health

CSR through Business

Proposal of new values
Ensuring food safety
Approaches to food culture
Respect for diversity
Corporate governance
Investor relations
Environmental management
Public education on responsible drinking
Compliance practices (complying with social rules and requests)

CSR Activities as a Corporate Citizen

Activities to protect water resources, United Nations University-Kirin Fellowship Program, sports sponsorships, support for the arts, encouragement for employee volunteerism

Group Action Declaration

Creation of values for customers
Respect for human nature
Increasing value for shareholders
Contributing to society; concern for the environment

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interact and share ideas freely in their everyday work activities. Concrete examples of promoting diversity include empowering female employees to grow professionally, formulating a work-life balance charter and a charter encouraging employment of persons with disabilities, and establishing an environment in which employees of diverse backgrounds can meet their full potential.

**Approach to food culture**
The Kirin Institute of Food and Lifestyle established in 2007 is developing a vision of what role the Kirin Group should play in leading the way in suggesting future lifestyles related to food culture.

In terms of nurturing food literacy in future generations, the Kirin Institute of Food and Lifestyle continues to promote the Kirin Kids School for Deliciousness (Kirin Oishii Gakko), a hands-on program intended to get children more interested in what they eat, and a program with the University of Tokyo to explore ways of contributing to a sustainable food culture.

At the Forum of Future of Food and Health, employees and executives of Group companies meet to discuss what the Kirin Group can do for the joy of food and health through business activities. Food scientists from the United Nations University-Kirin Fellowship Program also take part.

Independent research findings are released as the Kirin Institute of Food and Lifestyle Report. The reports cover diverse perspectives that include different personal lifestyles of food and value sets.

**As a good corporate citizen**
Kirin’s social contribution activities broadly comprise two elements. First, Kirin has been supporting the Japan National Soccer Team for more than 30 years with the aims of strengthening the team and fostering the soccer culture in Japan so that more people can enjoy the game. The Group is an official sponsor of national teams across the board, such as the national Samurai Blue squad, the Nadeshiko Japan women’s team, various age-group representative teams, the Japan national futsal team and the Japan beach soccer team. Kirin has its eye on the future of soccer with the next generation in the hope of broadening the scope of the sport and helping some of the kids of Japan fulfill their dream of playing for the national team.

Second, as a corporate group engaged in the food and health sector, Kirin supports Asian researchers in the area of food science to assist developing countries in Asia in their efforts to solve food problems. Kirin also enriches people’s lives through sponsorship of arts and culture. Aiming to maintain harmonious coexistence with the communities in which it operates, the Kirin Group promotes various activities that include the preservation of forests that protect and reproduce water sources. The Group also actively provides support for its employees’ volunteer activities as well as for areas afflicted by natural disasters.
Corporate governance

Kirin is taking action to reinforce corporate governance in the entire Group in order to practice fair and efficient management as well as to earn the trust of all stakeholders, internal and external. With the transition to a pure holding company in July 2007, Kirin switched to an organizational structure based on a parallel array of operating companies and functional companies. 

Regarding the corporate governance structure, to achieve the Group growth strategy, Kirin clearly defined the roles and responsibilities of each operating company and the holding company, and heightened levels of autonomy and agility in business. In addition, Kirin erected setups to encourage dramatic growth and the creation of Group premiums under the leadership of the holding company. The purpose is to maximize corporate value in the entire Group by expediting decision-making and making management more transparent and sound.

Kirin Holdings maintains a highly transparent governance system for all stakeholders by ensuring a close working relationship between the Board of Directors, which consists of two outside directors, and the Board of Auditors, which consists of three outside auditors, and by striving to strengthen management auditing while making effective use of auditor functions.

In addition to organization design, the basis of corporate governance, Kirin Holdings has established a Compensation Advisory Committee and Appointment Advisory Committee, which include outside directors, as well as various other committees at the holding company level specific to the nature of decision-making and business content in order to facilitate highly transparent and efficient Group operations.

Outside directors ensure the appropriateness and adequacy of decision-making by the Board of Directors from an objective and independent standpoint based on extensive experience as company managers, and through participation in the Compensation Advisory Committee and Appointment Advisory Committee, check decisions on executive officer remuneration and selection of candidates for executive officer positions.

Promotion of internal control system

The Board of Directors has made resolutions concerning the main setups (comprising the system of internal control) to assure the propriety and rationality of operations. Kirin continues to develop these setups and to make improvements to the internal control system as deemed necessary. Regular reports are made at meetings of the Board of Directors concerning progress and modifications made and issues addressed.

Promotion of risk management

The Kirin Group has been actively engaged in the promotion of risk management since 2003. The installation of risk management systems in all consolidated companies was completed in 2008, bringing to fruition a comprehensive risk management system for the entire Kirin Group. Kirin is also engaged in developing crisis response systems aimed at minimizing the impact of crises on customers and businesses. Based on the Group Crisis Management Manual, the Group Risk Management Committee exchanges information with the risk management committees of operating companies and takes timely and appropriate action.

Promotion of compliance

The Kirin Group considers compliance the foundation of CSR activities. In Kirin’s definition, it consists of not only conformance with all pertinent laws and regulations but also observance of internal and external regulations/rules and social norms, and discharge of both legal responsibilities and the ethical ones sought by society. By assuring compliance, Kirin can prevent unforeseen losses and the collapse of credibility, and maintain and deepen trust placed in the organization by stakeholders.
Directors and Auditors (As of March 29, 2011)

Chairman of the Board
Kazuyasu Kato

President & CEO
Senji Miyake

Managing Director & CFO
Yoshinori Isozaki

Representative Director
Hirotake Kobayashi

Managing Directors
Hajime Nakajima

Directors
Hiroshi Ogawa

Corporate Auditors
Kazuyoshi Suzuaho

Auditors
Naoki Hyakutake

Teruo Ozaki

Kazuo Tezuka

Nobuyuki Oneda

From left to right: Kazuyasu Kato, Yoshinori Isozaki, Hirotake Kobayashi, Senji Miyake, Hajime Nakajima, Yoshiharu Furumoto and Hiroshi Ogawa
## Consolidated Eleven-Year Summary of Selected Financial Data

### Kirin Holdings Company, Limited and Consolidated Subsidiaries

**Years ended December 31,**

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<td><strong>For the Year:</strong></td>
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<td>Sales</td>
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<td>¥2,278,473</td>
<td>¥2,303,569</td>
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<td>Less liquor taxes</td>
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<td>359,743</td>
<td>380,691</td>
<td>400,555</td>
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<td>Net sales</td>
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<td>Alcohol beverages</td>
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<td>739,176</td>
<td>801,727</td>
<td>788,222</td>
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<td>Soft drinks and foods</td>
<td>638,122</td>
<td>735,032</td>
<td>716,688</td>
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<td>Pharmaceuticals</td>
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<td>206,760</td>
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<td>Other businesses</td>
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<td>Gross profit</td>
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<td>894,852</td>
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<td>Selling, general and administrative expenses</td>
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<td>764,696</td>
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<td>Operating Income</td>
<td>151,612</td>
<td>128,435</td>
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<td>120,608</td>
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<td>Income before income taxes and minority interests</td>
<td>80,327</td>
<td>92,613</td>
<td>128,435</td>
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<td>Net Income</td>
<td>11,394</td>
<td>49,172</td>
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<td>EBITDA</td>
<td>269,392</td>
<td>212,838</td>
<td>264,620</td>
<td>213,129</td>
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</table>

| **At year end:** |      |      |      |      |
| Total assets | ¥2,649,197 | ¥2,619,194 | ¥2,619,623 | ¥2,469,667 |
| Bonds | 320,070 | 324,904 | 242,850 | 92,831 |
| Long-term debt | 262,720 | 300,590 | 251,073 | 112,244 |
| Shareholders’ equity | 962,476 | 981,322 | 927,812 | 1,054,811 |

| **Net income per share:** |      |      |      |      |
| Primary | ¥11.95 | ¥52.00 | ¥84.01 | ¥69.86 |
| Diluted | 11.93 | – | – | – |

| **Net assets per share applicable to the year:** | 1,000.51 | 1,029.35 | 972.19 | 1,104.83 |

| **Value indicators:** |      |      |      |      |
| Liquidity ratios: |      |      |      |      |
| Debt/equity ratio (times) | 0.81 | 0.91 | 0.72 | 0.58 |
| Interest coverage ratio (times) | 9.9 | 9.4 | 5.6 | 10.1 |
| Investment indicators: |      |      |      |      |
| Price/earnings ratio (times) | 95.3 | 28.9 | 14.0 | 23.5 |
| Price/book value ratio (times) | 1.1 | 1.5 | 1.2 | 1.5 |
| Dividends and payout ratio: |      |      |      |      |
| Dividends per share (¥) | 25.00 | 23.00 | 23.00 | 21.00 |
| Payout ratio (%) | 209.2 | 44.6 | 27.4 | 30.1 |
| Return indicators: |      |      |      |      |
| Return on assets (%) | 0.4 | 1.8 | 3.2 | 3.0 |
| Return on equity (%) | 8.8 | 5.2 | 8.1 | 6.5 |
| Turnover ratios: |      |      |      |      |
| Asset turnover (times) | 0.79 | 0.83 | 0.91 | 0.81 |
| Inventory turnover (times) | 11.3 | 10.9 | 12.5 | 13.4 |

### Notes

1. The presentation of the former ‘Beer’ section was changed to ‘Alcohol Beverages’ in 2001. The businesses of engineering, logistics, etc., which were previously included in the ‘Others’ segment, were reclassified into the ‘Alcohol Beverages’ segment in 2007. Information for 2006 has been restated to conform to the new classification; prior years have not been restated.

2. The presentation of the former ‘Soft Drinks’ section was changed to ‘Soft Drinks and Foods’ in 2008. The businesses of Foods, Health foods and Functional foods, etc., which were previously included in the ‘Others’ segment, were reclassified into the ‘Soft Drinks and Foods’ segment in 2008. Information for 2007 has been restated to conform to the new classification; prior years have not been restated.

3. Kirin’s business segments were reorganized from 2003 into four segments: Alcohol Beverages; Soft Drinks; Pharmaceuticals and Other Businesses. Business segment information for 2002 has been restated to conform to the new classification; prior years have not been restated.

4. After 2008: EBITDA = Operating income + Equity in earnings of affiliates + Depreciation and amortization + Amortization of goodwill (excluding non-recurring depreciation) + Special income and expenses (excluding gain on change in equity)

Before 2007: EBITDA = Income before income taxes and minority interests - Interest income - Dividend income - Interest expense + Depreciation and amortization + Amortization of goodwill
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<td>24.3</td>
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</table>

5. Shareholders’ equity = Total net assets - Minority interests - Subscription rights to shares (as recorded on the balance sheet)
6. Debt = Short-term loans and current maturities of long-term debt + Bonds + Long-term debt
7. Before 2008: Interest coverage ratio = Net cash provided by operating activities / Interest paid
8. PER = Year-end share price/Net income per share
9. PBR = Year-end share price/Net assets per share
10. ROA = Net income/Average total assets
11. ROE = Net income/Average shareholders’ equity. ROE for 2010 is prior to amortization of goodwill. The figure excludes loss on impairment regarding goodwill, etc. of LNNF and gain on negative goodwill incurred by making Mercian the Company’s wholly owned subsidiary and others.
12. Asset turnover = Sales/Average total assets
13. Inventory turnover = Sales/Average inventories

Please refer to the following URL for the financial statements and notes, including the auditor’s report, as well as for the data book.

Management's Discussion and Analysis

Operating performance

Business environment overview

The global economy throughout the fiscal year recovered slowly due to the effects of economic stimulus packages provided by each country. In Japan, the economy improved gradually owing primarily to resurgence in consumer spending and capital investment. The recovery appeared sluggish, however, towards the end of 2010.

Analysis of consolidated sales and earnings

Consolidated net sales (including liquor taxes) fell 4.4% to ¥2,177.8 billion, mainly reflecting a change in the accounting period of Lion Nathan National Foods (from December 31 to September 30). On a liquor tax-exclusive basis, consolidated net sales were down 4.4% to ¥1,835.2 billion.

The cost of sales decreased 5.0% to ¥1,314.8 billion and gross profit slipped 3.5% to ¥862.9 billion. As a result, the gross margin (excluding liquor taxes) increased by 0.4 percentage points, from 46.6% to 47.0%.

Operating income and expenses

Selling, general and administrative (SG&A) expenses decreased by 7.2% to ¥711.3 billion. This partly reflected savings generated by cost-reduction initiatives. The ratio of SG&A expenses to net sales (excluding liquor taxes) decreased by 1.1 percentage points from 39.9% to 38.8%.

Consolidated R&D expenses amounted to ¥55.6 billion, a decrease of 5.0% in year-on-year terms. R&D expenses for the Pharmaceuticals business segment amounted to ¥40.0 billion, which represented 72.0% of total consolidated R&D spending and equated to 9.7% of segment sales (prior to eliminations).

Consolidated operating income increased by 18.0% to ¥151.6 billion (after the amortization of goodwill), a record high. This reflected strong sales of domestic flagship lines in alcohol beverages and soft drinks, cost-reductions across the Group as well as strong sales of core products at Kyowa Hakko Kirin and improvement in its chemicals business. This result was also buoyed by profitability improvements at all companies and the high value of the Australian dollar year-on-year. Excluding the effect of liquor taxes, the operating income ratio (after amortization of goodwill) increased by 1.6 percentage points, from 6.7% to 8.3%.

Non-operating income and expenses

Interest and dividend income declined 40.6% to ¥4.8 billion, while interest expense increased 12.4% to ¥22.0 billion. In a volatile year on foreign exchange markets, the Group recorded foreign currency transaction loss of ¥4.9 billion due to appreciation of the yen. Net non-operating income and expenses amounted to a loss of ¥10.6 billion.

These factors contributed to a decrease in ordinary income of 2.5% to ¥140.9 billion. Other causes included the increase in operating income, deterioration in the financial account balance and an increase in extraordinary expense caused by impairment loss at National Foods and loss from Mercian’s inappropriate transactions.

Exceptional items

Special income included gains on sales of investment securities (¥14.7 billion) and fixed assets (¥7.9 billion), gain on negative goodwill of ¥7.5 billion and reversal of removal costs of ¥6.3 billion. Special
expenses included losses relating to the sale or retirement of fixed assets (¥8.3 billion), asset impairment (¥42.8 billion) and loss on reversal of foreign currency translation adjustments due to liquidation of a foreign subsidiary (¥7.5 billion). The Group also booked charges totaling ¥7.1 billion relating to business restructurings. Overall, exceptional items generated a net loss of ¥60.6 billion, compared with a net loss of ¥52.0 billion in the previous year.

Pre-tax and net income
Consolidated income before income taxes and minority interests fell 13.3% to ¥80.3 billion. Income taxes increased 100.0% to ¥57.8 billion. The effective tax rate for fiscal 2010 was 72.0%, a year-on-year increase of 40.8 points. Minority interests declined 23.4% to ¥11.1 billion.

Consolidated net income decreased by 76.8% to ¥11.3 billion due primarily to impairment loss related to National Foods’ brands and goodwill at the time of its acquisition. The Kirin Group’s return on equity (defined as net income divided by average shareholders’ equity) in fiscal 2010 was 8.8% (prior to amortization of goodwill).

Performance by business segment

Alcohol Beverages
Consolidated sales in this segment were broadly flat in year-on-year terms at ¥1,097.9 billion. Operating income after amortization of goodwill was up 11.0% to ¥114.0 billion. These results reflected currency benefits from the translation of Lion Nathan National Foods’ alcohol beverages business earnings and successful cost-cutting measures employed by Kirin Brewery in Japan.

Soft Drinks and Foods
This segment recorded a 13.2% decline in consolidated net sales to ¥638.1 billion. This was due primarily to the change in accounting period at National Foods. Operating income surged 56.4% to ¥11.1 billion as a result of cost reductions by Kirin Beverage.

Pharmaceuticals
Consolidated net sales were up 1.6% to ¥210.1 billion and operating income was up 13.4% to ¥38.9 billion. This reflected strong sales of the core products Nesp and Espe. The Kirin Group also made smooth progress during the year in new drug development.

Other Businesses
This segment comprises Bio-Chemicals and Chemicals operations, together with other businesses supplying various agricultural products and functional services to Group firms, among others. Consolidated net sales decreased 3.1% to ¥31.5 billion. Operating income climbed 125.7% to ¥9.6 billion due primarily to a recovery of performance in the chemicals business.
Performance by geographic segment

Total overseas sales contributed 23.4% of Kirin Group net sales in fiscal 2010 (excluding liquor taxes), down 1.4% on the previous year.

Japan
Sales in Japan (excluding inter-segment transactions) dipped 2.0% to ¥1,724.5 billion and accounted for 76.6% of consolidated net sales. Operating income was up 33.7% to ¥145.8 billion. In the alcohol beverages business, Kirin Brewery strengthened Kirin Nodogoshi Nama and other leading brands, and progressively delivered new proposals responding to diversifying customer needs. In the soft drinks and foods business, Kirin Beverage focused on leading brand creation centering on its core Kirin Gogo-no-kocha brand and steadily implemented earnings structure reforms. In the pharmaceuticals business, Kyowa Hakko Kirin saw strong sales of leading products in spite of mandated reductions in drug prices. In Other businesses, the chemicals business progressed well as demand for products recovered.

Asia and Oceania
Sales in Asia and Oceania (mainly East Asia outside Japan, Southeast Asia and Oceania) decreased 11.4% to ¥393.2 billion. The region accounted for 19.5% of consolidated net sales. Operating income fell 30.6% to ¥21.5 billion. In Asia, Kirin Beverage focused on marketing in China as well as improving profitability. In Australia, Lion Nathan National Foods’ alcohol beverages business maintained favorable sales and operating results, while its soft drinks and foods business endeavored to strengthen core brands and create synergy amidst unfavorable conditions due to budget-conscious consumers.

Other regions
Sales in other regions (primarily the United States and Europe) fell 20.0% to ¥59.9 billion, accounting for 3.9% of consolidated net sales. Operating income declined 18.0% to ¥5.9 billion.

Financial position

Assets
Total assets as of December 31, 2010 stood at ¥2,649.1 billion, a decrease of ¥211.9 billion, or 7.4%, compared to December 31, 2009. Current assets decreased by ¥112.3 billion to ¥727.0 billion. Fixed assets decreased by ¥99.6 billion to ¥1,922.1 billion, consisting of a ¥35.0 billion decrease in property, plant, and equipment, a ¥76.3 billion decrease in intangible assets due to the recording of loss on impairment for the amortization of goodwill at National Foods Limited and a ¥11.7 billion increase in investments and other assets resulting from the increase of investment securities due to the acquisition of shares of Fraser and Neave, Limited.

Liabilities
Total liabilities as of December 31, 2010 stood at ¥1,490.1 billion, a decrease of ¥172.1 billion, or 10.4%, compared to December 31, 2009. Current liabilities decreased by ¥114.4 billion to ¥679.6 billion. Fixed liabilities decreased by ¥57.7 billion to ¥810.4 billion due to the repayment of long-term loans.

Net assets
Net assets as of December 31, 2010 stood at ¥1,159.0 billion, a decrease of ¥39.8 billion, or 3.3%, compared to December 31, 2009, due to a ¥20.9 billion decrease in minority interest.

Cash flows
The balance of consolidated cash and cash equivalents decreased by ¥73.5 billion during fiscal 2010, amounting to ¥45.2 billion at year-end.
Net cash provided by operating activities was ¥218.0 billion, an increase of ¥28.1 billion compared with the previous fiscal year. This reflected a decrease of ¥12.2 billion in income before income taxes and minority interests, a decrease of ¥20.4 billion in employees’ pension and retirement benefits, a decrease of ¥15.0 billion in loss on sale of shares of subsidiaries and affiliates, and a decrease of ¥17.1 billion in cash inflows from working capital due to changes in trade notes and accounts receivable, inventory, trade notes and accounts payable and liquor taxes payable. In addition, amortization of goodwill increased by ¥13.1 billion, foreign currency translation loss increased by ¥20.5 billion, gain on sale of securities and investment securities decreased by ¥19.9 billion, and income taxes paid decreased by ¥35.4 billion.

Net cash used in investing activities decreased by ¥180.7 billion to ¥140.9 billion compared with the previous fiscal year. Outflows for the acquisition of property, plant, and equipment and intangible assets decreased by ¥3.5 billion to ¥106.6 billion. Outflows of ¥86.9 billion for the purchase of marketable securities and investment securities were recorded, while the sale of property, plant, and equipment and intangible assets produced ¥23.7 billion and the sale of marketable securities and investment securities generated proceeds of ¥33.1 billion.

Financing activities produced a net cash use of ¥140.1 billion, ¥314.4 billion more than in the previous fiscal year. Commercial paper inflows increased by ¥10.9 billion while borrowings decreased by ¥113.5 billion, bond redemption was ¥16.0 billion, and cash dividends paid totaled ¥28.0 billion.

Dividends
Comprising interim and final dividends of ¥12.5 per share, annual dividends for fiscal 2010 totaled ¥25.0 per share. This amount was an increase of ¥2.0 from the previous year. It represented a consolidated payout ratio of 209.2%, compared with 44.6% in fiscal 2009. Kirin attaches great importance to returning an appropriate level of profit to shareholders through stable dividend payments. A dividend has been paid to shareholders every year since the firm was first established in 1907. Under the three-year medium-term business plan covering the period FY2010-12, the Kirin Group aims to maintain a consolidated payout ratio of 30%.
Kirin Group includes 259 consolidated subsidiaries, one unconsolidated subsidiary and 21 affiliates accounted for by the equity method.

### Key Group companies in Japan and overseas include the following:

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<td>Kirin Engineering Co., Ltd.</td>
<td>Kanagawa, Japan</td>
<td>Alcohol Beverages</td>
<td>1,000</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Techno-System Corporation</td>
<td>Kanagawa, Japan</td>
<td>Alcohol Beverages</td>
<td>1,590</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Merchandising Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>10</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Logistics Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>504</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Ei Sho Gen Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>90</td>
<td>99.9</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Distillery Co., Ltd.</td>
<td>Shizuoka, Japan</td>
<td>Alcohol Beverages</td>
<td>10</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin City Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>100</td>
<td>100.0</td>
<td>Capital loan, equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Mercian Corporation</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>20,972</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Lion Nathan Limited</td>
<td>New South Wales, Australia</td>
<td>Alcohol Beverages</td>
<td>AU$436,086K</td>
<td>100.0</td>
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</tr>
<tr>
<td>Kirin Australia Pty Ltd.</td>
<td>Western Australia</td>
<td>Alcohol Beverages</td>
<td>AU$12,000K</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
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<tr>
<td>Taiwan Kirin Co., Ltd.</td>
<td>Taipei, Taiwan</td>
<td>Alcohol Beverages</td>
<td>TW$364,000K</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin (China) Investment Co., Ltd.</td>
<td>Shanghai, China</td>
<td>Alcohol Beverages</td>
<td>US$180,000K</td>
<td>100.0</td>
<td>Capital loan and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Brewery (Zhuhai) Co., Ltd.</td>
<td>Zhuhai, China</td>
<td>Alcohol Beverages</td>
<td>US$74,000K</td>
<td>100.0</td>
<td>Capital loan and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Holdings America, Inc.</td>
<td>Delaware, U.S.A.</td>
<td>Alcohol Beverages</td>
<td>US$50M</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Four Roses Distillery LLC</td>
<td>Kentucky, U.S.A.</td>
<td>Alcohol Beverages</td>
<td>60000K</td>
<td>100.0</td>
<td>Capital loan and concurrent director, etc.</td>
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<tr>
<td>Kirin Europe GmbH</td>
<td>Dusseldorfer, Germany</td>
<td>Alcohol Beverages</td>
<td>EUR 76K</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Beverage Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>8,416</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Hokkaido Kirin Beverage Co., Ltd.</td>
<td>Hokkaido, Japan</td>
<td>Soft Drinks and Foods</td>
<td>80</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Tokyo Kirin Beverage Service Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>10</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kansei Kirin Beverage Service Co., Ltd.</td>
<td>Osaka, Japan</td>
<td>Soft Drinks and Foods</td>
<td>10</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Viviex Co., Ltd.</td>
<td>Hiroshima, Japan</td>
<td>Soft Drinks and Foods</td>
<td>490</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin MC Danone Waters Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>1,500</td>
<td>51.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Well Foods Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>2,719</td>
<td>99.0</td>
<td>Capital loan and concurrent director, etc.</td>
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<td>Kirin Kyowa Foods Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>3,000</td>
<td>100.0</td>
<td>Capital loan, equipment leasing and concurrent director, etc.</td>
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<tr>
<td>Shanghai Jin Jiang Kirin</td>
<td>Shanghai, China</td>
<td>Soft Drinks and Foods</td>
<td>US$24,800K</td>
<td>93.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Beverage (Shanghai) Ltd.</td>
<td>Shanghai, China</td>
<td>Soft Drinks and Foods</td>
<td>US$17,500K</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Siem Kirin Beverage Co., Ltd.</td>
<td>Bangkok, Thailand</td>
<td>Soft Drinks and Foods</td>
<td>TB 140,000K</td>
<td>100.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Coca-Cola Bottling Company of Northern New England, Inc.</td>
<td>New Hampshire, U.S.A.</td>
<td>Soft Drinks and Foods</td>
<td>US$93,000K</td>
<td>100.0</td>
<td>Capital loan and concurrent director, etc.</td>
</tr>
<tr>
<td>Industralia Agricola Torian Ltd.</td>
<td>Sao Paulo, Brazil</td>
<td>Soft Drinks and Foods</td>
<td>BRR 1,000M</td>
<td>88.4</td>
<td>Concurrent director, etc.</td>
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<tr>
<td>Kirin Foods Australia Holdings Pty Ltd.</td>
<td>New South Wales, Australia</td>
<td>Soft Drinks and Foods</td>
<td>AU$801,000K</td>
<td>100.0</td>
<td>–</td>
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<tr>
<td>National Foods Limited</td>
<td>Victoria, Australia</td>
<td>Soft Drinks and Foods</td>
<td>AU$552,300K</td>
<td>100.0</td>
<td>–</td>
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<tr>
<td>Berris Limited</td>
<td>Victoria, Australia</td>
<td>Soft Drinks and Foods</td>
<td>US$186,518K</td>
<td>100.0</td>
<td>–</td>
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<tr>
<td>Dairy Farmers Limited</td>
<td>Victoria, Australia</td>
<td>Soft Drinks and Foods</td>
<td>US$81,986K</td>
<td>100.0</td>
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</tr>
<tr>
<td>PT Kirin-Miwon Foods</td>
<td>Jakarta, Indonesia</td>
<td>Soft Drinks and Foods</td>
<td>US$40,000K</td>
<td>75.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kyowa Hakko Kirin Foods Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Pharmaceuticals</td>
<td>28,745</td>
<td>51.1</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kyowa Hakko Kirin California, Inc.</td>
<td>California, U.S.A.</td>
<td>Pharmaceuticals</td>
<td>US$100K</td>
<td>100.0</td>
<td>–</td>
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<tr>
<td>Jeil-Kirin Pharm. Inc.</td>
<td>Seoul, Korea</td>
<td>Pharmaceuticals</td>
<td>KRW 2,200K</td>
<td>90.0</td>
<td>–</td>
</tr>
<tr>
<td>Kyowa Hakko Kirin (Tian) Co., Ltd.</td>
<td>Taipei, Taiwan, R.O.C.</td>
<td>Pharmaceuticals</td>
<td>NT$12,450K</td>
<td>100.0</td>
<td>–</td>
</tr>
<tr>
<td>Company name</td>
<td>Location</td>
<td>Business segment</td>
<td>Paid-in capital (¥ million unless stated)</td>
<td>Percentage of holding</td>
<td>Details of relationship</td>
</tr>
<tr>
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</tr>
<tr>
<td>Kyowa Hakko Kirin (Hong Kong) Co., Ltd.</td>
<td>Hong Kong</td>
<td>Pharmaceuticals</td>
<td>HK$6,000K</td>
<td>100.0</td>
<td>–</td>
</tr>
<tr>
<td>Kirin Kunpeng (China) Bio-Pharmaceutical Co., Ltd.</td>
<td>Shanghai, China</td>
<td>Pharmaceuticals</td>
<td>US$29,800K</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Real Estate Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Other businesses</td>
<td>10</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Yokohama Arena Co., Ltd.</td>
<td>Kanagawa, Japan</td>
<td>Other businesses</td>
<td>4,999</td>
<td>58.8</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kamakura Kaihin Hotel Co., Ltd.</td>
<td>Kanagawa, Japan</td>
<td>Other businesses</td>
<td>19</td>
<td>91.4</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Echo Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Other businesses</td>
<td>408</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
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<tr>
<td>Yokohama Akarenga Inc.</td>
<td>Kanagawa, Japan</td>
<td>Other businesses</td>
<td>2,090</td>
<td>71.8</td>
<td>Capital loan and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Business System Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Other businesses</td>
<td>50</td>
<td>100.0</td>
<td>Equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Business Expert Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Other businesses</td>
<td>90</td>
<td>100.0</td>
<td>Indirect business consignment, capital loan, equipment leasing and concurrent director, etc.</td>
</tr>
<tr>
<td>Lion Nathan National Foods Pty Ltd</td>
<td>New South Wales, Australia</td>
<td>Other businesses</td>
<td>AU$6,061,396K</td>
<td>100.0</td>
<td>Capital loan, equipment leasing and concurrent director, etc.</td>
</tr>
</tbody>
</table>

**Equity method non-consolidated subsidiary**

<table>
<thead>
<tr>
<th>Company name</th>
<th>Location</th>
<th>Business segment</th>
<th>Paid-in capital (¥ million unless stated)</th>
<th>Percentage of holding</th>
<th>Details of relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Synthetic Alcohol Co., Ltd.</td>
<td>Kanagawa, Japan</td>
<td>Other businesses</td>
<td>480</td>
<td>66.7</td>
<td>N/A</td>
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</table>

**Equity method affiliates**

<table>
<thead>
<tr>
<th>Company name</th>
<th>Location</th>
<th>Business segment</th>
<th>Paid-in capital (¥ million unless stated)</th>
<th>Percentage of holding</th>
<th>Details of relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heineken Kirin K.K.</td>
<td>Tokyo, Japan</td>
<td>Alcohol Beverages</td>
<td>200</td>
<td>49.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>San Miguel Brewery, Inc.</td>
<td>Metro Manila, Philippines</td>
<td>Alcohol Beverages</td>
<td>PHP 15.410M</td>
<td>48.4</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Dalian Daxue Brewery Co., Ltd.</td>
<td>Dalian, China</td>
<td>Alcohol Beverages</td>
<td>RMB 150.347K</td>
<td>25.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin Tropicana, Inc.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>480</td>
<td>50.0</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Cosmo Foods Co., Ltd.</td>
<td>Tokyo, Japan</td>
<td>Soft Drinks and Foods</td>
<td>52</td>
<td>34.1</td>
<td>Concurrent director, etc.</td>
</tr>
<tr>
<td>Kirin-Amgen, Inc.</td>
<td>California, U.S.A.</td>
<td>Pharmaceuticals</td>
<td>US$10</td>
<td>50.0</td>
<td>–</td>
</tr>
<tr>
<td>Tokiwa Seed Co., Ltd.</td>
<td>Saitama, Japan</td>
<td>Other businesses</td>
<td>148</td>
<td>24.7</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes: 1. Kirin Kyowa Foods Company Limited became a wholly-owned subsidiary of Kirin Holdings through the transfer of additional shares from Kyowa Hakko Kirin Co., Ltd. in January 2011.
2. Kirin Business Expert Company was renamed Kirin Group Office Co., Ltd. in January 2011.
3. Dalian Daxue Beer Co., Ltd. sold all of its shares in February 2011.
Kirin Holdings Company, Limited

Head office
10-1 Shinkawa 2-chome, Chuo-ku
Tokyo 104-8288, Japan
Tel: +81-3-5541-5321
Fax: +81-3-5540-3547

Further information
Kirin Holdings Company, Limited
Corporate Communications Dept. IR Section
Tel: +81-3-5540-3455
Fax: +81-3-5540-3550
e-mail: ir@kirin.co.jp
URL: http://www.kirinholdings.co.jp/english/ir

Date of incorporation
February 23, 1907
Note: On July 1, 2007, accompanying the shift to a pure holding company structure, Kirin Holdings Company, Limited changed its name from Kirin Brewery Company, Limited.

Paid-in capital
¥102,045 million

Authorized shares
1,732,026,000

Outstanding shares
965,000,000

Number of shareholders
140,843

Number of employees
31,966 (consolidated)
275 (non-consolidated)

General meeting of shareholders
March 29, 2011

Stock listings
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Ticker symbol numbers
ODR: 2503
ADR: KNBWY

Transfer agent
Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Division
7-10-11 Higashi Suna, Koto-ku Tokyo 137-8081
Tel: +81-3-5391-1900

Major shareholders
<table>
<thead>
<tr>
<th>Percentage of total shares outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Shareholder</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust account)</td>
</tr>
<tr>
<td>Japan Trustee Service Bank of Japan Ltd. (Trust account)</td>
</tr>
<tr>
<td>Meiji Yasuda Life Insurance Company</td>
</tr>
<tr>
<td>Isono Shokai, Limited</td>
</tr>
<tr>
<td>The Bank of Tokyo-Mitsubishi UFJ, Ltd.</td>
</tr>
<tr>
<td>Japan Trustee Service Bank of Japan Ltd. (Trust account 4)</td>
</tr>
<tr>
<td>SSBT ODO5 OMNIBUS ACCOUNT-TREATY CLIENT</td>
</tr>
<tr>
<td>The Nomura Trust and Banking Co., Ltd. (Account of Mitsubishi UFJ Trust and Banking Corporation for employee pension fund)</td>
</tr>
<tr>
<td>Tokio Marine &amp; Nichido Fire Insurance Co., Ltd.</td>
</tr>
<tr>
<td>Melon Bank, N.A. Treaty Clients Omnibus</td>
</tr>
<tr>
<td>Percentage of total shares outstanding</td>
</tr>
</tbody>
</table>
Monthly share price range & trade volume

Tokyo Stock Exchange

Share price (left scale)
Nikkei 225 average (right scale)

Trading volume

* Simple average of monthly highs and lows
Please refer to the following URL for the financial statements and notes, including the auditor’s report, as well as for the data book.