

Minutes of telephone conference on the third quarter financial results of FY2017

<Date and time> 10:00-11:00, Wednesday, November 1, 2017

<Participants> Director of Corporate Strategy, Director of Group Finance

<Japan Integrated Beverages Business: Kirin Brewery>

Q: You mentioned that sales of *Ichiban Shibori* have been strong since the renewal. Why is it that only can sales have been growing and the overall sales volume has been decreasing? Also, where have the new can customers been drawn in from?

(Director in charge) Unseasonal weather played a particularly large factor in the third quarter and negatively affected the on-premise market. Can products were strong in the retail channel in September because the sales promotion for the renewal was conducted at the start of September, but when it comes to the overall sales including kegs and bottles, the sales volume of *Ichiban Shibori* has decreased. Given the change of the target from consumers in their 30s to ones in their 40s-50s, the largest segment of beer, it is likely that renewed *Ichiban Shibori* has been able to draw consumers of competitors' brands.

Q: It is true that unseasonal weather was a negative factor, but Kirin Brewery's sales volume as a whole looks weak. What is the challenge you identified?

(Director in charge) The downward trend has continued from July to September, but, like *Ichiban Shibori*, effective marketing initiatives could lead to good results. The sales volume has fallen the greatest in the new genre category, particularly the *Nodogoshi* brand, and this is a challenge. In the short-term, we will launch brand extension and implement sales promotion in the fourth quarter, and we will make a strong attempt to achieve the sales volume target. The products brewed from barley and functional products under *Nodogoshi* brand were newly launched in this fiscal year, but the former product has failed to achieve the sales volume target. We will improve the marketing heading into next fiscal year, taking into account the success in *Ichiban Shibori* marketing. Since the revision to the Liquor Tax Act went into effect in June of this year, demand has shifted from the new genre category to RTD and PB beer. It is important that we capture a large share of the shifting demand in the RTD category. At the same time, unless efforts are made to make the new genre category more appealing, the downward trend will likely continue. We will reorganize the activities in terms of both marketing and sales and work to stop the downward trend in the sales volume of *Nodogoshi*.

Q: Marginal profit at Kirin Brewery decreased by 0.4 billion yen, which seems to be the best result when compared to competitors. I think this is due to the improvement in the product mix contributed to by sales volume of *Zero ICHI*. Can you please give me an update on the situation through the third quarter? Although the sales volume in the new genre category was weak, RTD was growing. Therefore, if it is possible to reduce the gap in the profit margin between new genre and RTD, the increased sales of RTD should positively contribute to profit margin. In the RTD category, has the marginal profit improved compared to the previous term? What kinds of initiatives have you implemented to improve profitability?

(Director in charge) While the overall beer product sales volume, particularly in the new genre category, has declined, RTD and non-alcohol beer-taste beverage have grown. Non-alcohol,

Zero ICHI increased by about 10,000KL. In addition, whisky, spirits and wine products and differences in the package composition also pushed up marginal profit. We are aware that during the current category shift from new genre to RTD, improving the profitability of RTD to the same level as new genre is a challenge. We began initiatives several years ago, resulting in improved profitability, and there is still room for improvement in the design of product recipes and procurement of fruit juice and flavorings in relation to existing products. I feel there also might be room for logistics cost reductions through the optimization of production sites although nothing has been decided and I am unable to comment on any specific improvements at the present time.

Q: Kirin Brewery made progress in selling cost reduction as a result of the structural reforms implemented but sales were weak in this fiscal year. Similarly, if sales are weak, will it be necessary to again invest selling expenses in the next fiscal year? Is there a possibility that the effects of the selling cost reduction achieved this term will not appear? Will the sales promotion expenses be reduced, or will the focus be placed on the top line? How are you planning to generate profits?

(Director in charge) The sales promotion expenses shall be reduced. We will narrow down the brands in which we will invest and efficiently allocate the money. This narrowing down has begun from the spring of this year, and the concentrated investments in *Ichiban Shibori* have had an effect. We can utilize our knowledge and insight in the new genre category, too, as well as reduce sales promotion expenses. We will generate profits by reducing sales promotion expenses, and, at the same time, enhancing the brand equity.

Q: What is the feasibility of reducing the on-premise sales promotion expenses next term? I think efforts should be made to cut costs by at least double the results achieved this term in the retail market. Will you implement any specific initiatives?

(Director in charge) We will reduce sales promotion expenses and improve the profitability of the on-premise market by thoroughly enforcing the revised internal guideline when renewing the contracts with restaurants.

<Japan Integrated Beverages Business: Kirin Beverage Company>

Q: I have heard that retail prices are falling in the beverage market. How do you view the current market environment? What is your outlook for the market environment next term?

(Director in charge) Soft drink products are affected by the weather even more than beer. The market fell significantly in August, but due to the large increase in July, on average, the market volume remained steady from July to September. Soft drink market has the potential to increase. It is possible to increase the sales volume of packaged beverages by capturing demand from the self-brew market. With a focus on the three focused brands, *Gogo-no-Kocha*, *Nama-cha* and *FIRE*, we will work to increase market share. Going forward, although the overall market volume will not grow significantly, we do not believe it will significantly fall either. We are aware that retail prices are falling for some products, mainly small packages. The challenge will be to smartly use a pricing strategy while linking it to energizing the brands. On the other hand, we have to be careful not to participate in a price war, leading to the lower profitability in the entire market. We need to effectively use the selling expenses, energize the brands and pursue both sales and profit.

Q: I have noticed a change in the sales volume of *Nama-cha* from upward trend to downward one. Have you implemented any improvement measures?

(Director in charge) We will implement specific initiatives going forward.

<Overseas Integrated Beverages Business: Myanmar Brewery>

Q: What were the factors of the large growth in the sales volume at Myanmar Brewery? Also, what is your outlook for volume growth in the next term and beyond?

(Director in charge) The largest growth occurred in the economy category *Andaman Gold*. Because the government strengthened the regulations on illegally imported beer, share shifted to the economy category, and we were able to capture this demand with *Andaman Gold*. At the same time, there was a shift towards cans, and by responding to this change in demand, we have been able to capture demand, too. Since the product mix deteriorated as the economy category grew, we will strengthen the flagship brand *Myanmar Beer* and work to improve the gross margin of *Andaman Gold* in the next fiscal year. The market is expected to continue to grow in high-single digit, and we will maintain our strong market position by increasing sales volume at the same rate.

Q: Is this high-single digit beer market growth due to an increase in consumption per capita, or in the number of beer consumers?

(Director in charge) Prices are increasing, but the purchasing power has not risen at the same rate. Given that the market structure is changing, we believe the number of new customers is increasing. Also, given that wine and spirits are also growing, we believe there is still room for growth in the low alcohol market as a whole. We will work to stimulate further demand. Regarding the future market potential, we will move forward with a market survey to make the potential by category and so on clearer.

<Pharmaceuticals and Bio-chemicals Businesses>

Q: You mentioned generating synergies in the health, well-being and pre-disease areas. In the new businesses, what functions within Kyowa Hakko Kirin can you form synergies with?

(Director in charge) The easiest synergy to describe is expansion of sales channels for *Lactococcus lactis* strain Plasma by utilizing the direct sales channels of Kyowa Hakko Bio. Kirin Group enjoys a major strength of owning the infrastructure in the pharmaceutical business of the Kyowa Hakko Kirin Group especially in the area of basic research although we are unable to present any specific monetary figures at this stage. By mutually utilizing the R&D of both alcoholic and non-alcoholic beverages, and pharmaceuticals and bio-chemicals, we believe it will be possible to develop innovative materials in addition to *Lactococcus lactis* strain Plasma.

<Adoption of the International Financial Reporting Standards (IFRS)>

Q: Sales revenue under IFRS will be 80 billion less compared to the Japanese standards due to the variable sales promotion expenses. Please give me a breakdown of these sales promotion expenses by business.

(Director in charge) Kirin Beverage accounts for the majority at about 60 to 70%, and the remainder is attributable to Kirin Brewery.

Q: What will happen to the equity as a result of the adoption of IFRS? Will there be any major changes on the balance sheet?

(Director in charge) The biggest change lies in deemed cost, and the land valuation book values are revised. As a result of this revision, the land valuation is reduced by about 60 billion yen. On the other hand, non-amortization of goodwill and brands causes equity to rise on a single-year basis by about 40 billion yen.

<Transfer of shares in Kirin-Amgen Inc.>

Q: As a result of the share transfer, you expect to receive about 85.8 billion yen. When will you receive the proceeds, and how much of an impact will it have on the extraordinary gain or loss?

(Director in charge) Since the transfer of the shares should be executed after finishing advance clearance procedures in all relevant countries, the fiscal year in which the share transfer will have financial impact is not yet determined. When it is realized, we expect we will record a special income of about 20 billion yen, varying depending on the exchange rate.

<Financial strategy>

Q: The debt repayment and cash flow generation have greatly exceeded 2016 MTBP. How do you plan to use this cash?

(Director in charge) We will prioritize investments in growth. Nothing has been decided at present, but as explained in the presentation about the second quarter financial results, while carefully looking at the progress in the growth investment opportunities, status of the results this term and the plan for next term, we are considering how this cash will be allocated, including strengthening of shareholders return. As we have the plan of bond redemption of 70 billion and repayments of debts, we are to spend about 90 billion yen in March of next year. Taking it into account as well, we will consider and explain how the cash shall be used at the same time we announce the plan for next fiscal year in February.

Q: I believe you are considering investing in SABECO (Saigon Beer Alcohol Beverage Corporation), and what is the outlook at this time? In the past presentation, the CFO commented that investments when valuations are high carry risk and need careful consideration. Presently, I think the share price of SABECO is quite high. Does your stance towards high valuations remain unchanged?

(Director in charge) The Vietnam government currently owns 89% of the outstanding shares. In case the current regulation is strictly enforced, a maximum of 49% of outstanding shares will be sold to foreign entities. We are interested and remain attentive to the situation, but the specific number of shares to be sold, as well as the transaction process, remains unclear. The share price of the 11% of shares that are listed on the stock exchange remain extremely high. We will objectively determine the corporate value, as well as analyze the synergies in the event we obtain the shares. There is no change to our stance of not proceeding with the investment if the price is not rational. I have nothing to add at the present time, but we continue to remain interested.

<Other>

Q: What kinds of factors to cut costs do you have in FY2018?

(Director in charge) First of all, it is crucial to stop the decline in the top line at Kirin Brewery in

FY2018. On cost side, it is important how optimally we will be able to control the marketing expenses. In addition to the sales promotion expenses reduction of about 4 billion yen as a result of the revised internal guideline, we expect to see a little further cost cut in the on-premise market. Without simply directing this expenses cut to advertisement, we intend make it a cost reduction. One of our competitors has announced price increases, but at the present time we have not made any final decisions. We will work to improve the profitability of the on-premise market. There will be no change in the trend towards gradually cutting the selling expenses, which currently stand at a total of about 96 billion yen. Over the mid to long-term we will strive to realize a reduction of about 20 billion yen.