

Kirin Group

Financial Results for the Third Quarter of 2016

October 31, 2016
Kirin Holdings Company, Limited

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- Consolidated operating income exceeded the 3Q target and reached 110.6 billion yen (YonY +8.2%), reflecting the successful outcome of ongoing rapid restructure
- Operating income of Kirin Beverage was 15.6 billion yen, significantly exceeding the full-year target (YonY +14.6 billion yen)
- Operating income of the other key Group companies is also right on track toward achieving full-year targets
- Normalized EPS, one of our quantitative targets, was +5.7% compared to the same quarter last year

3 Q Consolidated Results Summary

KIRIN

(bn yen)	2016 actual	2015 actual	YonY change	
Sales* ¹	1,542.9	1,630.9	(88.0)	(5.4%)
Operating income* ²	110.6	102.3	8.3	8.2%
Ordinary income	108.0	101.8	6.1	6.0%
Net income attributable to owners of parent	75.1	54.9	20.1	36.6%

* 1 From FY2016: Parts of the selling expenses have been deducted from sales at Kirin Beverage, Mercian and Brasil Kirin; Myanmar Brewery has been newly consolidated.

* 2 Compared to FY2015, profits in FY2016 (operating income and below) reflect the following factors: (1) Myanmar Brewery has been newly consolidated; (2) depreciation costs decreased by approx. 6.5 billion yen due to the change in depreciation method; (3) amortization of goodwill, etc. decreased by approx. 4.7 billion yen due to impairment of Brasil Kirin in FY2015.

■ Quantitative target

	2016 actual	2015 actual	YonY change	
Normalized EPS (yen)* ³	93	88	5	5.7%

* 3 See Appendix 1 for details.

■ Financial indicators

	2016 actual	2015 actual	YonY change	
Operating income before amortization of goodwill, etc. (bn yen)	131.9	128.1	3.7	2.9%
EPS (yen)	82.31	60.23	22.08	36.7%
EPS before amortization of goodwill, etc. (yen)	114	98	16	16.8%

- **Forecasts of consolidated operating income revised upwardly by 7.0 billion yen**
 - ✓ Kirin Beverage will continue to invest in “Strengthen Brands” in 4Q toward sustainable “Profitable Growth,” and a full-year operating income of 15.5 billion yen is forecasted (upward revision by 4.4 billion yen)
 - ✓ Considering overachievement of other operating companies’ targets as of 3Q, the forecasts of the full-year consolidated operating income have been revised upwardly by 7.0 billion yen to 134 billion yen (YoY +7.4%)
- **Forecasts of ROE before amortization of goodwill, etc. and Normalized EPS revised upwardly**
 - ✓ Given the upward revision of consolidated operating income, the consolidated net income forecast has been revised upwardly by 5.0 billion yen
 - ✓ Accordingly, the forecasts of ROE before amortization of goodwill, etc. and Normalized EPS have been revised upwardly to 18.4% and 115 yen respectively

Summary of Revised Full-year Consolidated Forecasts

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(bn yen)	Full-year consolidated forecasts		Change	Description	2015 actual	YonY change
	3Q revised	2Q revised				
Sales	2,090.0	2,080.0	10.0	<ul style="list-style-type: none"> Kirin Beverage: +7.9 Others in Japan Integrated Beverages: +2.0 	2,196.9	(4.9%)
Operating income	134.0	127.0	7.0	<ul style="list-style-type: none"> Kirin Beverage: +4.4 Mercian: +0.8 Others in Japan Integrated Beverages: +1.7 	124.7	7.4%
Ordinary income	132.0	125.0	7.0		128.1	3.0%
Net income attributable to owners of parent	85.0	80.0	5.0		(47.3)	—

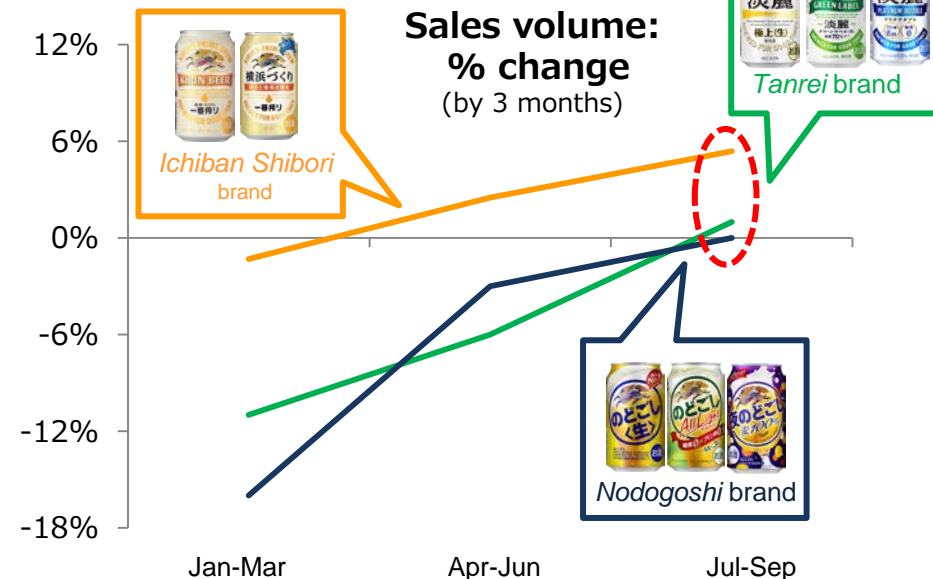
■ Quantitative targets

	3Q revised	2Q revised	Change	2015 actual	YonY change
ROE before amortization of goodwill, etc.	18.4%	16.4%	2.0	(0.3%)	—
Normalized EPS	115 yen	113 yen	2 yen	117 yen	(1.7%)

Kirin Brewery

- ✓ Sales volume of beer products improved to 0% down year-on-year during the period from Jul to Sep (Jan-Sep: down 4%) compared to 6.8% down year-on-year during the first half.
- ✓ The *47 Todofuken no Ichiban Shibori* line was well received by consumers and the beer category was up 1% during the period from Jul to Sep (Jan-Sep: down 0%); in October, a capital and business alliance with Brooklyn Brewery, a representative US craft brewer, was signed as part of efforts to “enhance the appeal of the beer category”.
- ✓ Through rapid actions to recover sales of the *happoshu* and new genre categories, *Tanrei* and *Nodogoshi* brands are on a recovery trend.
- ✓ Cost cut efforts led to improved business performance, driving the initiative to “strengthen business base” to succeed well beyond target.

“Enhance Appeal of Beer category” to consumers



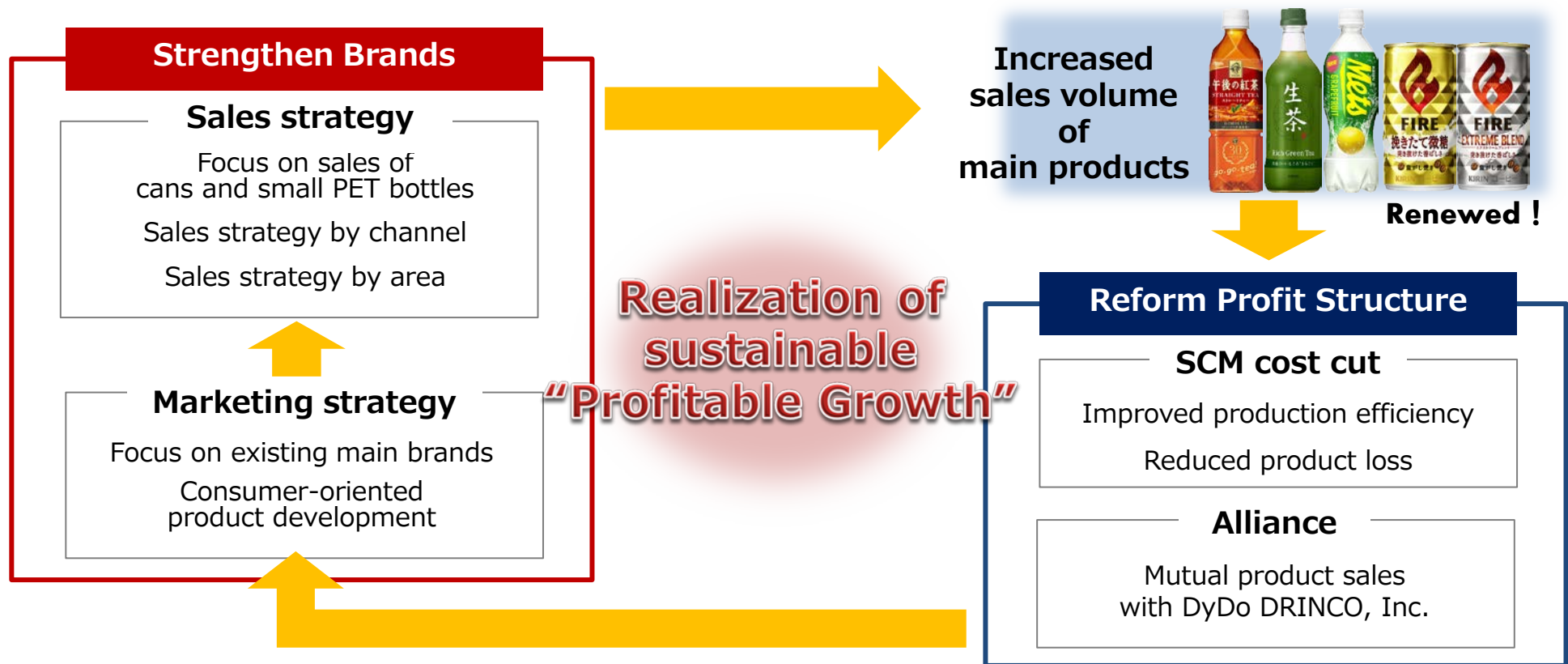
Myanmar Brewery

- ✓ Increased sales volumes of main brands
- ✓ Completed building of the brand/product portfolio by launching premium brands
- ✓ Expansion of production facilities is nearly completed in readiness for capitalizing on the expected further economic and market growth resulting from lifting of U.S. economic sanctions



Kirin Beverage

- ✓ Focusing on the flagship *Kirin Gogo-no-Kocha* as well as on the main brands of the three major categories led to effective and efficient sales activities resulting in significant overachievement of sales volume targets (YonY: up 9%).
- ✓ A virtuous circle has been created via a sales volume increase in main products resulting from “strengthening brands” and the successful outcome of “reforming profit structure.”



Brasil Kirin

- ✓ As a result of marketing focused on changes in market environment and competitor activities, the sales volume of beer increased year-on-year (up 2.0%).
- ✓ Progress in building an effective brand portfolio and implementing realistic initiatives for building an efficient business foundation has been being made towards “growth of profit domains.”

Brand portfolio building

Craft beer	BADEN BADEN	
Premium beer	一番搾り KIRIN ICHIBAN	EISENBAHN
Mainstream beer	SCHIN	DEVASSA <i>Pilsner Beer</i>
Economy beer	GRAU	GLACIAL

Building of efficient business foundation

- Negotiation about plant sale to optimize production sites
- Cut supply chain costs
- Decrease procurement costs
- Increase efficiency and enhance functioning of own distribution

“Growth of profit domains”



3Q Results Japan Integrated Beverages Business



- Kirin Brewery's overall sales volume of beer products was below target, but operating income was on the right track due to the positive results of strengthening the beer category and cost cut efforts
- Kirin Beverage's operating income was significantly above the full-year target; Mercian's full-year operating income target was achieved due to the positive impact of foreign exchange rates, etc.

(bn yen)	2016 actual	2015 actual	YonY change	
Sales	851.2	869.8	(18.5)	(2.1%)
Kirin Brewery	502.8	513.9	(11.0)	(2.2%)
Kirin Beverage*	267.7	276.3	(8.5)	(3.1%)
Mercian	45.8	48.2	(2.4)	(5.1%)
Other and elimination	34.7	31.2	3.5	11.4%
Operating income	52.4	32.4	19.9	61.6%
Kirin Brewery	51.0	47.0	3.9	8.4%
Kirin Beverage	15.6	0.9	14.6	>999%
Mercian	1.7	0.1	1.6	>999%
Others	(15.8)	(15.6)	(0.1)	—

*In 2016, sales promotion expenses of 23.8 billion yen have been deducted from sales

	Beer products	RTD	Wine	Soft drinks
Sales volume change	(4%)	+4%	±0%	+9%

Revision of Full-year Forecast: Japan Integrated Beverages



(bn yen)	2016 3Q revised	2015 Actual	YoY change (%)		2016 2Q revised	YoY Change (%)
Sales	1174.0	1191.5	(17.5)	(1.5%)	1164.0	(2.3%)
Kirin Brewery	705.1	707.2	(2.1)	(0.3%)	705.1	(0.3%)
Kirin Beverage*	350.6	372.0	(21.4)	(5.8%)	342.7	(7.9%)
Mercian	67.4	69.3	(1.9)	(2.9%)	67.4	(2.9%)
Other and elimination	50.8	42.8	7.9	18.7%	48.7	13.9%
Operating income	63.0	47.9	15.0	31.3%	56.0	16.7%
Kirin Brewery	70.8	62.6	8.1	13.1%	70.8	13.1%
Kirin Beverage	15.5	5.6	9.8	176.7%	11.1	96.0%
Mercian	2.5	1.9	0.5	28.0%	1.7	(10.5%)
Others	(25.8)	(22.2)	(3.5)	—	(27.6)	—

* 2016 (3Q revised): Sales promotion expenses of 33.2 bn yen are deducted from sales

3Q Results of Japan Integrated Beverages: Kirin Brewery



		2016	2015	YonY change
Sales (bn yen)	Beer	197.0	196.8	0.1%
	<i>Happo-shu</i>	106.1	111.9	(5.2%)
	New genre	113.1	122.7	(7.8%)
	Beer products total	416.3	431.5	(3.5%)
	RTD total	59.4	57.4	3.5%
	Non-alcoholic drinks	26.9	24.9	8.4%
Sales (bn yen)		502.8	513.9	(2.2%)
Sales excl. liquor tax (bn yen)		295.8	302.3	

2015 Operating income		47.0	Description
YonY change (bn yen)	Decrease in marginal profit for alcoholic beverages	(3.8)	Decrease in beer (0.2), down 2,000 kl; decrease in <i>Happo-shu</i> (2.0), down 19,000 kl; decrease in New genre (4.1), down 36,000 kl; increase in RTD +0.7, up 8,000 kl; difference due to product mix, etc.
	Decrease in raw material costs, etc.	2.9	Decrease in material costs +2.4; decrease in packaging costs +0.6
	Increase in selling expenses	(1.3)	Increase in sales promotion costs (3.4); decrease in advertising costs +2.4 (total 70.0 bn yen→71.0 bn yen), etc. <Beer/ <i>Happo-shu</i> /New genre (0.4); RTD (0.5), etc.>
	Decrease in other expenses	6.1	Decrease in depreciation costs +4.4; decrease in personnel costs +1.5; decrease in electricity/fuel costs +1.0, etc.
Total		3.9	※Including the impact due to change in depreciation method +3.2
2016 Operating income		51.0	

3Q Results of Japan Integrated Beverages: Kirin Beverage



Sales volume (million cases)		2016	2015	YonY change
Category	Black tea	37.43	34.03	10.0%
	Japanese tea	21.59	15.86	36.1%
	Coffee	22.42	21.55	4.0%
	Fruit and vegetable juice	21.12	20.45	3.3%
	Carbonated beverages	18.63	18.69	(0.3%)
	Functional beverages	6.81	6.29	8.3%
	Water	32.21	29.64	8.7%
	Other	16.89	15.94	6.0%
Container type	Can	29.62	27.37	8.2%
	Large PET bottle	58.66	53.19	10.3%
	Small PET bottle	70.38	65.00	8.3%
	Other	18.44	16.89	9.2%
	Total	177.10	162.45	9.0%

Sales (bn yen)	267.7	276.3	(3.1%)
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*Sales promotion expenses of 23.8 bn yen are deducted from sales in 2016

2015 Operating income (loss)		0.9	Description
YonY change (bn yen)	Increase in marginal profit of non-alcoholic beverages	4.4	Increase in sales volume +6.4, up 14.65 million cases Difference due to product/packaging mix, etc. (2.0)
	Decrease in raw material costs, etc.	4.9	Decrease in material costs +1.7; decrease in packaging costs +1.0; decrease in processing costs +2.1
	Decrease in selling expenses	2.7	Decrease in sales promotion expenses +0.6; decrease in advertising expenses +2.1 (total 29.0 bn yen→26.2 bn yen)
	Decrease in other expenses	2.5	Decrease in sales equipment costs, etc.
Total		14.6	※Including the impact due to change in depreciation method +3.3
2016 Operating income		15.6	

3Q Results Overseas Integrated Beverages: Lion

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- **Beer, Spirits, and Wine:** sales volumes showed an upward trend in the third quarter, and sales and operating income remained on track.
- **Dairy and Drinks:** The Turnaround Plan on track, led to operating income exceeding projections.

	Yen base (bn yen)				A\$ base (million A\$)			
	2016	2015	YonY change		2016	2015	YonY change	
Sales	287.6	339.4	(51.8)	(15.3%)	3,429	3,565	(136)	(3.8%)
Beer, Spirits, and Wine	172.6	191.6	(18.9)	(9.9%)	2,058	2,013	45	2.3%
Dairy and Drinks	114.9	147.7	(32.8)	(22.2%)	1,370	1,552	(181)	(11.7%)
Operating income before goodwill amortization, etc.	42.0	48.5	(6.4)	(13.3%)	501	509	(8)	(1.6%)
Beer, Spirits, and Wine	43.8	51.8	(8.0)	(15.4%)	522	544	(21)	(4.0%)
Dairy and Drinks	3.2	1.8	1.3	70.7%	38	19	18	93.7%
Corporate	(4.9)	(5.2)	0.2	—	(59)	(54)	(4)	—
Goodwill amortization	(8.1)	(9.3)	1.1	—	(97)	(97)	0	—
Brand amortization	(2.4)	(2.8)	0.4	—	(28)	(30)	1	—
Operating income	31.4	36.3	(4.8)	(13.4%)	375	381	(6)	(1.7%)

Consolidation period: Oct 2015 to June 2016

Currency Rate: 83.87 yen (previous year: 95.19 yen)

*2015 operating income breakdown by business reflects application of headquarters expense allocation rule.

■ Changes in operating income before amortization of goodwill, etc.

■ Changes in sales volume

	YonY change
Beer, Sprits, and Wine	(1.1%)
Dairy and Drinks	(11.3%)

A\$ m	Beer, Spirits, and Wine	Dairy and Drinks
2015	544	19
Sales volume change	(17)	(36)
Other	(5)	55
2016	522	38

(No change) Full-year Consolidated Forecast: Lion



	Yen base (bn yen)				A\$ base (million A\$)			
	2016 2Q revised	2015 actual	YonY change	YonY change (%)	2016 2Q revised	2015 actual	YonY change	YonY Change (%)
Sales	374.5	438.7	(64.1)	(14.6)	4,513	4,709	(196)	(4.2)
Beer, Spirits, and Wine	220.5	248.6	(28.1)	(11.3)	2,657	2,669	(12)	(0.5)
Dairy and Drinks	154.0	190.0	(36.0)	(19.0)	1,856	2,040	(184)	(9.0)
Operating income before amortization of goodwill etc.	56.5	63.9	(7.4)	(11.6)	681	686	(5)	(0.8)
Beer, Spirits, and Wine*	57.9	67.2	(9.2)	(13.8)	698	721	(23)	(3.2)
Dairy and Drinks*	6.4	4.3	2.1	49.1	77	46	31	67.3
Corporate*	(7.8)	(7.6)	(0.2)	—	(94)	(81)	(12)	—
Goodwill amortization	(10.8)	(12.1)	1.3	—	(130)	(130)	0	—
Brand amortization	(3.1)	(3.7)	0.5	—	(38)	(39)	1	—
Operating income	42.5	48.0	(5.5)	(11.5)	512	516	(3)	(0.7)

Consolidation period: Oct 2015 to Sep 2016 (Currency rate: 83.00 yen (previous year: 93.16 yen)

*2015 operating income breakdown by business reflects application of headquarters expense allocation rule

3Q Results Overseas Integrated Beverages: Brasil Kirin



- The decline on 3Q (Jan-Sep) sales has been impacted by changes in accounting classification comparing to the previous year. On a comparable basis, disregarding such accounting changes, sales increased in fact. Costs of goods sold have been affected by the Brazilian currency depreciation in comparison to the previous year. Sales and profit both increased during the period from Jul to Sep, a clear sign of successful structural reform.
- Sales volume was on track, and sales and operating income exceeded the target.

	Yen base (Bn yen)				Real base (million R\$)			
	2016 actual	2015 actual	YonY change	YonY change (%)	2016 actual	2015 actual	YonY change	YonY change (%)
Sales	79.1	98.4	(19.2)	(19.6)	2,543	2,594	(50)	(2.0)
Operating income before amortization of goodwill, etc.	(8.1)	(5.4)	(2.6)	—	(262)	(144)	(118)	—
Goodwill amortization	—	(3.3)	3.3	—	—	(88)	88	—
Brand amortization	(0.5)	(1.9)	1.4	—	(16)	(52)	35	—
Operating income	(8.6)	(10.7)	2.1	—	(278)	(284)	5	—
EBITDA	(1.5)	3.6	(5.1)	—	(49)	95	(144)	—

Consolidation period: Jan 2016 to Sep 2016

Currency rate: 31.12 yen (previous year: 37.94 yen)

■ Sales volume change

(%)	YonY change
Beer	+ 2.0
Soft drinks	+ 12.4
Total	+ 5.7

<Reference>

Market trend (SICOBÉ)

- Beer: (1.7%) YonY
- Carbonated drinks: (4.5%) YonY

■ YonY change of operating income before amortization of goodwill, etc.

Gross profit decrease R\$331MM

- Decrease in sales due to tax increase in 2015 as well as due to increase in amount deducted from sales following the accounting process change
- Increase in raw material costs due to depreciation of the Brazilian real and the market environment

SG&A cost decrease R\$212MM

- Decrease of some parts of selling expenses for off-premise outlets due to the shift to deduction from gross sales
- Cost reduction resulting from improved efficiency

(No change) Full-year Forecast: Brasil Kirin



	Yen base (bn yen)				Real base (million R\$)			
	2016 2Q 〔revised〕	2015 Actual	YonY change	YonY Change (%)	2016 2Q 〔revised〕	2015 actual	YonY change	YonY Change (%)
Sales	112.9	134.2	(21.3)	(15.9)	3,765	3,698	66	1.8
Operating income before amortization of goodwill etc.	(8.9)	(11.7)	2.8	—	(296)	(322)	25	—
Goodwill amortization	—	(4.2)	4.2	—	—	(117)	117	—
Brand amortization	(0.6)	(2.5)	1.8	—	(22)	(69)	47	—
Operating income	(9.5)	(18.5)	8.9	—	(318)	(509)	191	—
EBITDA	1.5	0.2	1.2	613.8	50	5	44	763.7

Consolidation period : Jan 2016 to Dec 2016 Currency rate: 30.00 yen (previous year: 36.30 yen)

- Although sales volume was below target, operating profit was slightly above due to the unit price exceeding target and unused sales promotion expenses, etc.
- Full-year forecast is not revised given the unused sales promotion expenses, etc.

	3Q result	
	Bn yen	Bn MMK
Sales	18.0	194
Operating income before amortization of goodwill, etc.	7.8	84
Goodwill amortization	(1.2)	(13)
Brand amortization	(1.2)	(13)
Operating income	5.3	57

Consolidation period: Oct 2015 to Jun 2016

Currency rate: 1,000 Kyat = 92.62 yen

Full-year forecast (no change)	
Bn yen	Bn MMK
22.8	253
8.8	99
(1.6)	(17)
(1.6)	(18)
5.6	64

Consolidation period: Oct 2015 to Sep 2016

Currency rate: 1,000 Kyat = 90.00 yen

3Q Results Pharmaceuticals and Bio-chemicals

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- **Pharmaceuticals business:** Domestic sales of pharmaceutical products were solid against the full-year forecast; operating income was also on the right track toward achieving the full-year forecast although a part of the research and development costs has not yet been spent
- **Bio-chemicals Business:** Operating income reached the full-year forecast owing to earlier shipment of some pharmaceutical raw materials and the existence of unused SG&A expenses; full-year target is expected to be achieved

(bn yen)	2016 actual	2015 actual	YonY change	
Sales	252.4	266.2	(13.7)	(5.2%)
Kyowa Hakko Kirin	257.7	272.9	(15.1)	(5.6%)
Pharmaceuticals	195.8	208.1	(12.2)	(5.9%)
Bio-chemicals	61.9	64.8	(2.9)	(4.5%)
Other and elimination	(5.2)	(6.6)	1.3	—
Operating income	29.1	43.1	(14.0)	(32.5%)
Kyowa Hakko Kirin	29.1	43.1	(14.0)	(32.5%)
Pharmaceuticals	22.0	34.9	(12.9)	(37.0%)
Bio-chemicals	4.7	6.4	(1.6)	(26.2%)
Other, elimination of amortization of goodwill	6.9	6.4	0.5	8.9%
Amortization of goodwill	(4.6)	(4.6)	(0.0)	—

(No change) Full-year Forecast: Kyowa Hakko Kirin

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bn yen	2016 (2Q revised)	2015 actual	YonY change	
Sales	336.0	355.7	(19.7)	(5.6%)
Kyowa Hakko Kirin	344.0	364.3	(20.3)	(5.6%)
Pharmaceuticals	263.0	278.4	(15.4)	(5.5%)
Bio-chemicals	81.0	85.9	(4.9)	(5.7%)
Other and elimination	(8.0)	(8.5)	0.5	—
Operating income	35.0	46.8	(11.8)	(25.2%)
Kyowa Hakko Kirin	35.0	46.8	(11.8)	(25.2%)
Pharmaceuticals	27.5	36.2	(8.7)	(24.0%)
Bio-chemicals	4.5	8.1	(3.6)	(44.6%)
Other, elimination of goodwill amortization	9.1	8.6	0.5	5.9%
Goodwill amortization	(6.1)	(6.1)	—	—

Appendix 1 Normalized EPS Breakdown

(bn yen)	2016 target (3Q revised)	2016 3Q	2015 3Q
Net income attributable to owners of parent	85.0	75.1	54.9
Amortization of goodwill etc.	38.6	29.1	34.0
Special income or expenses after income taxes and minority interests	(18.4)	(19.2)	(8.7)
Normalized net income (1)	105.1	85.0	80.3
Average number of shares outstanding during period (000 shares) (2)	912,523	912,524	912,539
Normalized EPS (yen) (1)÷(2)	115	93	88

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