

Minutes of telephone conference on the third quarter financial results of FY2016

<Date and time> 10:00–11:00, Tuesday, November 1, 2016

<Attendees> Executive officer in charge of Oversea Business at Brasil Kirin, Director of Corporate Strategy, Director of Group Finance, Senior Manager of IR Section

<Medium-Term Business Plan/Financial results in general>

Q. The third quarter financial results show that Kirin Beverage Company and Brasil Kirin, which are both identified as low-profit businesses in the Medium-Term Business Plan (MTBP), made quite a large profit contribution. What level of operating income ratio would you expect them to attain, respectively, if they are to continue their financial revitalization?

(Director in charge) Kirin Beverage Company's operating income ratio is likely to increase from 1.5% in 2015 to between 4% and 5% this year as a result of the improved product mix, the strong performance of *Kirin Nama-cha* after its major product renewal, and steady progress in the cost restructuring. We will make further efforts to improve the operating margin from next year onwards by growing the three major categories and continuing the cost restructuring. Brasil Kirin has also seen progress in structural reform, and aims to achieve profit on a single-year basis as soon as possible. Our long-term profit target after realizing the single-year profit is the EBITDA margin which was recorded before acquisition of the company.

Q. The third quarter performance seems to be favorable partly because of an increase in profits resulting from one-off impact factors such as the change in recording expenses. What is your perspective on sales and profits for next year, with regards to continuing profit growth?

(Director in charge) Our top priority is to achieve an operating income of 160 billion yen in 2018 as stipulated in the 2016 MTBP. We see next year as a step toward achieving this goal. So far, the performances of business sectors identified as low-profit as well as that of the Pharmaceuticals and Bio-chemicals Business have been favorable, which we believe reflects the success of ongoing structural reform initiatives. We will continue resolutely to execute our current strategies. We will announce the details, including next year's targets, when we release our business plan for next year.

<Japan Integrated Beverages Business>

Q. Although Kirin Beverage Company has revised its financial forecasts upwardly, it does not anticipate profits for the fourth quarter. How are you going to allocate expenditure?

(Director in charge) We will invest proactively for success in the year ahead, mainly through product renewal of the *FIRE* brand in October, as well as by promoting beverages served hot such as *Kirin Nama-cha* and *Kirin Gogo-no-Kocha*.

Q. Please give a detailed explanation of the structural change within the Kirin Beverage Company organizations, for example in marketing and sales departments.

(Director in charge) The company's marketing and sales sectors are taking cross-functional efforts with regard to consumers in order to maximize sales. The strong performance of *Kirin Nama-cha* is the result of the ever-stronger alliance between the marketing and sales sections as well as its brand strength. The same applies to the *FIRE* brand. Revenue improvement has also been achieved via sales strategies focusing on control of key areas, key customers, and product packages among others, in accordance with our well-defined policy for achieving "profitable growth".

Q. Kirin Brewery Company's profits had been declining since 2010, but seem to be bottoming out this year. Meanwhile, the company is spending a lot on its marketing activities. What is your view on the level of marketing costs?

(Director in charge) The company has lost both sales volume and market share since 2010. Throughout the duration of the current MTBP, we will maintain the present level of investment in marketing in order to strengthen our brands. We do recognize that the current marketing investment level is significantly high and thus we are prepared to contain any sales promotion expenses, etc. which do not lead to an increase in sales.

Q. There were reports of a partnership with Coca-Cola Company, but nothing has been determined so far. Is this an accurate understanding?

(Senior Manager of IR Section) Yes, nothing has been determined. We have started exploring the matter with the aim of having specific discussions in the future.

<Overseas Integrated Beverages Business>

Q. What is the outlook for Brasil Kirin in terms of sales volume recovery and overall performance next year?

(Director in charge) Third-quarter sales volumes maintained the high growth achieved in the first and second quarters. We project, however, that the year-on-year growth will slow down in the fourth quarter because the positive results of initiatives to strengthen sales will have run their course following the change in marketing strategies begun last year. As to 2017, we forecast a slightly negative growth in the overall market, and based on this prediction we do not expect any significant growth in sales volumes. Our focus is not simply growth in sales volume but substantial business improvement including the pricing strategy so as to maximize the company's gross profit margin.

Q. What is the market outlook in Brazil and how will it impact on the business?

(Director in charge) The economic outlook in Brazil has been considered more promising since the change in the country's president along with subsiding inflation and the decline in interest rates. On the other hand, consumption levels have neither deteriorated nor improved. We feel that there has been an increasing polarization in consumption throughout the country.

Q. The licensed brands in Lion's beer, spirits, and wine business accounted for 10% of its sales volume and seem to have had a large impact on Lion's profitability. How do you think the business will perform in 2017?

(Director in charge) Lion's detailed brand portfolio post the loss of its licensed brands will be released when the company announces its business plan for 2017. In principle, Lion will strive to improve profitability by strengthening its own brands. The company has begun efforts to do so, such as purchasing a small craft brewery this year.

Q. Lion's dairy and drinks business seems to be on a steady recovery track. However, compared to Kirin Beverage Company and Brasil Kirin, the improvement appears quite modest. How do you see the current situation and outlook for 2017?

(Director in charge) Concerning the milk-based beverage category and the yogurt category which constitute the company's focus, year-on-year sales volumes were strong, but did not reach the targets because the targets themselves had been set high. Although the overall sales volume decreased significantly, in part due to the sale of the low-price cheese business last year, we plan to steadily increase our profitability from next year onwards by continuously strengthening the focus brands as well as by executing a turnaround plan centered on cost reduction.

Q. Is it correct that the impact of the milk price issue has been decreasing?

(Director in charge) We project that going forward the milk price will continue to be stable. This has provided a boost to our business environment.

Q. In light of the profit performance of Myanmar Brewery in the third quarter, the company's plan for the fourth quarter seems conservative. While it appears to be maintaining its solid performance, I hear that the company did not meet its sales volume target. What is the company's plan from now on?

(Director in charge) Myanmar is one of the few growing markets and we will continue to drive our business aggressively in this market. Up to the third quarter, we have focused on expanding the brand portfolio and upgrading production capacity. In terms of brand management, the company has stopped selling licensed brands, and is focusing on *KIRIN ICHIBAN* and *Myanmar Premium* to enhance its premium beer segment. In the low-price beer segment, our *Andaman* brand is competing against beer products brought in illegally across the border. Going forward, we will further strengthen our production capacity and compete against other market players in order to keep our present market leadership position.