

Telephone Conference Presentation about Downward Revision for Business in Brazil

As background to the downward revision in annual business performance forecasts of Brasil Kirin, relevant factors can be largely divided into three areas:

1. Reduced sales volume due to pricing unsuitable for the market,
2. Reduced sales volume due to malfunction of wholesalers, and
3. Steep increases in the cost of goods sold (COGS) due to the weak Brazilian real.

Of these, we will explain about pricing and wholesalers below.

1. Pricing

Brazil is a country experiencing inflation, so Brasil Kirin has worked to cover cost increases and secure profits by increasing prices. From last year, however, Brasil Kirin increased prices more than its competitors did. In addition, Brasil Kirin increased at the end of last year in spite of the fact that competitors did not, which had a particularly negative impact on its market competitiveness and on the finances of some wholesalers. We, Kirin Holdings, were able to identify this as a major factor behind sluggish sales. That is why, we appointed a new CEO, and his first priority was to promptly adjust pricing structures to the proper level and recover sales trends. He spent his first two weeks on the job observing the market and talking with wholesalers and local salespeople. At the beginning of September, he revised prices that had been unsuitably high. This has resulted in a rapid recovery of sales volume. Competitors implemented their own price increases by the end of September, so Brasil Kirin followed suit in the last week of October and increased its prices more or less at the same level. So far, October is seeing an increase in sales volume year-on-year. However, during the third quarter, sales volume fell below the plan due to the past price increases, and price increases that had been planned for the second quarter were not implemented; as a result, Brasil Kirin's profit for the third quarter fell broadly short of the plan.

2. Wholesalers

Along with reducing sales volume and falling margins since last year, some wholesalers' finances have been deteriorating, and downsizing of their sales forces had a negative impact on their sales operation. The financial difficulties became severe for a part of wholesalers as well, which is another major factor in failing to achieve the third quarter sales volume plans. As a solution, Brasil Kirin introduced the wholesaler management program which, in addition to the price adjustments that contributed to recovering competitiveness and revenue, has been improving the wholesalers' profitability.

In addition to these efforts, we are currently implementing management reform under the new management team. Medium-term issues for Brasil Kirin include (1) enhancing brand portfolio, (2) improving sales activities, and (3) building strong distribution systems. It will take time to resolve each of these issues, but we can mention some initiatives Brasil Kirin has begun implementing.

Brand-wise, Brasil Kirin has decided to renew the package design for its core beer brand *Schin* back to the original white tones, and is working to recover brand loyalty in the north and northeast regions. As of the end of October, the renewed products are already appearing on shelves and we are gearing up for recovery of sales volume ahead of the peak season.

Regarding its sales strategy, going forward Brasil Kirin will continue focusing on the 600 mL bottles for the on-premise market, which have a high profit margin. On the other hand, a protracted period of high inflation is causing a beer consumption shift toward the off-premise market. Therefore, Brasil Kirin will enhance its business for the home market in line with actual market conditions.

Also, margins have been reduced as a result of revising unsuitable pricing, so in addition to promoting efficiencies in variable costs, Brasil Kirin will reduce fixed costs and promote comprehensive reform of its cost structures, targeting even leaner management.

As a result, there has been a broad downward revision over a short period since the forecast revision was announced in the second quarter, but our measures for pricing policy and wholesaler support, which are the major factors involved, are almost complete. Sales volume is recovering so we are expecting about the same level year-on-year for the fourth quarter, and we believe that this year's third quarter saw the bottom for sales volume.