

## Telephone Conference Q&A:

### Results for the Third Quarter of the Fiscal Year Ending December 31, 2015

Date and time: October 30, 2015, 17:00-18:00

Presenters: Director of Group Finance, Executive Officer in charge of Overseas Business at Brasil Kirin, along with Director of Corporate Strategy

#### Financial Results – General Questions

Q. Why have operating income and net income been revised downward by the same margin?

(Director in charge) We have not factored the effect of tax into our revised forecasts because we were unable to estimate taxable income due to the negative forecast for operating income before goodwill amortization, etc. and have not established the next medium-term business plan for Brasil Kirin.

#### Japan Integrated Beverages Business

Q. The fourth quarter plan for Kirin Beverage requires considerable profits to be made, but isn't there still a risk to the downside for profits?

(Director in charge) We want to increase vending machine sales by enhancing our lineup of vending machine products over the winter months, with a fuller range than previous years centered on hot products. With retail sales, we will work to strengthen the *Mets* and other brands to make them a regular choice, we will spend money on sales promotions for profitable products to ensure profits, and we will thoroughly reduce fixed expenses as we try to recover from the previous falls. The momentum of increased sales volume is continuing, so we are still aiming to achieve the current plan by increasing the top line and reducing costs overall while expanding sales of profitable products.

Q. Sales volume is important for Kirin Beverage but so too is making a profit, so how to generate profit will become an issue going forward. With such a big growth in sales volume this year making it difficult to increase sales volume for the next fiscal year, how will you rebuild profits? What strategies will you follow going forward?

(Director in charge) We will clarify whether issues are structural or operational and tackle them in both the short term and the medium term. Resolving structural issues means raising the sales ratio in three major categories, strengthening the foundations of the vending machine channel, increasing the ratio of our own production and reviewing our fixed expenses in comparison with competitors. It will take time but we are making steady progress. Operational issues, on the other hand, must be resolved in a prompt manner. We have been working to improve product mix but the ratio of large container products being discounted still increased and variable promotional expenses occurred more than planned. President Sato has been visiting each site to drive measures for improvement but we still need more time. We want to enhance our brands in line with these issues over the medium- to long-term. In the next medium-term business plan, we will work with a sense of urgency on improving profitability for Kirin Beverage as this is one of our priority issues, and we are already starting where we can. We are currently developing plans and are making steady progress, so we would like to provide more details in February.

Q. For the Kirin Brewery operating income breakdown, “Others” expenses are a factor behind increased profits and there is a considerable deviation from the full year plan. Labor and other costs have decreased a lot so how will they be in the fourth quarter? And will fixed expenses be a factor behind increased profits from next fiscal year as well?

(Director in charge) As for labor costs, we have had greater personnel reductions than in previous years. With depreciation as well, we are seeing the effect of reduced investment in the past, and so we do not expect such a great impact from next fiscal year. A minimum level of repair costs is necessary to prevent accidents, but in that light we are optimizing use of our repair costs. We will continue to endeavor to reduce repair costs from next fiscal year as well.

Q. Selling expenses for Kirin Brewery seemed to have progressed according to plan through to the third quarter. Competition, however, has become fierce recently, and if you continue with the current level of selling expenses from next fiscal year as well, without any increases, will you be able to increase market share?

(Director in charge) This year, our selling expenses are enough to enable us to compete with our rivals, and we are seeing results as expected. However, we are now carefully reviewing how we used this money to verify whether it has maximized an effect. We are investigating different ways of using the money to enhance our brands in a shrinking market, and we are currently planning more efficient use of our selling expenses.

Q. It appears that there aren't many factors that would lead to profit reductions for Kirin Brewery's remaining three months, but you are planning for 3–4 billion yen in reduced profit. Are there any strategies that you will be spending on during the fourth quarter?

(Director in charge) Because we have been reducing repair costs up till now, we are providing a budget for repair costs during the fourth quarter to ensure stable equipment operation.

Q. As a result of your large brand investment in the Japan Integrated Beverages Business over these nine months, have you seen sustainable growth? Are there any outcomes of brand development for sustainable growth in the future?

(Director in charge) Kirin Brewery has concentrated its investment on *Ichiban Shibori*, which has increased in brand strength and has steadily gained in popularity. In the functionality category as well, our *Kirin Nodogoshi All Light* and other brands have gained a strong presence in the market, showing a solid investment effect and exhibiting Kirin's own competitive advantages. Kirin Beverage has some issues but *Kirin Gogo-no-Kocha* is seeing steady growth. It strengthened the *Mets* brand in the carbonated category this year. It particularly enhanced investment in the first half, which has produced positive outcomes in carbonated beverages. However, the issue is that profits are not commensurate with selling expenses. There are structural issues as well, so we want to both invest in brands and gain control over expenses for next year.

## Overseas Integrated Beverages Business

Q. In Brazil, profit is planned to be lower year-on-year in the remaining three months, which accounts for the highest sales volume, due to some one-time expenses. How do you see this affecting next fiscal year's profit?

(Director in charge) First of all, I will explain about the estimated profit in the fourth quarter. Ongoing falls in the Brazilian real against the US dollar and the resulting increased costs are having a big impact on gross profits. The ratio of cans is increasing while one of our core 600 mL bottles is decreasing, which has a negative impact on profits as well. As for selling expenses, we are also conducting an advertising campaign through the design renewal of our *Schin* brand. With the establishment of our own distribution, there are increased labor costs as we hired employees and depreciation increases for warehouse and other facilities. We also expect expenses for preparing structural reform, with those expenses incurred in December, so profit levels are dropping.

(Executive officer in charge) Until the first half, our analysis pointed to two equal factors in the reduced sales volume – eliminating unprofitable business, and the impact of competition and price in the first half. However, while investigating pricing, we found that price impact was greater than thought. We currently see three equal factors – eliminating unprofitable business, unsuitable pricing, and competition and wholesaling factors. Because gross margins will drop through pricing policy revision, we will improve the efficiency of variable expenses. As for sales, we expect a much higher level next year compared to this year.

Q. Should we lower our expectations for profit margin in Brazil?

(Executive officer in charge) We are assuming the Brazilian real will continue to be weak next year, so we expect to see conservative margins. To cover that, we want to reduce indirect expenses and solidly lift profit levels.

Q. How is Brazil's recent competitive environment?

(Executive office in charge) The competitive environment was quite tough until the third quarter. However, our pricing strategy revision from September is producing a broad recovery in market share. We are still waiting on market data, but looking at the volume we shipped, we believe we are pushing back against our competitors. The northeast is our most important market, and we are past the worst now in relation to competition.

Q. In the revised full year forecast, EBIT is minus 3 billion yen and operating income is a whopping minus 9.8 billion yen in Brazil. How much improvement are you expecting by next year through your current improvement program?

(Executive office in charge) Broad increases in sales volume will produce an increase in marginal profits, but with a weak real and pricing strategy revision, we do not expect the same level of improvement to gross profit we have seen so far. That is why we will drive cost reductions and variable selling expense reductions together, to achieve a greater improvement of profits than this year. However, we are not planning to return EBITDA to the levels previously seen. We will start by gaining trust of wholesalers, retailers and so on, and rebuilding sales volume to improve profits. We are currently reviewing next fiscal year, but it is uncertain whether we will be able to improve everything at once.

Q. What about impairment risk for Brasil Kirin?

(Director in charge) At the moment, it depends on impairment tests going forward whether there will be impairment or not, and if there is how much impairment there will be. We need to discuss this with the audit corporation. Discussions on the next medium-term business plan will be conducted in December, so the results of the test based on the plan might be delayed from the end of the year to the beginning of next year. We are seeing revised pricing strategy, a recent recovery of sales volume, and a reform of cost structures under the new CEO of Brasil Kirin, and we expect a recovery in performance over the medium term. Also, about 30 billion yen in accumulated goodwill and brand amortization has been accounted for according to Japanese accounting standards. Impairment will be accounted in Japanese accounting standards if goodwill and brand impairment exceeds the accumulated amortization of them. The value of the impairment will also vary according to the valuation method used in the impairment tests. We will make an announcement when we have the results.