

## Japan Integrated Beverages Business

### Kirin Brewery

➔ Main pillar of the Group's operations  
Engaged in the manufacturing and sale  
of beer, RTD products, whiskey and spirits,  
and other products

➔ No. 2 share in the beer market (32.4%<sup>\*1</sup>)

➔ No. 2 share in the RTD product market<sup>\*2</sup>

<sup>\*1</sup> Based on taxed shipment volumes (fiscal 2016)

<sup>\*2</sup> Kirin estimate (fiscal 2016)



### 2016 MTBP Basic Strategy

Kirin Brewery generates substantial management resources for the Group overall, and strengthening Kirin Brewery's profit base is the Group's highest priority.

#### Targeting a V-shaped recovery, with growth in sales and profits

##### 2018 Guidance

➔ **Operating profit margin: More than 17% (Fiscal 2015: 15.1%)**  
(excluding liquor taxes/before deduction of management fees)

##### Measures to Improve Profitability

##### ➔ Enhancing the appeal of the beer category

- Grow sales volume in the traditional beer category through sustained support for *Ichiban Shibori*
- Foster and grow craft beer brands

##### ➔ Strengthening the functional products category

- Lead market growth with a diverse lineup that leverages Kirin's technical expertise

##### ➔ Strengthening the business foundation and sustaining brand investment

- Roll out high-value RTD and whiskey products
- Efficiently utilize advertising and sales promotion expenses
- Achieve high productivity over the entire supply chain

### Fiscal 2016 Business Report

Kirin Brewery maintained its focus on revitalizing the beer market by strengthening the flagship *Kirin Ichiban Shibori* brand and developing the craft beer category. In addition, Kirin Brewery achieved substantial cost reductions (¥7.2 billion) by strengthening the profit base through reductions in raw materials procurement costs and increases in manufacturing productivity.

However, in the *happo-shu* and new genre categories, the sales volume of *Kirin Nodogoshi Nama* and other products was sluggish, and the overall beer product sales volume decreased year on year. The RTD category and the whiskey and spirits, etc., category recorded favorable results.

#### Progress Made in Fiscal 2016

##### ➔ Enhanced appeal of the beer category

- Sales volume of the *Ichiban Shibori* brand increased for the third consecutive year
- Concluded a capital and business partnership with the U.S. craft brewer Brooklyn Brewery
- Brewing and sales of the Brooklyn brand in Japan started in 2017

##### ➔ Strengthened functional categories

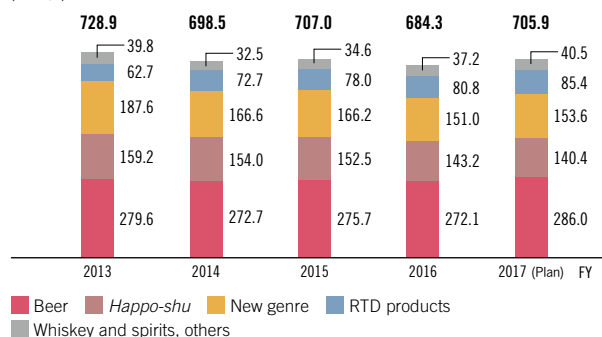
- Maintained at least a 40% share (Kirin estimate) in the functional category, Sales volume of *Tanrei Platinum Double* increased for the second consecutive year

##### ➔ Strengthened business base; sustained brand investment

- Sales volume of RTDs and whiskies increased
- Cut costs by ¥7.2 billion by cutting raw material costs and increasing productivity at the plants

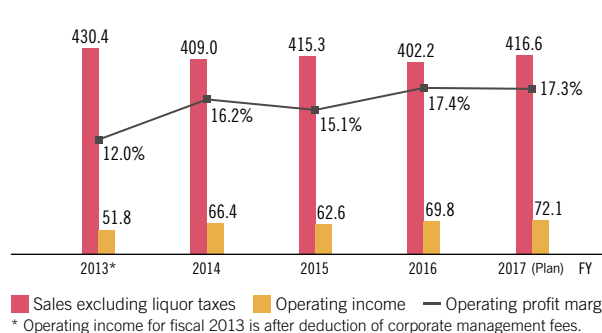
#### Sales by Category (including liquor taxes)

(¥ Billion)



#### Sales and Operating Income

(¥ Billion)



\* Operating income for fiscal 2013 is after deduction of corporate management fees.

## Fiscal 2017 Business Plan

In line with the liquor tax revision that was finalized in fiscal 2016, Kirin Brewery will work to enhance the appeal of the beer category and to revitalize the *happo-shu* and new genre categories, where conditions are challenging. Kirin Brewery will take steps to strengthen its business base, such as through continued supply chain management cost reductions. In addition, we will take the lead in transforming the market structure to avoid falling into excessive price competition.

Sales  
(excluding liquor taxes) **+¥14.4 billion +3.6%**

- ◆ Increase beer sales volume
- ◆ Improve the mix by increasing the component ratio of beer
- ◆ Increase RTD sales volume

Operating income **+¥2.2 billion +3.2%**

- ◆ Increase gross profits by increasing the sales volume of non-alcohol products
- ◆ Continue to improve productivity at plants by working to cut raw material costs and by not replacing workers who retire
- ◆ Regarding selling expenses, in order to strengthen brand power and contribute to increasing sales volume while effectively utilizing such expenses, aim for an overall level comparable to fiscal 2016

## Fiscal 2017 Sales Plan

Category	Percentage change		Market expectation 2017
	2016	2017	
Beer products, total	-5.5%	1.9%	Approx. -1%
Beer	-1.8%	4.8%	Approx. -1%
<i>Happo-shu</i>	-6.2%	-1.9%	Approx. -2%
New genre	-8.7%	1.7%	Approx. ±0%
RTD products	3.7%	6.2%	Approx. +6%
Non-alcohol beverages	-9.0%	33.4%	Approx. ±0%
Whiskey and spirits, etc. (sales amount)	14.0%	2.7%	Approx. +3%

## Target Sales Volumes for Main Brands NEW



## Basic Strategy

### Enhancing the Appeal of the Beer Category

Kirin Brewery will provide new value through beer and work to make beer even more attractive for consumers. We will take steps to revitalize the beer market, such as contributing to regional revitalization by continuing to sell *47 Todofuken no Ichiban Shibori* products and providing increased opportunities for consumers to experience craft beer through such initiatives as “Tap Marché.”

### Revitalizing the *Happo-shu* and New Genre Categories

Based on the future liquor tax revision and the category composition at Kirin Brewery, achieving a recovery in sales volumes in the *happo-shu* and new genre categories is an urgent challenge. To strengthen its main brands, Kirin Brewery will develop new products with enhanced taste and function and will renew existing products. Stepped up initiatives will include the launch of *Nodogoshi Special Time*, a full-year extension of *Nodogoshi*, which is the No. 1 brand in the new genre category.

### Strengthening the Business Base by Sustaining Brand Investment

To advance the basic strategies in the beer, *happo-shu*, and new genre categories, sustained brand investment will be essential. In order to generate the funds for that investment, Kirin Brewery will continue to reform the cost structure throughout the value chain and will take steps to efficiently utilize selling expenses. In these ways, we will work to reform the profit structure.

## Japan Integrated Beverages Business

## Kirin Beverage

- ➔ No. 4 share in the domestic non-alcoholic beverages market\*
- ➔ Overwhelming position in the black tea category with the *Kirin Gogo-no-Kocha* brand
- ➔ Nurturing such brands as *Kirin Nama-cha*, *Kirin FIRE*, and *Kirin Mets*

\* Kirin estimate (fiscal 2016)



## 2016 MTBP Basic Strategy

To realize profitable growth, Kirin Beverage will build a robust brand framework and reform its profit structure.

## Achieve profitable growth through structural reform

## 2018 Guidance

- ➔ **Operating profit margin: More than 3% (Fiscal 2015: 1.5%)**  
(before deduction of management fees)
- ➔ **Building a robust brand portfolio**
  - Focus on the three major categories
- ➔ **Reforming the profit structure**
  - Switch to sales force evaluation based on brand profitability; focus on beverages in cans and small PET bottles
  - Reform supply chain cost structure
  - Raise labor productivity
- ➔ **Using alliances to solve structural issues**

## Fiscal 2016 Business Report

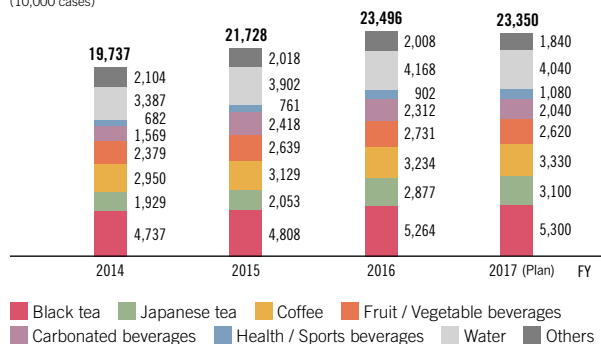
The sales volume of *Kirin Gogo-no-Kocha* exceeded 50 million cases for the first time. *Kirin Nama-cha*, which underwent a complete product renewal, recorded sales of 26.2 million cases, more than 1.5 times the original sales volume target. The overall sales volume of non-alcoholic beverages achieved growth of 8.1%, significantly higher than market growth. In addition, Kirin Beverage also made steady progress in the thorough reform of its profit structure, and profit increased substantially due to the higher sales volume and to cost reductions (¥6.1 billion).

## Progress Made in Fiscal 2016

- ➔ **Built a robust brand portfolio**
  - In the sugar-free tea category, the *Nama-cha* brand was revitalized, and the sales volume rose 44% year on year
  - In the coffee category, *FIRE* was renewed and progress was made in fostering and strengthening the brand
- ➔ **Reformed the profit structure**
  - Sales volume of cans and small PET bottles increased 8%  
Strengthened the management of sales promotion expenses for large PET bottle campaigns
  - By focusing on the main brands, the sales volumes of *Gogo-no-Kocha* and *Nama-cha* significantly increased, and in addition to increased operating rates and productivity at plants, losses due to waste were lowered and costs were reduced by ¥6.1 billion
- ➔ **Used alliances to solve structural issues**  
Alliance with Dydo Drinco contributed to increased vending machine sales

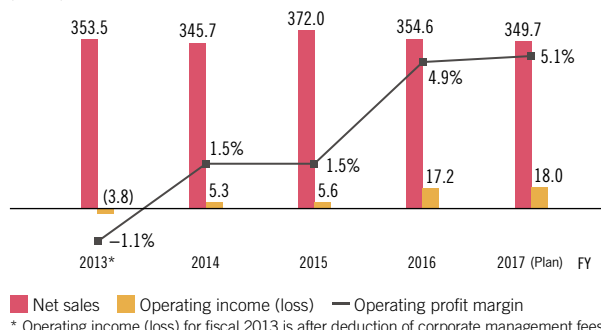
## Sales Volume by Category

(10,000 cases)



## Sales and Operating Income (Loss)

(\$ Billion)



## Fiscal 2017 Business Plan

To achieve profitable growth, Kirin Beverage will work to strengthen main brands and to create new value in the “health and well-being” category. We will also continue the shift toward a highly profitable business structure.

Sales **-¥4.9 billion** **-1.4%**

- ▶ Soft drink sales volume on par with fiscal 2016
- ▶ Improve the price/mix by increasing sales of cans and small PET bottles
- ▶ Impact of part of the selling expenses being deducted from sales (1Q only)

Operating income **+¥0.7 billion** **+4.1%**

- ▶ Reduce processing expenses by cutting raw material costs, and reduce waste by focusing on the main brands and reducing SKU
- ▶ Increase selling expenses (fixed sales promotion expenses and advertising expenses) aimed at strengthening the brand power

### Target Sales Volumes for Main Brands



## Basic Strategy

### Building a Robust Brand Portfolio

With *Gogo-no-Kocha*, *Nama-cha*, and *FIRE* as the main brands, Kirin Beverage will work to create value with a focus on health and well-being, and will work to enhance existing products and develop new ones. In these ways, Kirin Beverage will move forward with the establishment of a sustainable, robust brand portfolio. In addition, working together with LINE Corporation, we will roll out new sales promotion activities through Tappiness, Kirin's unique vending machine service.

### Shifting to a Highly Profitable Business Structure

Kirin Beverage will continue to advance profit management by implementing initiatives such as sales target control focused on

cans and small PET bottles. We will also continue working to reduce SCM costs through improvements in plant manufacturing efficiency and other measures. Furthermore, Kirin Beverage will take steps to further increase operational efficiency and to improve low-profit segments, such as the water category. Moreover, we will consider alliances with other companies and search for areas in which we can establish win-win relationships.

## Mercian

- ➔ Wine group with three functions: winemaking, import/sales, and wineries
- ➔ Leading share in domestic wine market\*

\* Kirin estimate (fiscal 2016)



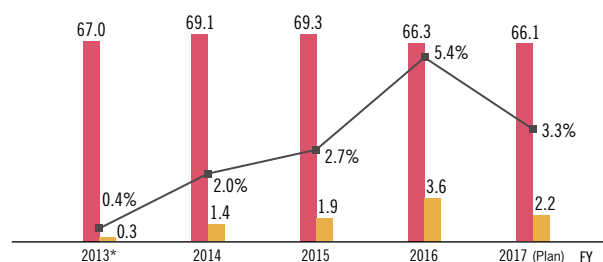
## Fiscal 2016 Business Report and Fiscal 2017 Business Plan

In fiscal 2016, *Chateau Mercian* was highly evaluated at a number of wine competitions in Japan and overseas, and the imported wine *Casillero del Diablo* recorded substantial growth. Overall, Mercian's wine sales volume increased significantly year on year. Sales declined, due in part to the deduction of certain selling expenses from sales, but profit increased due largely to the appreciation of the yen.

In fiscal 2017, aiming for sustained growth of the overall wine market, Mercian will streamline its offerings to focus on brands in each category, expand the range of scenarios in which consumers enjoy wine, and make proposals targeting expansion among its main consumer base.

### Sales and Operating Income

(¥ Billion)



■ Net sales ■ Operating income — Operating profit margin

\* Operating income for fiscal 2013 is after deduction of corporate management fees.