

Kirin Group

Financial Results for the 3Q 2018

November 6, 2018
Kirin Holdings Company, Limited

Financial result summary

- 3Q consolidated revenue was +4.8% YoY.
- Normalized OP was -1.1% YoY but largely unchanged from the previous year excluding foreign exchange impact.
- Net income attributable to owners of the parent declined significantly due to a flipside of the positive impact of the sale of Brasil Kirin recorded last year.

3Q Topics

- Strong sales of new-genre core brands and cost-cutting led to a sharp increase in profits at Kirin Brewery. Steady progress in achieving restoring growth for Kirin Brewery, which was a top priority of the 2016 Mid-Term Business Plan.
- Commenced a sale process of Lion Dairy and Drinks business.
- In September, the company completed the share buy back with total price of 100 billion yen, which was announced in February this year.

bn yen	3Q18 Actual	3Q17 Actual	YonY change	
Revenue	1,420.7	1,355.3	+65.4	+4.8%
Normalized operating profit (OP)* ¹	147.2	149.0	-1.7	-1.1%
Profit before tax	198.7	190.7	+7.9	+4.2%
Profit attributable to owners of the Company	128.9	217.2	-88.2	-40.6%

Includes gain on the sale of shares in Kirin Amgen, etc.

In the previous year, it includes gain on the sale of Brasil Kirin, etc.

*1 Normalized operating profit is an additional indicator for understanding of underlying sustainable performance of the Group. Normalized operating profit = Revenue – (Cost of sales + SG&A expenses)

Quantitative targets

	3Q18 Actual	3Q17 Actual	YonY change	
Normalized EPS (yen) * ²	122	125	-3	-2.4%

*2 See p.11 for details

Financial Indicator

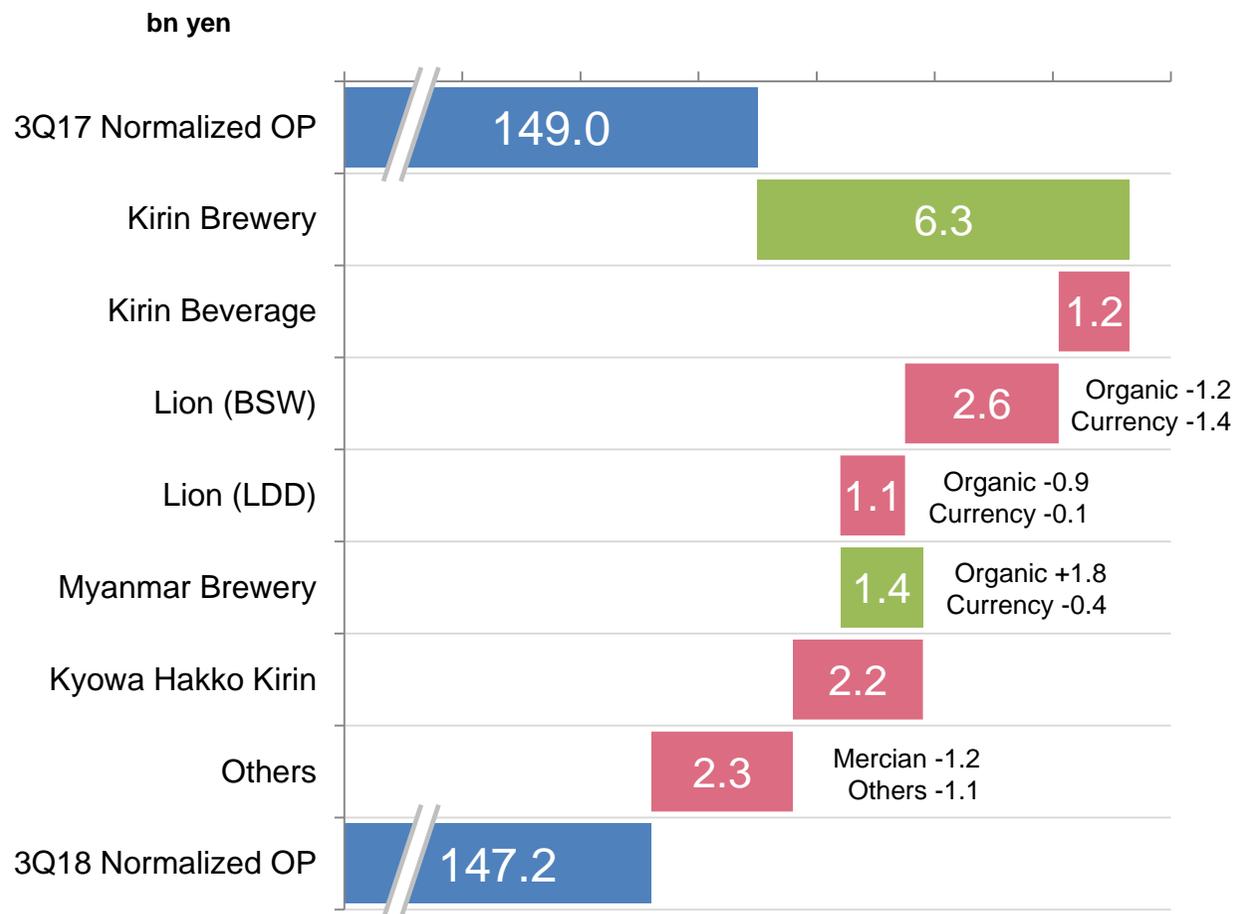
	3Q18 Actual	3Q17 Actual	YonY change	
EPS (yen)	143.25	237.98	-94.73	-39.8%

3Q 2018 Actual Results by Segment

- Revenue +4.8% due to increased sales in Japan and Overseas Integrated Beverages Business.
- Normalized OP -1.1% due to a decline in sales in the Overseas Integrated Beverages and Pharmaceutical & Bio-Chemicals Business despite the strong performance of Japan Integrated Beverages Business.

(bn yen)	3Q18 Actual	3Q17 Actual	YonY change	
				%
Revenue	1,420.7	1,355.3	+65.4	+4.8%
Japan Integrated Beverage Business	795.9	778.6	+17.3	+2.2%
Overseas Integrated Beverage Business	364.0	306.8	+57.2	+18.6%
Pharmaceuticals and Bio-chemicals Business	248.9	256.6	-7.7	-3.0%
Others	11.9	13.3	-1.3	-9.9%
Normalized OP	147.2	149.0	-1.7	-1.1%
Japan Integrated Beverage Business	62.4	59.1	+3.4	+5.7%
Overseas Integrated Beverage Business	42.6	45.6	-3.0	-6.5%
Pharmaceuticals and Bio-chemicals Business	45.6	47.8	-2.2	-4.6%
Others	0.3	0.9	-0.6	-67.8%
Corporate expenses and elimination	-3.7	-4.4	+0.7	-

Changes in normalized OP by Company (vs 3Q 2017)



Description

Kirin Brewery

➤ Higher marginal profit due to increased sales volume of new-genre and RTDs as well as reduced selling expenses.

Kirin Beverage

➤ Deterioration of product/container mix due to decrease in volume of can and increase in large PET.

Lion BSW (Beer, Spirits and Wine)

➤ Profit declined due partly to the impact of the NSW container deposit scheme (CDS) as well as the impact of foreign exchange.

Lion LDD (Lion Dairy & Drinks)

➤ Decline in profit driven predominantly from the challenges in ambient juice, higher energy cost and the impact of the introduction of the NSW CDS, etc.

Myanmar Brewery

➤ Continued sharp increase in sales volume, which fully covered the negative impact of the foreign exchange factors.

Kyowa Hakko Kirin

➤ Profits of domestic pharmaceuticals declined due to the impact of NHI drug price revisions and generic drug penetration.

Others

➤ Mercian's raw material and distribution costs have soared.
➤ -1.1 bn yen from Others includes increased corporate costs of Japan and Oceania and decreased profits of other operations.

Kirin Brewery

Sales volume of beer products +4.7% due to strong sales in new-genre

- Sales of *Honkirin* in the new-genre category were strong despite overall market decline.
- Continue to focus on *Kirin Ichiban* and *Nodogoshi*, and aim for further growth through highly focused marketing.

Honkirin

- Sales of *Honkirin*, launched in March, remained strong.
- Compared with cumulative shipment results for the five months since its launch, it has become the top seller among all new Kirin Brewery products in the past 10 years.
- Strive to achieve the full-year target.



Kirin Ichiban

- Since last year's renewal, sales volume of *Kirin Ichiban* (cans) has increased for 13 consecutive months until August 2018.

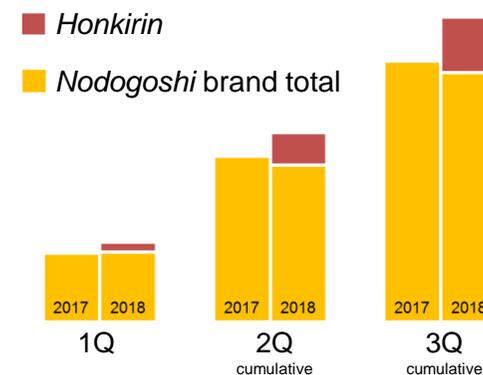


Nodogoshi

- The *Nodogoshi* brand maintained an overwhelming sales volume.



new-genre: Sales volume of core brands



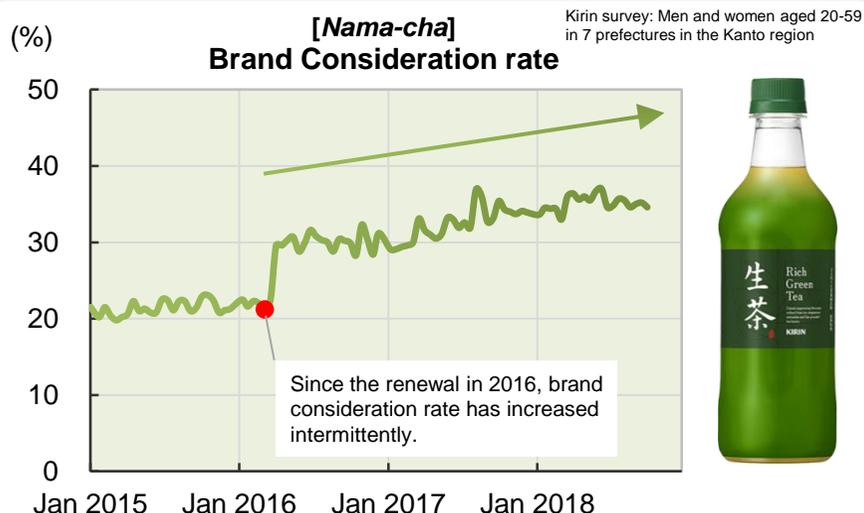
Kirin Beverage

Sales volume increased, but Normalized OP decreased due to deterioration in the mix.

- Mix deteriorated due to a decrease in the composition ratio of cans while ratio of large PETs increased.
- Shipments of some products were suspended and shipping adjustment occurred due to disruption of logistics caused by heavy rain in July in western Japan.

Brand enhancement

- *Nama-cha* is expected to achieve the largest annual sales volume in the past 10 years.
- Brand consideration rate also increased intermittently.



Lion BSW

Strong Craft and Focus Brands performance

- Completed acquisitions of craft breweries Fourpure (UK) and Harrington's (NZ)
- Continued strong performance of Iron Jack and Furphy.
- However the overall market contraction and impact of the NSW CDS resulted in Q3 Revenue and Normalized OP being down on prior year.



+240% +106%

Myanmar Brewery

Strong performance continued. Significant YoY increase due to the effects of the campaign.

- In August and September, the company conducted a campaign for its mainstay Myanmar Beer, marking a significant YoY increase.
- Continue efforts to reduce costs in anticipation of the business environment changes such as soaring raw material costs and the impact of exchange rates.



Kyowa Hakko Kirin

Sales and profits declined, but in line with forecasts.
Share of profit of investments improved.

- › Sales and profits of domestic pharmaceuticals continue to decline due to the impact of NHI drug price revisions and generic drug penetration.
- › Core operating profit* revised up due to progress in the biosimilars business and prospects for improved share of profit (loss) of investments accounted for using equity method.

* Core operating profit = level of profits based on Kyowa Hakko Kirin's index.
Unlike Kirin Holdings' Normalized OP, share of profit of equity-accounted investees are included.

Pipelining

KW-0761

Mogamulizumab

- › Approved in the U.S. Launched in October.
- › Received approval recommendations in Europe.

FKB327

(Adalimumab)*Biosimilars

- › Received regulatory approval in Europe.
- › Initial shipments to Mylan is expected within this year.

**For Nesp®
Authorized generics****

- › Approved in Japan.
- › Scheduled to be launched in 3Q 2019.

**Dalbepoetin Alfa Injection Syringe "KKF"

Note: Since the consolidated Normalized OP of Kirin Holdings does not include equity in earnings of affiliates, the upward revision of the core operating profit forecast does not affect the full-year Normalized OP forecast of Kirin Holdings.

Kirin Brewery

Fresh Hop Fest 2018

- Jointly held by 52 craft brewery companies throughout Japan including Spring Valley Brewery, over 1,000 restaurants, hop producers, and Japan Beer Journalists Association.
- Partnerships with hop producers and local communities will be strengthened in order to continue to support regional revitalization.



"Kirin Ichiban Toretate Hop" with a fresh hop was launched on October 23

Expansion of Tap Marché

- The number of stores with Tap Marché in 2018 exceeded 5,000 as of the end of September.
- In addition to the four-tap server, more space-saving two-tap server are introduced to further expand the craft beer market.



Kirin Beverage

Continue to focus on small containers

- Strengthen sales of products for the winter, mainly for core brands.
- Improve the mix by increasing the percentage of small PET containers.



Lion

Commenced a sale process of LDD

- On completion of the strategic review, it was concluded that a sale of LDD is the best path to set both Lion and LDD up for future growth and to maximize shareholder value.
- Lion will now accelerate its investment in the high-growth global craft beer and premium beverage markets.

Milestone

2018/9/11

- Announced the Strategic Review of LDD.

2018/10/10

- Announced commencement of a sale process of LDD.

Appendices

Normalized EPS

bn yen		3Q18 Actual	3Q17 Actual
Profit attributable to owners of the company	①	128.9	217.2
Profit attributable to non-controlling interests	②	-	81.8
Other operating income/expenses after taxes and other adjustments	③	-19.2	-21.4
Normalized profit	④ = (① - ②) + ③	109.8	114.0
Average number of shares during the period ('000)	⑤	900,008	912,570
Normalized EPS (yen)	④ / ⑤	122	125

3Q Actual Results: Integrated Beverages

bn yen	3Q18 Actual	3Q17 Actual	YonY change	
				%
Japan: Revenue	795.9	778.6	+17.3	+2.2%
Kirin Brewery	492.1	479.4	+12.7	+2.6%
Kirin Beverage	215.0	216.5	-1.5	-0.7%
Mercian	44.3	44.8	-0.5	-1.1%
Other and elimination	44.5	37.8	+6.7	+17.6%
Japan: Normalized OP	62.4	59.1	+3.4	+5.7%
Kirin Brewery	58.6	52.3	+6.3	+12.0%
Kirin Beverage	20.7	21.9	-1.2	-5.6%
Mercian	1.1	2.3	-1.2	-52.9%
Others	-17.9	-17.4	-0.5	-
Overseas: Revenue	364.0	306.8	+57.2	+18.6%
Lion	237.7	249.3	-11.6	-4.6%
Myanmar Brewery	19.8	18.1	+1.7	+9.2%
Other and elimination	106.5	39.4	+67.1	+170.0%
Overseas: Normalized OP	42.6	45.6	-3.0	-6.5%
Lion	31.7	35.9	-4.2	-11.8%
Myanmar Brewery	8.2	6.8	+1.4	+20.7%
Others	2.7	2.8	-0.1	-5.1%

Volume change by category	3Q YoY change	Volume change by brand	3Q YoY change
Beer products total	+5%	<i>Kirin Ichiban</i>	-5%
<i>Beer</i>	-6%	<i>Kirin Tanrei</i>	-7%
<i>Happo-shu</i>	-7%	<i>Kirin Nodogoshi</i>	-4%
<i>New genre</i>	+27%	<i>Kirin Hyoketsu</i>	-1%
RTD	+12%	<i>Kirin Honshibori Chuhai</i>	+12%

bn yen	3Q18 Actual	3Q17 Actual	YoY change	
Revenue	492.1	479.4	+12.7	+2.6%
Revenue excl. liquor tax	287.8	276.9	+10.8	+3.9%
Normalized OP	58.6	52.3	+6.3	+12.0%

3Q17 Normalized OP		52.3	Description
YoY change (bn yen)	Increase in marginal profit of alcohol beverages, etc	+3.1	<ul style="list-style-type: none"> Total beer products +2.0bn, (Sales volume: <i>Beer</i> -26,000kl, <i>Happo-shu</i> -25,000kl, <i>new-genre</i> +107,000kl), Others +1.6bn (Sales volume: RTD +27,000kl, non-alcohol beverages -2,000kl) Difference of change in composite of products, etc -0.6bn
	Decrease in raw material costs	+0.6	
	Decrease in selling expenses	+3.8	Decrease in sales promotion expenses +5.4bn, increase in advertising expenses -1.6bn, Total 51.8 → 48.0bn
	Increase in other expenses	-1.2	Increase in supplies expenses, increase in electric cost and fuel cost, etc.
Total		+6.3	
3Q18 Normalized OP		58.6	

Beer market

- ▶ Beer market in 3Q is estimated at -2.6% YoY.
- ▶ Despite the positive impact from favorable weather, other factors such as ongoing contraction of the market, the revision of the Liquor Tax Law etc in last year, and the revision of prices for returnable containers negatively impacted the beer market.

Kirin Brewery

Sales volume

- ▶ Total beer sales +5% driven by new-genre *Honkirin* launched in March despite overall market decline.
- ▶ In RTDs, sales of *Hon-Shibori* increased significantly, and sales of *KIRIN The STRONG* launched in April were favorable. As a result, total RTDs increased by 12%.

Supplemental information

- ▶ Marginal profit increased due to increased sales volume of beer products and RTDs. Decrease in sales promotion expenses due to reduction of number of campaigns, etc.

3Q Results - Japan Integrated Beverages - Kirin Beverage



Sales volume (10,000 cases)		3Q18 Actual	3Q17 Actual	YoY change
Category	Black tea	3,707	3,823	-3.0%
	Japanese tea	2,643	2,378	+11.2%
	Coffee	1,896	2,186	-13.3%
	Fruit and vegetable juice	1,982	1,916	+3.4%
	Carbonated beverage	1,682	1,699	-1.0%
	Functional beverage	1,015	831	+22.1%
	Water	3,350	3,086	+8.5%
	Other	1,460	1,399	+4.3%
Container type	Can	2,601	2,863	-9.2%
	Large PET bottle	6,117	5,852	+4.5%
	Small PET bottle	7,312	6,985	+4.7%
	Other	1,705	1,618	+5.3%
Total		17,735	17,318	+2.4%

Revenue (bn yen)	215.0	216.5	-1.5	-0.7%
Normalized OP (bn yen)	20.7	21.9	-1.2	-5.6%

3Q17 Normalized OP		21.9	Description
YoY change (bn yen)	Decrease in marginal profit of soft drink beverages	-2.4	Increase in sales volume +2.1bn yen(+4.17 million cases) Difference of change in products mix and in composition ratio of containers, etc -4.5bn yen
	Decrease in raw material cost, etc.	+0.6	Decrease in raw material cost +0.4bn yen, increase in material cost -0.4bn yen, decrease in processing +0.7bn yen
	Decrease in selling expenses	+0.9	Decrease in sales promotion +0.4bn yen, decrease in advertising +0.5bn yen (Total 26.3bn → 25.4bn)
	Increase in other expenses	-0.3	Increase in depreciation of vending machines, etc.
Total		-1.2	
3Q18 Normalized OP		20.7	

Soft drinks market

- ▶ Soft drink market in 3Q is estimated at +2% YoY.

Kirin Beverage

Sales Volume

- ▶ Soft drinks (total) +2.4%.
- ▶ Some brands did not reach the plan however ones such as *Nama-cha* and *Kirin Lemon* remained strong.
- ▶ Steady growth on Water and Sports drink due to favorable weather. Aim to recover *FIRE* by its renewal in October.

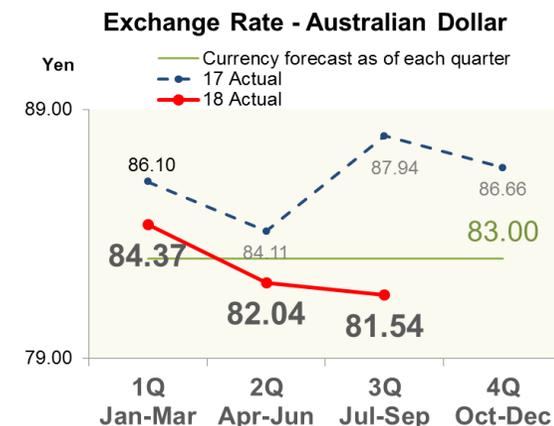
Performance

- ▶ Normalized OP increased in 3Q period (three months) despite an adverse impact from product mix.

3Q Results - Overseas Integrated Beverages - Lion



	Yen base (bn yen)				A\$ base (million A\$)			
	3Q18 Actual	3Q17 Actual	YoY change		3Q18 Actual	3Q17 Actual	YoY change	
Revenue	237.7	249.3	-11.6	-4.6%	2,876	2,897	-21	-0.7%
BSW	129.6	136.5	-7.0	-5.1%	1,567	1,586	-20	-1.2%
LDD	108.2	112.8	-4.6	-4.1%	1,309	1,310	-2	-0.1%
Normalized OP	31.7	35.9	-4.2	-11.8%	383	417	-34	-8.1%
BSW	34.5	37.1	-2.6	-7.1%	417	431	-14	-3.2%
LDD	2.4	3.5	-1.1	-30.4%	30	40	-11	-27.0%
Corporate	-5.2	-4.7	-0.6	-	-63	-54	-9	-



Lion's currency is calculated by accumulating the average rate for each of the three months.

	BSW	LDD
Change in Sales volume	-1.3%	-3.3%

Changes in normalized OP (A\$ m)	3Q 2017	
	Sales volume Change	431
Others	-16	-14
3Q 2018	+2	+3
	417	30

Description

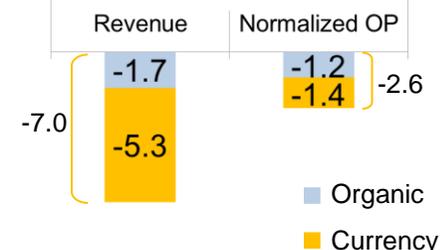
Lion - BSW

- ▶ Small decline in revenue YoY. Decreased sales from overall market decline and the effect of the NSW CDS* was offset by strong performance of focus brands.
- ▶ Normalized OP declined due to the overall market contraction, the impact of the NSW CDS and some disruption due to implementation of ERP in NZ.

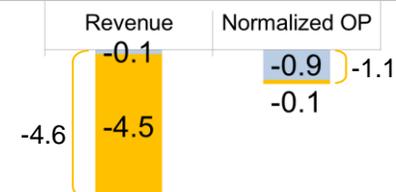
Lion - LDD

- ▶ Sales volumes in milk-based beverages and yoghurt which are among LDD's higher margin products continue to grow.
- ▶ Decline in Normalized OP driven predominantly from the challenges in ambient juice, higher energy cost and the impact of the introduction of the NSW CDS.
- ▶ Dairy supply chain has been under pressure from Australia's large-scale drought resulting in unexpected costs.

Impact of Currency BSW (bn yen)



Impact of Currency LDD (bn yen)

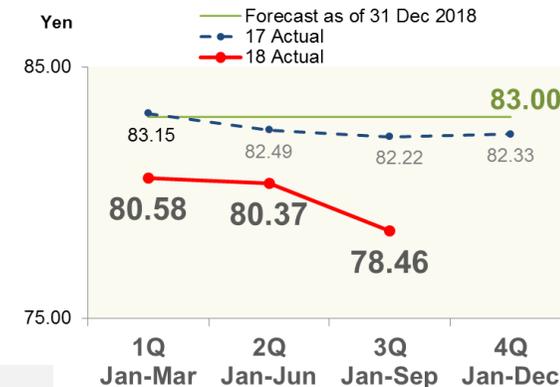


*CDS: Container Deposit Scheme

	Yen base (bn yen)			
	3Q18 Actual	3Q17 Actual	YoY change	
Revenue	19.8	18.1	+1.7	+9.2%
Normalized OP	8.2	6.8	+1.4	+20.7%

	Kyat base (bn MMK)			
	3Q18 Actual	3Q17 Actual	YoY change	
Revenue	252	220	+32	+14.4%
Normalized OP	105	83	+22	+26.5%

Exchange Rate - 1,000 Myanmar Kyat



Beer market

- Continued to grow at a rate in the high single digit.

Myanmar Brewery

	YoY
Sales volume	+16.0%

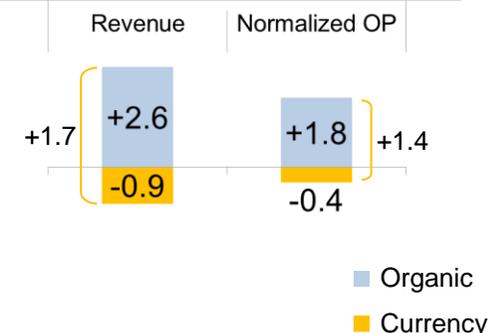
Sales volume

- In addition to the upward trend up to 2Q, a focused brand Myanmar Beer performed strongly.
- This upward trend is expected to settle down slightly for the full fiscal year due to differences in the timing of campaigns.

Supplemental information

- While Myanmar Beer steadily achieved its targets, Andaman Gold performed better than expected as economy category market sales continued to grow.
- Increase in marginal profit due to the increase in sales volume offset the negative impact from mix deterioration.
- In addition to the increase in sales volume, profit increased significantly due to the difference in the timing of the investment of selling expenses.

Impact of Currency Myanmar Brewery



bn yen	3Q18 Actual	3Q17 Actual	YoY change	
Revenue	248.9	256.6	-7.7	-3.0%
Kyowa Hakko Kirin	254.5	261.8	-7.4	-2.8%
Pharmaceuticals	196.9	202.3	-5.4	-2.7%
Bio-chemicals	57.5	59.5	-2.0	-3.4%
Other and elimination	-5.5	-5.2	-0.3	-
Normalized OP	45.6	47.8	-2.2	-4.6%
Kyowa Hakko Kirin	45.6	47.8	-2.2	-4.6%
Pharmaceuticals	39.2	42.4	-3.1	-7.4%
Bio-chemicals	6.0	5.2	+0.8	+16.4%
Others	0.4	0.3	+0.1	+36.1%

Kyowa Hakko Kirin

Revenue

- Overseas pharmaceuticals sales increased due to penetration of global strategic products.
- Overall sales in pharmaceuticals business decreased due to exclusion of Kyowa Medex from consolidation and decline in domestic pharmaceuticals sales due to NHI drug price revisions in April.
- In Bio-Chemicals business, sales decreased due to the impact of transfer of the plant growth regulator business in the previous year.

Normalized OP

- Lower Normalized OP YoY due to decreased sales and higher SG&A expenses associated with preparations for the launch of new products overseas.
- In Bio-Chemicals business, Normalized OP increased due to cost reductions from shifting production to overseas and improvements in the product mix.

KIRIN

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