

# KIRIN



## KIRIN CSV REPORT 2019

Kirin Holdings Company, Limited

Corporate slogan

# Joy brings us together



Joy brings us together

This phrase captures the Kirin Group's spirit, guiding us into the future.

We believe that no matter how much the world may change, the joy of living a full and healthy life, in mind and body, brings us happiness – for ourselves, for those we love, and for the whole society.

Joy is the essence of what holds people and society together.

Joy inspires us and generates positivity.

The joy of healthy living. The joy of living in harmony with our local communities.

The joy of connecting with other people.

Kirin promises to keep working to spread the benefits of joy.

### About the legendary *kirin*

*The KIRIN* is a mythical creature that was thought to bring happiness and good fortune to people. According to ancient Chinese myths, *the KIRIN* was believed to appear during blessed occasions.

It was portrayed as a merciful animal that could fly, keeping its feet off the ground to avoid stepping on insects and grass.

*The KIRIN* was also regarded as a symbol of the joy that comes with peaceful and tranquil times.

Since first appearing on the Kirin Beer label in 1888, this image of *a KIRIN* has been featured on Kirin products for over 130 years, expressing the Company's hope to enrich people's lives.

Inspired by this symbol, all members of the Kirin Group will strive to continue bringing happiness and joy to customers in the years to come.



## CONTENTS

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- 1 Corporate slogan
  - 4 Editorial Policy/Publications available on Kirin's global website
- 
- 5 Past and Present
  - 9 New Approach to Business
- 

### Path to Sustainable Growth

- 11 Message from Top Management
- 17 Value Creation Model
- 19 Interview with the Chief Financial Officer
- 22 Financial and Non-Financial Highlights
- 23 Strengthening Our Non-Financial Assets



### The Stories behind Kirin's Commitment to Creating Shared Value

- 31 Kirin Group CSV Purpose and CSV Commitment
  - 33 **Case1 Health and Well-being:** Improving quality of life of patients around the world
  - 35 **Case2 Health and Well-being:** Leveraging technological assets to provide functional ingredients that contribute to health
  - 37 **Case3 Community Engagement:** Aiming to boost sales of *Château Mercian* in collaboration with grape-growing communities
  - 39 **Case4 The Environment:** Reducing GHG emissions by 36% and annual fuel costs by 1 billion yen through a switchover to electricity
  - 41 **Case5 A Responsible Alcohol Producer:** Shaping a positive drinking culture that brings people together in Australia and New Zealand
- 

### Advances in Each Businesses and Risk Management

- 43 Fiscal 2018 Segment and Business Overview
  - 45 Fiscal 2019 Market Conditions and Strategies by Segment
  - 50 Risk Management
- 

### Corporate Governance

- 53 Discussion with Management
- 57 Evolution of the Corporate Governance System
- 58 Corporate Governance Systems
- 59 Directors, Audit & Supervisory Board Members, and Executive Officers
- 61 Interview with the Outside Auditor
- 63 Enhancing Management Effectiveness



### Financial Information

- 67 Management Analysis of Financial Position, Operating Results, and Cash Flows
- 
- 73 Investor Information/Company Information
- 
- 74 Third-Party Evaluations

## Editorial Policy

Aiming to become a global leader in creating shared value (CSV), the Kirin Group is striving to create value in business domains spanning from food & beverages to pharmaceuticals under its long-term management vision, Kirin Group Vision 2027, now in its first year in 2019. To signal its new direction toward achieving this goal, Kirin Holdings changed the name of its annually published integrated report to Kirin CSV Report. In this year's report, Kirin Group Vision

2027 and the new 2019 – 2021 Medium-Term Business Plan are explained in detail by the CEO and CFO of Kirin Holdings. The report also features the Group's model for creating value, which incorporates the new vision and Kirin's unique strengths, along with its long history and current areas of operations around the world. Readers are invited to make use of this report to gain a better understanding of the Kirin Group's new path forward.

## Publications available on Kirin's global website

Kirin's global website offers a wide range of clearly presented information for stakeholders, including integrated reports published annually, data books, and reports covering environmental initiatives, corporate governance, and financial results. For detailed information about financial results, ESG-related data, and other aspects of the Kirin Group's performance, please refer to the following publications and webpages.

### CSV Report 2019

Published in July 2019



This entire booklet version of this CSV Report is also available on Kirin's website, along with integrated reports published in previous years, all featuring financial and non-financial results, as well as initiatives taken every year to increase corporate value.

<https://www.kirinholdings.co.jp/english/ir/library/integrated/>



### ESG Data webpage

Periodically updated

The webpage shows various annual results related to environmental, social, and governance criteria.

[https://www.kirinholdings.co.jp/english/csv/esg\\_gri/](https://www.kirinholdings.co.jp/english/csv/esg_gri/)



### 2019 – 2021 Medium-Term Business Plan webpage

Published in February 2019

The webpage features the 2019 – 2021 Medium-Term Business Plan, a Group's first three-year plan focused on realizing the Kirin Group Vision 2027 long-term management vision.

<https://www.kirinholdings.co.jp/english/ir/policy/medium.html>



### Environmental Report 2019

Scheduled for publication in July 2019

The report details the Kirin Group's annual environmental activities as well as unique business-driven initiatives. It presents the Kirin Group's annual environmental activities and how it makes use of the unique characteristics of its businesses in environmental initiatives.

<https://www.kirinholdings.co.jp/english/csv/report/env/>



### Corporate Governance Report

Published in April 2019

The report provides information on the Group's approach to and system of corporate governance, maintained in compliance with the Corporate Governance Code of Japan.

[https://www.kirinholdings.co.jp/english/ir/governance/pdf/e\\_governance\\_report.pdf](https://www.kirinholdings.co.jp/english/ir/governance/pdf/e_governance_report.pdf)



### Data Book

Periodically updated

The book presents financial results for the past 11 years along with data associated with each market the Group operates in, information on the Group's pharmaceutical development pipeline, and other important information.

<https://www.kirinholdings.co.jp/english/ir/library/integrated/>



### Consolidated Financial Statements

Published on March 31, 2019

Compiled in accordance with Article 24-1 of the Financial Instruments and Exchange Act of Japan, the report includes Kirin Holding's financial statements along with an overview of its recent performance, business results, facilities, and operations.

<https://pdf.irpocket.com/C2503/szUc/YyaT/xmRj.pdf>



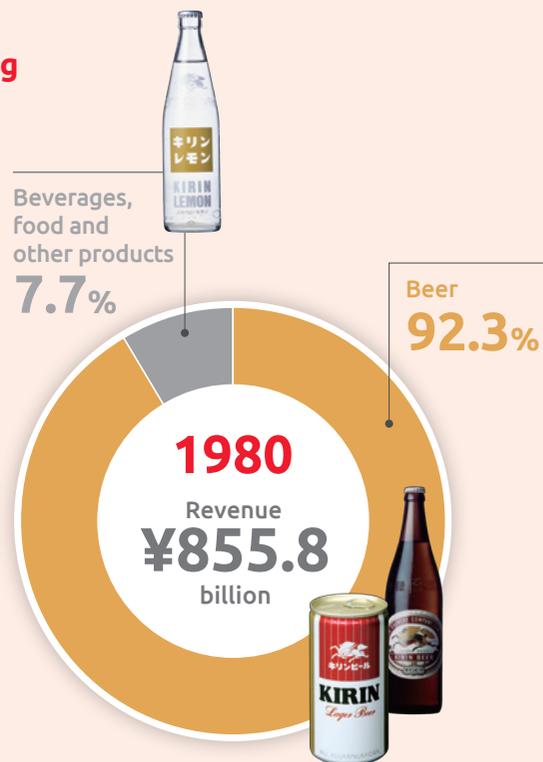
### Cautionary statement regarding forward-looking statements

Statements in this report that are not historical facts are forward-looking statements based on plans and expectations for the future. Accordingly, these forward-looking statements are subject to risks, uncertainties and other unpredictable factors, and may differ considerably from actual results, business performance, and other future events. In addition, forecasts of fiscal 2019 financial results were decided as of the disclosure of financial results on February 14, 2019.

# Creating an optimal business portfolio in response to changes in the operating environment

## Building a unique business portfolio spanning from Food & Beverages to Pharmaceuticals

The Kirin Group has been able to flexibly adapt to changes in society and the marketplace throughout its history. In the 1950s, when demand for beer was on the rise in Japan in tandem with the country's rapid economic growth, Kirin Brewery Co., Ltd., succeeded in greatly expanding its beer production, sales, and shipments. By 1972, the company had secured a domestic market share of about 60% for Kirin brand beer, produced by its network of 12 breweries nationwide. Leveraging its ability to adapt and respond to new market trends and consumer needs, the Group established Kirin Beverage Company, Ltd., in 1963, which went on to expand the soft drink business. Then in 1972, the Group launched its whiskey business with the establishment of the forerunner to Kirin Distillery Co., Ltd. Later, the Kirin Group created its first long-term management vision in 1981, through which it set clear goals for continuous growth and proceeded to further diversify its business portfolio. Diversification included entry into the life sciences market, which was projected to grow over the medium and long terms, leading to the establishment of Kyowa Hakko Kirin Co., Ltd., in 2008. Through this steady expansion, the Kirin Group has continued to offer new value to consumers while building a unique business portfolio spanning from beverages to pharmaceuticals.



## Kirin Brewery Company founded in 1907 amid intense competition in Japan's beer industry

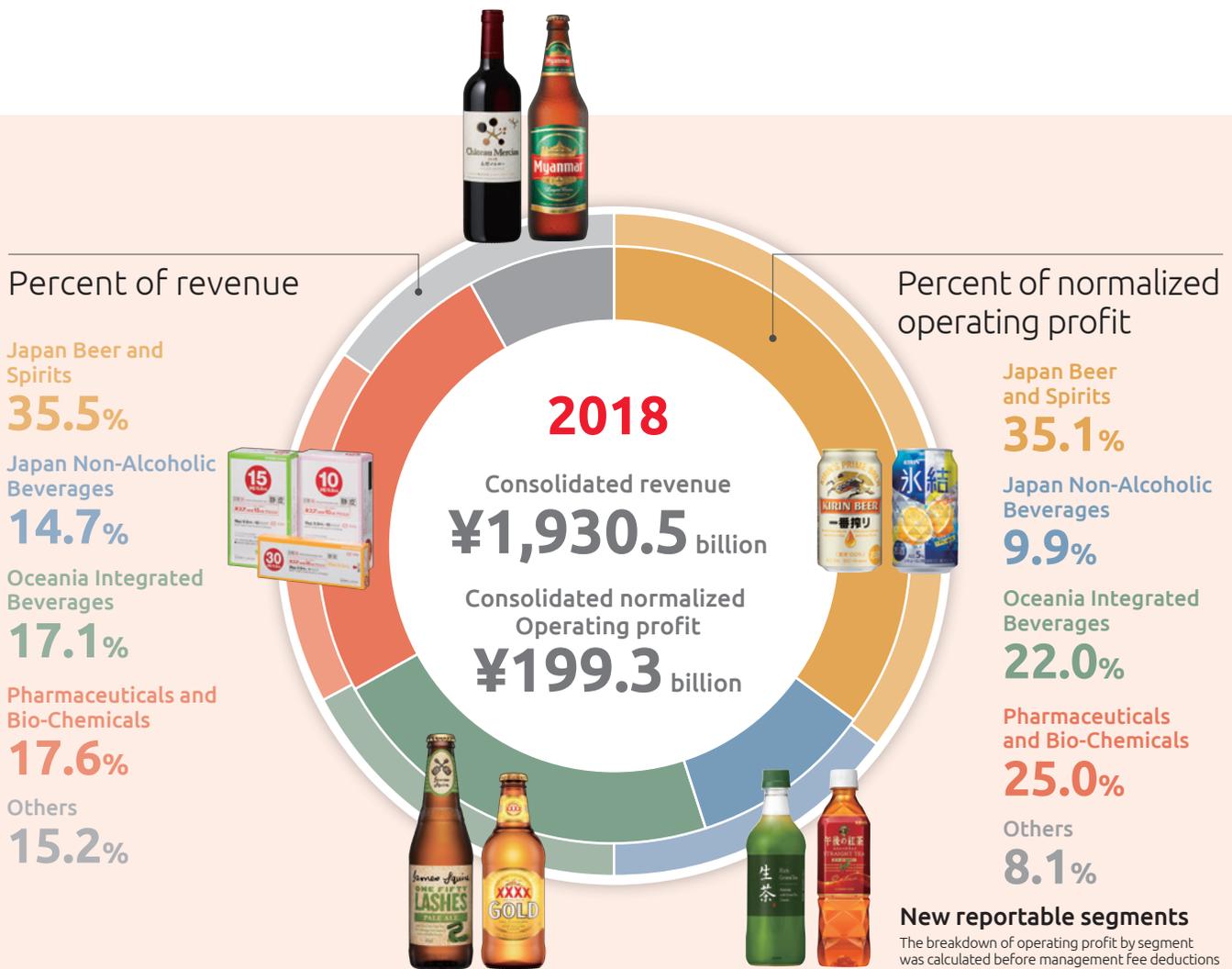
Japan Brewery Co., Ltd., was set up in 1885 by a number of foreign residents in Yokohama's Yamate district, who envisioned great promise for a beer industry in Japan. To produce a genuine German-style beer that suited the tastes of Japanese consumers, they imported ingredients and brewing equipment from Germany and hired a qualified German brewmaster. *Kirin Beer* was sold in 1888 with a label featuring a *kirin*, a legendary creature from ancient



Chinese myths that is said to be a harbinger of good luck. When Japan's beer industry entered a time of intense competition after the turn of the century, a group representing the Iwasaki family and the companies Mitsubishi and Meidi-Ya took over Japan Brewery and, while leaving the brewery's operations intact, established Kirin Brewery Company in 1907.



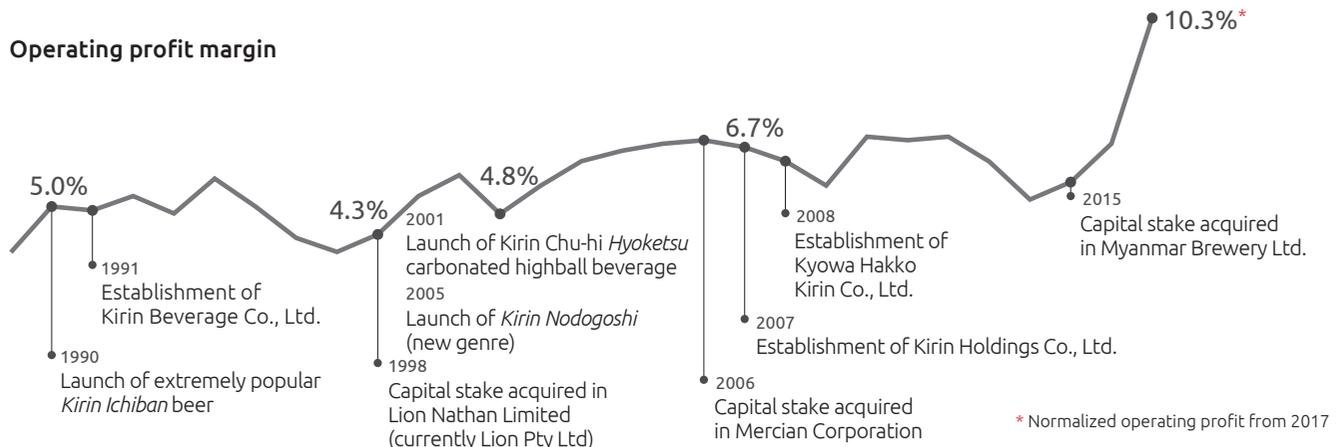
One year after the product launch, the original label of *Kirin Beer* was redesigned as this label in 1889, which features a larger image of the kirin. This label remains as the prototype for the *Kirin Lager Beer* label used today.



**New reportable segments**

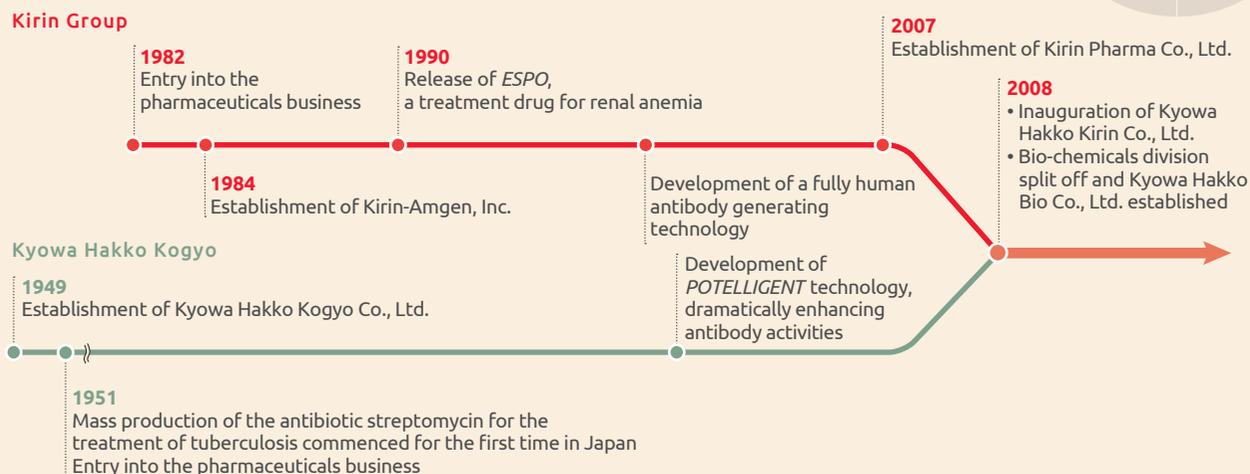
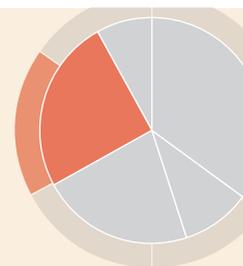
The breakdown of operating profit by segment was calculated before management fee deductions equivalent to an amount excluding company-wide expenses and intersegment eliminations (amounting to approximately ¥36.3 billion).

Refer to page 44



In focus

A wealth of technologies applied to strengthen pharmaceuticals and bio-chemicals businesses



Drawing on bio-technology to break into the pharmaceutical business

In 1981, as part of its first long-term management vision, the Kirin Group set out to expand its business into style-, health-, and culture-related markets, and to contribute to people’s quality of life through its products, especially beer, in the lifestyle industry. By proactively promoting more diversified operations, the Group worked to create a more balanced business portfolio that was less reliant on its beer business, and forged a clear roadmap for improving profitability.

Guided by its long-term management vision, the Group stepped up efforts to launch new businesses utilizing its expertise in bio-technology, which was accumulated over many years in fermentation and cell cultivation operations. Leveraging those technological capabilities, the Group made advances in drug development, for which market growth was projected over the medium to long terms, and further expands into the life sciences market.

**ESPO® launched as the first pharmaceutical product through a mutually beneficial partnership with U.S.-based Amgen**

The Group made a major step forward in its efforts to expand the pharmaceutical business in 1984, when it formed a partnership with the U.S.-based biotech company Amgen, Inc., a venture firm at that time. Combining Amgen’s leading R&D capabilities with Kirin’s manufacturing techniques, the partnership succeeded in mass producing human erythropoietin. That led to the launch of their first pharmaceutical product in 1990: *ESPO®*, a treatment drug mainly for renal

anemia. Incredibly, the drug was commercialized after only six years since forming the partnership, demonstrating Kirin’s entrepreneurial spirit and achievement for well-collaborated work with the partner.

On the momentum of that success, the Group continued to apply its bio-technologies in drug discovery and development. Its pharmaceutical business expanded as a result, and accounted for about 10% of consolidated operating profit in 2007.

**Accelerating outstanding growth in the pharmaceuticals business and cultivating new businesses bridging Pharmaceuticals and Food & Beverages**

In 2007, Kirin Pharma Co., Ltd., was established following the Group’s adoption of a pure holding company framework and establishment of Kirin Holdings Co., Ltd. Kirin Pharma then merged with Kyowa Hakko Kogyo Co., Ltd., in 2008 to form Kyowa Hakko Kirin Co., Ltd., and has been creating new pharmaceuticals by leveraging the synergies of the two companies’ antibody- and bio-related technologies. One of the accomplishments of this business came in

2018 with the approval and launch of *Crysvita*, a treatment drug for X-linked hypophosphatemia, in Europe and the United States. Guided by Kirin Group Vision 2027, Kyowa Hakko Kirin is aiming to take the next major step toward becoming a global specialty pharmaceutical company, while the Group is working to cultivate new businesses bridging Pharmaceuticals and Food & Beverages.



## Expanding globally through mergers and acquisitions

The Kirin Group has been expanding its operations internationally by actively pursuing mergers and acquisitions, focusing on Asia and Oceania in particular as key markets. Subsidiaries around the world are now helping drive the Group's growth as a whole, including Lion Pty Ltd, an operator of

alcoholic and non-alcoholic beverages businesses in Australia, and Myanmar Brewery Ltd. Meanwhile, Kyowa Hakko Kirin is striving to develop global pharmaceuticals by drawing on a wealth of bio-technologies.

### The Kirin Group around the world

- Alcoholic and non-alcoholic beverages businesses
- Pharmaceuticals and bio-chemicals businesses



\* Company consolidated under the equity method



The Kirin Group's Corporate Philosophy has evolved to reflect its new long-term management vision

### **The Kirin Group's Corporate Philosophy**

KIRIN brings joy to society by crafting food and healthcare products inspired by the blessings of nature and the insights of our customers.

### **2027 Vision**

A global leader in CSV, creating value across our world of Food & Beverages to Pharmaceuticals

### **"One KIRIN" Values**

#### **Passion**

Our determination to continuously provide our customers and society with new value propositions based on innovative ideas, and our enthusiasm to meet goals with pride in the companies we work for and the brands we offer.

#### **Integrity**

Our gratitude to our stakeholders for always helping us move forward, and our promise to remain honest and humble in every business activity to serve them better.

#### **Diversity**

Our respect for different perspectives and values that enable constructive discussions, and our belief that the "differences" have the power to change the world and create better solutions.

Joy brings us together



Note: Underlined sections have been added or revised from the previous approach to business

## Educating employees about the Kirin Group's new approach to business

The Kirin Group is committed to helping communities take on challenges and creating new value for them in the process as it works to bolster its alcoholic and non-alcoholic beverages business, pharmaceuticals and bio-chemicals businesses, and businesses bridging Pharmaceuticals and Food & Beverages. In February 2019, the Group formulated the Kirin Group Vision 2027 as a long-term management vision with the goal of making progress toward becoming a global leader in creating shared value (CSV). It also created a new mission state-

ment to express its basic management concept of creating new value to stakeholders in and outside the Group. Finally, the Group created a new corporate slogan, "Joy brings us together," to simply convey its fundamental business approach to customers and the public.

On the momentum of these initiatives, all members of the Kirin Group—numbering 30,464 worldwide—are set to put the concept of CSV into practice while striving for sustainable growth going forward.

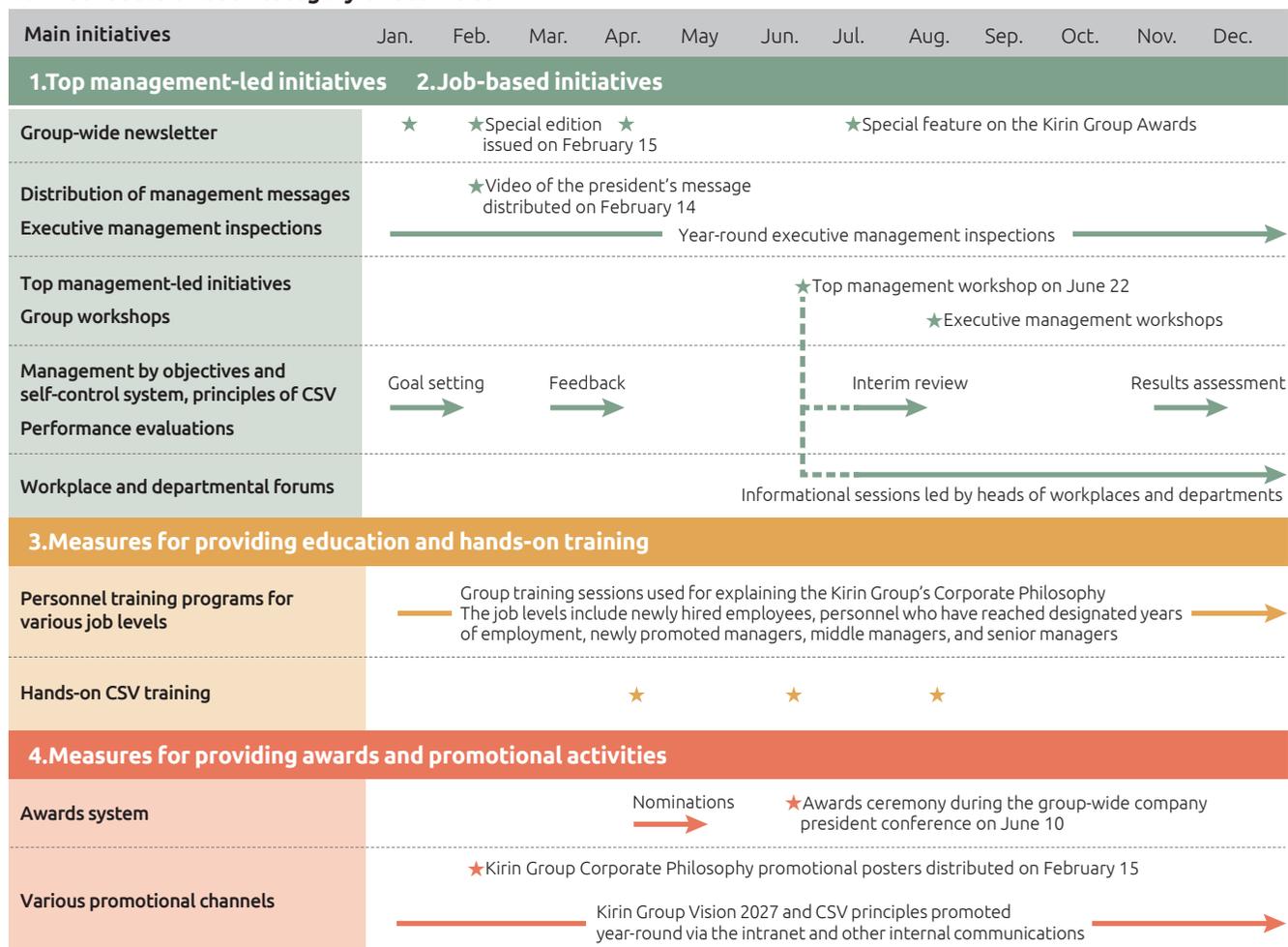
### Four initiatives launched to raise awareness and guide the actions of employees

The Kirin Group recognizes that to become a global leader in CSV, it will be vital to raise awareness of the basic concept and principles of CSV among employees, and provide guidance so that they can perform their responsibility of putting CSV into practice. Therefore, the Group has launched an educational campaign based on four categories of activities: top management-led initiatives, job-based initiatives, education and hands-on training programs, and awards and promotional activities. These steps were taken to create an environment in

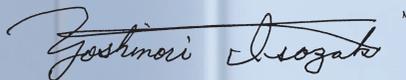
which employees understand the importance of the concept and principles of CSV, and incorporate them into their own work. At the same time, the activities provide a basis for evaluating the performance of employees and paving the way for their actions in the future.

Each of the four types of activities will be reviewed through a plan-do-check-act cycle, and the extent to which the CSV concept is practiced in the workplace will be periodically assessed using employee questionnaires.

### 2019 schedule of each category of activities



Revitalization ignites growth – creating economic and social value in Kirin’s unique portfolio of food to pharmaceuticals



President & CEO



A video presentation of the Message from Top Management is accessible via QR code.



## Progressive revitalization of the Kirin Group through structural reforms raises cash flow in existing domains while strengthening financial base

The Kirin Group attained all quantitative targets of the 2016 Medium-Term Business Plan (MTBP) ending December 2018 which sought group revitalization through structural reforms.

When I was appointed to the position of CEO in 2015 the Group faced many challenges. Domestic sales of beer and beverages were sluggish, and Brasil Kirin and Lion Dairy & Drinks of Australia had structural issues. Our share price was depressed as investors noted our record of missed targets for the then-current MTBP.

In formulating the 2016 MTBP we selected three key issues based on our decision that revitalization required a single-minded focus on raising profitability.

The first was to “invest, strengthen and grow the profit base” of our beer business. Here we placed the highest priority on restimulating growth in the Group’s core, our Japan beer business. Second was to “invest to achieve outstanding growth” in our pharmaceuticals and bio-chemicals businesses. Centered on Kyowa Hakko Kirin (KHK), these businesses’ potential as growth drivers was already recognized, though we had not yet clearly positioned them as core businesses. Given that these initiatives began in the 1980s, however, the time had come to make their centrality official and promote them to core status alongside alcoholic and non-alcoholic beverages. Third and lastly was the task of restructuring and revitalizing low-profit businesses. Regarding these we took the decisive position that if a low-profit business did not achieve revitalization then we would sell it and withdraw from that domain. This would remove any temptation to try again, which would only hinder our major push in structural reforms.

To pursue such a rigorous plan required motivating and

aligning each and every employee toward our common goal. Through Group-wide communication and face-to-face conversations we drove home the fact that without following through on structural reforms the Group’s future was dire. We also enhanced organizational competencies by filling leadership positions with talent from our own ranks and from outside the Group. This was particularly true in Marketing where we greatly improved our organizational capabilities.

Our business situation could not wait. We faced issues not envisioned in the 2016 MTBP. Lion had no choice but to end its beer distribution agreement in Australia for international premium brands. Sales of *Nodogoshi*, our new-genre beer brand slowed since the launch of the 2016 MTBP. One investor said, “You became CEO because you were capable of tackling many issues at once.” Speed was of the essence as I demanded results and regularly discussed strategy with Group companies while pursuing structural reforms.

Every Group company and employee did their best to achieve results regardless of which issues they grappled with. By overcoming these difficult obstacles our organizations and employees gained experience and self-confidence which will reinforce performance in a virtuous cycle. Certainly, this will boost their ability to take successful action going forward.

We sold off Brasil Kirin and decided we would divest ourselves of Lion Dairy & Drinks business as well. This became possible only because our rapid structural reforms restored profitability so quickly. The other businesses surpassed their 2018 guidance, and cash flow of our existing businesses is on a solid footing. Decisively liquidating non-core assets generated free cash flow greatly exceeding the projections upon which 2016 MTBP was premised. Besides putting our financial affairs on a firm foundation, this also allowed us to repurchase our own shares valued at about 100 billion yen.

### Review of 2016 Medium-Term Business Plan Reached all targets

| Indicator                  | Target         | Result    |
|----------------------------|----------------|-----------|
| ROE                        | 15% plus       | 17.5%     |
| Normalized EPS             | CAGR +6% plus  | +12.6%    |
| Consolidated Normalized OP | ¥196.0 bn plus | ¥199.3 bn |

## Message from Top Management

### New long-term management vision for sustainable growth

Our alcoholic and non-alcoholic beverages businesses have become an unshakable foundation, and our pharmaceuticals and bio-chemicals businesses are ready to achieve outstanding growth. The question on the lips of investors is “How do you propose to pursue growth now that revitalization has been accomplished?” To provide clear answers we have formulated in 2019 a new growth-oriented long-term management plan, Kirin Group Vision 2027.

What kind of world will we inhabit in the future? No one really knows. All we can say with confidence is that we are entering an age of increasing uncertainty.

Businesses of all kinds already feel the effects of Japan’s dwindling population and workforce shortage. The very structure of industry is being transformed with the accelerating pace of technological innovation. The Kirin Group’s business development faces such factors as rising awareness of alcohol-

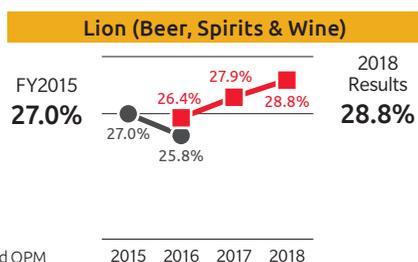
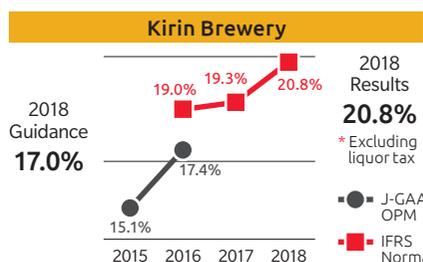
related health risks, pressure for a “sugar tax” on soft drinks, and regulatory efforts to rein in medical costs.

Though our current businesses may be buffeted by these winds of change, the new environment presents fresh opportunities for growth. Since we can expect our existing businesses to generate sufficient cash flow, now is the time to take a long-term view toward building a business portfolio targeting sustainable growth.

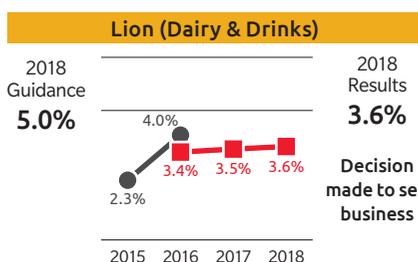
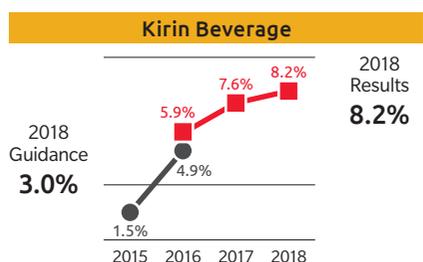
The Kirin Group has an unusual portfolio comprising the strong core businesses of alcoholic beverages and non-alcoholic beverages, together with pharmaceuticals and bio-chemicals. Moreover, we have proven our ability to create innovative products and services by leveraging the technologies that are our strengths. In Kirin Group Vision 2027 we envision ourselves in 2027 as being a global leader in CSV, creating value across our world of Food & Beverages to Pharmaceuticals. Since adopting CSV in 2013 we aim to achieve sustainable growth by working through our businesses to help resolve social issues. In short, we always

## 2016 MTBP performance by business

### 1. Beer business: Invest, strengthen and grow the profit base



### 2. Low-profit businesses: Restructure, revitalize



### 3. Pharmaceuticals & Bio-chemicals businesses: Invest to achieve outstanding growth

**Kyowa Hakko Kirin**

Launched global products, *Crysvita* in Europe and the US, *Poteligeo* in the US

strive to create economic and social value at the same time. Sustainable growth is simply unattainable through an approach that makes trade-offs in putting profit above all else. To the contrary, by seeing social issues as new growth opportunities and thereby growing in step with society, CSV is the one beacon lighting the path to sustainable growth in this age of uncertainty.

From a risk standpoint taking our core alcoholic beverages business as an example, WHO is considering regulations regarding alcoholic beverage sales on a global scale. This would have an increasingly significant effect. It means that growth is premised on winning the support of not only consumers of alcoholic beverages but also non-drinkers.

For growth to continue into the future we must become a Group that enjoys the support of future generations as well as that of current stakeholders. Taking on social and environmental issues to mitigate future burdens is a vital element in staying attractive to the generations of tomorrow.

To align everyone in the Group with the CSV approach, we reformulated our Corporate Philosophy and set CSV long-term and non-financial targets as our CSV Purpose. Our philosophy now incorporates the words “KIRIN brings joy to society” to stress our commitment to achieving growth with society. The initiatives we will take in pursuit of our CSV Purpose are laid out in our CSV Commitments, as part of our business plan.

Recognizing our responsibility as an alcoholic beverages manufacturer, we are committed to the three major areas of health and well-being, community engagement, and the

environment. While taking quick action to mitigate risk, we will execute three growth scenarios.

First, in the food & beverages domain of alcoholic and non-alcoholic beverages we will strengthen our brands and solidify our profit base to withstand changes in the business environment. At the same time we will pursue emerging growth opportunities where we can put CSV into practice.

Second, in pharmaceuticals domain we are enhancing our marketing capabilities and expanding distribution of global products to deliver new treatments to patients around the world. In this way we are steadily progressing in our leap to become a global specialty pharmaceutical company (GSP).

Third, we are exploiting opportunities to establish future-oriented businesses bridging Pharmaceuticals and Food & Beverages.

Why are we expanding into this area? Wellness is a social issue not only in Japan but worldwide. Japan is a hyperaging society where a 100-year lifespan is not unusual. The population of “active seniors” who hope to maintain their health regardless of age is only increasing. Meanwhile, the younger generations’ interest in wellness is also growing much stronger. Providing services and products that support people’s well-being enhances the quality of life. This initiative also helps constrain burgeoning medical and social security costs while bringing sorely-needed people into the workforce. These are extremely valuable outcomes from a social-issues perspective.

Leveraging the resources of the Kirin Group with our strengths covering food to pharmaceuticals, we can answer wellness needs unmet by current medical and nutritional

## KV2027 and its first stage 2019 MTBP

### Goals for 2027

- Construct a business portfolio capable of sustainable growth
- Strengthen organizational capabilities for innovation to transform social issues into growth opportunities for the Group

### Goals for 2019-2021

- Grow profit from existing businesses (Food & Beverages, Pharmaceuticals)
- Establish and foster new businesses bridging Pharmaceuticals and Food & Beverages

### 2027 Vision

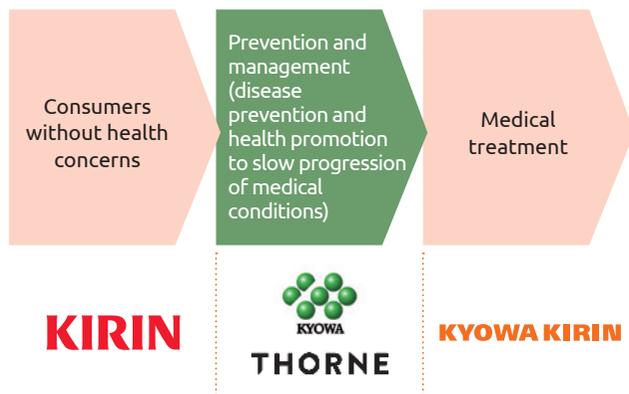
A global leader in CSV, creating value across our world of Food & Beverages to Pharmaceuticals

## Message from Top Management

approaches. Through foods that help prevent illness, slow the progression of disease, or maintain health, for example, we are building a third pillar to support Group growth in future decades.

### Business model for new businesses bridging Pharmaceuticals and Food & Beverages

- Targeting the consumer segment with health and well-being related issues, Kirin aims to establish multiple businesses that comprehensively provide personalized products and services through new channels based on strong evidence.
- Kirin positions Kyowa Hakko Bio at the core of “Businesses bridging Pharmaceuticals and Food & Beverages,” and aims for growth by maximizing the Group’s resources.



### Leveraging the power of diversity for innovation

To implement our growth scenarios we are developing more advanced technological resources and organizational capabilities focused on innovation. The Kirin Group has a long history of innovation born of our advances in technology and persistent R&D efforts. If, however, we look at global innovators such as GAFA (Google, Apple, Facebook, and Amazon), we have much room for improvement. Their business domains may not overlap ours, but in comparison we need to reorient our corporate culture toward innovating in new business sectors and reconceive our existing businesses to be ever more resolute pioneers.

In KV2027 we fortify our organizational capabilities for innovation which encompass expertise in four areas: consumer centric marketing, technology creating trusted value, ICT accelerating value creation, and diversity and inclusion culture for innovation. Consumer centric marketing is an area we continue to strengthen. Going forward we will enhance marketing capabilities company-wide by adopting a marketing perspective in every division, in addition to marketing

itself. In terms of technology creating trusted value, we will put our experience and technical expertise behind idea generation in existing businesses and new businesses alike. To create new products and services we have embraced open innovation and other ways of seeking synergy from outside and within the Group. Here we recognize that if we are to attract good partners we must enhance our own technological capabilities. Regarding ICT accelerating value creation, we anticipate that the credibility of a strategy premised upon mass consumption and mass production will continue to erode. In its place, we are boosting our ability to respond to individual consumer needs based on what Big Data tells us about personal values and purchasing behavior.

We consider diversity of human resources to be the primary driver of innovation. Marketing, engineering, and ICT are all fields that call for highly specialized personnel, mid-career professionals whom we are seeking from outside the Group. We look forward to a future where mid-career hires predominate in divisions of our workforce. The Kirin Group needs to become an employer sought out by diverse talent who demonstrate specialized expertise and high motivation. To attract such talent we must offer a comfortable work environment where everyone can exhibit their full potential regardless of their values and mindset or their skill-set and experience.

Developing organizational capabilities and a corporate culture that can achieve innovation and create value is not something that can be accomplished overnight. It requires a long-term view; even if results are not immediate we must press on with tenacity and determination. Indeed, KHK’s global strategic product *Crysvita* was born of precisely this long-term approach.

### Launching 2019 MTBP to create a foundation for new growth in KV2027

The first step toward realizing KV2027 has begun. Our 2019-2021 Medium-Term Business Plan (2019 MTBP) is a 3-year plan establishing a launchpad for new growth. Our top priority here is growing profits in our existing businesses – from food & beverages domain to pharmaceuticals domain.

Our first agenda is solidifying our food & beverages domain foundation which supports Group growth. To strengthen profitability we are allocating to each of our businesses the tasks of enhancing profitability, generating profits

based on growth, and improving the profit base.

We aim to expand profitability at Kirin Brewery and Lion, which have a high return on assets (ROA) and large market size. By concentrating investment in Kirin Brewery's core brands, we intend to increase total sales volume in the beer, RTD, and non-alcoholic beverages segments, while improving product mix through a raised percentage of premium categories such as craft beer and Japanese whisky. Through ongoing efforts to elevate marketing ROI and cut costs, we will implement a model that raises both revenue and profits. Lion will strengthen marketing efforts in the contemporary, craft, and premium beer categories, which are growth segments in the Australian market. Domestically and internationally Lion will also allocate more management resources to high-profit categories. Regarding Kirin Beverage and Myanmar Brewery, we are continuously targeting profit generation based on growth.

Kirin Beverage is carrying out integrated marketing that leverages consumer data, while also taking measures to strengthen cost competitiveness and build a robust brand portfolio. Myanmar Brewery will seek growth exceeding that of the market by focusing on specific brands and channel strategies. Mercian and CCNNE\* are focusing on improved profitability.

Bearing responsibility for our pharmaceuticals domain, KHK is a growth driver in the Group's MTBP. KHK will continue to maximize value in global markets as it leaps forward while expanding its drug discovery pipeline of global products.

Each Group member company will autonomously and expediently enhance its management, while Kirin Holdings smartly assesses our business situation and exercises corporate governance.

With profit growth in our existing business as a cornerstone, we plan to establish and foster businesses bridging Pharmaceuticals and Food & Beverages. We are reinforcing business development of the iMUSE line and of applications of high-performance materials created by Kyowa Hakko Bio which in 2019 has come under the direct ownership of Kirin Holdings. Moreover, we are configuring a distinctive business model to provide products and services tailored to individuals' physical characteristics and lifestyles. In initiatives such as these, we are leveraging the maximum capabilities of our Group's domestic and overseas organizations under the guid-



ance of Kirin Holdings.

We will preferentially allocate cash generated by our existing businesses to create a foundation for future growth. Budgeting about ¥300 billion investment in growth over a three-year period, we will allocate most to alcoholic and non-alcoholic beverages, and a lesser amount to establish and foster businesses bridging Pharmaceuticals and Food & Beverages.

A basic thrust of 2019 MTBP is to elevate shareholder returns. Taking into account the increase in normalized EPS resulting from profit growth in existing businesses together with high consolidated dividend payout ratios of 40% or more, our sights are set on providing stable shareholder returns on an ongoing basis. We are also considering additional shareholder returns in light of current cash generation, growth investment, and other aspects of our situation. Like our own share repurchase in FY 2018 this also contributes to maximizing shareholder value.

Following through from 2016 MTBP I will maintain a strictly results-oriented stance to attain the goals of 2019 MTBP. With everyone in the Kirin Group striving to create new value while staying mindful of social responsibilities, we can look forward to sustainable growth and enhanced corporate value. As we progress along the path we have set for ourselves, I can never stress enough that the continued trust and support of our stakeholders is something to be earned and never taken for granted.

## Yoshinori Isozaki

President & CEO

\* The Coca-Cola Bottling Company of Northern New England, Inc. (U.S.A.), serving a territory of seven states in the New England region of the United States.

Enhancing economic and social value with the concept “creating shared value” positioned at the heart of all management

Kirin Group Corporate Philosophy

**INPUT**

Foundations for driving innovations

- 

**Consumer centric marketing expertise**
- 

**Technology creating trusted value**  
 ¥58.1 billion in R&D expenses in fiscal 2018
- 

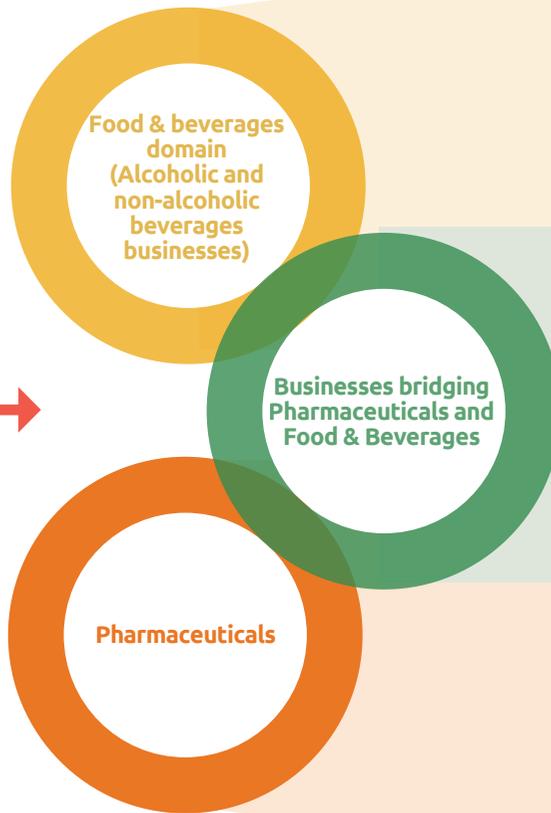
**ICT accelerating value creation**  
 ¥16.7 billion in ICT expenses in fiscal 2018  
 ¥13.5 billion in ICT investment in fiscal 2018
- 

**Diversity and inclusion, culture for innovation**  
 30,464 employees (consolidated)  
 (As of December 31, 2018)

**BUSINESS**

The Kirin Group is helping society with various issues while treating those challenges as opportunities for business growth

**Business domains**



**OUTPUT**

The Group is leveraging its foundations for driving innovations that enable its businesses to help society around the world settle the issues

Providing products and services to build bonds between people

Providing products and services to improve people’s quality of life

Continually developing innovative new drugs

Kirin Group corporate governance

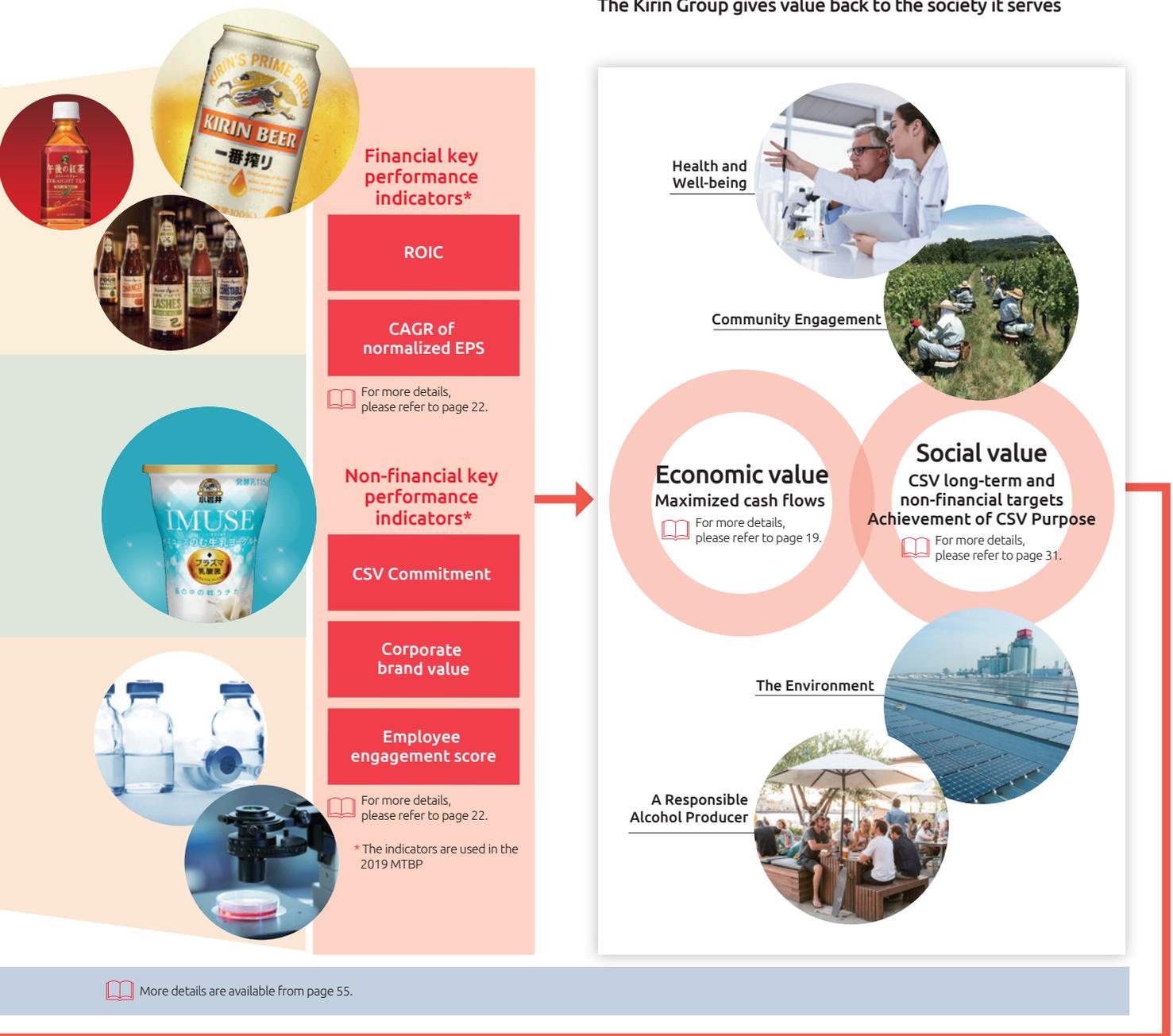
Throughout its management, the Kirin Group has integrated the model of creating shared value (CSV), a business concept first introduced by Michael E. Porter.

Accordingly, it is driving innovations through its marketing expertise, leading-edge technologies, advanced information and communications technology (ICT), diverse human resources and motivated workplaces. By leveraging these competitive advantages, the Group is expanding its alcoholic and non-alcoholic beverages businesses, pharmaceuticals

and bio-chemicals businesses, and businesses bridging Pharmaceuticals and Food & Beverages. Through the products and services offered by each of these businesses, the Group is bringing economic and social value to people around the world. Looking ahead toward its next stage of growth, the Group plans to bolster its innovation drivers even more so that it can continue creating value and growing sustainably into the future.

## OUTCOME

The Kirin Group gives value back to the society it serves



More details are available from page 55.



Aiming to establish a new launchpad for sustainable growth and to maximize corporate value through proactive and disciplined investments

Noriya Yokota

Director of the Board, Senior Executive Officer & CFO

To watch a video of the interview, please scan the QR code to the right.



**Review of the 2016 Medium-Term Business Plan**

Business restructuring successfully carried out and all quantitative targets achieved

**Q To begin, how would you sum up the Kirin Group's achievements under the previous medium-term business plan (MTBP)?**

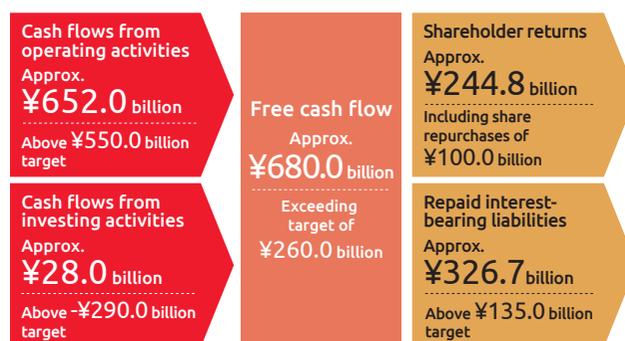
Under our previous MTBP, which spanned from 2016 to 2018, we carried out restructuring with the goal of revitalizing the Kirin Group.

We succeeded in bolstering the earnings platform of the beer business by shifting our approach from costs to investments, as well as concentrating investment in key brands and more efficiently allocating marketing expenses in Japan. In the pharmaceutical business, we made steady progress in releasing global products to the market and boosting their sales. Meanwhile, we decided to terminate certain low-profit businesses, and, accordingly, sold off Brasil Kirin as well as Lion Dairy & Drinks. We also sold off non-core assets and repaid interest-bearing debt in order to strengthen the Company's financial base.

As a result of those accomplishments, the profitability of our existing businesses improved and consolidated

cash flows increased substantially. Over the three years of the plan, cumulative free cash flows amounted to about ¥680 billion, far exceeding our original target of ¥260 billion. Consequently, we were able to greatly improve the Company's earnings structure. Before the plan in 2015, interest-bearing liabilities totaled around ¥750 billion and the gross debt-to-equity ratio was over 1.0, but in 2018, the final year of the 2016MTBP, interest-bearing liabilities had been reduced to about ¥415 billion and the debt-to-equity ratio came in at 0.45. The Company repurchased around ¥100 billion of its own shares in 2018, thereby boosting shareholder returns.

**Three-year cumulative results from 2016 to 2018**



The Company also beat its targets for all key performance indicators and profit guidance we gave priority to under the 2016MTBP. Specifically, by the final year of the 2016MTBP, return on equity reached 17.5%, exceeding our target of 15%, the compound annual growth rate of normalized EPS was 12.6%, beating our target of 6%, and consolidated operating profit totaled ¥199.3 billion, surpassing our guidance of ¥196 billion.

### Financial strategies of the 2019 MTBP

#### Establishing a launchpad for achieving growth over the medium to long term

##### Q How does the Group intend to achieve growth going forward?

We formulated a new long-term management vision called Kirin Group Vision 2027, and as the first step toward realizing it, we intend to create a foundation for the Kirin Group aimed at achieving new growth under our 2019 MTBP. We succeeded in revitalizing the Group, but it will be necessary to make proactive investments for achieving continuous growth over the medium to long term. Our existing businesses are expected to generate substantial cash flows, so we plan to further invest in them.

##### Q What does the Company plan to invest in?

Over the three years of our new plan, we have earmarked about ¥300 billion for growth investment and another ¥310 billion for capital investment. Furthermore, we plan to invest in initiatives for improving organizational capabilities in order to realize long-term growth.

We will work to maximize returns on the capital investment by proactively and preferentially allocating funds to

### Three-year cash flow plan

Flexibly consider increasing shareholder returns after giving top priority to growth-oriented investment using cash flows from operating activities of growing existing businesses



\* Total sum for sale of Lion Dairy & Drinks, other assets, etc. yet to be determined

businesses that use assets efficiently and supply highly marketable products, while restraining investment in the maintenance and upgrade of existing facilities to the extent possible.

With respect to growth investment, the highest priority will be given to existing businesses that have potential for earnings growth. Among them, we will give priority to the beer business, as its profitability is forecast to be very stable in the global market. With respect to these priority businesses, we are also interested in investing in mergers and acquisitions. Through a balanced variety of investments, including in new business areas, we will allocate resources to businesses that have strong potential to generate cash.

##### Q In the beer business, what specifically will the Company invest in?

We will invest in region and business domains that are growing. Among the regions, we are exploring opportunities primarily in Southeast Asia. Among businesses, we will continue to expand the Group's craft beer portfolio with a view to market it globally. Furthermore, in the Japanese market, growth is projected for product categories besides beer, such as RTD beverages and Japanese whisky, so we are looking to proactively channel capital investment in and expand those categories.

##### Q What do you plan to invest in to "bridge" those main businesses?

There are various kinds of possibilities. For instance, in the context of providing better medical treatment and healthcare, which is an important challenge for society, we aim to "help people independently lead healthy lifestyles and support preventive healthcare." That is a major pillar of the Kirin Group CSV Commitment (see page 32 for more details). Accordingly, we will make the most of the Group's operational resources that span from food and beverages to pharmaceuticals in order to create new businesses that benefit society. For example, based on personal genetic characteristics determined via DNA tests, individually optimized healthcare and services are being offered in various countries of the world. In that context, Kirin Holdings acquired a capital stake in Thorne Research, Inc., which develops and sells personalized supplements in the United States. We plan to expand that company's business by supplying the Kirin Group's highly functional ingredients and products, and to develop our own business model for Japan. We will also take steps to acquire or enhance any capabilities that may be lacking.

##### Q How do you intend to enhance organizational capabilities?

Positioning issues facing society and the needs of customers

## Interview with the Chief Financial Officer

as opportunities for growth, we are taking steps to improve the capabilities of our existing organizations involved in both existing and new businesses. Moreover, we are incorporating capabilities acquired from outside the Kirin Group to drive innovations that create value. Therefore, we intend to enhance the Group’s intangible value—namely brands, research and development, ICT, and HR and organization—as organizational capabilities that underpin growth.

**Q** **Concretely speaking, how do you intend to enhance those value?**

We intend to maximize the outcomes of investments earmarked as expenses in the financial statements. Among our initiatives in the past, investment was lacking in some respects, but now we are clearly specifying how much investment should be allocated for the capabilities we need and then taking steps to improve them. For example, we will install systems for utilizing AI and robotic process automation, and improve core databases used for digital marketing. Using the latest technology, the Group will quickly collect information on customers and drive new innovations aimed at providing high-value-added products and services to consumers. We are also proactively investing in programs for promoting the diversity of our human resources. Whether contributing to higher sales in the future or bringing down costs, these investments will lead to returns.

### Key performance indicators and cash allocation

#### Maximizing corporate value through disciplined investment decisions

**Q** **Why were key performance indicators changed in the new business plan?**

Given that the Company will proactively invest, how to make disciplined investment decisions became an important issue. Interest-bearing liabilities are included under invested capital in the calculation of return on invested capital (ROIC), so we can more accurately determine the profitability of investments. Using ROIC and net present value (NPV) as indicators allows us to more effectively evaluate investment targets and maintain discipline when making investment decisions. As for quantitative key performance indicators, we are aiming for at least a 5% compound annual growth rate (CAGR) of normalized EPS with a view to increase shareholder value. We are also targeting a minimum ROIC of 10% in order to boost returns above the cost of equity.

**Q** **How do you plan to manage the balance sheet?**

We want to limit the combined amount of volatile assets and assets associated with growth investment within a range that

does not require dependence on interest-bearing liabilities. Instead of relying on easily available credit with interest for funds needed for future growth, we intend to carefully manage volatile assets with a view to create investment reserves. For example, we intend to continue reducing cross-shareholdings that are incommensurate with the cost of equity, and will aim to sell off assets worth a similar amount as those sold off over the past three years of the previous MTBP.

**Q** **Please tell us about your outlook for cash flows.**

The Company is expected to generate a cumulative total of over ¥700 billion in cash flows from operating activities over the next three years. Besides using it for growth investment and capital investment, we plan to allocate ¥210 billion for dividends, which will raise the consolidated dividend payout ratio from over 30% to more than 40%, a level commensurate with normalized EPS.

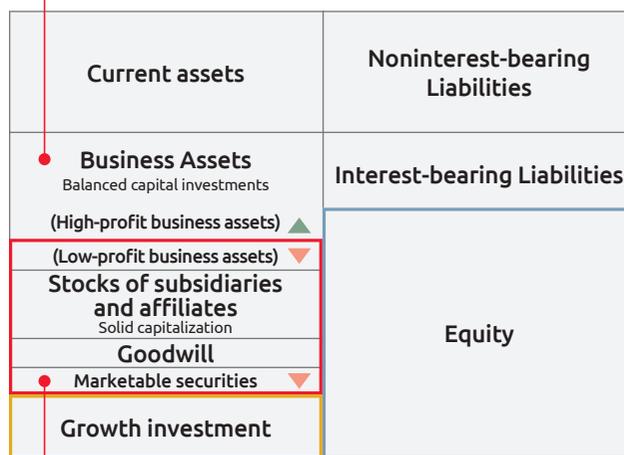
**Q** **Finally, what message would you like to give to shareholders and investors?**

Having revitalized the Kirin Group, management is now able to proceed to the next stage. Kirin Group will help communities take on challenges while bringing economic benefits by positioning “Creating Shared Value” at the heart of all business activities. While we plan to proactively invest under our current MTBP, we will maintain discipline when making investment decisions for the purpose of maximizing corporate value.

### Ideal balance sheet composition by 2021

Limit the combined amount of growth investment and volatile assets to a level not requiring reliance on interest-bearing liabilities

#### Disciplined investment decisions to maximize returns



#### Sell cross-shareholdings to reduce non-business assets

- Volatile assets have relatively strong potential to generate cash and comparably high levels of volatility with respect to asset value
- Growth investment    □ Equity

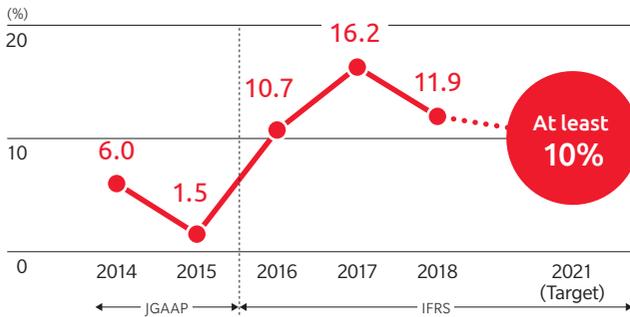
\* Conceptual diagram

# Financial and Non-Financial Highlights

## Financial Highlights (Fiscal 2018 Results)

### Capital efficiency indicator

Return on invested capital (ROIC)

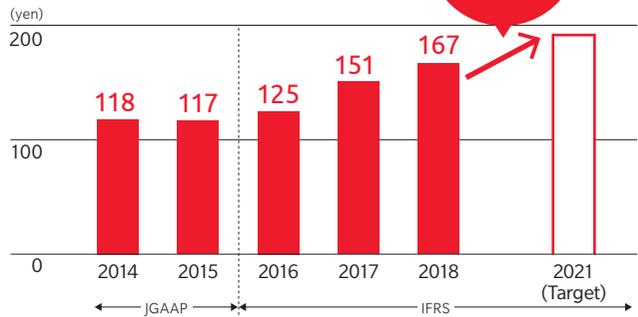


Notes

- Results prior to fiscal 2015 exclude amortization of goodwill
- ROIC = Earnings before interest and after tax / (Average interest bearing debt between the beginning and the end of the FY + average total equity between the beginning and the end of the FY)
- FY2018 ROIC is 9.4% if calculated excluding transient impacts such as income from sale of assets, etc.

### Profitability and growth indicator

Normalized EPS



\* The target is averaged over a three-year period

## Non-Financial Highlights

### Results in each category of the Kirin Group's CSV Commitment

KB Kirin Brewery Company, Limited  
 KBC Kirin Beverage Company, Limited  
 ME Mercian Corporation  
LN Lion Pty Limited  
 MB Myanmar Brewery Limited  
 KHK Kyowa Hakkō Kirin Company, Limited

The Kirin Group sets targets for its key performance indicators in each category of its CSV Commitment with the goal of becoming a global leader in "creating shared value" (CSV).

\* Since some of these indicators were newly created in fiscal 2018, results for that year are not yet available.

**A Responsible Alcohol Producer**

Responsible drinking / passing a culture of enjoying alcoholic beverages to the next generation

**Number of participants in appropriate drinking education programs / viewers of drinking manner advertisements**

2018 **130 thousand** participants/viewers → 2021 target **1 million** participants/viewers

KB ME LN MB

**Community Engagement**

More sustainable production of raw materials

**Contracted farming ratio of procured rice in Myanmar for brewing**

2018 **0%** → 2021 target **10%**

**Ratio of materials from Myanmar**

2018 **Can materials: 47%** → 2021 target **70%**

MB

**Health and Well-being**

Evolution in medical treatment

**Number of new drugs discovered in-house and launched in multiple regions**

**Number of countries with markets for these new drugs**

2018 **Crysvita and Poteligeo were launched in multiple regions. Benralizumab was launched in multiple regions by AstraZeneca.** → 2021 target **Three or more products launched in over 50 countries**

KHK

**The Environment**

Actions regarding containers and packaging

**Conversion rate of PET bottle resin to recycled resin**

2018 **3%** → 2027 target **50%**

KB KBC ME

### Employee engagement score (%)

2018 **70%** → 2021 target **At least 72%**

### Corporate brand value

2018 **\$1,731 million** → 2021 target **\$2,200 million**

Source: Best Japan Brands 2018 published by Interbrand

# Strengthening Our Non-Financial Assets

## Innovation for sustained growth.

The Kirin Group sees innovation as the key to sustained growth and seeks to generate innovation by strengthening its four fundamental organizational capabilities of “Consumer centric marketing expertise,” “Technology creating trusted value,” “ICT accelerating value creation,” and “Diversity and inclusion, culture for innovation.” Our recent efforts reconceptualizing our marketing expertise to raise the brand value of *Honkirin* is a prime example of how innovation leads to success.

## Organizational capabilities that promote innovation

|                                      |   |
|--------------------------------------|---|
| Consumer centric marketing expertise | Technology creating trusted value               |
| ICT accelerating value creation      | Diversity and inclusion, culture for innovation |

## Honkirin and our marketing reform

### Internal changes were key to successful marketing

The 2018 launch of *Honkirin* was a resounding success with initial year total shipments surpassing 300 million bottles. One of the primary factors that produced the immense sales volume was the internal reform Kirin Brewery carried out to become “the company that puts consumers first,” as championed by Kirin Brewery President Fuse.

### Strategies to break out of a downward spiral

Kirin Brewery introduced more than 10 malt-type new genre brands in the past decade. However, the company struggled to attract sales for every brand. As its market share started to shrink, Kirin Brewery turned to short-term fixes by releasing derivative products with impromptu promotions and without thought for building up the brand. The company was also worried about releasing products that would compete against its own brands. In short, the company was not providing products that customers really wanted. As a result, it was not building the brand from a long-term perspective of being a brand that customers would view as having high value.



**Katsuya Nagai**  
Assistant Brand Manager  
of *Honkirin*  
Marketing Department  
Kirin Brewery

Mr. Nagai joined Kirin Brewery in 2005 as sales representative for supermarkets and other mass retailers. He then moved to the Marketing Department in 2011 to oversee brand management and product development for *Nodogoshi Nama* and *Hyoketsu*. Since October 2017, he has been involved in every aspect of *Honkirin* brand development from the initial production concept development stage.

### A focused marketing strategy to stop the contraction

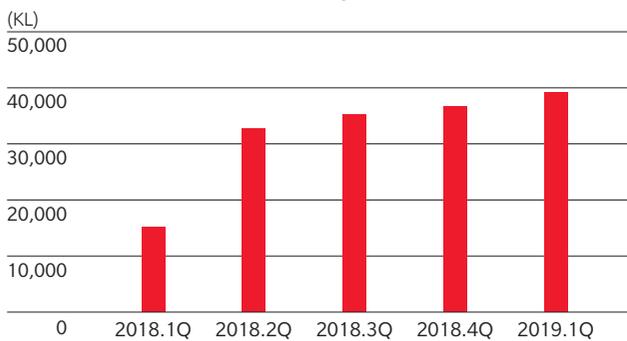
One of the key reform strategies Kirin Brewery implemented to break out of this downward spiral was to focus its marketing on fewer products. Before the reforms, Kirin Brewery thought that decreasing its brand offerings would reduce its sales volume. However, it took a new tact of investing in a small, select number of brands, which it would then continue to invest in with a focus on developing and strengthening them for the long term. With this approach, rather than aiming to create a hit product now, the marketing department would advance strategies for the medium and long term and conduct Consumer-centric marketing to build a brand with a large customer following ten years in the future. The first brand Kirin Brewery applied this approach to was its flagship brand *Kirin Ichiban* that it relaunched in 2017.

## The new strategy scores a success with Honkirin

The first step Kirin Brewery took in the development of *Honkirin* was to analyze its past products. The company applied what it learned to product development, the marketing plan, and every aspect of its *Honkirin* plan. Because Kirin Brewery had so many products in its portfolio, it had become difficult to get all departments aligned behind the one brand strategy. With *Honkirin*, however, the marketing and sales departments were communicating from the very early stages of the product development, and over time all of the departments came to understand the central role of the strategy and brand value. This enabled Kirin Brewery to effectively coordinate the sales promotions and activities it needed for success. Kirin Brewery was able to put in place the organizational structure for an all-encompassing marketing effort covering the full range of customer contact points. The result was instant and sustaining sales momentum.



### Honkirin sales volume in each quarter



## Turning its marketing into a strength

Katsuya Nagai, the Marketing Department assistant brand manager in charge of *Honkirin*, believes marketing is key to building competitiveness. "We are confident that we can use marketing to create a competitive edge." The Marketing Department combined Kirin's manufacturing technology and its approach to quality with new knowledge and expertise learned outside the company to form the new organizational structure for delivering high brand value to customers. Kirin Brewery will also use the latest information and communication technology to further deepen customer understanding.

Kirin Brewery's consumer centric marketing will be spread throughout the Group to strengthen the Group's organizational capabilities and create industry-leading innovation.

## Using the latest ICT to create added value and further grow the leading brands

Kirin Brewery is aiming to generate further growth by maintaining and building the strong appeal of its leading brands while leveraging ICT to create further added value.

### AI at our sales sites

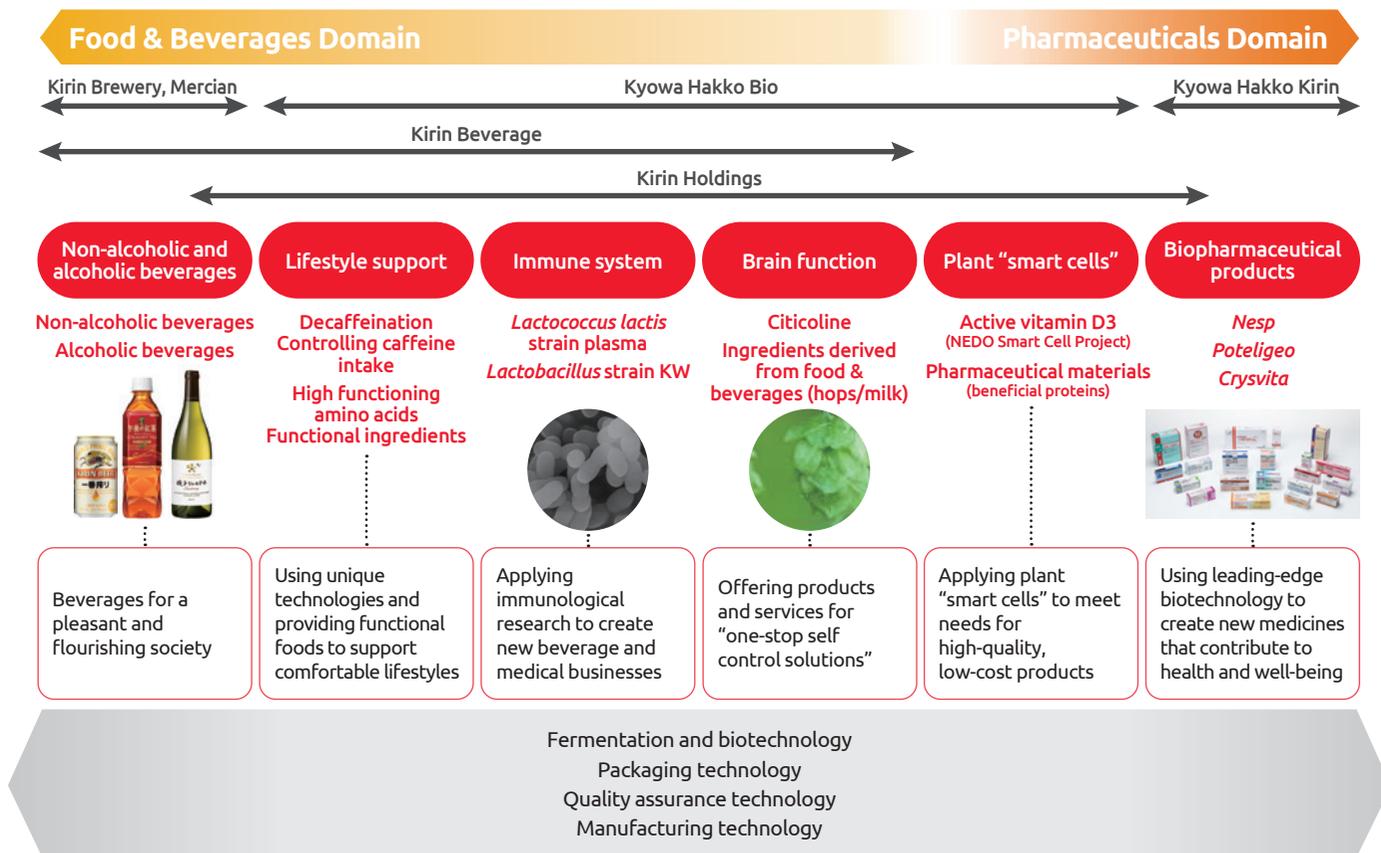
Kirin Brewery is harnessing the latest technologies to further increase customer satisfaction. In 2018, the company introduced sales support tools using AI to maximize the effectiveness of sales sites and customer contact points. The new technology has the additional potential benefit of reducing man-hours needed for sales managers.

### Digital marketing

Kirin Brewery will continue to deepen the marketing use of its insights into customer preferences gained through direct customer contact. The company will also use social networks, e-commerce channels, and data matching between its in-house sources and external databases to uncover latent customer needs.

## Strengthening Our Non-Financial Assets

# R&D Strategy: Technology creating trusted value



**We will consolidate Kirin Group technologies to form new businesses in the food & beverages domain, pharmaceuticals domain, and "bridging Pharmaceuticals and Food & Beverages" where we will create new value that contributes to solving social issues around the world.**

The Kirin Group's operations spanning both food and pharmaceuticals ideally position it to create value and address social issues by combining its specialties in fermentation technology and biotechnology developed through our original beer business and the pharmaceutical and biochemical technologies acquired through our diversification strategy since 1980s. We are also building the new businesses bridging Pharmaceuticals and Food & Beverages to be a core part of the Kirin Group's portfolio. In this domain, we will combine our unique evidence-backed food ingredients and competitive technological capabilities with open innovation to make this new domain a sustaining pillar of the Kirin Group.

In the food & beverages domain, we will contribute to society by developing products with new value by advancing technology throughout the supply chain to improve product quality and business profitability.

In the pharmaceuticals domain, we aim to create new medical value by leveraging our leading biotechnologies and advancing R&D mainly in the four areas of nephrology, oncology, immunology/allergy, and the central nervous system.

The mission of the new businesses bridging Pharmaceuticals and Food & Beverages segment is to provide new value in the four areas of lifestyle support, immune system, brain function, and plant-based "smart cells." The new segment's consumer targets fall into the categories of individuals with specific needs and preventive healthcare. We will support specific needs by applying the high-function materials developed in our food & beverages business to address unmet medical needs. In preventive healthcare, we will apply the Kirin Group's proprietary expertise in the pharmaceuticals business to build a unique operation that meets specialized needs.

## Pioneering smart cell culture technology using plant cells to meet needs in the medical field

### Kirin's unique platform to produce beneficial substances

Platforms for manufacturing biopharmaceuticals mainly use microorganisms and animal cells. Animal cells are usually used to produce proteins with the complex structures of protein. However, the process requires high-precision environmental control of the technology and equipment. In recent years, simplified manufacturing equipment and production platforms using plants have been coming under the spotlight. The Kirin Group has extensive experience developing plant-based mass propagation technologies, and combining our expertise with the technologies of Kyowa Hakko Bio in microorganisms and Kyowa Hakko Kirin in animal cells gives us an unmatched global scale with capabilities across three functional substance cultivation platforms.

Kirin has amassed a wide variety of plant-related technologies since the 1980s. One of our biggest successes is the development of our unparalleled technology for mass propagation using liquid culture media from plant bodies from stems and sprouts to somatic embryos. Technology for mass propagation already existed, but it was mainly labor-intensive manual work. The techniques we developed using highly production-efficient liquid cultures that enabled commercial production of a wide range of plant species played a key role in the development of our agribio business.

In commercial manufacturing, cost is also important. Our unique research has led to the development of a low-cost bag-type culture vessel system that can take the place of expensive, large culture systems. We streamlined the mass propagation system to reduce both input and labor costs by using specially designed plastic bags for the culture vessels to make it lightweight and by designing it for

simplicity so it can be operated by just a few people.

Kirin's development of this technology put the Group at the forefront of plant "smart cell" propagation technology using plant cells to produce functional substances. At the same time, the achievement of enabling sterile conditions for the propagation created an entry point for R&D directed at the medical field, which requires strict quality control.

### Aiming to manufacture pharmaceutical ingredients from plant cells in 2027

Kirin joined the government-led New Energy and Industrial Technology Development Organization (NEDO). In 2016, NEDO launched a five-year plan to develop production techniques for highly functional biomaterials using smart cells of plants and other organisms. We are developing a propagation process using plant-based propagation technology that can efficiently mass-produce active-form vitamin D<sub>3</sub> used in drug treatments for osteoporosis and other diseases.

In 2018, we built the Plant Research Center on the grounds of our Fukuura Research Park to serve as a pilot facility with cleanroom specifications for demonstration of medical research reagents and production processes of ingredients for pharmaceuticals from plant cells. We are fine-tuning our technology for plant biology platforms and laying the groundwork to enter the pharmaceutical ingredient business.

Our development roadmap for these operations is to launch the medical research reagent business in 2021 and the veterinary medicine raw material business in 2024. We will then aim to enter the high value-added field of pharmaceutical ingredients in 2027.

**2018**

Plant Biotechnology Project launch (Plant Research Center)

**2021**

Reagent for medical research

**2024**

Materials for veterinary medicine

**2027**

Materials for pharmaceutical products

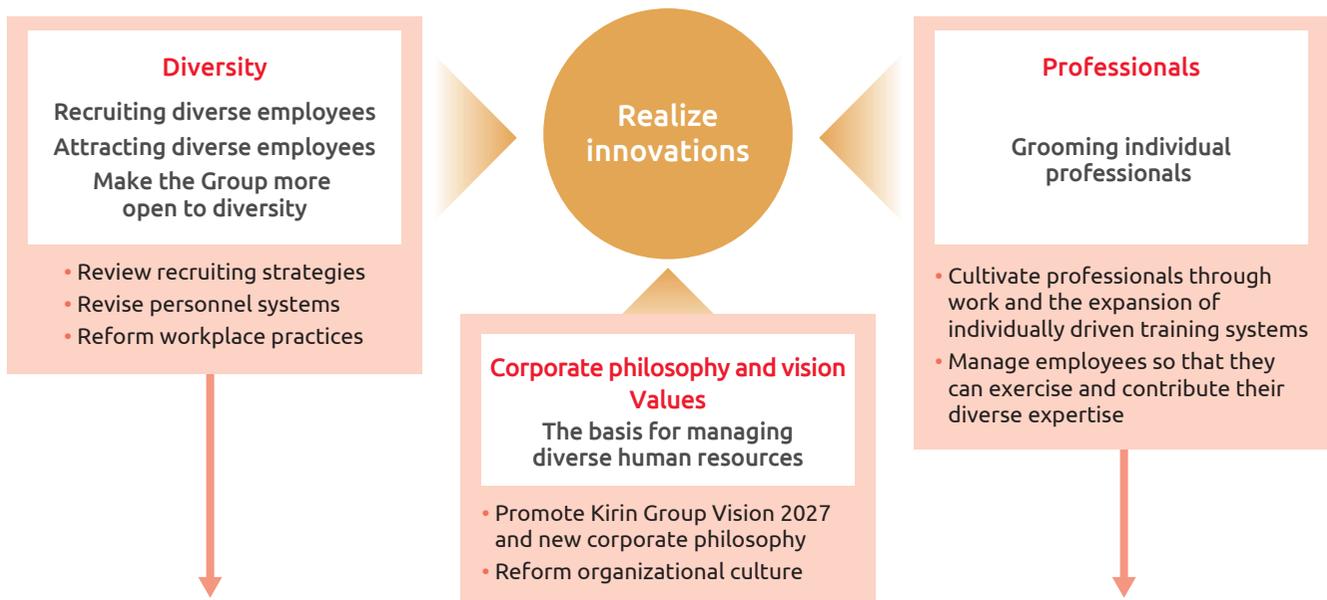


# Human resources strategies: Diversity and inclusion, culture for innovation

To offer value to customers and communities, realizing innovations is essential. Diversity and inclusion, culture for innovation are necessary for the organizational capabilities that provide a basis for realizing such innovations. The Kirin

Group will continuously create value through innovations by bringing together employees who have diverse values and specialties, and are sympathetic to its corporate philosophy and strategies.

## Realize innovations through the combination of diverse values, ways of thinking, skills and experience



### The Kirin Group's diversity

Diversity was included under the Group's shared values in Kirin Group Vision 2027. The Group is confident that diversity will be a driver of its efforts to create value in business domains spanning from food and beverages to pharmaceuticals, and to become a global leader in creating shared value. The Group hopes to generate new value and innovations by encouraging open dialogue while accepting internal differences like one's values, sensitivities, and experience, without regard for external characteristics such as gender, nationality, and whether one is abled or disabled. The Kirin Group is promoting changes to its diverse human resources by reviewing recruitment procedures and carrying out organizational reforms of workplace practices. By leveraging these changes, the Group will aim to realize innovations going forward.

### The Kirin Group's professionals

Each member of the Kirin Group is committed to working in his or her respective workplace and position, refining individual skills, and pursuing very high standards of expertise in terms of becoming the best in one's occupation and industry. The Group believes that its businesses will be strengthened and a new future will be opened up by having employees voluntarily take on challenges while thinking outside the box. The source of that is the desire by each person to grow. By actively supporting and encouraging employees who maintain a desire to grow and aim higher, regardless of their age, career, or job, and by creating opportunities for them, the Kirin Group is developing human resources who can promote its business.

### Two of the Group's initiatives for promoting diversity and professionalism

|  |   |
|--|---|
| <p><b>Helping employees understand challenges faced by working mothers and fathers</b></p> | <p>The Kirin Group has a unique program in which employees who have no children work as if they actually do in order to experience how working mothers and fathers deal with time constraints and child-related emergencies. Through improved individual productivity, awareness of the workplace, and management by superiors, the initiative has helped create an organizational culture that continues to produce results.</p> |
| <p><b>Work-abroad program</b></p>  | <p>This program allows young employees to work for a non-profit organization or company in an emerging country. The aim of the program is to develop human resources early on to support CSV management by having them make use of their talents and gain experience in initiatives aimed at solving social problems in emerging and other countries.</p>   |

## Enhancing individual professional capabilities with competency evaluations

Initiatives taken by Kirin Brewery's Marketing Department

### **Aiming to speed up the development of capabilities by improving the fairness and transparency of employee evaluations**

In the Marketing Department, Kirin Brewery has been training personnel and working to create a sustainable system of human resource development in order to improve its organizational marketing capabilities. More recently, Kirin Brewery has been improving training to groom marketing leaders based on the goal of strengthening human resources in its MTBP. Above all, Kirin Brewery has been focusing on competency evaluations.

The most beneficial aspect of a competency evaluation is that it breaks down all of duties required of personnel at the level of specific actions, and clarifies how the performance of those duties is evaluated, thereby improving fairness and transparency. That allows Kirin Brewery to standardize coaching terminology and approaches for helping employees develop and achieve goals. Consequently, the performance indicators required for professional goals and evaluations are laid out clearly for employees, and they become more motivated in their work because they understand the specific goals they need to achieve. It also fosters a spirit of challenge in the workplace and speeds up the development of professional capabilities.

### **Selecting young employees with necessary competencies—even as a brand manager of flagship products**

Another advantage of adopting a competency-based evaluation system is that it gives employees excellent opportunities regardless of their age when they acquire the necessary competencies. For example, the brand manager in charge of the renewed *Kirin Ichiban* and *Honkirin* brands is aged mid-30s. Such young personnel who have similar lifestyles as Kirin Brewery's customers carry out their duties seriously and with a sense of responsibility for the brand business they are in charge of. That has led to good results.

As another new development, employees are independently starting up exciting projects together. On their own initiative, they are developing the best marketing professionals for Kirin Brewery and improving the collective capabilities of the entire organization.

Employees know what is happening in their respective departments and understand the issues at hand. If they think an issue can be solved through their own professional expertise in marketing, brand business, management, or something else, they actively hold study sessions to share their knowledge and then go about trying to solve it. Kirin Brewery also has leaders who create teams of employees that are struggling, encourage and coach those employees to develop their skills, and lead efforts to solve problems.

By promptly putting the conditions in place for facilitating these kinds of activities, Kirin Brewery intends to continuously develop marketing professionals while helping achieve the performance targets set by the company.

### **Expanding similar systems group-wide based on the successes at Kirin Brewery**

Having consistently achieved success at Kirin Brewery, the Kirin Group plans to have its competency management system adopted by the marketing departments of other companies in the Group in the future. By progressively adopting the system group-wide and putting it into practice, the Kirin Group intends to continue developing marketing leaders at each group company while meeting the expectations of stakeholders.

#### **We will keep improving the capabilities of marketing personnel so that we can help achieve the Group's goals**

By adopting clear indicators of competency, we have implemented a system for fairly and objectively evaluating each employee. As a result, we have fostered workplaces that can take on challenges and created a culture in which employees are highly aware of their work responsibilities. Moreover, marketing personnel have been steadily improving their capabilities. We will continue with these initiatives so that our highly skilled marketing personnel strengthen the company as a whole and help achieve the Kirin Group's goals.

**Mitsuharu Yamagata**

Senior executive officer and general manager of Marketing Department, Marketing Division, Kirin Brewery

# CSV Stories

By solving issues confronting people today and creating new value, the Kirin Group is aiming to evolve as a global leader in creating shared value (CSV). Toward that end, we formulated our CSV Purpose, which includes the Group's long-term goals and direction, and our CSV Commitment as an action plan. In connection with these initiatives, we have set priority tasks to pursue under four broad themes of a responsible alcohol producer, health and well-being, community engagement, and the environment.

## Kirin Group CSV Purpose and CSV Commitment

Page 31

### Health and Well-being

Pharmaceuticals business Page 33

CASE

1

Improving quality of life of patients around the world



### Health and Well-being

Businesses bridging pharmaceuticals and food & beverages Page 35

CASE

2

Leveraging technological assets to provide functional ingredients that contribute to health



## Working towards the sustainability of society and the Kirin Group

The Group's operating environment is undergoing major changes, and it is expected to play an active role in solving issues that communities face today. In that context, Kirin Holdings became a signatory of the United Nations Global Compact in September 2005, and since then, we have been working towards the sustainability of society and the Kirin Group based on the compact's 10 Principles, which are organized under four main categories\*. Furthermore, guided by our CSV Purpose established in 2019, the entire Group is striving to help solve social issues associated with the United Nations Sustainability Development Goals through its business activities over the medium to long term.

\* The four categories of human rights, labor, the environment, and anti-corruption were selected and agreed upon internationally as universal values.



Kirin Holdings

President & CEO



CASE  
3

### Community Engagement

Page 37

Aiming to boost sales of *Château Mercian* in collaboration with grape-growing communities



CASE  
4

### The Environment

Page 39

Reducing GHG emissions by 36% and annual fuel costs by 1 billion yen through a switchover to clean energy



CASE  
5

### A Responsible Alcohol Producer

Page 41

Shaping a positive drinking culture that brings people together in Australia and New Zealand

# New guiding principles and targets set for value together with people across society

## CSV Purpose established

In 2017, the Kirin Group selected being “a responsible alcohol producer” “health and well-being,” “community engagement,” and “the environment” to be key social issues among the various social issues that affect the Group. To face these issues, the Group has set CSV long-term and non-financial targets in the Kirin Group Vision 2027, our long-term management vision and formulated our CSV Purpose as a guideline to create shared value with society and promote sustainable growth in connection with the United Nations Sustainable Development Goals.

**WEB** For more information about the establishment of the CSV Purpose <https://www.kirinholdings.co.jp/english/csv/purpose/>



## Kirin Group Materiality Matrix revised by the Group CSV Committee

Chaired by the president of Kirin Holdings, the Group CSV Committee meets each year as a rule with the task of facilitating proactive and independent efforts by the Kirin Group as a whole towards creating shared value.

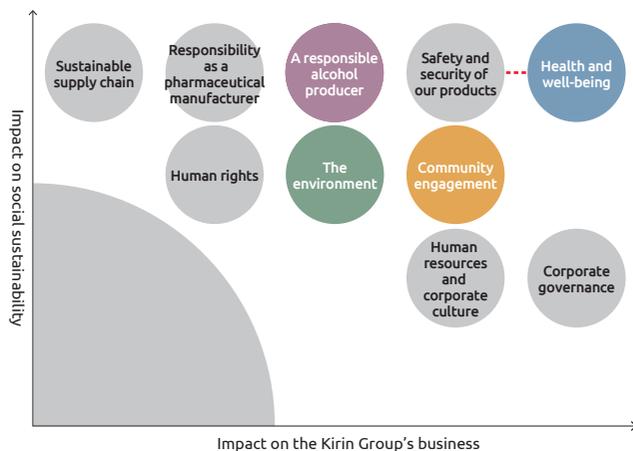
As members of the committee, the presidents of the Group's main operating companies\* attend the meetings to discuss optimal CSV policies, strategies, and action plans, as well as to assess the progress made under ongoing plans.

At a meeting held in May 2018, the Group CSV Committee revised the scope and content of the Kirin Group Materiality Matrix in order to integrate it with the new medium-term business plan, and incorporate the views of stakeholders.

\* Kirin Brewery Company, Limited; Kirin Beverage Company, Ltd.; Mercian Corporation; Lion Pty Ltd.; Myanmar Brewery Ltd.; and Kyowa Hakko Kirin Co., Ltd.

**WEB** Various management tasks for ensuring sustainable growth <https://www.kirinholdings.co.jp/english/csv/materiality/>

Kirin Group Materiality Matrix



## The approaches and targets of the CSV Commitment

Aiming to realize its long-term management vision, Kirin Group Vision 2027, the Kirin Group set 19 CSV Commitments for each business segment as non-financial targets

in 2019 MTBP. Kirin will actively report on its progress in achieving these targets as the entire Group strives to create even more shared value in the future.

 For more information about our CSV Commitment, the approach and targets, please refer to the following website: [https://www.kirinholdings.co.jp/english/csv/commitment/pdf/CSV\\_all\\_E.pdf](https://www.kirinholdings.co.jp/english/csv/commitment/pdf/CSV_all_E.pdf)

|  | CSV Commitment  | Approach   | 2021 target  |
|--|---|--|--|
| <b>A Responsible Alcohol Producer</b><br> CASE5 P.41  | Responsible drinking / passing a culture of enjoying alcoholic beverages to the next generation | 1. Do an education program of appropriate drinking<br>2. Label products with its alcohol to support responsible drinking habits<br>[Kirin Brewery, Mercian, Lion, and Myanmar Brewery]   | 1. Number of participants: One million participants/viewers<br>2. Percentage of products with alcohol content labels*1                   |
|  | Supporting self-care for healthy people and people with pre-disease                             | 1. Develop and expand sales of no-sugar products and products with scientifically proven health benefits<br>[Kirin Beverage and Koiwai Dairy Products]<br>2. Continue to create new value in ingredients with health benefits (e.g. Lactococcus lactis strain Plasma) [Kirin]  | 1. Rate of sales increase*1<br>2. Number of countries capable of purchasing: Five countries (roughly 650 million people)                 |
| <b>Health and Well-being</b><br> CASE1 P.33<br> CASE2 P.35 | Evolution in medical treatment  | Strengthen our drug discovery foundation to develop and provide new drugs globally based on the strengths of R&D and production capability acquired through developing and providing biologics<br>[Kyowa Hakko Kirin]  | Number of new drugs released to market in multiple regions and number of countries: Three or more products launched in over 50 countries |
|  | Contributing to community vitalization  | Create and increase opportunities that bring people together at dining tables, recreational activities, seasonal events, and sports and music events with Kirin Group's products<br>[Kirin Brewery, Mercian, Kirin Beverage, and Myanmar Brewery]  | Number of products and service that create opportunities to bring people together*2  |
| <b>Community Engagement</b><br> CASE3 P.37  | More sustainable production of raw materials  | Take a long-term perspective to enhance the value of raw materials and support production area and contracted firming toward achieving sustainable procurement and revitalization of production areas<br>1. Amount of Japanese hops procured [Kirin Brewery]<br>2. Volume of grapes produced for Japan wine [Mercian]<br>3. Contracted firming ratio of procured rice for brewing [Myanmar Brewery]<br>4. Number of small-scale farmers supported for acquisition of Rain Forest Alliance certification [Kirin and Kirin Beverage] | 1. 100 tons in 2027<br>2. 200 tons in 2027<br>3. 10 % in 2021<br>4. 10,000 farmers in 2025   |
|  | Actions regarding climate change  | Introduce renewable energy and promote energy conservation [Kirin Group]   | Reduction ratio of GHG*3 emission: 30% in 2030, compared with 2015   |
| <b>The Environment</b><br> CASE4 P.39   | Actions regarding containers and packaging  | Strive to maintain the 3Rs and resource circulation for containers and packaging<br>[Kirin Brewery, Kirin Beverage, Mercian]   | Conversion rate of PET bottle resin to recycled resin: 50% in 2027   |

\*1 Target set by each company \*2 Target under consideration \*3 Greenhouse gases

## Case 1: Health and Well-being

CSV Commitment

### Evolution in medical treatment

The corporate philosophy of Kyowa Hakko Kirin, which conducts the Kirin Group's medical business, is to contribute to the health and well-being of people around the world by creating new value through the pursuit of advances in life sciences and technologies. Under this philosophy, we are focusing research and development efforts on the four key areas of nephrology, oncology, immunology/allergy, and the central nervous system leveraging our cutting-edge biotechnology anchored in antibody technology.

One recent example of our R&D achievements is the development of burosumab (developed with the code name KRN23) as a treatment for X-linked hypophosphatemia (XLH). The drug was approved in 2018 by the European Commission and the Food and Drug Administration of the United States, where it is sold under the name of *Crysvita*.



#### Our Achievement

Number of in-house drug discoveries marketed in multiple regions  
Number of countries with markets for these new drugs

#### 2021 target

Three or more products marketed in multiple regions  
Over **50** countries in total



CASE

1

# Health and Well-being

Pharmaceuticals business

## Improving quality of life of patients around the world

### Takeyoshi Yamashita, Ph.D.

Director  
Corporate Strategy &  
Planning Department  
Kyowa Hakko Kirin

#### PROFILE

Dr. Yamashita joined Kirin Brewery in 1987 where he researched bone metabolism while working in the former Pharmaceutical Laboratory, Kirin Brewery. In 2000, he was the first to identify the fibroblast growth factor 23 (FGF23) biomolecule's role as a bone phosphate regulator, which led to the discovery of KRN23 as an anti-FGF23 antibody.

### Revolutionizing treatment of intractable disease XLH

*Crysvita*, otherwise known as KRN23 or burosumab, was approved for sale as a treatment for XLH in the United States and a part of Europe in 2018.

X-Linked hypophosphatemia is a disease that causes the kidney to waste phosphate and vitamin D needed to maintain and grow bones. Although relatively rare, occurring in one in 20,000 individuals, people with XLH often suffer from deficient growth development.

Existing treatments for XLH mainly focused on supplementing phosphate and Vitamin D, but this still requires taking multiple daily medicines and has the side effect of kidney calcification. Treatment with KRN23 vastly improves the quality of life of XLH patients. With one injection every two or four weeks, KRN23 raises and maintains blood phosphorous levels in a normal range, supports improved bone growth, reduces pain, and improves bodily functions.





**Pipeline  
KRN23 (as of December 31, 2018)**

| Indication  | Development phases           | Country or region of development                   |
|---|------------------------------|--|
| X-linked hypophosphatemia                             | 1 2 3 Submitted for approval | Israel / Swiss / UAE                               |
| X-linked hypophosphatemia in adult patients           | 1 2 3                        | North America / Europe / Japan / Korea             |
| X-linked hypophosphatemia in pediatric patients       | 1 2 3                        | North America / Europe / Australia / Japan / Korea |
| Tumor-induced osteomalacia / Epidermal nevus syndrome | 1 2                          | U.S.A. / Japan / Korea                             |

**Discovery FGF23 regulates phosphate**

When I was researching bone metabolism in the Pharmaceutical Laboratory, Kirin Brewery, I turned my focus to phosphate to apply my knowledge and experience to the field of nephrology, a core field for our business. Phosphate is the second most abundant mineral in the body after calcium and is also essential for the formation of bones and teeth. However, the worldwide research of mechanisms to regulated phosphate was far behind the research on calcium. I thought that presented an opportunity.

In 2000, while doing pathological research on hypophosphatemia (low phosphate in the blood), I was the first to discover the central role that fibroblast growth factor 23 played in regulating phosphate levels in the blood. However, since FGF23 is a hormone that reduces phosphate produced in bone cells, this did not directly lead to the creation of a treatment. However, suppressing FGF23 allowed vitamin D levels to rise, and that could reduce the amount of phosphate the kidney excretes. I thought this could lead to a way to treat XLH, so I continued researching.

The challenge was to find a way to suppress the FGF23. Using Kirin’s human antibody producing technology, we finally produced the fully human antibody KRN23 that acts to suppress FGF23.

**Approved in Europe and the United States ahead of Japan**

KRN23 became a promising candidate for XLH treatment, and clinical development began in 2006 in the United States. Since XLH is a rare disease, progress was slow in the early phase of the study because of the limited number of patients. However, KRN23 development quickly accelerated after we partnered with Ultragenyx Pharmaceutical, which specializes in developing treatments for rare diseases.

The European Commission granted conditional marketing authorization for KRN23 in February 2018, and the U.S. Food and Drug Administration approved it for sale in April that year. It became the world’s first drug with an indication for treatment of XLH.

We are aiming to receive approval for KRN23 in Japan and across Asia and Oceania. As a pharmaceutical company, we will pursue our mission to discover revolutionary new drugs and ensure a steady supply of treatments that help resolve social issues in the health field, contribute to the quality of life of people around the world, and support sustainable growth for the company.

## Case 2: Health and Well-being

CSV Commitment

### Supporting self-care for healthy people and people with pre-disease

The Kirin Group has expanded its alcoholic and non-alcoholic beverage businesses in the food industry and its pharmaceuticals business in the healthcare industry. Leveraging synergies in these two business areas, the Group has launched a new business “bridging pharmaceuticals and food & beverages” in an effort to create new value. Recognizing that healthcare needs are not being fully met by current medical and food products, the Group is aiming to establish this new business a pillar of its continuous growth.

Specifically, the Kirin Group is proceeding to develop and supply functional healthcare products with scientifically proven benefits by applying its expertise and technological assets as well as by collaborating with academic research institutes around the world. By 2021, it aims to make these products available in five countries with a combined population of 650 million people. The countries include Japan, Vietnam, other countries in Southeast Asia, and countries in North America. One of the product ingredients that has been developed is *Lactococcus lactis* strain Plasma.



#### Our Achievement

Number of countries capable of purchasing Kirin-made ingredients with positive health effects (and total population)

#### 2021 target

**Five** countries  
(roughly 650 million people)



CASE

2

# Health and Well-being

Businesses bridging Pharmaceuticals and Food & Beverages

## Leveraging technological assets to provide functional ingredients that contribute to health

### Tomomasa Yagisawa

Senior Manager,  
Health Science Department,  
Kirin Holdings

#### PROFILE

Tomomasa Yagisawa joined Kyowa Hakko Kogyo, in 1997 as a medical representative. After studying strategic management in the United States, he was put in charge of product strategies and assigned as a product manager for the North American market. After the company was re-established as Kyowa Hakko Kirin, he was put in charge of human resource development for the entire Kyowa Hakko Kirin Group and the international pharmaceutical business. Mr. Yagisawa was seconded to Kirin Holdings in 2013, where he examined new healthcare businesses after gaining experience in overseeing management strategies for the Kirin Group as a whole. In 2016, he started up the Healthcare Professional Business in the Business Creation Department\* of Kirin Company.

\* Currently the Health Science Department of Kirin Holdings

### Pursuing product development using only scientifically proven ingredients

Ensuring that one does not become ill is a fundamental aspect of quality of life (QOL). With that in mind, there are many possibilities for the beverages and food we consume in our daily lives. Our Health Science Department has been exploring such possibilities.

The scientific basis of many so-called “health food” products is unclear. In contrast, mechanisms of action\* of ingredients are the basis of our products, and we commercialize them after demonstrating statistically significant benefits through trials on human subjects. Generally, such evidence is difficult to demonstrate because the efficacy of health food products is mild compared with pharmaceuticals. Nevertheless, we have conducted medically advanced studies utilizing the Group’s strengths including Kyowa Hakko Kirin’s medical expertise. In addition to collaborative projects with academic research institutes, we have put assets and systems in place for linking research results to business creation. One outcome of this is *Lactococcus lactis* strain Plasma.

\* Mechanisms of action: The processes by which a functional ingredient produces an effect on tissues, organs, and cells.





### Helping improve people's QOL through the widespread use of *Lactococcus lactis* strain Plasma

The unique beneficial feature of *Lactococcus lactis* strain Plasma is that it directly activates plasmacytoid dendritic cells, which act like the "commander-in-chief" of the immune system with respect to protecting the body from viral infections. Our discovery of this activation was a world-first. Our accumulated findings have been critically acclaimed by various medical societies around the world.

The Kirin Group has already launched numerous products made with *Lactococcus lactis* strain Plasma, and begun licensing it to companies outside the Group. In order to ensure that the benefits of *Lactococcus lactis* strain Plasma will be widely understood and made available to broader range of people, we are providing scientific information and providing the *Lactococcus lactis* strain Plasma products to healthcare professionals, such as medical doctors, pharmacists, nurses, and nutritionists, who can understand and share its scientifically proven benefits.

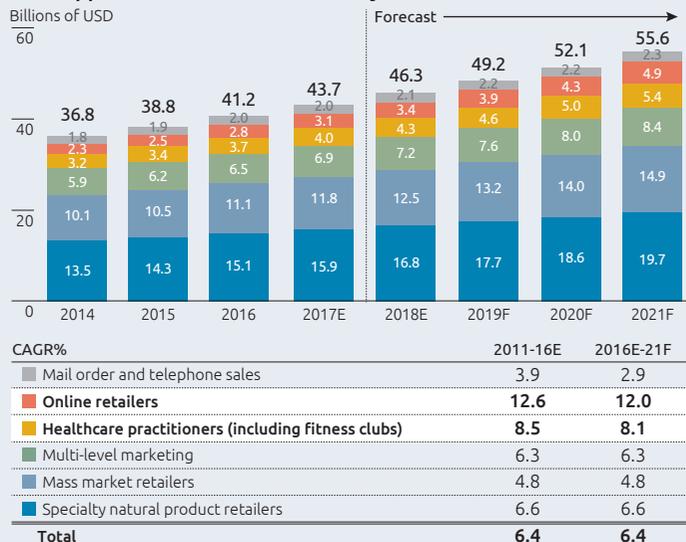
The Group is also globally developing products that use various other healthy functional ingredients, such as ornithine, glutathione, and citicoline. Our department will play a major role in developing and launching new businesses that are relevant to social issues related to health and well-being, while focusing on ways to improve the QOL of people around the world.

### Partnership with Thorne Research

In October 2018, Kirin Holdings and Mitsui & Co., Ltd., jointly invested in the holding company of Thorne Research, Inc., which has a strong business base as a developer, manufacturer, and supplier of high-quality supplements backed by extensive scientific evidence. Its highly functional supplements are made with ingredients that have better potency, absorption, and digestibility, and are primarily sold in the U.S.'s growing supplement market through healthcare practitioners and online retailers, a rapidly expanding sales channel. Thorne Research specializes in clean supplements that do not contain any harmful or unnecessary ingredients, as compiled in its "No" List. Through this partnership, the Kirin Group aims to enhance the corporate value of Thorne Research's business with collaborative activities such as new product development and further expand its business into other markets, such as Japan.

The Thorne "No" List: <https://www.thorne.com/thorne-no-list>

### U.S. Supplement Sales and Forecast by Channel from 2011



Source: Nutrition Business Journal

### Case 3: Community Engagement

CSV Commitment

## More sustainable production of raw materials



“Create more opportunities for customers to spend time with their families and friends, and develop the communities within our supply chain” is one of the items in the Kirin Group’s CSV Purpose. Accordingly, the Group is making efforts to improve the sustainability of agriculture in the areas that grow raw materials for its products, such as hops and grapes in Japan, rice in Myanmar, and tea leaves in Sri Lanka. Among those efforts are activities intended to help solve issues confronting suppliers in various communities. The Group also aims to create even more economic value and new social value. As an example of such activities, the following initiative is being carried out by Mercian Corporation, which is collaborating with vineyards to strengthen its brand of Japanese wine.

#### Our Achievement

Volume of grapes produced at our own vineyards

2027 target

200t



CASE

3

# Community Engagement

## Aiming to boost sales of *Château Mercian* in collaboration with grape-growing communities



### Aya Jindo

Chief brand manager of *Château Mercian*, Marketing Department, Mercian

#### PROFILE

Aya Jindo joined Mercian in 1996. Having studied wine business and marketing in England, she was responsible for the brand management of imported wines for 10 years. In 2014, she was transferred to Kirin Brewery, where she gained experience in developing craft beer and cider products. She returned to Mercian in 2017, and is currently creating plans for three wineries.

### Enhancing the *Château Mercian* brand in terms of both quality and quantity

In recent years, wine consumption has been on the rise in Japan, but the market share of Japanese wine\* is only about 5%. Against that backdrop, we set the goal of increasing our sales volume of Japanese wine, led by our *Château Mercian* brand, by 1.5 times the current volume to 67,000 cases by 2027. To achieve this goal, it will be important to cultivate a customer base that regularly drinks Japanese wine with pride. That is our *raison d'être*.

*Château Mercian* has been highly praised for its quality at international wine competitions in the past. Nevertheless, for it to be widely selected as a wine of high value, which includes its price in the marketplace, it will be necessary to raise its quality and expand its quantity. Therefore, we are currently working to double our grape supply by expanding the size of company-managed vineyards from 50 hectares to 76 hectares by 2027, while also training the personnel needed for growing grapes.



### Contributing to the growth of suppliers and their communities through the development of three wineries

Our wine business is agricultural, and I believe in developing the areas that produce our brands. With that in mind, I am leading a plan involving three wineries in grape-growing areas that neighbor each other. We have been operating the Katsunuma Winery, which is like the gateway to our brands, in the city of Koshu, Yamanashi Prefecture, and the Kikyogahara Winery, a premiere facility open to public 10 days each year, in the city of Shiojiri, Nagano Prefecture.

In the autumn of 2019, we will open the Mariko Winery in the city of Ueda, Nagano Prefecture, as our third winery. Covering 29 hectares, it is the largest area managed by the company. The buildings are located on the highest elevation of the plot and surrounded by vineyards on all sides, allowing us to establish it as a boutique winery capable of overseeing every process from grape growing to wine production (more details are provided on the top right side of this page).

The theme of the Mariko Winery will be “joining hands with the local community,” as it will be difficult for the company to operate the winery on its own. With assistance from a local senior citizen center, we will hire older people to help work in the vineyards. We also plan to give children

### The Group’s boutique winery joins hands with the local community

A boutique winery is a comparatively small-scale winery that produces high-quality wine using hand-picked grapes. When it opens in the autumn of 2019, the Mariko Winery will be a boutique winery that “joins hands with the local community,” based on the concepts of integrating with the regional economy and industries, harmonizing with the local ecosystem, and being an integral part of the community’s future. Staff at the Mariko Winery plan to offer valuable experiences to visitors with tours of every wine production process spanning from grape harvesting to cultivation, as well as wonderfully scenic views from the terrace seating set up on the second floor.



An exterior view of the Mariko Winery (artist’s rendition)



Inside the Mariko Winery (artist’s rendition)

opportunities to experience agriculture, and to hold festivals on the winery grounds in the future.

By operating the three wineries, we can offer valuable experiences and plenty of satisfaction to people who are new to wine as well as wine connoisseurs. I also believe the development of the wineries will help revitalize the surrounding region.

### Envisioning the future of Japanese wine

At our wineries, we are offering satisfying experiences to visitors, promoting sales of wines, and creating opportunities for customers to enjoy wine with family and friends. By creating such memorable experiences, we can encourage customers to visit again and again. We are also promoting sales via Mercian’s informative and interesting website, and steadily increasing the number of wine lovers. Incorporating success stories at wineries outside Japan, we are working to boost profit ratios and increase our direct sales ratio of wine to 20%.

The company has begun exporting *Château Mercian* to markets overseas. The wine is being offered by three-star restaurants in Hong Kong, and we will aim to have it recognized as a high-value wine in cities like London and New York in the future. We will continue these efforts and strive to have *Château Mercian* recognized around the world as Japan’s leading brand of wine.

\* Japanese wine is defined as wine produced domestically with 100% of the grapes grown in Japan. It is distinct from domestically produced wine made with imported concentrated fruit juice or imported wine as ingredients.

## Case 4: The Environment

CSV Commitment

### Actions regarding climate change

For the Kirin Group, global warming is a serious issue. In 2009, it set an ambitious target to reduce CO<sub>2</sub> emissions by half across the Group's entire global value chain by 2050 compared with the 1990 level, and has been working towards that goal ever since.

In March 2017, the Group set a medium-term target to reduce GHGs, whether directly emitted from its business activities or emitted in the value chain, by 30% by 2030 compared with the 2015 level\*<sup>2</sup>, and began working to achieve this target in its business operations. As an aspiring initiative, Kirin Brewery introduced a production system that realizes the world's lowest amount of GHG emissions\*<sup>3</sup>.

\*<sup>2</sup> This goal was the first GHG reduction target in Japan's food and beverage industry to be recognized by the international initiative Science Based Targets.

\*<sup>3</sup> Based on an in-house study



#### Our Achievement

Reduction of GHG emissions  
(Scope 1 and 2)

2030 target

**30%**  
(compared with 2015)

CASE

4

# The Environment

## Reducing GHG emissions by 36%\*<sup>1</sup> and annual fuel costs by 1 billion yen through a switchover to clean energy

\*<sup>1</sup> Kirin Brewery has set a higher target for achieving the targets of the Kirin Group.



### Sosuke Yoshikawa

Manager, Technology Development Department, Production Division  
Kirin Brewery

#### PROFILE

Sosuke Yoshikawa joined Kirin Brewery in 2005. He was responsible for all energy systems when the company's Shiga Factory was upgraded in 2007. After that, he was involved in engineering operations at the head office, and was assigned to work in Brazil in 2014. Mr. Yoshikawa succeeded in substantially reducing energy consumption while overseeing the construction of the company's beer and beverage factories and implementing innovative energy-saving initiatives. At present, he oversees environmental and energy-related engineering and is in charge of devising forward-looking GHG emission reduction strategies.

### Aiming to end dependence on fossil fuels in an effort to reduce GHG emissions

Kirin Brewery reduced its GHG emissions by about 70% over a 25-year period from 1990 to 2015 by applying its leading technological capabilities in the global beer industry and carrying out numerous forward-looking initiatives.

Now the company is taking on the challenge of applying even more technological innovations to achieve GHG emission reduction targets set by the Kirin Group in 2017.

As a means to achieve this, we are aiming to shift our energy sources from fossil fuels to electric power. Both electric power and fossil fuels are currently used as energy sources at our breweries. Comparatively, the largest amount of GHG emissions comes from fossil fuels, which are used to generate heat. Therefore, in order to reduce GHG emissions, we need to improve energy efficiency and reduce the amount of energy consumption. At the same time, we believe that shifting the energy mix to electric power, and, furthermore, using electricity generated by renewable energy sources are the most effective ways of reducing GHG emissions.

## Applying our leading engineering capabilities with the aim of realizing the world's best energy system

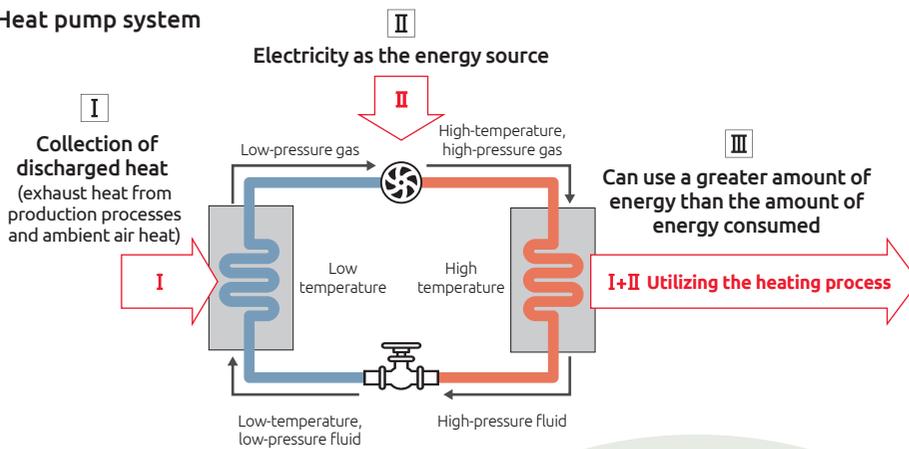
Heat pump systems are a key technology for reducing GHG emissions. We have been able to both save energy and shift to electric power by installing heat pump systems. Simply installing equipment, however, will not necessarily produce results. Before installation, it is essential to analyze the entire heat flow of the production process and optimize it through advanced designs. The Kirin Group has accumulated leading engineering capabilities, and my team made use of that experience while aiming to put in place a production system

that realizes the world's lowest amount of GHG emissions. Through these efforts, we expect to reach our GHG emission reduction target before 2030. Moreover, reducing annual energy costs by 1 billion yen appears to be achievable.

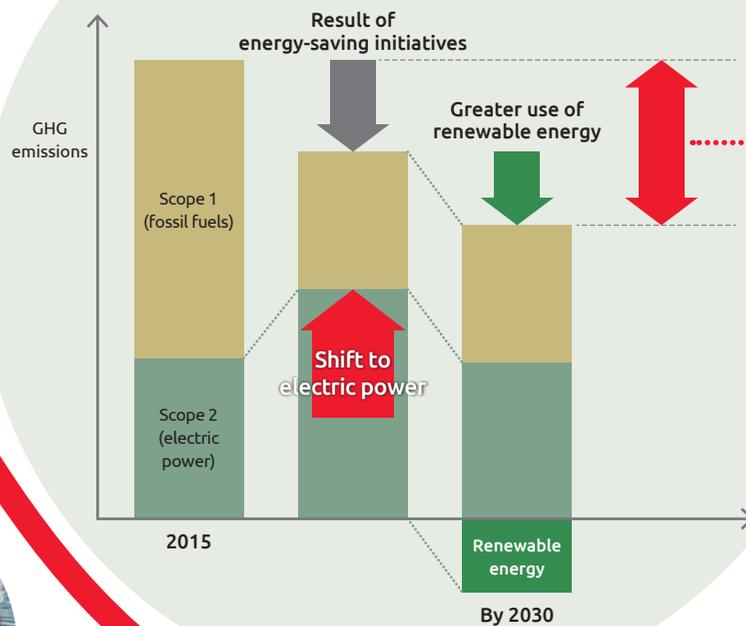
While monitoring results at the Okayama Factory and using it as a model, we plan to successively replace the energy systems at each of our other factories in Japan and abroad from 2019.

Kirin Brewery will continue applying its technological strengths with a view to realize the world's best energy system.

### Heat pump system



### Method of reducing GHG emissions



GHG emission reduction of **36%\*1**  
 Fuel costs cut by 1 billion yen annually



**Case 5: A Responsible Alcohol Producer**

CSV Commitment

**Responsible drinking / passing a culture of enjoying alcoholic beverages to the next generation**



For many, alcohol can bring joy and happiness at social gatherings, but it can also be harmful if not consumed responsibly. Kirin Group's Zero Harmful Drinking project aims to combat irresponsible drinking in all the regions it operates in while creating a positive drinking culture that can be sustained for generations to come. Kirin strives to fulfill these aims by understanding and valuing local attitudes, as well as producing different ways to educate responsible drinking according to each region. Kirin does this by creating more drinking options, such as non-alcoholic and low-alcoholic beverages, and by improving consumer acceptance towards these products. Kirin also encourages labeling alcohol content on beverages to ensure important information is visible at all times. Learn more about the CSV commitment of Lion, Australia below.

**Our Achievement**

Number of participants in appropriate drinking education programs / viewers of drinking manner advertisements

**2021 target**

**One million** participants/viewers

CASE

5

**A Responsible Alcohol Producer**

**Shaping a positive drinking culture that brings people together in Australia and New Zealand**

**The major alcohol-related issues facing Australia and New Zealand**

The majority of adults in Australia and New Zealand who drink do so safely and sociably. Indeed, irresponsible alcohol consumption in both countries has seen a downward trend for almost a decade, with underage drinking at its lowest level.

Nevertheless, alcohol misuse is still prevalent in today's society and must be taken seriously. One of the biggest alcohol-related issues faced in Australia and New Zealand today is removing the perception that alcohol fuels anti-social behavior. Findings have actually revealed that the causes of such behavior are typically social and cultural, which means policymakers need to focus on social and cultural solutions. A recent report from Lion showed people who have a local place to drink in Australia are more trusting and satisfied with life, have broader friendship and support networks, feel less isolated, and identify more closely with their community. With this in mind, we actively support local solutions to local problems. For example, we participate in government-led strategies that deal with alcohol-related problems in local areas, such as violence and anti-social behavior. We also back local licensing laws to help maintain a more cohesive society.

Above all, alcohol regulation should be focused on unhealthy and harmful drinking, not on reducing consumption in general.

**Libby Davidson**

Lion Group General Counsel & External Relations Director

**PROFILE**

Libby Davidson joined Lion in 2005 and has gained experience over the past 14 years in a wide range of operations, including legal affairs, client relations, mergers and acquisitions, and corporate governance. At present, she concurrently serves as a sustainability director and plays an important role in responsible drinking awareness campaigns while executing numerous innovative initiatives.





**DrinkWise.**



### Shaping a more responsible and social drinking culture

To create shared value for Lion and the communities we operate in, we help shape a positive drinking culture that brings people together in Australia and New Zealand. There are numerous ways we do so, such as offering lower-alcohol options that don't compromise on flavor and quality. And through our marketing campaigns, we consistently promote responsible drinking and encourage people to savor the experience rather than drinking purely for the effect.

We also invest in initiatives and partnerships that improve drinking behavior and attitudes. This includes our partnerships with DrinkWise Australia and Cheers! New Zealand.

DrinkWise Australia is an independent not-for-profit organization that aims to address alcohol misuse and underage drinking. Lion is the largest investor in the organization and contributes annually to high-profile campaigns. Cheers! New Zealand aims to help New Zealanders understand the causes and effects of their drinking behavior and make smarter choices as a consequence. Our online interactive training program, "Alcohol & Me," reinforces this goal and is now used in workplaces across New Zealand.

Educating consumers on the risks of alcohol is one of our priorities, which is why all our labels include the message that it is safest not to drink alcohol while pregnant. Our labels also display easy-to-understand symbols that indicate the amount of alcohol contained in each beverage, enabling drinkers to keep track of how much they are consuming.

Ultimately, our goal to create a more responsible and social drinking environment is driven by our determination to address and alleviate social isolation. We want our products to be at the center of life's sociable moments. By supporting those moments and breaking down barriers, we can create a world where people live and work in communities which take care of each other and our environment.

### Alcohol-related problems

Confronting alcohol-related problems is a global challenge. In 2015, the United Nations included the prevention of harmful use of alcohol in the Sustainable Development Goals. In that context, the Kirin Group joined the International Alliance for Responsible Drinking (IARD), an international NPO, through which it is working together with major alcohol producers from around the world to promote responsible drinking and reduce harmful drinking.

In September 2018, the CEOs of each member company gathered in Paris and announced a new initiative: through a cooperative agreement with the social media services Facebook, Instagram, Google, YouTube, Twitter, and Snapchat, alcohol ads would not be shown to users who are not of legal drinking age, while adult users would be given the choice to have alcohol ads appear or not.



## Japan Integrated Beverages

### Core operating companies

- Kirin Company
- Kirin Brewery

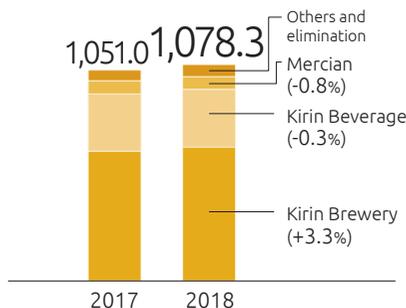


- Kirin Beverage

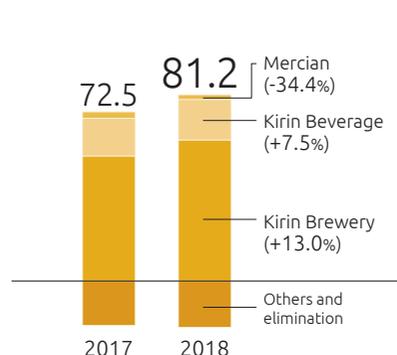
- Mercian



### Revenue (Billions of yen)



### Normalized operating profit (Billions of yen)



Note: Figures in parentheses are comparisons with the previous fiscal year.

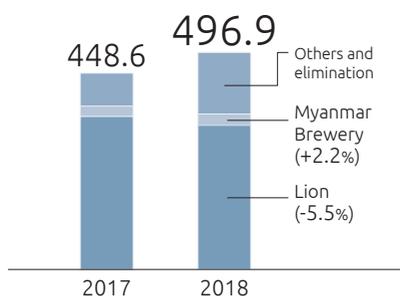
## Overseas Integrated Beverages

### Core operating companies

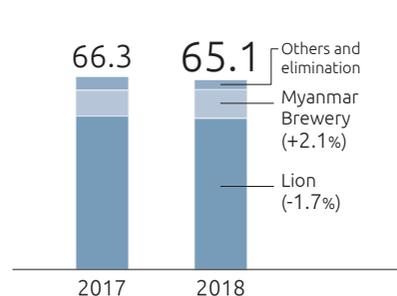
- Lion
- Myanmar Brewery



### Revenue (Billions of yen)



### Normalized operating profit (Billions of yen)



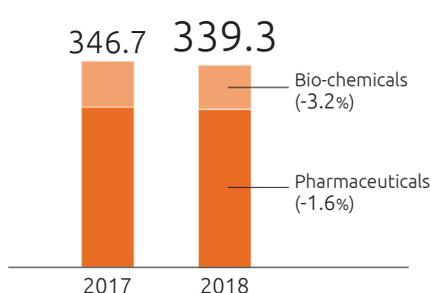
## Pharmaceuticals & Bio-chemicals

### Core operating companies

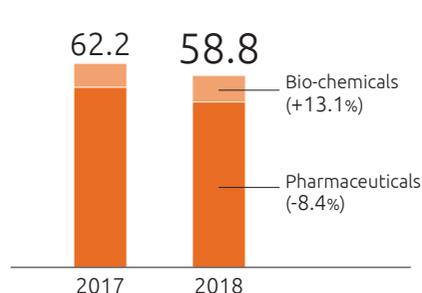
- Kyowa Hakko Kirin
- Kyowa Hakko Bio



### Revenue (Billions of yen)



### Normalized operating profit (Billions of yen)



## The new reportable segments

Kirin Holdings' reporting segments through fiscal 2018 were Japan Integrated Beverages, Oceania Integrated Beverages, Other Overseas Integrated Beverages, Pharmaceuticals & Bio-chemicals, and Other. In fiscal 2019, the reporting segments were revised to Japan Beer and Spirits, Japan Non-alcoholic Beverages, Oceania Integrated Beverages, Pharmaceuticals and Bio-chemicals, and Other.

The segment organization was revised at the start of

fiscal 2019 after determining the best structure for realizing the Group's future business strategies beginning with 2019 MTBP. Kirin Holdings determined that the most effective way to further strengthen the integrated management of the group companies was to merge with Kirin Brewery to formulate a flexible organizational structure and also to revise the components of the internal monitoring within the Kirin Group.

Through fiscal 2018



Starting fiscal 2019



\* The segment name will be changed to Pharmaceuticals Business in the second quarter of fiscal 2019 following the acquisition of 95% of all outstanding shares of Kyowa Hakko Bio Co., Ltd. from Kyowa Hakko Kirin Co., Ltd. on April 24, 2019.

## Japan Beer and Spirits

### Market environment

Kirin Brewery expects the domestic total beer market to continue shrinking amid the declining birthrate and aging population in Japan and as consumer preferences becoming increasingly diversified.

In addition, the revision to the Liquor Tax Act in 2017 followed by the price increase on a portion of its on-premise products in 2018 increased concern that higher retail prices would reduce demand for beer products, and Kirin Brewery saw a shift in demand to low-priced and ready-to-drink (RTD) products. With the plan to increase the

consumption tax in October 2019, Kirin Brewery expects deteriorating consumer sentiment to continue increasing demand for lower-priced products in new genre categories while evolving consumer preferences continue to shift demand to RTD products. Anticipating a certain level of price differential between beer and new genre product prices in 2021, the year after the tax revision, Kirin Brewery expects the share for traditional beer (defined in the narrow sense) in the overall alcohol market including RTDs to remain at roughly 40%, about the same as in 2017.

### Strategies

Kirin Brewery continues to pursue the objectives of the previous MTBP to raise both revenue and profit by emphasizing profitability and investing in its core brands.

In April, Kirin Brewery introduced a refreshed version of its flagship *Kirin Ichiban* brand designed to appeal to a broader customer range.

Kirin Brewery will also strengthen consumer recognition of its new genre products positioned close to our beer products, specifically the popular *Honkirin*, launched in 2018, and the revamped *Nodogoshi*. Kirin Brewery fully expects rival breweries to launch products to try to counter its success with *Honkirin*. Rather than relying on extension products or new products designed solely to boost sales volume, Kirin Brewery will prioritize generating further growth for its existing products. Kirin Brewery will remain constantly focused on its customers as Kirin Brewery seeks to stimulate demand by offering attractive beer products in all categories.

Kirin Brewery is also developing a product portfolio strategy for the upcoming revision to the Liquor Tax Act in 2020 and beyond. In 2019, Kirin Brewery will therefore increase its investment in its signature beer *Kirin Ichiban* and also in its

*happo-shu Tanrei Green Label*, which it believes has promising growth potential.

Kirin Brewery has also set developing the craft beer operation into a profitable business as a medium- to long-term target. Kirin Brewery will continue developing the craft beer market by creating more opportunities for consumers to taste its products. Kirin Brewery plans to increase the number of restaurants and drinking establishments equipped with our Tap Marché beer dispenser units from roughly 7,000 stores in 2018 to close to 13,000 in 2019.

Kirin Brewery also plans to fortify its offerings in the RTD category, particularly the core *Hyoketsu* and *Honshibori* brands. Kirin Brewery will be prepared to meet growing demand for RTD products when its new ¥5 billion RTD production facility at the Nagoya Plant commences operations in May 2019. Kirin Brewery will also boost its profit margins in the RTD category through more efficient transport operations between eastern and western Japan.

Kirin Brewery will also work to boost sales of its non-alcohol beer-taste beverage *Kirin Zero ICHI* and its Japanese whisky offerings, which Kirin Brewery is aiming to develop into a high margin business category for the company.



# Japan Non-alcoholic Beverages

## Market environment

Kirin Beverage expects the non-alcoholic beverages market to continue growing at a brisk pace in 2019, but to ultimately remain flat or contract modestly year on year primarily owing to the strong sales during last year's unseasonably hot weather. Because non-alcoholic beverages are exempt from the consumption tax change, Kirin Beverage does not expect the tax hike in October 2019

to directly impact sales but it may have an indirect impact if overall consumption slows.

At the same time, Kirin Beverage expects sales to grow in the low- and sugar-free products category supported by younger consumers' preference for sugar-free drinks and the overall trend for health-conscious choices on the backdrop of the country's declining birth rate and aging population.

## Strategies

Kirin Beverage has vastly improved its profitability through the structural reform achieved under the previous MTBP. The company has fortified its business foundation through better income and expense management and reduced supply chain management costs. Successes strengthening its leading brands led to sales volumes bouncing back sharply for *Nama-cha* and reaching a record high for *Kirin Lemon*, which marked its 90th anniversary since its debut.

Since Kirin Beverage will also be strengthening its localization strategy, advancing its integrated marketing, and continuing to promote the development of the *FIRE* brand, it will follow the same strategic framework in 2019 that it had in 2018 aimed at generating profits by expanding its business.

Kirin Beverage will further strengthen the foundations of its flagship brands *Gogo-no-Kocha*, *Nama-cha*, and *FIRE*. In response to consumer demand, in April 2019 Kirin Beverage introduced *FIRE* brand products in PET bottles and expanded its lineup of offerings in the sugar-free and health and well-being domains.

Its container strategy is to continue to center its management targets on high-margin smaller PET containers while maximizing value by linking the strategy with its strategy for the *Nama-cha*, *Kirin Lemon*, and other brands.

Kirin Beverage will also fortify the procurement, production, logistics, and other elements of its supply chain to establish a sustainable operating structure.

### Grow Existing Domains

- > Strengthen three core brands
- > Strengthen sugar-free and health and well-being domains



### Initiatives in New Domains

- > Develop KIRIN naturals



### Create a Sustainable Structure

- > Promote SCM cost reduction
- > Build a stable distribution network



## Oceania Integrated Beverages

### Market environment

Lion anticipates beer sales volume in Australia to either remain flat or decline modestly in the broad trend of increasing health consciousness. Lion also expects higher purchase prices from the introduction of container deposit schemes aimed at reducing waste, such as those launched in New South Wales in December 2017 and Queensland in November 2018, to affect consumer purchasing behavior.

At the same time, Lion expects the markets to continue growing for contemporary and craft beer categories.

Lion expects the growing health consciousness among consumers to support moderate overall growth in the dairy product and non-alcohol drink markets although with some variation in specific categories.

### Strategies

In the Beer, Spirits and Wine business, Lion will harness the business potential from the shift away from traditional classic categories to the contemporary and craft categories by boosting its brand power in the growth categories while continuing to concentrate investment on its leading brands. The company is aiming for a higher sales ratio of high-priced and high-margin products to improve profitability in the medium and long term.

The company will also increase investment to develop the markets for craft beer overseas and for premium beer as it seeks to develop them into a pillar of profit growth in the future.

Kirin Holdings has determined that selling Lion’s Dairy & Drinks business to a third party would be the most beneficial to Lion in terms of business value and to the Kirin Group in terms of shareholder value. The Company is examining the feasibility of such a move in 2019.

Energy costs are rising in Australia as the country seeks to convert to clean energy and the closing of aging coal-fired power plants is reducing available power supply. Lion is stepping up its ongoing efforts to reduce costs by making the supply chain more efficient and also by reformulating the functions of its headquarters, including by introducing enterprise resource planning (ERP) systems.

#### Build our brands to grow the beer business



#### Initiative to generate new growth

Premium crafted adult beverages

Global craft beer business



#### Invest to establish a sustainable business

Establish ICT systems for the future

Business structural reform

## Pharmaceuticals & Bio-chemicals

### Market environment

The Japanese government is taking steps to preserve the public health insurance system as the country deals with a declining birthrate and aging society. Although the pharmaceutical market is still expanding, we think government

efforts to control medicals costs by overhauling the drug pricing system and allowing more generic drugs on the market could further slow the market growth.

### Strategies

The Kyowa Hakko Kirin is committed to contributing strongly to the health and well-being of people around the world and becoming a Japan-based world-leading R&D-focused life science company by engaging in "Creating Shared Value (CSV)" management that helps boost corporate value. To this end, the company will continue to rely on innovation as its foundation, utilize state-of-the-art biotechnology to changes and roll out products and services that meet true customer needs and have high unique value.

In the Pharmaceuticals business, although Kyowa Hakko Kirin expects impacts from a reduction in drug price standards in Japan, Kyowa Hakko Kirin anticipates year-on-year revenue growth supported by expanding sales of the global strategic products *Crysvita* and *Poteligeo*, which Kyowa Hakko Kirin released in the United States and Europe in 2018. Moreover, although Kyowa Hakko Kirin expects increases in selling expenses for expanding revenues and maximizing the value of global strategic products and in research and development expenses, core operating profit\* is expected to increase due to growth in overseas revenue.

In the bio-chemicals business, after considering and discussing the possibility for further collaboration in the business domain of health and well-being on which Kirin Holdings is focusing as a future growth driver, Kirin Holdings and Kyowa Hakko Kirin came to the decision that by making Kyowa Hakko Bio a direct subsidiary of Kirin Holdings, it would be possible to more effectively use each other's strengths and management resources, as well as raise the speed of business development, beginning with the health and well-being domain, and so open the way to maximizing group synergies and the corporate value of Kyowa Hakko Bio. In addition, the share acquisition would allow Kyowa Hakko Kirin to concentrate management resources on the Pharmaceuticals business, primarily new drug development, and to further accelerate the pace of growth. Kyowa Hakko Kirin shareholders approved the proposal at the shareholders' meeting in March 2019, and Kirin Holdings acquired 95% of the share of Kyowa Hakko Bio on April 24.

\* Revenue – cost of sales – selling, general and administrative expenses – research and development expenses + share of profit of equity-accounted investees

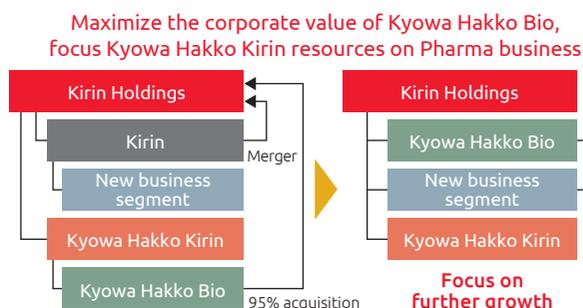
#### Maximize the value of global strategic products

- > *Crysvita* Continue to penetrate markets
- > *Poteligeo* Plan to launch in EU
- > KW-6002 Plan to file for regulatory approval in US

#### Establish the "One Kyowa Kirin" structure

- > Establish North America as an independent business region
- > Begin management on a regional x functional axis (Japan, EMEA (Europe/Middle East/Africa), North America, Asia/Oceania)

#### Kirin Holdings Acquisition of Kyowa Hakko Bio



## Fiscal 2019 Market Conditions and Strategies by Segment

### Other

#### Strategies

##### Mercian

Mercian is strengthening its brands by selecting and concentrating on the core brands in each category and is formulating a portfolio of products with high growth and profit potential. *Château Mercian* is using its three wineries as a foundation for strengthening its activities to create shared value by helping invigorate local areas into active grape-growing industries.

##### Myanmar Brewery

Myanmar Brewery expects the Myanmar beer market to continue expanding at an annual percentage rate in the high single digits. As the country's economy grows, the company

aims to capture demand from the growing number of customers in the beer-entry segment and from customers moving up to higher price categories. Myanmar Brewery will focus investment and sales promotions on its core *Myanmar Beer* and *Andaman Gold* brands as it heightens its presence in the country's growing beer market.

##### The Coca-Cola Bottling Company of Northern New England (CCNNE)

CCNNE is reorganizing its production bases as it continues to radically overall its operating structure to fortify its earning power.

### FY2019 Full-year Forecast — Normalized Operating Profit

| (bn yen)   | 2019 Forecast | 2018 Actual | YoY   | %      |
|--|---------------|-------------|-------|--------|
| <b>Consolidated Normalized OP</b>                    | 190.0         | 199.3       | -9.3  | -4.7%  |
| <b>Japan Beer and Spirits</b>                        | 84.7          | 82.7        | 2.0   | 2.4%   |
| Kirin Brewery  | 83.5          | 80.9        | 2.6   | 3.2%   |
| Others   | 1.2           | 1.8         | -0.6  | -31.9% |
| <b>Japan Non-alcoholic Beverages</b>                 | 24.0          | 23.3        | 0.7   | 2.9%   |
| Kirin Beverage                                       | 24.0          | 23.3        | 0.7   | 2.9%   |
| <b>Oceania Integrated Beverages</b>                  | 48.2          | 51.8        | -3.6  | -7.0%  |
| Lion   | 48.2          | 51.8        | -3.6  | -7.0%  |
| Beer, Spirits, and Wine                              | 52.1          | 53.3        | -1.2  | -2.3%  |
| Dairy and Drinks                                     | 5.7           | 5.1         | 0.5   | 10.0%  |
| Corporate  | -9.6          | -6.7        | -3.0  | -      |
| <b>Pharmaceuticals and Bio-chemicals</b>             | 62.0          | 58.8        | 3.2   | 5.5%   |
| Pharmaceuticals (Kyowa Hakko Kirin)                  | 54.0          | 50.4        | 3.6   | 7.1%   |
| Bio-chemicals (Kyowa Hakko Bio)                      | 8.0           | 8.1         | -0.1  | -1.6%  |
| Others   | -             | 0.3         | -0.3  | -      |
| <b>Other</b>   | 18.4          | 19.0        | -0.6  | -3.3%  |
| Mercian  | 2.5           | 2.6         | -0.0  | -1.9%  |
| Myanmar Brewery                                      | 9.5           | 10.1        | -0.6  | -5.9%  |
| CCNNE  | 3.8           | 2.8         | 1.0   | 33.5%  |
| Others   | 2.5           | 3.5         | -0.9  | -27.0% |
| <b>Corporate expenses/inter-segment eliminations</b> | -47.3         | -36.3       | -11.0 | -      |

## Risk Management

### Approach to risk management

The Kirin Group defines risk as uncertainty with the potential to seriously impede the accomplishment of business targets or impact business continuity. A “crisis” refers to a situation in which a risk is actualized at a certain point and therefore needs to be addressed on an urgent basis.

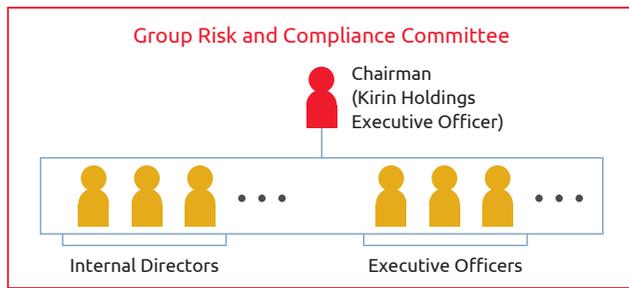
The Kirin Group’s basic risk management policy is to seek to prevent risk from being actualized, to effectively maintain compliance, and to continue earning the trust of customers, employees, shareholders, and society over the long term.

### Risk management structure

The Kirin Holdings Group Risk and Compliance Committee oversees the risk management activities of the Kirin Group. Kirin Holdings internal directors and executive officers serve on the committee, and an executive officer serves as the committee chair.

Each Kirin Group company also has a committee dedicated to risk management. The risk management committees of Kirin Holdings and the Kirin Group companies meet quarterly to conduct risk monitoring.

#### Risk management structure



#### Risk management PDCA cycle



\* Domestic and overseas consolidated subsidiaries

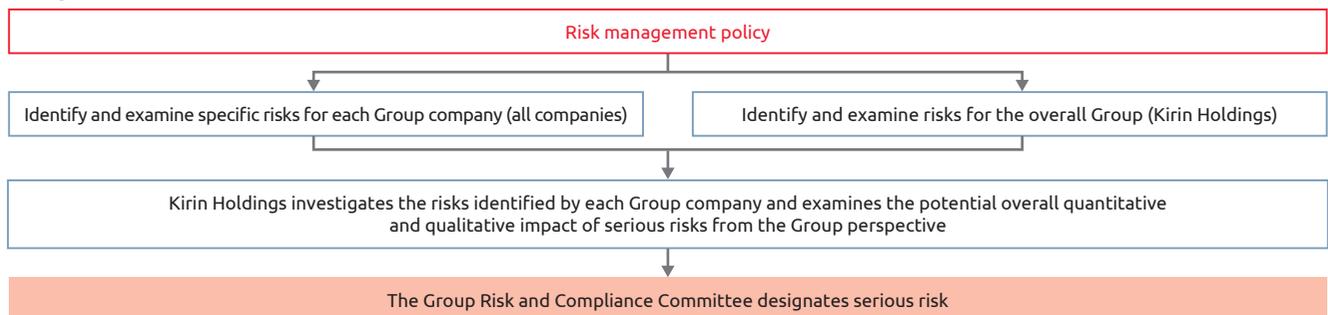
### Process for designation of serious risk

Kirin Group companies, in conformance with the group risk management policy, identify and examine the quantitative and qualitative risk associated with their business activities.

The Group Risk and Compliance Committee Administrative Office (Kirin Holdings Corporate Strategy Department) sur-

veys and investigates all risks. The committee defines serious risks to the Group as risks considered to have a potentially strong impact, a high likelihood of occurring, or widespread ramifications.

#### Designation of serious risk



## Risk Management

### Business risk impact and countermeasures

The Kirin Group quantitatively and qualitatively evaluates the potential impact and probability of occurrence of each risk. Risks determined to have a strong potential impact are designated as serious risks. The Group communicates the serious risks to the executive managements of Kirin Holdings and

each group company, establishes clear roles for each company and department, and prescribes risk reduction measures. The Group regularly monitors the risk conditions and the progress with countermeasures and when necessary reviews the status of the serious risks.

#### Serious risks in each business domain

|   | Serious risk   | Potential impact on business   | Countermeasures  |
|---|--|--|--|
| 1. Food & Beverages domain (Alcoholic & non-alcoholic beverages businesses) | Changes in consumer preferences, such as from price polarization and diversification of preference, alter the market environment and competition and impact sales of core products | The Group's competitive advantage weakens due to sales of core products falling short of targets | Strengthen customer-centric marketing capability to maintain and cultivate strong brand power  |
|   | The impact of climate change, torrential rain, drought, unusually cold summers, weather abnormalities or large-scale natural disasters such as an earthquake                       | Supply chain disruptions halt or delay product deliveries  | Expand and strengthen delivery capabilities; prepare and implement a business continuity plan; establish crisis task forces  |
| 2. Pharmaceuticals domain (Pharmaceuticals & Bio-chemicals businesses)      | Inability to adequately accelerate business overseas along with developing and launching global strategic products   | Delayed business development   | Develop business in Europe, the United States, and Asia; establish a firm foundation for sustained business growth   |
|   | Technical or legal problems at manufacturing and logistics facilities  | Product supply disruption, delay, or shortages   | Formulate a global supply chain management structure   |
| 3. Businesses bridging Pharmaceuticals and Food & Beverages                 | Slow progress formulating a competitive business model and suitable organizational and governance structures   | Stalled establishment or fostering of new businesses   | <ul style="list-style-type: none"> <li>• Use Kirin Group expertise and experience to develop businesses</li> <li>• Incorporate insight received from customers into our operations and improve our organizational ability to integrate customer insight</li> </ul> |

#### Opportunity, risk, and our plan for businesses bridging Pharmaceuticals and Food & Beverages

With the amazing advances in medical technology helping people enjoy longer lives, attention in Japan and overseas is starting to focus on health management and disease prevention, or what is being called the “pre-disease” area between being healthy and being treated for illness. We believe this is an opportunity for us to carry out the Kirin Group mission to contribute to resolving social issues and are applying our expertise and strengths in the food and health fields to create “businesses bridging Pharmaceuticals and Food & Beverages,” which will be a pillar of the Group’s future growth.

At the same time, we are fully aware that creating new businesses is a huge undertaking involving not just formulating a winning business model but also establishing effective organizational and governance systems, conducting new research, and developing new technologies. Without being fully developed in each of these areas, business launches could be delayed and business plans could be put on hold. To ensure success, the Kirin Group is organizing a group-wide effort to utilize our expertise and experience gained from

the successful development of products like the *iMuse* with *Lactococcus lactis* strain plasma. We are developing innovative products and formulating a business model for long-term business growth.

We also know that it is essential to use new information and communications technology (ICT) and to ally with specialists and business operators outside the Group to effectively develop markets, cultivate sales, and advance R&D for the new businesses. To this end, the Kirin Group is applying insight derived from a deeper understanding of customers to create ICT platforms and solutions and is enhancing its organizational capabilities by infusing our human resources with people offering diverse perspectives and expertise. The Group is also actively promoting open innovation, establishing legal, internal and external regulation, and social norm compliance and quality assurance systems, and utilizing productivity assessments to set investment parameters and budgets. In addition, the Group is carrying out extensive due diligence prior to business and capital alliances and monitoring subsequent business activities.

## Climate-related risks and scenario analysis based on TCFD initiative

The Kirin Group was the first company in the Japanese food & beverage industry to endorse the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The Group conducted a trial scenario analysis following the TCFD recommendations from January to May 2018 to assess the impact of climate change on its business.

The analysis confirmed that by the end of this century climate change would likely have a major impact on the agricultural products that are important raw materials for the Group. We also reconfirmed that existing strategies, such as supporting tea estates to obtain sustainability certifications,

sourcing materials for our paper container and packaging forests, preserving water resources and reducing greenhouse gas emissions, are strengthening our resilience to the impacts of climate change.

We are applying the information we learn from the trial analysis to strengthen our business planning. We are presently in the very early stage of comprehending the full environment impact of climate change on our financial operations and are deepening our examinations of transition risk scenarios.



Further details related to our climate-related scenario analysis are available in the Kirin Group Environmental Report online at: [https://www.kirinholdings.co.jp/english/csv/report/env/pdf/environmental2018\\_2\\_06e.pdf](https://www.kirinholdings.co.jp/english/csv/report/env/pdf/environmental2018_2_06e.pdf)

## Action to plastic waste issue

The Kirin Group established the Kirin Group Plastic Policy in February 2019 to specifically address the issue of plastic waste, one of the most pressing environment-related social issues. The Kirin Group understands the fundamental challenges concerning the use of plastic, and we are accelerating efforts regarding the use of plastic containers, packaging, and other items by group companies to promote the sustainable use of plastic and resource circulation.

## Promoting resource circulation of PET bottles

The Kirin Group is actively promoting resource circulation of its PET bottles and aims to increase its recycled plastic ratio in Japan to 50% by 2027 while also redesigning its PET bottles, such as trimming the weight of its bottles, to improve the sustainability of PET raw materials. We are also seeking alternative sustainable materials to reduce the use of single-use plastic by our group companies.



The Kirin Group Plastic Policy is online at: [https://www.kirinholdings.co.jp/english/news/2019/0207\\_01.html](https://www.kirinholdings.co.jp/english/news/2019/0207_01.html)

Further details on the Kirin Group activities to reduce plastic waste are available online at: [https://www.kirinholdings.co.jp/english/csv/report/env/pdf/environmental2018\\_2\\_04e.pdf](https://www.kirinholdings.co.jp/english/csv/report/env/pdf/environmental2018_2_04e.pdf)

## Human rights impact assessment for our Myanmar operations

The Kirin Group inaugurated its Human Rights Policy in February 2018 and has since been actively working to address human rights issues related to its group operations. The first step under the policy was to work with outside experts to determine the scope of a human rights impact assessment, and in May 2018 we conducted a human rights assessment of our operations in Myanmar in reference to local laws and the conventions of the International Labor Organization. After conducting a further assessment in June of that year, we convened a meeting of outside experts, advisors, and local stakeholders who determined that our operations in Myanmar presented a relatively high level of risk of negative human rights impacts in the areas of occupational safety and health, workers' rights, forced labor, child labor, supply chain working conditions, and impact on local communities.

We then applied what we learned to categorize areas where our business practices and policies created high risk of

negative impacts on human rights, areas to improve, and areas to monitor, and we further set specific action targets to achieve by 2021. We are putting particular effort into strengthening rice supply chain management and transparency.



Meeting with rice farmers

The Kirin Group will continue to follow international standards and employ best practices and will regularly review and revise its business practices and action targets as we step up activities to ensure we conduct our operations with full respect for human rights.



Further details on the Kirin Group human rights impact assessment for our Myanmar operations are online at: [https://www.kirinholdings.co.jp/english/csv/human\\_rights/pdf/myanmar\\_en.pdf](https://www.kirinholdings.co.jp/english/csv/human_rights/pdf/myanmar_en.pdf)



## Sir Rod Eddington

### Member of the International Advisory Board

Sir Rod Eddington was appointed as Chairman to the board of Lion in March 2012, having been appointed to the board in March 2011. One of Australia's most experienced and accomplished business leaders, Sir Rod had a long career in the aviation industry and is a former CEO of Cathay Pacific Airways, Executive Chairman of Ansett and CEO of British Airways. In 2005, Sir Rod was awarded a Knighthood by the British Government for services to civil aviation. Along with a number of non-executive directorships, Sir Rod also serves as President of Australia Japan Business Cooperation Committee.

# Our governance structure adopts a global approach, resulting in long-term success and strengthened relationships

### Implementing Lion's governance structure within Kirin Holdings

**Isozaki CEO** When Kirin acquired 100% of Lion in 2009, we made a strategic decision to retain the Lion board of directors in order to benefit from the highest levels of governance and discipline of an Australian-listed company. At the time, it was quite unique for a privately-owned company to have a full board, including independent directors, but I believe our decision has proven to be the right one.

**Sir Rod** Yes, despite the fact that Lion was no longer publicly listed, Kirin took a conscious decision in 2009 to ensure it had sensible and appropriate governance, which is a combination of independent directors and Kirin appointees. It also gives our own staff confidence using a governance structure they understand and have used in Australia. What's more, since Kirin became the majority owner, Lion's subsequent performance has shown that the decision the Kirin board took has been justified.

**Isozaki CEO** What have you focused on most during your tenure as chairman of Lion?

**Sir Rod** I've worked very hard on ensuring a good working relationship between the Lion CEO (Stuart Irvine), CFO (Stephanie Nixon), and the leadership team, as well as the team here in Japan. And the way in which you have set up the structure for Lion means close working relationships can be easily forged between executives at our respective companies.

### Building a strong bridge between Kirin and Lion

**Isozaki CEO** A successful global business requires both localized decision-making and an alignment with group strategy. For example, the local board, along with the local CEO, can act as a crucial bridge between the subsidiary and headquarters.

**Sir Rod** That's right. It's really important our senior executives come to Japan to talk with you and your team. As you yourself do when you attend our leadership conference every year and speak with our senior team.

**Isozaki CEO** Yes, I believe in the power of face-to-face communication. As the long-standing Chair of the Australia Japan Business Cooperation

Committee, along with your deep understanding of business in both countries, I believe you are ideally suited to chair the Lion board. And you deserve a lot of credit for the successful integration between our companies, by acting as a bridge between Kirin and Lion.

**Sir Rod** Thank you. The structure Kirin has put in place certainly helps the bridge work effectively, while the people inside both our companies deserve praise for collaborating closely together in order to make Kirin successful.

**Isozaki CEO** On top of your work with Lion, you also serve as a non-executive director on the boards of global companies such as 21st Century Fox, Swire Group, and others, as well as being a member of the APEC Business Advisory Council. Paula Dwyer (Lion board member) also concurrently serves as the Chairperson of Tabcorp, a non-executive director of ANZ Bank, and is a member of the Australian Takeovers Panel. With such high-profile commitments, may I ask why you have continued to stay engaged as non-executive directors of the privately-owned Lion for so long?

**Sir Rod** The answer is because you value what we have to say. Plus, we share your commitment to the success of not just Lion, but Kirin as a global business. We're proud to represent Lion, but you have always made us feel part of the Kirin family.

### The effectiveness of the International Advisory Board

**Isozaki CEO** As a founding member of the International Advisory Board (IAB)\*, could you share your views on its effectiveness?

**Sir Rod** Since Kirin set up the IAB in 2012, the agenda of our biannual meetings has changed over time, due to the company's continual evolution and expansion overseas. We have effectively met this change because our senior executives have operated in many different jurisdictions, so you can be sure to receive sound and reliable advice concerning new ways to enhance Kirin's international reputation and prospects.

**Isozaki CEO** That's an accurate assessment because at our IAB meetings we have discussed many important global agendas such as our Southeast Asia strategy, anti-bribery and compliance, the human rights measures, and the opportunity of growing in the global craft beer market. I find that the discussions and recommendations from the IAB are always very productive.

**Sir Rod** Yes, I feel this is a direct consequence of Kirin's governance structure being organized in a way that facilitates constructive dialogue and prioritizes long-term success. And thanks to these invaluable meetings, Kirin will continue to make sound decisions now and in the future.

**Isozaki CEO** The IAB didn't used to require the presence of the CEO, but we have changed our policy to meet in person.

**Sir Rod** For me, the IAB without the CEO present is not nearly as valuable. It's really important that you're there. There's also another benefit in that it brings our senior executives to Japan and it provides us with the opportunity for constructive dialogue – both formal and informal.



## Yoshinori Isozaki

### President & CEO

Since joining Kirin Beer in 1977, Mr. Isozaki has held position as director of San Miguel Corporation and as senior executive officer and general manager of corporate planning at Kirin Holdings. Mr. Isozaki was appointed chief executive officer and president of Kirin Holdings in 2015.



**\*About the International Advisory Board**

The International Advisory Board was set up as a consultative body to the CEO of Kirin Holdings. It offers advice and proposals regarding the Group’s global growth strategies, which include mergers and acquisitions, as well as risk management and corporate governance. The board is comprised of four members from countries outside Japan who have diverse backgrounds and abundant international experience, along with three executive officers from Kirin Holdings. Kirin Holdings appoints the chairperson of the board from among the international members. The board meets at least twice annually, submits an official report to the CEO on the issues discussed, and, if requested by the CEO, reports to Kirin Holding’s Board of Directors.

**International Advisory Board**



**How the IAB influences decision-making with global viewpoints**

**Isozaki CEO** The purpose of the IAB is to infuse global diversity into our decision-making. Consequently, importing western perspectives to shape our decisions has resulted in us becoming more reactive and able to proactively adjust more easily to our changing environment.

**Sir Rod** Absolutely. Kirin’s structure ensures you and senior executives have access to informed diverse thinking. And the IAB, along with the Lion board, provides you with a framework to take advantage of this.

**Isozaki CEO** That’s a valid point. And on a number of occasions, I am asked by many investors about the appropriate governance structure for Kirin as a Japanese publically listed company, and whether that is likely to change over time. The question ultimately leads to the issue of the board’s function and composition, including whether non-Japanese non-executive directors add value, and how they can best contribute. I am also asked why I don’t have a foreign member among the Kirin board.

**Sir Rod** By setting up an international advisory board, Kirin is well placed to answer many of these questions. Furthermore, you use the IAB as if it were part of the Kirin Holdings board with its focus on critical strategic issues, which makes you unique among other Japanese companies.

**Isozaki CEO** Yes, a lot of our IAB discussions are really reflective of our global strategy. For example, we made important decisions regarding our Southeast Asia strategy such as investing in the Myanmar opportunity, which involved entering into a compelling and promising new market. And we also assessed the opportunities and risks investing in SABECO in Vietnam, even though that didn’t go as well as we planned. Needless to say, a lot of valued contributions come from members of the IAB.

**Sir Rod** The important thing about the IAB is that it encourages open and free conversations and helps to nurture exciting new ideas. As a result, the Kirin Group is perfectly equipped to consistently deliver the right results.

**Kirin Group Vision 2027 and CSV**

**Isozaki CEO** In 2019, the Kirin Group announced our new long-term management vision — Kirin Group Vision 2027. What do you think are the opportunities and challenges of this strategy?

**Sir Rod** One of the great things about the 2027 vision is that it seeks to encourage everyone at Kirin, including those who work at Lion, to think holistically about our goals and ambitions for the future. And because the vision recognizes Kirin as a truly global business, we need to find ways to ensure it remains a success worldwide, as well as delivering the best long-term outcomes for the shareholders. We also mustn’t lose sight of other responsibilities such as producing great products for customers in order to maintain Kirin’s leading status and longevity in the marketplace. In terms of challenges, businesses need to be agile when dealing with the changes in

technology and consumer behavior. We are well aware that some of these changes can be painful because they disrupt our business model. But if we don't seize the opportunity of these changes, our business won't survive in the long-term.

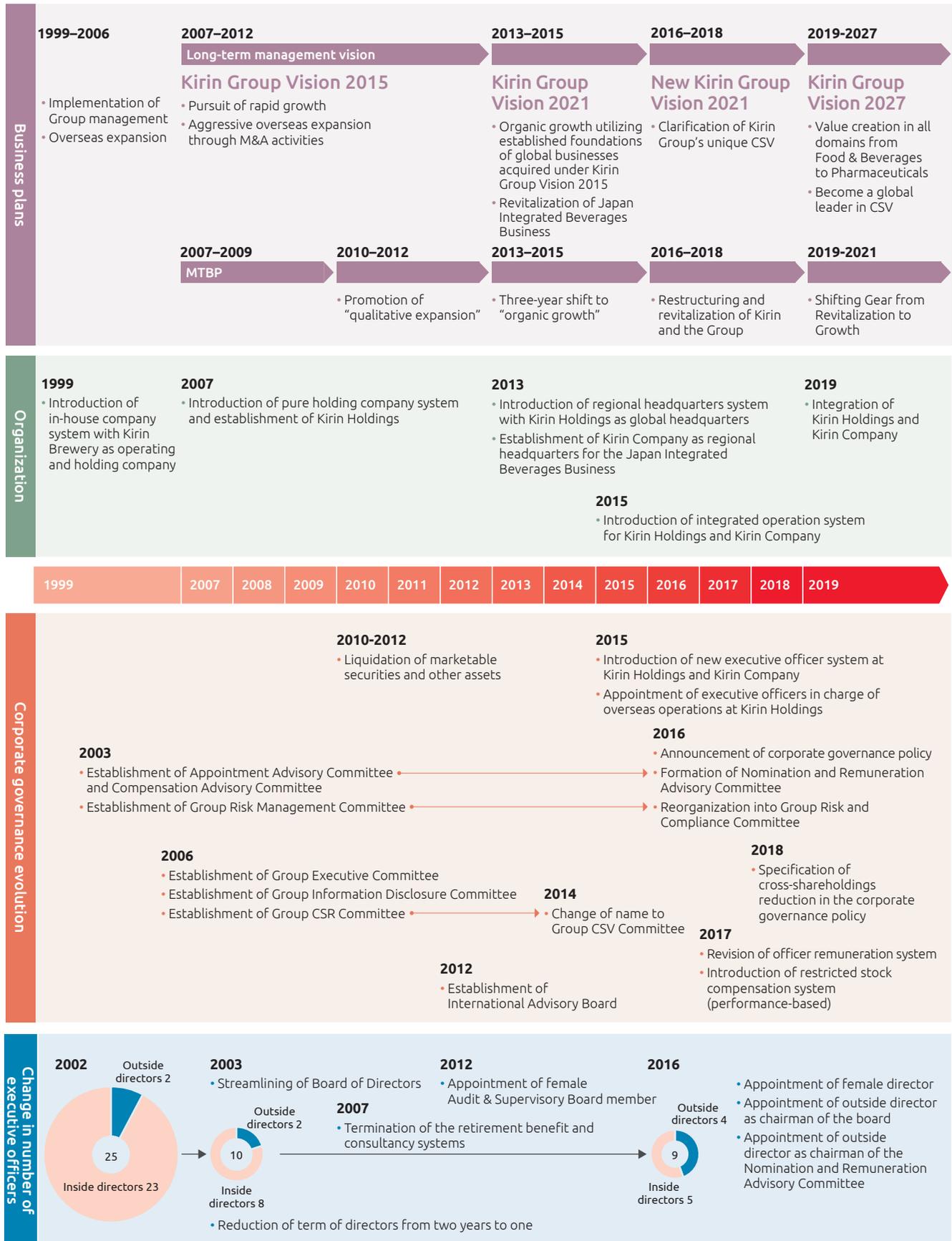
**Isozaki CEO** I agree with you. The key concept for our long-term management vision is CSV. I keep stressing the value of contributing to society and solving social issues. With this in mind, we have even changed our corporate philosophy to reflect this, which is, "Bringing joy to society by crafting food and healthcare products inspired by the blessing of nature and the insights of our customers." Do you have some thoughts on CSV, especially with regards to combatting social issues?

**Sir Rod** The way to be profitable and successful in the long-term is to sensibly address societal obligations and community expectations. If you don't, consumers won't buy your products, employees won't want to work for you, and the community won't welcome you. You have demonstrated your awareness of these potential risks by clearly outlining your values in your corporate philosophy. We will now make sure our business decisions reflect those values. After all, people want to feel confident that what we do is consistent with what we say.

**Isozaki CEO** Thank you very much for your valuable insight today, Sir Rod.

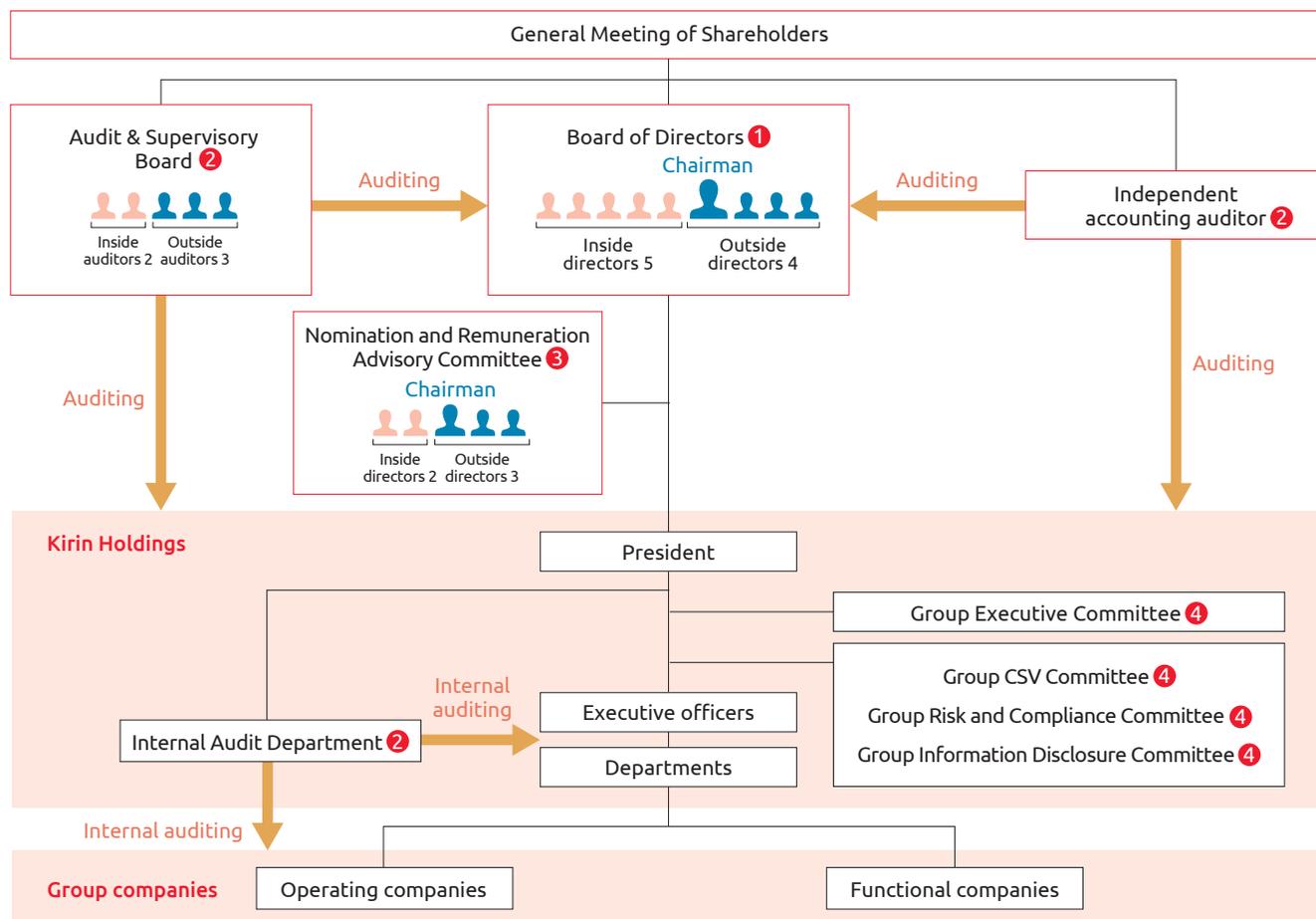


# Evolution of the Corporate Governance System



\* Number of directors. Indicates the number as of April 1 of each year

# Corporate Governance Systems



## 1 Desired functions of the Board of Directors of the Kirin Group

Enhance long-term corporate value by making important corporate decisions and providing supervisory functions through verifying executive and business company strategies (proposals), making sound recommendations from a broad perspective, and providing oversight.

### Important decision-making

- Focus on important matters and discuss them from a medium and long-term management perspective by using a compact decision-making structure that delegates responsibility to executing managers.

### Oversight

- Establish corporate governance policy and enhance performance evaluations and other monitoring activities
- Promote input by outside directors to contribute expertise from an objective perspective

## 2 Mutual cooperation between Audit & Supervisory Board members, independent accounting auditor, and internal control divisions

- Audit & Supervisory Board members regularly attend Board of Directors meetings and other important corporate meetings, and visit Group companies in Japan and overseas to audit directors in the performance of their duties. Members also work closely with corporate auditors of Group companies to enhance the effectiveness of audits.
- The Internal Audit Department audits the Group's major risks and internal control system. The Internal Audit Department, Audit & Supervisory Board members, and independent auditors exchange information and views and hold discussions when necessary. The Internal Audit Department and Audit & Supervisory Board members obtain pertinent information by attending meetings of the internal control divisions and the independent accounting auditor interviews internal control division staff as necessary to conduct an effective audit.

## 3 Advisory body to the Board of Directors

**Nomination and Remuneration Advisory Committee:** In 2016, Kirin Holdings unified the Appointment Advisory Committee and Compensation Advisory Committee to form the Nomination and Remuneration Advisory Committee. An advisory body to the Board of Directors, the committee is responsible for discussing from an objective and fair perspective the appointment/removal and remuneration of directors, Audit & Supervisory Board members, and executive officers of major Group companies. The committee is also responsible for the Kirin Holdings CEO successor plan.

As for the composition of the committee, the chairman and the majority of committee members are outside directors, thus ensuring objectivity and transparency. The term of office is one year.

Outside directors: Shoshi Arakawa (Chairman), Katsunori Nagayasu, Hiroyuki Yanagi

Inside directors: Yoshinori Isozaki, Toshiya Miyoshi

## 4 Advisory bodies to the president

**Group Executive Committee:** The Group Executive Committee assists the president & CEO in decision-making on matters related to strategies and investments that will have a significant impact on the Kirin Group.

**Group Information Disclosure Committee:** Delegated by the president, the committee deliberates and decides the importance of information including its timely disclosure and the necessity of timely disclosure.

**Group CSV Committee:** Refer to page 31.

**Group Risk and Compliance Committee:** Refer to page 50.

# Directors, Audit & Supervisory Board Members, and Executive Officers

(As of March 28, 2019)

## Directors



**Yoshinori Isozaki**  
President & CEO  
1977 Joined the Company  
2015 President & CEO of the Company (current position)



**Keisuke Nishimura**  
Representative Director of the Board, Senior Executive Vice President

Investment Strategy, Overseas Business, Global Craft Beer

1980 Joined the Company  
2017 Representative Director of the Board, Senior Executive Vice President of the Company (current position)

**Major Concurrent Positions**

Director of Lion Pty Ltd  
Director & Vice Chairman of Myanmar Brewery Limited  
Director of San Miguel Brewery Inc.  
Director of China Resources Kirin Beverages (Greater China) Company, Limited



**Toshiya Miyoshi**  
Director of the Board, Senior Executive Officer

HR and General Affairs

1982 Joined the Company  
2015 Director of the Board, Senior Executive Officer of the Company (current position)

**Major Concurrent Positions**  
Director of Kirin Brewery Company, Limited  
Director of San Miguel Brewery Inc.



**Noriya Yokota**  
Director of the Board, Senior Executive Officer

Chief Financial Officer, IR, IT, Business Transformation

1984 Joined the Company  
2018 Director of the Board, Senior Executive Officer of the Company (current position)

**Major Concurrent Positions**  
Director of Kyowa Hakkō Kirin Co., Ltd.  
Director of Kirin Business System Company, Limited



**Noriaki Kobayashi**  
Director of the Board, Senior Executive Officer

R&D, Quality Assurance, Health Strategy

1983 Joined the Company  
2019 Director of the Board, Senior Executive Officer of the Company (current position)

**Major Concurrent Positions**  
Director of Kyowa Hakkō Bio Co., Ltd. (appointed April 25, 2019)



**Shoshi Arakawa**  
Outside Director of the Board\*2  
Chairman of the Nomination and Remuneration Advisory Committee

1968 Joined Bridgestone Corporation  
2006 CEO and President, Representative Board Member of Bridgestone Corporation  
2012 Chairman of the Board of Bridgestone Corporation  
2013 Advisor of Bridgestone Corporation (current position)  
2015 Outside Director of the Company (current position)



**Katsunori Nagayasu**  
Outside Director of the Board\*1  
Member of the Nomination and Remuneration Advisory Committee

1970 Joined The Mitsubishi Bank, Limited  
2008 Representative Director, President of The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
2012 Representative Director, Chairman of The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
2016 Senior Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Outside Director of the Company (current position)  
2018 Senior Adviser of MUFG Bank, Ltd. (current position)



**Masakatsu Mori**  
Outside Director of the Board\*2  
Chairman of the Board

1969 Joined Arthur Andersen, LLP  
1995 Japan Representative of Andersen Consulting (currently Accenture Japan Ltd.)  
2015 Outside Audit & Supervisory Board Member of the Company  
2018 Senior Advisor of International University of Japan (current position)  
2019 Outside Director of the Company (current position)



**Hiroyuki Yanagi**  
Outside Director of the Board\*2  
Member of the Nomination and Remuneration Advisory Committee

1978 Joined Yamaha Motor Co., Ltd.  
2007 Executive Officer of Yamaha Motor Co., Ltd.  
2009 Senior Executive Officer of Yamaha Motor Co., Ltd.  
2010 President, CEO, and Representative Director of Yamaha Motor Co., Ltd.  
2018 Chairman and Representative Director of Yamaha Motor Co., Ltd. (current position)  
2019 Outside Director of the Company (current position)

## Audit & Supervisory Board members



**Akihiro Ito**  
Standing Audit &  
Supervisory Board Member

1983 Joined the Company  
2015 Director of the Board,  
Senior Executive Officer  
of the Company  
2018 Standing Audit &  
Supervisory Board  
Member of the Company  
(current position)  
2019 Auditor of Kyowa Hakko  
Bio Co., Ltd. (current  
position, appointed April  
25, 2019)



**Keiji Kuwata**  
Standing Audit &  
Supervisory Board Member

1985 Joined the Company  
2019 Standing Audit &  
Supervisory Board  
Member of the Company  
(current position)  
Auditor of Kyowa Hakko  
Kirin Co., Ltd. (current  
position)



**Chieko Matsuda**  
Outside Audit &  
Supervisory Board Member\*3

1987 Joined The Long-Term  
Credit Bank of Japan,  
Limited  
2006 Representative Director  
of Matrix, Inc.  
2011 Professor of School of  
Business Administration,  
Department of Urban  
Liberal Arts at Tokyo  
Metropolitan University  
(current position),  
Professor of Department  
of Business  
Administration, Social  
Sciences at Tokyo  
Metropolitan University  
(Graduate School)  
(current position)  
2016 Outside Audit &  
Supervisory Board  
Member of the Company  
(current position)



**Nobuo Nakata**  
Outside Audit &  
Supervisory Board Member\*3

1985 Admitted to the Japanese  
bar and joined Ishiguro  
Law Office as an associate  
1987 Associate of Masuda &  
Ejiri (currently Nishimura  
& Asahi)  
1991 Admitted to the New  
York Bar  
1992 Partner of Masuda & Ejiri  
(currently Nishimura &  
Asahi)  
2007 Partner of Allen & Overy  
2012 Representative Partner of  
Hibiya-Nakata (current  
position)  
2018 Outside Audit &  
Supervisory Board  
Member of the Company  
(current position)



**Yoshiko Ando**  
Outside Audit &  
Supervisory Board Member\*3

1982 Joined the Japan Ministry  
of Labor  
2003 Lieutenant Governor of  
Shiga Prefecture  
2006 Director of the Equal  
Employment Policy Div.  
of Equal Employment,  
Children and Families  
Bureau of the Ministry of  
Health, Labour and  
Welfare (MHLW)  
2013 Director-General of the  
Industrial Accident  
Compensation Dept. of  
Labour Standards Bureau,  
MHLW  
2014 Director-General of the  
Equal Employment,  
Children and Families  
Bureau, MHLW  
2015 Director-General for Labour  
Policy Planning, MHLW  
2016 Director-General for  
Statistics and Information  
Policy, MHLW  
2017 Director-General for  
Human Resources  
Development, MHLW  
2019 Outside Audit &  
Supervisory Board  
Member of the Company  
(current position)

## Executive officers



**Hiroshi Ogawa**  
Senior Executive Vice  
President

Public Relations,  
Risk Management, Legal  
Director of Kirin Brewery  
Company, Limited



**Ryosuke Mizouchi**  
Senior Executive Officer

CSV, Digital Strategy,  
North America Beer Business  
Director of Lion Pty Ltd  
Director of The Coca-Cola  
Bottling Company of Northern  
New England, Inc  
Director of Mercian Corporation



**Toru Yoshimura**  
Senior Executive Officer

General Manager of the  
Corporate Planning Department  
Director of Kirin Beverage Co., Ltd.



**Junko Tsuboi**  
Senior Executive Officer

Marketing,  
Corporate Brand Strategy,  
General Manager of Strategic  
Branding Department



**Masao Maehara**  
Senior Executive Officer

Supply Chain Management  
(Production, Logistics,  
and Procurement)  
Director of Kirin Beverage Co., Ltd.



**Takayuki Fuse**  
Senior Executive Officer

President and CEO,  
Kirin Brewery Company, Limited



**Hideki Horiguchi**  
Senior Executive Officer

President and CEO,  
Kirin Beverage Co., Ltd.

Information on matters related to the nomination of directors and Audit & Supervisory Board members can be found on the Company's corporate website.

 Management (profile and reasons for nomination)  
<https://www.kirinholdings.co.jp/english/company/board/>

 Criteria regarding the Independence of outside officers  
[https://www.kirinholdings.co.jp/english/ir/governance/pdf/e\\_criteria\\_outsideofficer.pdf](https://www.kirinholdings.co.jp/english/ir/governance/pdf/e_criteria_outsideofficer.pdf)

\*1 Outside Director as described in Article 2-15 of the Companies Act of Japan

\*2 Fulfills the requirements for designation as an Independent Director stipulated by the Tokyo Stock Exchange and complies with the Company's criteria regarding the independence of outside officers

\*3 Outside company auditor as described in Article 2-16 of the Companies Act of Japan. Also fulfills the requirements for designation as an independent auditor stipulated by the Tokyo Stock Exchange and complies with the Company's criteria regarding the independence of outside officers



## Maximizing group synergy to gain a conglomerate premium

### Chieko Matsuda

Outside Audit & Supervisory Board Member

Ms. Matsuda was appointed as a member of the Outside Audit & Supervisory Board of Kirin Holdings in 2016. She had joined The Long-Term Credit Bank of Japan, Ltd., in 1987, after which she worked for Moody's Japan, Ltd. Corporation, Corporate Directions, Inc., and Booz & Co., Inc. Ms. Matsuda is also a professor on the faculty of the Economics and Business Administration and the Graduate School of Management of Tokyo Metropolitan University.

### More effective governance requires a more diverse board

Many companies have been focusing on corporate governance in recent years. Superficial changes cannot, however, ignite the frank and open boardroom discourse that would enhance oversight. At Kirin Holdings, our Board of Directors and Audit & Supervisory Board meetings benefited from engaged outside members who contributed their honest opinions based on personal experience and specialized knowledge. This kind of discussion gives our decision-making and

supervisory functions a consistent level of effectiveness.

Auditing offers many opportunities to visit a company and observe operations. By gathering information on the spot, an outside auditor learns first-hand about a firm's inner workings.

At Kirin Holdings, the Audit & Supervisory Board arranges inspections of manufacturing sites and other facilities, inviting the outside directors as well, so they may gain a valuable addition to their formal duties.

Outside auditors and directors need to take an independent, third-party view of management. On-site inspections and conversations with employees deepen our objective

understanding of the business and its operations. Creating such learning opportunities at Kirin Holdings has enhanced effective governance.

Diversity of board members is also essential to assure effective governance. Diversity is often discussed as gender diversity, that is, appointment of female executives. This simplistic formula is not enough. The important point here is to expand the definition of diversity to include each individual's knowledge, expertise, experience, and values.

The diversity of Kirin Holdings' outside directors and outside auditors shows breadth and balance spanning the legal sector, government sector, corporate management and other areas. Looking ahead to overseas expansion, diversity of the board could, possibly, be further reframed to encompass nationality, ethnicity, and more.

### **Skillful investment for maximum synergies**

In January 2019 the Kirin Group began executing Kirin Group Vision 2027 and the 2019-2021 Medium-Term Business Plan (2019 MTBP). In the planning process the board held spirited discussions focusing on CSV management as the core of our long-term-management vision and on growth scenarios in regard to the medium-term plan.

It is common for firms to bring in their outside directors only after a plan has been more or less finalized internally. Kirin Holdings distinguishes itself by involving outside directors in many discussions from the start. Giving outside directors many chances to share their thoughts with management is also worthy in terms of the governance goals of enhancing transparency and fairness.

A major pillar of our 2019 MTBP is launching and growing businesses bridging pharmaceuticals and food & beverages. Progress in this direction will mean further diversification for the Group. From an investor's viewpoint, I think the unstated

theme of our new Medium-Term Business Plan is to earn a conglomerate premium. This calls for Kirin Holdings to optimize its business portfolio and leverage the Group's management resources, such as capital, human resources, and customer base. Here, it is important to maximize intra-business synergies in unique ways, as only a diversified business can.

Worldwide we are seeing that skillful business portfolio management is crucial to a diversified company's performance and its attractiveness to investors. Since Kirin Holdings itself is an investor in its several business domains, the financial markets demand a finely honed ability to gauge risk and return. Again, investors also expect Kirin as a whole to strive for intra-business synergies. Above all, the Kirin Group must firmly establish its identity as a model of CSV management.

I think we will win the support of stakeholders in general and investors in particular by actively engaging them in positive dialogue about matters of concern to them. As an outside auditor, I am committed to carrying out my duties in a way that fulfills society's expectations for the Kirin Group.



## Expertise and experience of directors, Audit & Supervisory Board members, and executive officers

|   |                    | Expertise and Experience                 |                   |                 |                  |                            |                     |       |                   |                                |
|---|--------------------|--|-------------------|-----------------|------------------|----------------------------|---------------------|-------|-------------------|--------------------------------|
|   |                    | Corporate management, Corporate strategy | Overseas business | Technology, R&D | Marketing, sales | Human resources management | Finance, accounting | Legal | Government agency | Academic teaching and research |
| President & CEO   | Yoshinori Isozaki  | ●  | ●                 |                 | ●                |                            |                     |       |                   |                                |
| Representative Director of the Board, Senior Executive Vice President | Keisuke Nishimura  | ●  | ●                 |                 |                  | ●                          |                     |       |                   |                                |
| Director of the Board, Senior Executive Officer                       | Toshiya Miyoshi    | ●  |                   |                 |                  | ●                          |                     |       |                   |                                |
| Director of the Board, Senior Executive Officer & CFO                 | Noriya Yokota      | ●  | ●                 | ●               |                  | ●                          |                     |       |                   |                                |
| Director of the Board, Senior Executive Officer                       | Noriaki Kobayashi  | ●  | ●                 | ●               |                  |                            |                     |       |                   |                                |
| Director (outside)*1  | Shoshi Arakawa     | ●  | ●                 |                 |                  |                            |                     |       |                   |                                |
| Director (outside)  | Katsunori Nagayasu | ●  |                   |                 |                  |                            |                     |       |                   |                                |
| Director (outside)*1  | Masakatsu Mori     | ●  | ●                 |                 |                  |                            | ●                   |       |                   | ●                              |
| Director (outside)*1  | Hiroyuki Yanagi    | ●  | ●                 | ●               |                  |                            |                     |       |                   |                                |
| Standing Audit & Supervisory Board Member                             | Akihiro Ito        | ●  |                   |                 |                  |                            | ●                   |       |                   |                                |
| Standing Audit & Supervisory Board Member                             | Keiji Kuwata       | ●  |                   |                 |                  |                            |                     |       |                   |                                |
| Outside Audit & Supervisory Board Member*2                            | Chieko Matsuda     |  |                   |                 |                  |                            | ●                   |       |                   | ●                              |
| Outside Audit & Supervisory Board Member*2                            | Nobuo Nakata       |  | ●                 |                 |                  |                            |                     | ●     |                   |                                |
| Outside Audit & Supervisory Board Member*2                            | Yoshiko Ando       |  |                   |                 |                  |                            |                     |       | ●                 |                                |
| Senior Executive Vice President                                       | Hiroshi Ogawa      | ●  |                   |                 | ●                | ●                          |                     |       |                   |                                |
| Senior Executive Officer  | Ryosuke Mizouchi   | ●  | ●                 |                 | ●                |                            |                     |       |                   |                                |
| Senior Executive Officer  | Toru Yoshimura     | ●  | ●                 | ●               |                  |                            |                     |       |                   |                                |
| Senior Executive Officer  | Junko Tsuboi       | ●  |                   |                 | ●                |                            |                     |       |                   |                                |
| Senior Executive Officer  | Masao Maehara      | ●  | ●                 | ●               |                  |                            |                     |       |                   |                                |
| Senior Executive Officer  | Takayuki Fuse      | ●  |                   |                 | ●                |                            |                     |       |                   |                                |
| Senior Executive Officer  | Hideki Horiguchi   | ●  | ●                 |                 | ●                |                            |                     |       |                   |                                |

\*1 Fulfills the requirements for designation as an Independent Director stipulated by the Tokyo Stock Exchange and complies with the Company's criteria regarding the independence of outside officers

\*2 Outside company auditor as described in Article 2-16 of the Companies Act of Japan. Also fulfills the requirements for designation as an Independent auditor stipulated by the Tokyo Stock Exchange and complies with the Company's criteria regarding the independence of outside officers

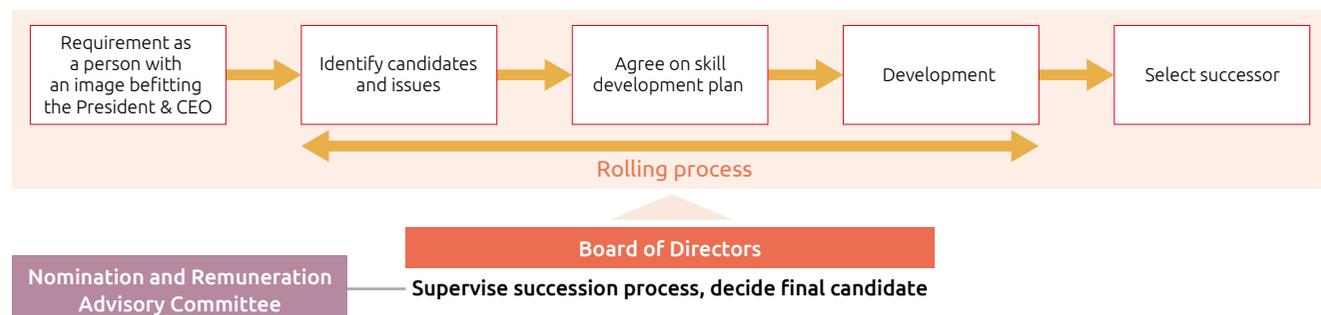
## Candidate plan for President & CEO (succession planning)

The Kirin Holdings Nomination and Remuneration Advisory Committee deliberated on the formulation of policy for the President & CEO succession planning in 2016 and reported the requirements (an image befitting the President & CEO of Kirin Holdings) and the decision process for candidates to the

Board of Directors.

Based on this report, we have been selecting, evaluating and training candidates since 2017 under the supervision of the Board of Directors in order to determine the future successor in a highly objective and transparent process.

### Succession planning process



## Evaluations of the Board of Directors' effectiveness

Kirin Holdings routinely evaluates the operation and discussion content of the Board of Directors and strives to ensure the proper functioning of important decision-making and oversight.

### Fiscal 2018 initiatives based on the 2017 effectiveness evaluation

1. Discussion from the standpoint of non-financial topics including the environment, society, and governance (ESG)
2. Discussion of enterprise risk management (ERM) associated with globalization and increasing risk complexity

### Initiatives to enhance Board of Director effectiveness in fiscal 2018

#### 1. Broader discussion of non-financial information

The Board of Directors formulated the Kirin Group Vision 2027 plan through a thorough discussion of growth scenarios for the Group's overall business portfolio from the perspective of resolving key CSV issues. The deep discussion of ESG topics led to the Board setting the fulfilment of its CSV commitment as a key performance indicator in 2019 MTBP.

#### 2. Full discussion of risk management

Potential global risks were reported in a timely manner and scenarios of risks escalating to a major crisis were considered. Risk strategy and business execution were also discussed as they pertained to the 2019 MTBP.

### Fiscal 2018 effectiveness evaluation and result

The Board of Directors discussed the effectiveness evaluations and the results of surveys conducted on "evaluation criteria" based on assessments by third-party advisors and the status of measures and improvements.

|                            |   |  |
|----------------------------|---|--|
| <b>Evaluation Criteria</b> | <ol style="list-style-type: none"> <li>1. Supervision of development, execution, and monitoring of strategies</li> <li>2. Risk management and supervision of crisis control</li> <li>3. Thorough understanding and implementation of healthy corporate ethics and supervision thereof</li> <li>4. Supervision of decision-making such as business acquisition/withdrawal</li> </ol> | <ol style="list-style-type: none"> <li>5. Supervision of executive remuneration and plans such as succession planning for next-generation leaders</li> <li>6. Supervision of overall disclosure to stakeholders</li> <li>7. Structure and management of the Board of Directors</li> <li>8. Items to improve to increase the effectiveness</li> </ol> |
|----------------------------|---|--|

The Board of Directors was found to be operating properly and generally functioning effectively.

We will strive to maintain and improve the effectiveness of the Board of Directors through constructive discussion as outlined below.

### Enhancement Policy in fiscal 2019

1. Discuss risk management related to risks from globalization and increasing risk complexity
2. Discuss topics from the standpoint of non-financial topics, including CSV commitment, corporate brand value, and employee engagement
3. Discuss "specific business strategies" needed to implement the overall strategy, including for businesses bridging the Pharmaceuticals and Food & Beverages operations, the development of craft beers, and "function-specific strategies," such as for the brands, research and development, digitalization, and human resources and organization

## Group company governance and performance assessment

### Operational execution and monitoring system for Group companies

Kirin Holdings formulates and promotes Group strategy, monitors all Group businesses, and creates synergies across the Group.

Each Kirin Group company is located close to its customers and stakeholders and administers its operations autonomously and speedily with full authority to make business execution decisions tailored to their specific strategies. Kirin Holdings

seats a director on each company's Board of Directors to help maintain a high level of corporate governance.

### Group company performance evaluations

The indicators used to evaluate the performances of Group companies are the quantitative targets of return on assets (ROA), which is directly linked to return on invested capital (ROIC), and earnings before income tax (EBIT), which directly affect guidance for the growth rate of normalized operating profit.

$$\text{ROIC} = \frac{\text{Earnings before interest and after tax}}{\text{Average interest bearing debt between the beginning and the end of the FY} + \text{average total equity between the beginning and the end of the FY}}$$

$$\text{ROA} = \frac{\text{EBIT}}{\text{Total assets}}$$

## Remuneration system for executive officers

Kirin Holdings revised the remuneration system for executive officers in March 2017 with the aim of providing stronger incentive for officers to achieve the business plan and to further promote medium- and long-term value sharing with shareholders and investors. Remuneration levels are reviewed each year versus those at other major domestic corporations and using data for the period gathered by third-party agencies. The performance evaluation benchmark for stock-based compensation with transfer restrictions was changed from ROE to ROIC upon the launch of 2019 MTBP.

### Basic policy

1. Remuneration shall emphasize the link to business performance and corporate value in the medium to long term, and shall encourage the sharing of value with shareholders.
2. Remuneration shall be at a level commensurate with the roles and responsibilities of a director of the Group.
3. Executive remuneration shall be reviewed by the Nomination and Remuneration Advisory Committee. To ensure objectivity and transparency, outside directors shall account for the majority of the committee members.

### Decision process

- The Nomination and Remuneration Advisory Committee, the chairman and majority of which are outside directors, conduct deliberations and report to the Board of Directors.

- Specific decisions concerning remuneration are based on the report of the Nomination and Remuneration Advisory Committee. The Board of Directors decides director remuneration and Audit & Supervisory Board members deliberate and decide Audit & Supervisory Board member remuneration within the total remuneration amount previously determined at the General Meeting of Shareholders.

### Position remuneration

#### Directors (excluding outside directors)

Because directors are responsible for the execution of business, the remuneration structure takes into account achievement of short-term consolidated performance targets and the improvement of corporate value over the medium to long term.

#### Outside directors

Because they are responsible for supervising and advising Company and Group management from an objective perspective, outside directors are provided basic remuneration (fixed remuneration) only.

#### Audit & Supervisory Board members

Because of their role of auditing the performance of directors' execution of their business from an objective position, Audit & Supervisory Board members are provided basic remuneration (fixed remuneration) only.

## Overview of remuneration system for executive officers

|                              | Fixed remuneration<br>Approximately 50%   | Performance-linked remuneration<br>Approximately 50%  |   |
|------------------------------|---|---|---|
|                              | Basic remuneration  | Yearly bonus  | Restricted stock compensation   |
|                              | Basic remuneration  | Yearly bonus  | Restricted stock compensation (performance-based)   |
| <b>Position</b>              | Fixed remuneration  | Short-term incentive remuneration   | Medium- to long-term incentive remuneration   |
| <b>Eligible recipients</b>   | <ul style="list-style-type: none"> <li>• Directors (excluding outside directors)</li> <li>• Outside directors</li> <li>• Audit &amp; Supervisory Board members</li> </ul> | Directors (excluding outside directors)   | Directors (excluding outside directors)   |
| <b>Allocation policy</b>     | Cash  | Cash  | Stock (monetary compensation receivables for the allocation of restricted stock)  |
| <b>Evaluation indicators</b> | —   | <ul style="list-style-type: none"> <li>• Consolidated normalized operating profit</li> <li>• Individual performance evaluation (excluding President &amp; CEO)</li> </ul>   | <ul style="list-style-type: none"> <li>• ROIC</li> <li>• Normalized EPS</li> </ul>  |
| <b>Allocation policy</b>     | Establish remuneration for each role and duty   | Remuneration is 100% when targets are achieved and varies within a range of 0 to 200%   | <ul style="list-style-type: none"> <li>• Shares with transfer restrictions will be allocated each fiscal year, in principle</li> <li>• The rate at which shares with restrictions that are to be lifted is set at a variable rate between 33% and 100% according to the achievement of targets in the first year of the transfer restriction period (in principle, three years).</li> </ul> |
| <b>Calculation formula</b>   | —   | <p>Calculation formula for individual remuneration</p> <div style="text-align: center;"> <p><b>Individual remuneration</b></p> <p>II</p> <p><b>Standard bonus</b></p> <p>x</p> <p>Company performance pay rates × A</p> <p>+</p> <p>Individual performance pay rate × B</p> </div> <ul style="list-style-type: none"> <li>• A standard bonus is set for each officer based on internal regulations</li> <li>• "A" is the ratio of the part linked to company performance, and "B" is the ratio linked to individual performance. The ratios are set for each position based on internal regulations.</li> </ul> | <p>Calculation formula for the rate of lifting the restrictions</p> <div style="text-align: center;"> <p><b>Rate of lifting the restrictions</b></p> <p>II</p> <p>Rate of lifting the restriction based on ROIC (%) × <math>\frac{1}{2}</math></p> <p>+</p> <p>Rate of lifting the restriction based on normalized EPS (%) × <math>\frac{1}{2}</math></p> </div>                            |



Please refer to the Corporate Governance Report for details about director and Audit & Supervisory Board member compensation in fiscal 2018.  
[https://www.kirinholdings.co.jp/english/ir/governance/pdf/e\\_governance\\_report.pdf](https://www.kirinholdings.co.jp/english/ir/governance/pdf/e_governance_report.pdf)

## Management Analysis of Financial Position, Operating Results, and Cash Flows

### 1. Operating Results

#### (1) Overall business conditions

In fiscal 2018, the final year of the Kirin Group 2016-2018 Medium-Term Business Plan (2016 MTBP), the Kirin Group aimed to “revitalize the Kirin Group through restructuring” by prioritizing strengthening the profit base of Kirin Brewery while reinvigorating the maturing domestic alcoholic beverages market. Following the Kirin Group CSV Commitment

to achieve the long-term New Kirin Group Vision 2021, we also stepped up activities to create shared value. We prioritized fulfilling our CSV commitments in the alcoholic beverages and non-alcoholic beverages and pharmaceuticals and bio-chemicals businesses, including in the areas of health and well-being, community engagement, the environment, and a responsible alcohol producer.

|   | Fiscal 2018         | Fiscal 2017*        | Increase (decrease) | Increase (decrease) |
|---|---------------------|---------------------|---------------------|---------------------|
| Consolidated revenue                                      | 1,930.5 billion yen | 1,863.7 billion yen | 66.8 billion yen    | 3.6%                |
| Consolidated normalized operating profit                  | 199.3 billion yen   | 194.6 billion yen   | 4.7 billion yen     | 2.4%                |
| Consolidated operating profit                             | 198.3 billion yen   | 211.0 billion yen   | (12.7 billion yen)  | (6.0%)              |
| Consolidated profit before tax                            | 246.9 billion yen   | 233.7 billion yen   | 13.1 billion yen    | 5.6%                |
| Consolidated profit attributable to owners of the Company | 164.2 billion yen   | 242.0 billion yen   | (77.8 billion yen)  | (32.1%)             |

\* Fiscal 2017 figures have been revised retroactively in accordance with the settlement of the provisional accounting treatment related to the acquisition of a business that year.

Fiscal 2018 overall revenue grew as expanded sales volume at Kirin Brewery boosted revenue in the Japan Integrated Beverages Business and increased sales volume at CCNNE generated strong growth in revenue in the Other Overseas Integrated Beverages Business. Normalized operating profit reached a record high as strong results at Kirin Brewery supported a substantial profit increase for the Japan Integrated Beverages Business that more than overcame decreased profits in the Oceania Integrated Beverages Business due to foreign exchange rate fluctuations and in the Pharmaceuticals and Bio-chemicals Businesses from removing Kyowa Medex from the consolidated accounts. Operating profit declined

from the previous fiscal year level, which was elevated by gains on sales of fixed assets. Profit before tax attained a record high on contributions from the share of profit of equity-accounted investees from higher year-on-year sales volume at San Miguel Brewery and the booking of a gain on sale of equity-accounted investees from the transfer of all shares of Kirin Amgen. Profit attributable to owners of the Company decreased from last year when the Company booked a gain on the transfer of all shares of Brasil Kirin. However, profitability remained steady, considering that the level was essentially the same as last year when factoring out the impact of the transfer.

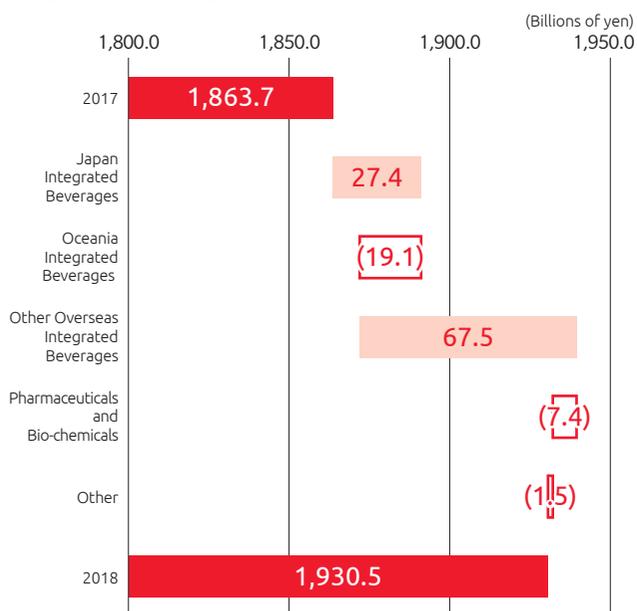
## (2) Performance by reportable segments

Results by segment are as follows.

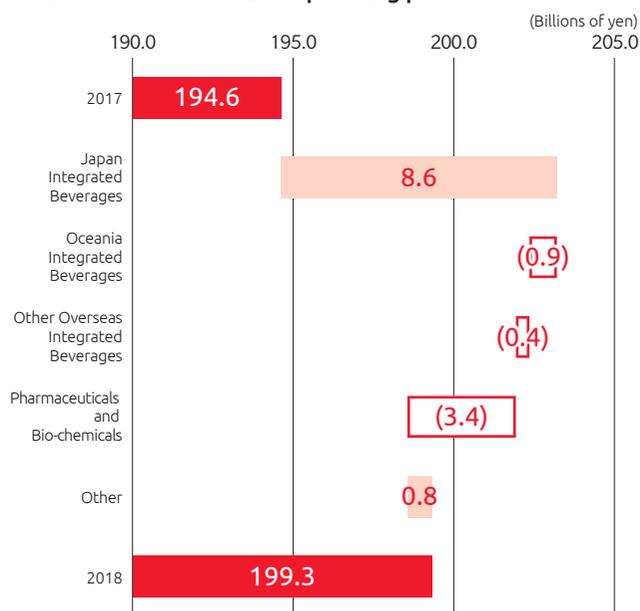
|  | Fiscal 2018         | Fiscal 2017*        | Increase (decrease) | Increase (decrease) |
|--|---------------------|---------------------|---------------------|---------------------|
| Consolidated revenue                     | 1,930.5 billion yen | 1,863.7 billion yen | 66.8 billion yen    | 3.6%                |
| Japan Integrated Beverages               | 1,078.3 billion yen | 1,051.0 billion yen | 27.4 billion yen    | 2.6%                |
| Oceania Integrated Beverages             | 329.5 billion yen   | 348.6 billion yen   | (19.1 billion yen)  | (5.5%)              |
| Other Overseas Integrated Beverages      | 167.4 billion yen   | 99.9 billion yen    | 67.5 billion yen    | 67.5%               |
| Pharmaceuticals and Bio-chemicals        | 339.3 billion yen   | 346.7 billion yen   | (7.4 billion yen)   | (2.1%)              |
| Other                                    | 16.0 billion yen    | 17.5 billion yen    | (1.5 billion yen)   | (8.4%)              |
| Consolidated normalized operating profit | 199.3 billion yen   | 194.6 billion yen   | 4.7 billion yen     | 2.4%                |
| Japan Integrated Beverages               | 81.2 billion yen    | 72.5 billion yen    | 8.6 billion yen     | 11.9%               |
| Oceania Integrated Beverages             | 51.7 billion yen    | 52.6 billion yen    | (0.9 billion yen)   | (1.7%)              |
| Other Overseas Integrated Beverages      | 13.4 billion yen    | 13.7 billion yen    | (0.4 billion yen)   | (2.6%)              |
| Pharmaceuticals and Bio-chemicals        | 58.8 billion yen    | 62.2 billion yen    | (3.4 billion yen)   | (5.5%)              |
| Other                                    | (5.7 billion yen)   | (6.5 billion yen)   | 0.8 billion yen     | -                   |

\* Fiscal 2017 figures have been revised retroactively in accordance with the settlement of the provisional accounting treatment related to the acquisition of a business that year.

### Consolidated revenue



### Consolidated normalized operating profit



#### • Japan Integrated Beverages Business

Kirin Brewery focused on enhancing the appeal of its beer products and on cost-efficient marketing for select brands. The increased sales volume worked to increase marginal profit and decrease selling costs. In the beer category, year-on-year growth in the sales volume of the flagship *Kirin Ichiban* brand exceeded the industry average. Installations of the Tap Marché beer dispenser unit reached near 7,000 stores nationwide during the year. Tap Marché, which is strategically aimed at expanding and invigorating the craft beer market, offered 19 brands from seven breweries during the year. Substantial contributions from the increased sales volume of *Honkirin* launched in March in the new genre category and the revamped *Nodogoshi Nama* released in May fueled year-on-year growth of 5.2% in sales volume for Kirin beer products amid an overall contraction in the domestic beer market. RTD category sales volume rose 13.1% year on year on solid sales of the core *Hyoketsu* and very brisk sales of *Honshibori™* Chu-hi and *KIRIN The STRONG*, which launched in April.

Revenue rose by 21.1 billion yen, or 3.3%, year on year and normalized operating profit grew 9.3 billion yen, or 13.0%, year on year, helping to lift normalized operating profit ratio (versus sales revenue excluding liquor taxes) to 20.8% year on year, compared with 19.3% in the previous fiscal year.

Kirin Beverage strengthened its business base and built a more robust brand portfolio. Sales volume of the flagship brand *Gogo-no-Kocha* declined overall, largely due to heavy rains in Western Japan temporarily suspending shipments of large PET-bottle products while sales volume of smaller PET-bottle products increased. Sales grew for a third straight year for *Nama-cha*, which was boosted by a brand makeover in March. Helped by a revamp in April, sales of *Kirin Lemon* more than doubled from last year, providing a strong contribution to the overall growth in sales volume. At the same time, sales volume stagnated for *FIRE* in the coffee category amid an overall contraction in the canned coffee market. The end result was an increase in sales volume but a deteriorated composition ratio of products and containers, which led to a 0.9 billion yen, or 0.3%, year-on-year decline in revenue. Management measures to cut costs, including controlling raw material procurement and reducing waste, as well as to lower sales costs enabled normalized operating profit to rise 1.6 billion yen, or 7.5%, year on year and the normalized operating profit ratio to expand from 7.6% a year ago to 8.2%.

#### • Oceania Integrated Beverages Business

In the Beer, Spirits and Wine Business, Lion Pty Limited continued strengthening its brands in growth categories following its brand portfolio strategy to reestablish profit growth in the medium-to-long term. The Container Deposit Scheme introduced in December 2017 in New South Wales, Australia, impacted the sales result, but sales were strong for the *Iron Jack* and *James Squire* brands and for the *Furphy* brand the company is rolling out nationwide in Australia as part of an active effort to accelerate the development of craft beer markets overseas. Lion's sales volume ultimately remained essentially unchanged at -0.1% year on year. The company's success lowering supply chain-related costs, notably in the procurement activities, helped lift the normalized operating profit ratio on a local currency basis from 27.9% a year ago to 28.8%. In the Dairy and Drinks Business, Lion continued to strengthen its brands in key categories. Sales volume rose year on year for the leading brand *Dare* in the dairy beverage category and for the *Farmers Union* brand in the yogurt category. Smaller sales volume of ambient and chilled juice in large containers led to overall sales volume in the Dairy and Drinks Business decreasing 3.9% year on year while a better product mix from higher unit prices held the decline in revenue to just 1.3%. Cost cutting measures helped lift the normalized operating profit ratio on a local currency basis to 3.6%, up from 3.5% a year earlier. Lion's profits rose 3.7% year on year on a local-currency basis, and its overall contribution to consolidated earnings was also impacted by the foreign exchange rates (-16.8 billion yen in revenues and -2.9 billion yen in normalized operating profit). As a result, the Oceania Integrated Beverages Business recorded a revenue decline of 19.1 billion yen, or 5.5%, year on year and a normalized operating profit decline of 0.9 billion yen, or 1.7%, year on year.

In October 2018, Kirin and Lion announced the decision to seek a third-party buyer for the Lion Dairy and Drinks Business. The structurally reformed business is steadily becoming more profitable, and the companies rigorously examined all strategic options for taking the operation to the next stage of growth. After careful consideration, it was decided that selling the Dairy and Drinks Business was the most viable course of action. In the accounting books, Lion's Dairy and Drinks Business has not been designated as a discontinued operation and is included in continuing operations.

• **Other Overseas Integrated Beverages Business**

Myanmar Brewery’s promotional campaigns and product revamp generated strong sales for its flagship *Myanmar Beer*, particularly the canned beer offering, as the brand continued to command high market share in an expanding market. Sales volume for *Andaman Gold* in the economy category rose sharply year on year after the company expanded its production capacity and stabilized supply. Increased sales volume and reduced costs offset the negative impacts from an increased ratio of economy category sales and increased import material costs due to local currency weakness, and the company posted growth in sales of 9.4% and profits of 9.4% on a local currency basis. Despite the foreign exchange impact (-1.9 billion yen in revenues and -0.7 billion yen in normalized operating profit), revenues grew 0.6 billion yen, or 2.2%, year on year and normalized operating profit increased 0.2 billion yen, or 2.1% year on year.

The Coca-Cola Bottling Company of Northern New England (CCNNE) recorded sharp growth in sales volume from the September 2017 expansion of its marketing area in North America.

• **Pharmaceuticals and Bio-chemicals Business**

In the Pharmaceuticals Business, Kyowa Hakko Kirin continued its drive to make the leap to a “Global Specialty Pharmaceutical Company” by maximizing the value of global strategic products, infusing new products into its existing product lines to increase market penetration, strengthening customer relationships in each region, and filling out its new product development pipelines. Domestic sales declined year on year. Sales were solid for *G-Lasta*\*, an agent for decreasing the incidence of febrile neutropenia; *NOURIAST*, a treatment for Parkinson’s disease; and *Onglyza*, a treatment for type 2 diabetes. However, sales were impacted by Kyowa Medex being removed from the scope of consolidation, the April revision to drug prices in Japan’s national health insurance system, the increasing presence of generics as part of government efforts to reduce medical costs, and competitor products. Overseas sales increased on steady market penetration of *Crysvita*, a treatment for X-linked hypophosphatemia launched in 2018, and *Poteligeo*, a treatment for skin T-cell lymphoma. Pharmaceuticals business revenue increased when factoring out the impact from removing Kyowa Medex from consolidated accounts. Normalized operating profit declined 4.6 billion yen, or 8.4%, year on year, owing mainly to increased

selling, general and administrative expenses as the company sought to establish global strategic products overseas.

In the Bio-chemicals Business, sales declined 2.6 billion yen, or 3.2%, year on year due mainly to the impact of the previous year’s sale of the plant growth regulator business and the intensifying competition for some products overseas. At the same time, improved costs from full-scale operations of the overseas plant and a revised product mix helped increase normalized operating profit by 0.9 billion yen, or 13.1%.

\* *G-Lasta* is a treatment to increase the number of neutrophil white blood cells.

**(3) Progress toward achieving management indices**

The Kirin Group 2016-2018 Medium-Term Business Plan (2016 MTBP) to “revitalize the Kirin Group through restructuring” set raising ROE to 15% or higher and lifting the CAGR in normalized EPS to 6% or higher as key performance indicators. We achieved both targets by steadily raising profitability and diligently reducing costs throughout the Group.

| Performance indicator | 2015    | 2016    | 2017    | 2018    | CAGR  |
|-----------------------|---------|---------|---------|---------|-------|
| ROE                   | (6.3%)  | 17.6%   | 29.1%   | 17.5%   | -     |
| Normalized EPS        | 117 yen | 125 yen | 151 yen | 167 yen | 12.6% |

**2. Financial Status**

**(1) General overview**

Total assets at the end of the current consolidated fiscal year amounted to 2,303.6 billion yen, a decrease of 94.9 billion yen from the end of the previous consolidated fiscal year. The decline was mainly due to decreases in property, plant and equipment, goodwill and other intangible fixed assets, financial assets (non-current), and non-current assets held for sale. The decline in property, plant and equipment was caused by the yen appreciation versus the same period last year, which caused the value of subsidiary assets overseas to decline when converted to Japanese yen. The decline in other non-current asset was due to decreased market value for shareholdings. Other financial assets (non-current) declined by 30.8 billion yen due to reduced value of equity holdings and the sale of strategically held shares. However, strong earnings at San Miguel Brewery helped boost share of profit of equity-accounted investees, supporting a 29.8 billion yen increase in investments booked under the equity method. The sale of the Company’s stake in Kirin Amgen reduced non-current assets held for sale by 76.3 billion yen.

While retained earnings increased, equity decreased by 28.2 billion yen from the end of the previous consolidated fiscal year to 1,200.9 billion yen. This is primarily due to a 73.9 billion yen decrease in reserves and an increase of treasury stocks through a 100 billion yen of share buyback executed to further increase of shareholder returns. The decline in reserves was due to a foreign exchange gain (loss) associated with overseas operators due to reduced income owing to a stronger yen versus the Australian dollar and Myanmar kyat along with reduced income arising from a net change in equity instruments measured at fair value through other comprehensive income.

Liabilities decreased 66.7 billion yen from the end of the previous consolidated fiscal year to 1,102.7 billion yen mainly due to debt repayment. Non-current liabilities decreased 43.7 billion yen to 512.8 billion yen. In March 2018, the Company paid down roughly 70 billion yen in bonds coming due. In November 2018, the Company paid down other long-term borrowings and also issued 25.0 billion yen in straight bonds with a redemption date in December 2023. In current liabilities, accrued corporate income taxes increased by 7.5 billion yen while bonds and long-term borrowings redeemable within one year declined by 26.8 billion yen as the Company continued to pay off and pay down liabilities. Total current liabilities decreased 23.0 billion yen to 589.9 billion yen.

As a result of the above, the ratio of consolidated profit attributable to owners of the Company was 39.8% and the gross debt-to-equity ratio was 0.45.

## (2) Financial status of each reportable segment

### • Japan Integrated Beverages Business

Segment assets amounted to 819.1 billion yen at the end of fiscal 2018, an increase of 23.5 billion yen from the end of the previous fiscal year. The increase was mainly due to systems investment to install enterprise resource planning (ERP) beginning in 2017 to support future business growth.

### • Oceania Integrated Beverages Business

Segment assets amounted to 489.6 billion yen at the end of fiscal 2018, a decrease of 30.8 billion yen from the end of the previous fiscal year. The decrease was mainly due to declines in property, plant and equipment and goodwill due to the strong yen rate versus the Australian dollar used in the conversion of Lion Pty Limited assets.

### • Other Overseas Integrated Beverages Business

Segment assets amounted to 674.6 billion yen at the end of fiscal 2018, an increase of 272.2 billion yen from the end of the previous fiscal year. The increase was mainly due to a rise in other non-current assets due to intersegment loans.

### • Pharmaceuticals and Bio-chemicals Business

Segment assets amounted to 706.3 billion yen at the end of fiscal 2018, a decrease of 28.2 billion yen from the end of the previous fiscal year. The decrease was mainly due to a decline in non-current assets held for sale associated with Kyowa Hakko Kirin divesting of a portion of its shareholdings in Kyowa Medex.

## 3. Cash Flow

### (1) Cash flow and liquidity status

The balance of cash and cash equivalents (hereinafter “net cash”) at the end of the current consolidated fiscal year was 173.1 billion yen, an increase of 11.1 billion yen from the end of the previous consolidated fiscal year. Consolidated cash flows were as follows.

#### Cash flows from operating activities

Net cash provided by operating activities decreased 23.7 billion yen year on year to 198.1 billion yen. Profit before tax increased 13.1 billion yen. Corporate tax payments declined 21.2 billion yen, primarily due to the 5% tax rate on the 19.8 billion yen in gain on the sale of shares of Kirin Amgen, which is booked as dividends for tax accounting purposes. However, the decline in interest payments due to the reduction of corporate bonds and borrowings led to a 21.5 billion yen increase in outflow of working capital.

#### Cash flows from investing activities

Net cash provided by investing activities decreased 15.8 billion yen year on year to 47.4 billion yen. Outflow for acquisition of property, plant and equipment and intangible value decreased 0.9 billion yen to 87.9 billion yen. Inflows included 85.1 billion yen from the sale of equity-accounted investments (shares of Kirin Amgen), 30.4 billion yen from the sale of strategic holdings and other investments, 18.7 billion yen from the sale of property, plant and equipment and intangible value; and 9.1 billion yen from the sale of shares of a subsidiary (Kyowa Medex) as the Company continued its plan to divest non-core assets.

#### Cash flows from financing activities

Net cash used in financing activities increased 44.5 billion yen

year on year to 226.7 billion yen. Proceeds included 30.6 billion yen from long-term borrowings and 25.0 billion yen from the issuance of bonds. Outflow included 100.1 billion yen for payment for acquisition of treasury shares, 70.0 billion yen for payment for redemption of bonds, 55.7 billion yen for dividends paid, and 54.9 billion yen for repayment of long-term borrowings.

We ultimately met all of the quantitative targets in the 2016 MTBP and, through extensive restructuring, vastly improved the cash-generating abilities of existing businesses such that we were able to provide greater shareholder returns and pay down more interest-bearing debt than was initially targeted in the plan. The gross debt-to-equity ratio was 0.45x at the end of 2018, as we were able to bring it to an optimal level while preserving our financial flexibility and soundness.

In fiscal 2019, we are seeking to generate 190 billion yen in cash flows from operating activities and plan to earmark 120 billion yen of cash from investing activities for capital investment. In line with our financial strategy, the first priority for the use of the free cash flow generated during the year will be to invest in growth for the alcoholic and non-alcoholic beverage business and other existing core businesses. We will also use funds to establish and foster new businesses bridging the pharmaceuticals and food & beverages businesses while also flexibly allocating funds for additional shareholder returns. Regarding shareholder return, in fiscal 2019, we raised our benchmark for the consolidated dividend payout ratio of normalized EPS from 30% or higher to 40% or higher. We intend to provide shareholder returns valued at approximately 60 billion yen in fiscal 2019. While building profit and enhancing our ability to generate cash flow, we will maintain a sensible capital structure that is well-balanced with capital costs and financing.

## **(2) Basic capital policy**

Based on the fiscal policy set forth in the Kirin Group 2019-2021 Medium-Term Business Plan (2019 MTBP), Kirin Holdings will allocate resources to its businesses and distribute profits to its shareholders as set out below.

Resource allocation to businesses will prioritize investing to improve asset efficiency and to improve the attractiveness of our plants as well as investing in equipment and business to fortify and grow existing businesses.

Kirin Holdings will also steadily and consistently allo-

cate resources to intangible value such as brands, research and development, information and communication technology, and human resources expected to support future growth of cash flow as well as to establish and foster new businesses bridging pharmaceuticals and food & beverages. The Company will take a disciplined approach to investment to maintain and improve the capital efficiency of the Kirin Group while controlling capital costs.

Kirin Holdings considers it a management priority to appropriately distribute profits to shareholders. The Company raised the consolidated target payout ratio in the 2019 MTBP and plans to continue providing dividends based on a consolidated dividend payout ratio on normalized EPS of 40% or higher. While comprehensively taking into account factors including optimum capital structure, market conditions and reserve funds after investments, Kirin Holdings will also flexibly consider share buybacks as a way to provide additional shareholder returns when the Company receives an inflow of additional funds, such as from gains on the sale of assets.

When management deems it necessary to raise funds, the Company's primary financing source is loans. Funds are procured to ensure the Company is prepared for sudden fluctuations in the economic environment, and in such a manner as to maintain the resiliency of the Company's high credit rating to financial conditions. The Board of Directors examines and verifies all fund procurement proposals that would affect the controlling stake in the Company or cause significant stock dilution. Proposals are scrutinized in terms of the targets in the long-term management vision "Kirin Group Vision 2027" and the 2019 MTBP plans and with full consideration of the impact on stakeholders. The Board of Directors has the responsibility to provide full accountability for its decisions.

Through the above initiatives, the Company seeks to achieve the 2019 MTBP to raise ROIC to 10% or higher and CAGR in normalized EPS of 5% or higher.

## Investor Information/Company Information

### Information related to total shareholder return

|   | 2013  | 2014  | 2015    | 2016    | 2017    | 2018    |
|---|-------|-------|---------|---------|---------|---------|
| Year-end stock price (Yen)  | 1,513 | 1,497 | 1,647.5 | 1,901.5 | 2,840.5 | 2,298.5 |
| Dividends per share (Yen)   | 36    | 38    | 38      | 39      | 46      | 51      |
| Cumulative dividend income per share (from fiscal 2013, Yen)        | -     | 74    | 112     | 151     | 197     | 248     |
| Amount of increase in stock price per share (from fiscal 2013, Yen) | -     | -16   | 134.5   | 388.5   | 1,327.5 | 785.5   |
| Total shareholder return per share*                                 |       |       |         |         |         |         |
| Absolute amount (Yen)   |       | 58    | 246.5   | 539.5   | 1,524.5 | 1,033.5 |
| Rate (%)  |       | 3.8   | 16.3    | 35.7    | 100.8   | 68.3    |

\* Total shareholder return per share is calculated at fiscal year-ends, starting in fiscal 2014 as if the investment was made at the closing stock price at the end of fiscal 2013.

### Stock price and trading volume



### Company overview

|   |  |
|---|--|
| <b>Trade name</b>                         | Kirin Holdings Company, Limited  |
| <b>Date of incorporation</b>              | February 23, 1907<br>Note: On July 1, 2007, accompanying the shift to a pure holding company structure, Kirin Holdings Company, Limited changed its name from Kirin Brewery Company, Limited |
| <b>Head office</b>                        | NAKANO CENTRAL PARK SOUTH, 10-2,<br>Nakano 4-chome, Nakano-ku, Tokyo<br>164-0001, Japan  |
| <b>Paid-in capital</b>                    | ¥102,045,793,357   |
| <b>Number of employees (consolidated)</b> | 30,464<br>* Number of Kirin Holdings employees on a consolidated basis, as of December 31, 2018  |

**Stock listings**  
Tokyo, Nagoya, Fukuoka, Sapporo

**Transfer agent**  
Mitsubishi UFJ Trust and Banking Corporation,  
Corporate Agency Division,  
1-1, Nikko-cho, Fuchu-Shi, Tokyo 183-0044, Japan  
Tel: +81-3-5391-1900 (business days from 9:00 to 17:00)

**Depository**  
J.P. Morgan Chase Bank N.A.  
P.O. Box 64504  
St. Paul, MN 55164-0504  
Call toll-free from within the U.S.: +1-800-990-1135  
Call from outside the U.S.: +1-651-453-2128

## Third-Party Evaluations

The Kirin Group provides full transparency in its information disclosure to investors and all stakeholders. The extensive data we provide through the integrated Kirin CSV Report (published as the Kirin Report prior to this year), Environmental Report, and on the corporate website has made it possible for third-party evaluations of our environmental performance and inclusion in global indices.



FTSE4Good Index



FTSE Blossom Japan Index



MSCI Japan Empowering Women Index (WIN)



CDP Water A List



CDP Supplier Engagement Leader



Health Management Excellence 2019 (White 500)



Diversity Management Selection 100



Nadeshiko Brand 2019



30% Club



work with Pride, Gold Certification



Please refer to our website for an explanation of each indicator.  
[https://www.kirinholdings.co.jp/english/csv/esg\\_gri/](https://www.kirinholdings.co.jp/english/csv/esg_gri/)

Joy brings us together

