

KIRIN



KIRIN REPORT 2018

Kirin Holdings Company, Limited

KIRIN REPORT 2018

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Editorial Policy

This integrated report comprehensively explains the Kirin Group's corporate value in both financial and non-financial terms.

KIRIN REPORT 2018 summarizes the strengths of the Group based on Kirin's DNA and its medium- and long-term vision in an easy-to-understand manner using the "Value Creation Model Diagram" (pages 7–8) as a guide.

Precautionary Note regarding Forward-Looking Statements

In this report, statements that are not historical facts are forward-looking statements based on future prospects and plans. These forward-looking statements include such factors as risk and uncertainty, and as a result, actual results and performance could differ from these statements. In addition, the forecasts for the fiscal year ending December 2018 are as of the announcement made on February 14, 2018.

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CHAPTER

I

Philosophy and Strategy

Corporate Philosophy

The Kirin Group — Focused on people, nature and craftsmanship to redefine the joy of food and well-being

We pride ourselves on offering products based on what people want.
We pride ourselves on our ability to harness the goodness of nature through innovative technology.
We pride ourselves on delivering tangible satisfaction and quality in everything we make.

All of which ensures that we exceed customers' expectations.

And naturally, we do not stop there.

As we look forward with vision and dreams, we aim to continue offering food and health products that bring new joy to people's lives everywhere.

Always a step ahead, the Kirin Group supports health, pleasure and comfort in your life.

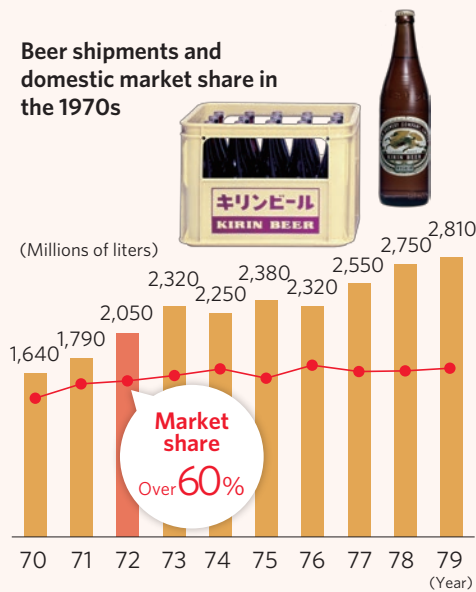


Applying innovations to respond flexibly to changes in the operating environment

Kirin's market share reaches 60% during the boom years when beer becomes popular in Japan

During Japan's period of rapid economic growth from the 1950s to 1970s, Kirin Brewery Co., Ltd., greatly expanded its production, sales, and deliveries of beer. It also expanded operations to include a soft drink business in 1963 and a whiskey business in 1972. By the 1970s, the company had secured a market share of about 60% for its Kirin-brand beer, produced by its network of 12 breweries across the country.

Beer shipments and domestic market share in the 1970s



Diversifying operations beyond beer production to offer a wider lineup of life-enrichening products

In the 1980s, the Kirin Group expanded into the life sciences industry and established a full-fledged pharmaceuticals business. In order to diversify its operations further, Kirin took steps toward creating a new company image while improving its corporate structure.

Beverages, food and other products 7.7%



EARLY HISTORY

Founding of Japan Brewery Co., Ltd.

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.

Establishment of Kirin Brewery Company in 1907 amid intensifying competition among beer makers

Japan's beer industry entered a time of intense competition after the turn of the century. In that context, 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. The new company's Articles of Incorporation declared an ambition to do business over the next 100 years.

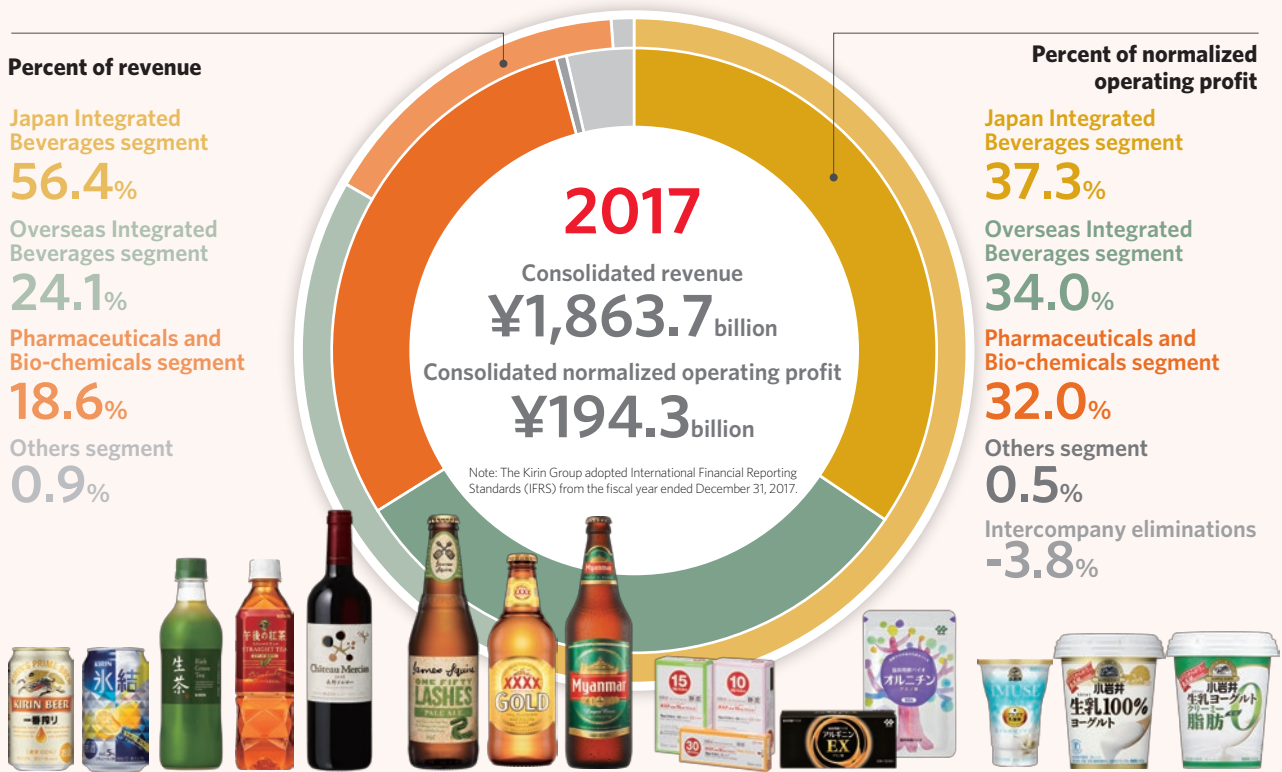


The launch of Kirin Holdings

Kirin Holdings Co., Ltd., was established in 2007, the year of the company's 100th anniversary of its founding. A pure holding company framework was adopted as a means for strengthening the Kirin Group's management. Then in 2013, Kirin Co., Ltd., was established for the purpose of leading the Group's Japan Integrated Beverage business segment.

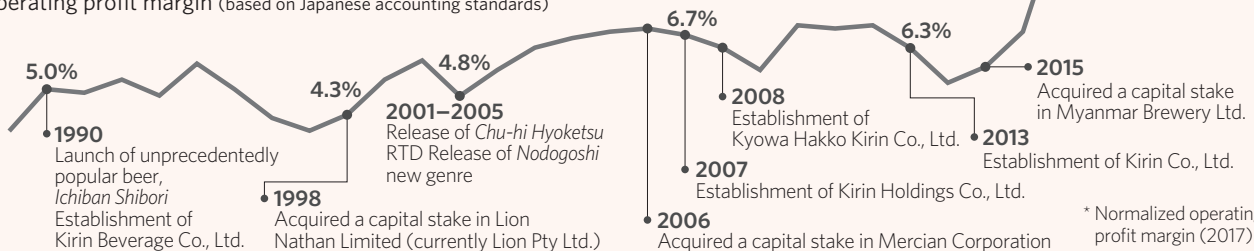
Expanding operations globally

Aiming to be a leading company in Asia and Oceania, Kirin Holdings set up subsidiaries in various countries including Australia, China, the Philippines, and Myanmar. It also launched Kyowa Hakko Kirin Co., Ltd., in 2008 as a pharmaceutical and biochemical business, which is applying biotechnology in an effort to develop global pharmaceutical products.

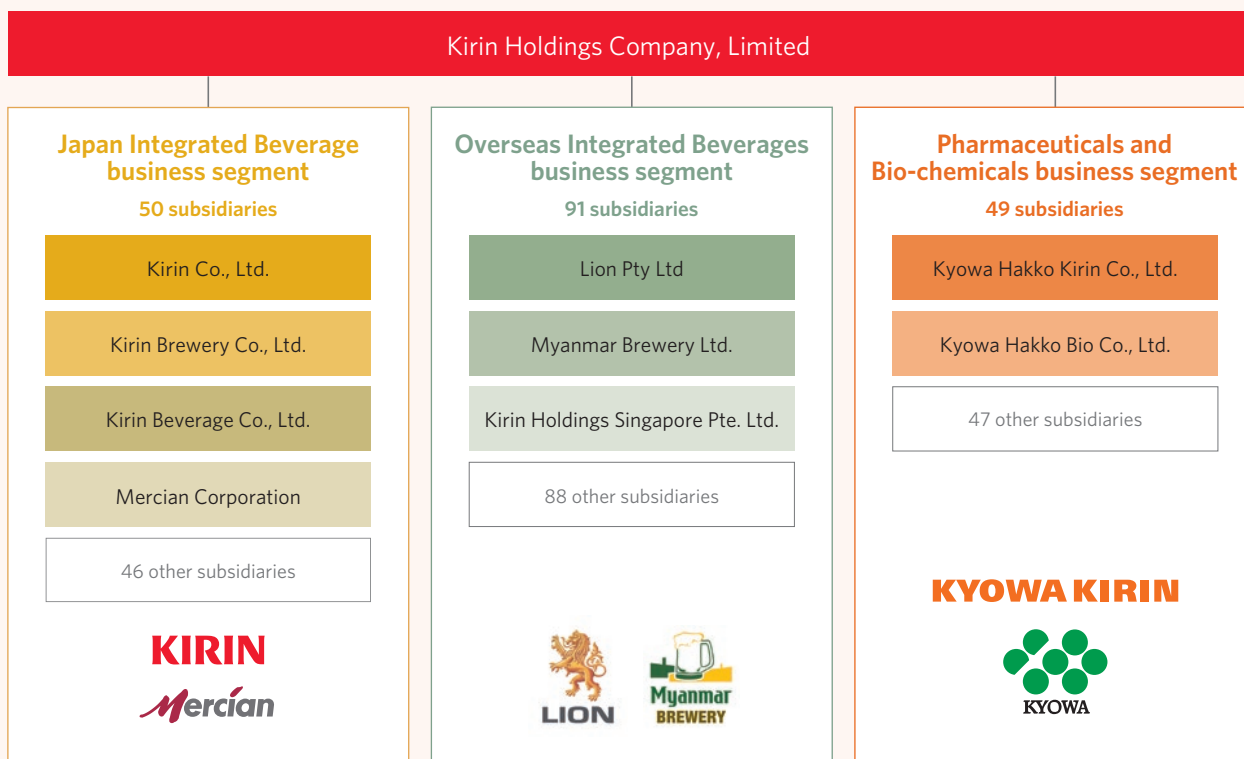


Japan Integrated Beverages segment Overseas Integrated Beverages segment Pharmaceuticals and Bio-chemicals segment Others segment

Operating profit margin (based on Japanese accounting standards)

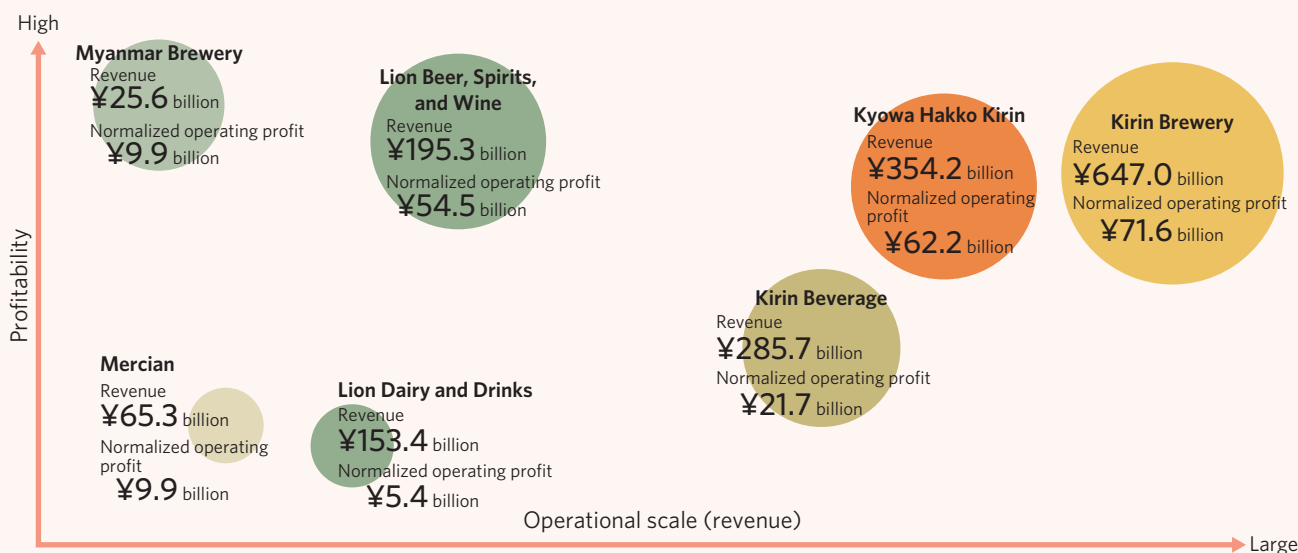


Leveraging the diversity of the Group's businesses, operating regions, and employees



Note: The Other business segment includes Koikai Dairy Products Co., Ltd., and one other company.

Operational scale and profitability of operating companies



The revenue amounts of Kirin Brewery, Mercian Corporation, and Kyowa Hakko Kirin include sales tax on liquor.

With a history spanning more than a century, the Kirin Group has established a globally unique business portfolio composed of three core businesses—alcoholic beverages, non-alcoholic beverages, and pharmaceuticals and bio-chemicals. Today, the Kirin Group’s global operations cover Japan and the rest of Asia, Oceania, the United States, and Europe. The number of Group companies has reached 192 and the percentage of employees

outside of Japan is approximately 46%. By creatively and flexibly leveraging the diversity of its businesses, operating regions, and employees, the Kirin Group is driving innovations worldwide while continuing to take on the challenge of creating new value.

The Kirin Group around the world

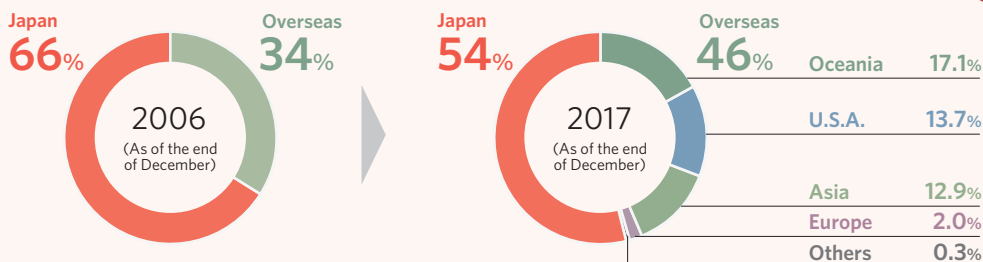
- Alcoholic and non-alcoholic beverages businesses
- Pharmaceuticals and bio-chemicals businesses



* Affiliate consolidated under the equity method



Number of employees by country and region



Enhancing economic and social value
by positioning the creation of shared value
at the heart of business activities

INPUT

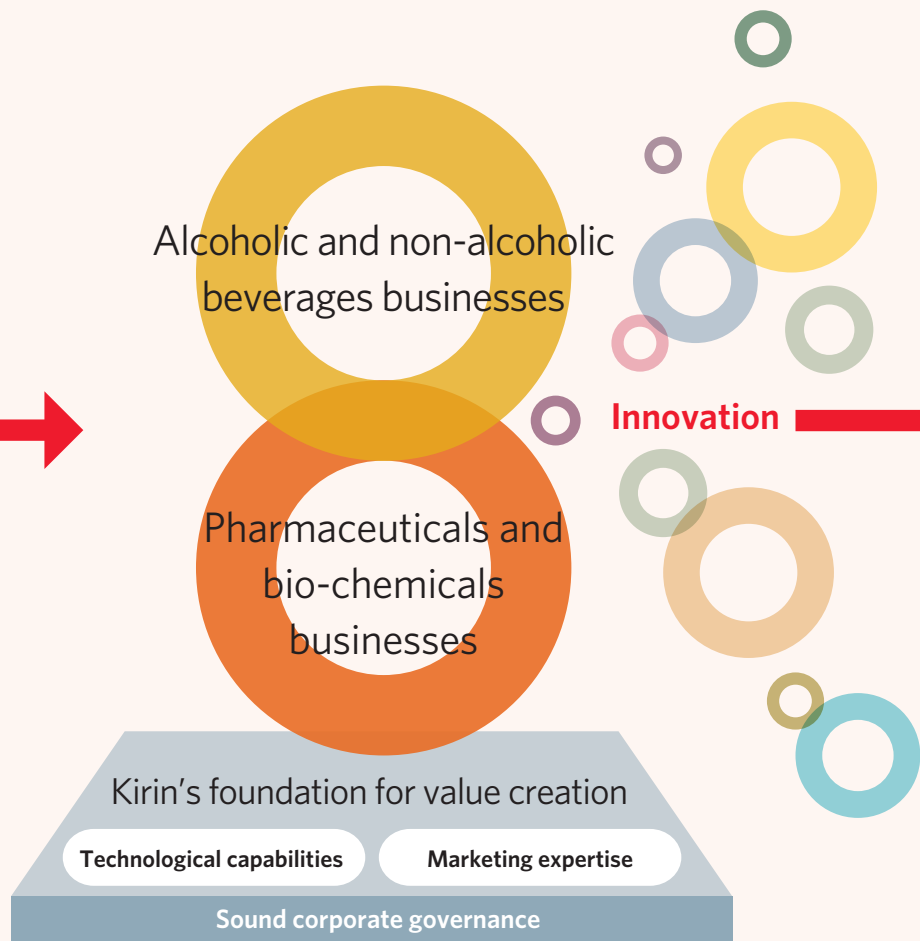
Enhanced operational resources

- Human resources**
The key assets for sparking innovation and driving the Group's growth
- Brands**
The basis for maintaining ties with consumers built up over many years and for offering them new experiences
- Research and development**
The means for pursuing technological innovations and meeting the expectations of consumers and their communities
- Supply chain and IT capabilities**
The resources for supplying the high-quality products and services needed for strengthening ties with customers

Note: The key indicators that have been set for improving operational resources are presented on pages 21 – 22.

BUSINESS

Kirin's unique business portfolio



The Kirin Group has positioned the concept of creating shared value (CSV) as the basis of its business activities. Accordingly, the Group is working to improve its operational resources—particularly human resources, brands, R&D, supply chain and information technology—as a means for enhancing technological capabilities and marketing expertise. They are its foundations for creating value, which is one of the Group's competitive advantages. At the same time, the Group is branching out into diverse new business domains by generating

synergies from its alcoholic and non-alcoholic beverages businesses as well as its pharmaceuticals and bio-chemicals businesses. Through the products and services offered by each of these business areas, the Kirin Group is increasing both economic and social value it offers to its stakeholders around the world. Looking ahead toward the next stage of growth, the Group intends to enhance its operational resources while maintaining this cycle of creating value with the goal of growing sustainably into the future.

OUTPUT

Good-quality products and services



OUTCOME

ROE EPS

Economic value

For more details, please refer to page 21.

Social value

Promotion of health and well-being

Community engagement Environmental conservation

For more details, please refer to pages 33 – 34.



Committed to CSV management for sustainable growth

Together with our stakeholders, we create value through our business in three areas: health and well-being, community engagement, and the environment.

Isozaki The Kirin Group has three core businesses: alcoholic beverages; non-alcoholic beverages; and pharmaceuticals and bio-chemicals. In the areas of alcoholic beverages and non-alcoholic beverages, our business is quite stable. Looking ahead, however, we cannot take sustainable growth for granted.

Arima With Japan's high longevity and low fertility rate, the domestic beverages market is growing increasingly mature. Issues caused by the harmful use of alcohol are also a critical constraint to growth.

Isozaki In fact, Japan's beer market peaked in 1994. Market growth declined over the 20-some years since then. Economic growth is slowing overseas, as well, not only in North America, Europe and Oceania, but even in China. Pharmaceuticals present their own challenges. In the Japanese market, for example, we are facing downward pressure on official drug prices, as the government seeks to contain rising healthcare costs.

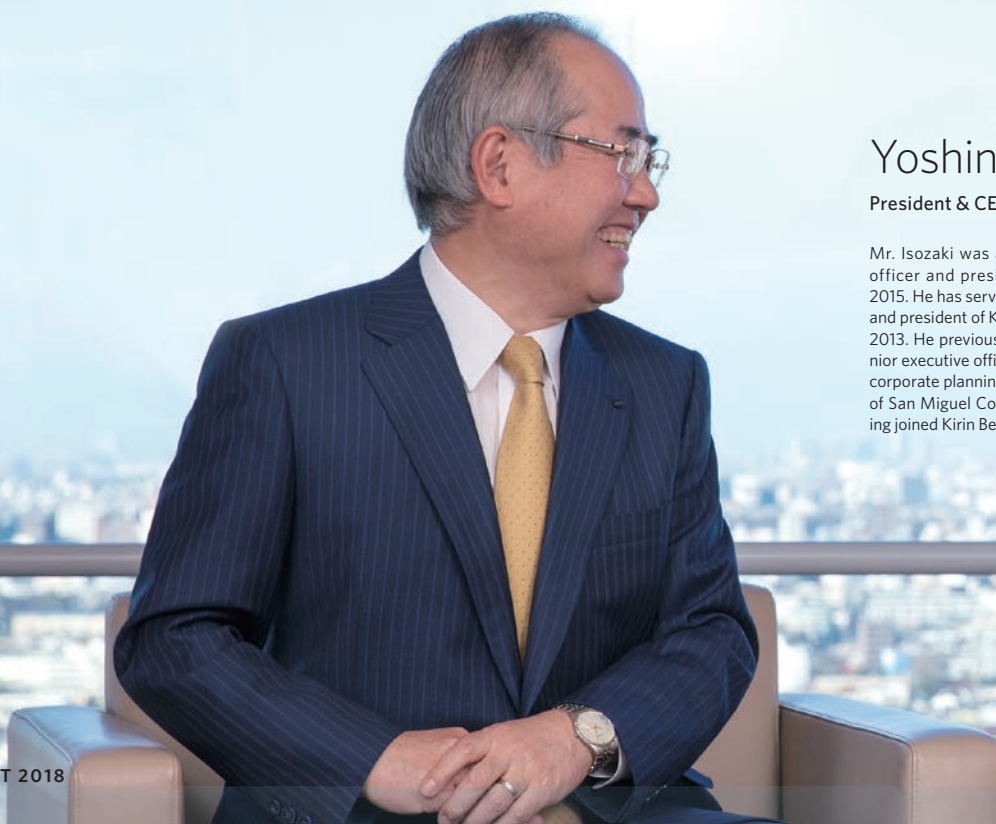
Arima The chances of revisiting yesterday's high growth rates are rather slim for any of our business sectors.

Isozaki Given these circumstances, how then do we propose to attain long-term growth? The answer lies in creating shared value (CSV), which we positioned as our core management principle in 2012. With this approach, instead of reacting passively to a changing market, we view it as a business opportunity.

Arima Increasingly, investors want to know what steps a firm is taking to meet globally recognized environmental, social and governance (ESG) benchmarks. When considering a firm's investment potential, they carefully check not only ROE and other growth metrics, but also how the firm is addressing social issues.

Isozaki In my mind, a basic tenet of ESG is that a firm's sustainable potential is nil if its profits depend on tradeoffs against society, the environment, and stakeholders. Tradeoffs against employees and other workers along the value chain can erode brand equity, product quality, CRM and more. Consumers too are assigning ever more importance to a brand's social efforts, rather than making purchasing decisions based only on quality, price, styling, and the like.

Arima Since becoming one of the first in Japan to adopt the CSV concept, Kirin has earned accolades for its Group-wide CSV initiatives. Recognizing our responsibility as an alcoholic beverages manufacturer, we are committed to action in



Yoshinori Isozaki

President & CEO

Mr. Isozaki was appointed chief executive officer and president of Kirin Holdings in 2015. He has served as chief executive officer and president of Kirin Company Limited since 2013. He previously held the positions of senior executive officer and general manager of corporate planning at Kirin Holdings, director of San Miguel Corporation, and others, having joined Kirin Beer in 1977.

the three major areas of health and well-being, community engagement, and the environment.

Isozaki Our Group has a unique portfolio comprising alcoholic beverages and non-alcoholic beverages, together with pharmaceuticals and bio-chemicals. In building this portfolio, we have gained technological and marketing acumen that we leverage using our management resources to deliver products and services true to the Kirin brand. Focusing on positive outcomes for nature and society throughout the economic value chain, we are dedicated to CSV, which holds the key to sustainable growth of the Kirin Group.

Creating shared value for another 100 years

Isozaki After adopting CSV in 2012, we have increasingly incorporated the concept in our business. In February 2017 we made significant progress with the announcement of our CSV Commitment, which sets down how we put CSV principles into practice to achieve measurable results at each key point on the value chain. In 2016, in the area of health and well-being, we formed the Business Creation Department, which played a key role in development of *Lactococcus lactis* strain Plasma. We are also working on innovative products and services that support self-care in healthy people and help manage pre-disease states. As an example of community engagement, we use Japanese "Ibuki" hops from Tono in Iwate Prefecture in craft beer production. In this and other undertakings, the network we built for our successful 47 Todofuken no Ichiban Shibori Beer project has continued to serve us well, as we build win-win relationships with communities through our activities.

Arima When I visited Iwate Prefecture recently to inspect the hops crop, I noticed the enthusiasm in the growers' faces. It seems that ever since Kirin lent its support to reverse declining production of Tono hops, more young people have been coming to learn how to cultivate the crop. This kind of activity is essential to revitalize rural communities.

Isozaki Outside Japan, the Kirin Group serves local communities in many ways. In Sri Lanka, Kirin funds training for tea growers to obtain Rainforest Alliance certification for sustainable agriculture. Kirin also donates textbooks to primary schools in tea-growing locales. Such actions help us achieve fair trade and sustainable sourcing, while furthering environmental conservation, sustainability, and local development. To clarify our corporate stance and guide us in addressing such issues, we decided on 16 CSV commitments that reference the UN's Sustainable Development Goals (SDGs).

Arima Clearly, we are moving in the right direction; therefore, we will be redoubling our CSV efforts. To pioneer new ventures we must break down the walls of our existing business domains and methodologies. Technological innovation alone is not enough. The processes and systems that we take for granted in business and society are also ripe for creative disruption.

Isozaki Indeed, as we break down the walls and explore the territory beyond, it is our duty to create change that helps solve social issues to the best of our ability. Yes, it is a huge challenge, but the alternative is unthinkable. The Kirin Group cannot survive and thrive without sustainable development. Following the words of our founders, Kirin has broken down many walls over the years in the spirit of our founders' wish for people to enjoy delicious beer and live in an affluent society. Inspired by these words, we make it our mission to keep creating new value over the next 100 years.

Toshio Arima

Outside Director

Mr. Arima has been serving as an outside director of Kirin Holdings since 2011 and, in 2016, he took on the additional role of chairman of the Board. Previous positions include director of FUJIFILM Holdings Corporation and president and representative director of Fuji Xerox Co., Ltd., which he joined in 1967. He is also a current member of the United Nations Global Compact Board.





**We are refining
our strengths and accelerating
our medium- to long-term
growth strategy.**

Goshimori Shuzo

President & CEO

Steady progress in structural reform and reinforcement of our management foundation to achieve sustainable growth

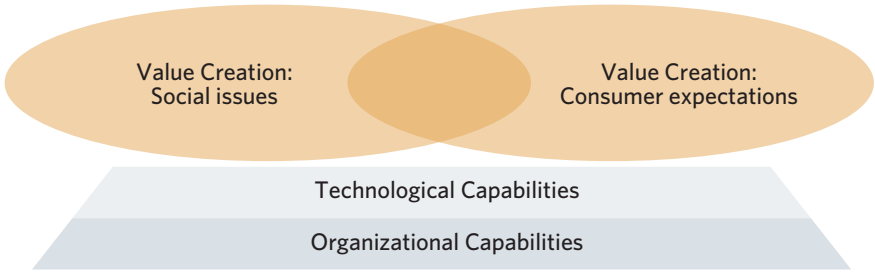
We put the Kirin Group 2016–2018 Medium-Term Business Plan (16MTBP), into action in 2016 as the first stage of our Long-Term Management Vision, “New KV2021.” Accordingly, we are reinforcing our beer business earnings base, pursuing structural reform of low-profit businesses, and leaping forward in our pharmaceuticals and bio-chemicals businesses. As in these three core initiatives, we are making every effort to restructure and revitalize Kirin, group-wide.

Over the past two years our reforms of low-profit businesses have shown impressive results. In 2017 we also made great strides in reinforcing our domestic beer business earnings base. Actions like these, along with liquidation of non-core assets and other measures, have brought structural reform to the group at a brisk pace. As a result we achieved three-year free cash flow targets laid out in the 16MTBP a year early. The year 2017 also

saw the Group’s profits rise to record levels. We are pleased to report a deepening group-wide commitment to carrying out our plans.

In 2018, the final year of the 16MTBP, we will keep moving with urgency to achieve core business profit growth. We are confident that we will reach our quantitative targets and guidance. In addition, we have fortified the Group’s management foundation with a view toward maximizing shareholder value based on further progress in corporate governance and strengthened CSV management based on our CSV Commitment. Through these and other measures we have gained a solid footing to realize New KV2021. Sustainable growth is our goal over the next three years as we head toward the next MTBP, scheduled.

Long-Term Management Vision “New KV2021” — New Kirin Group Vision 2021

<p>2021Vision</p>	<p>Through the core businesses* of the Kirin Group we create value that addresses social issues and consumer needs, with the goal of achieving mutually sustainable growth along with our communities and society at large.</p> <p><small>* Alcoholic Beverages, Non-alcoholic Beverages, and Pharmaceuticals and Bio-chemicals</small></p>
<p>Outcome</p>	<p>Creation of Economic Value and Social Value</p>
<p>Strategic framework (= Kirin Group's unique CSV)</p>	 <p>The diagram illustrates the strategic framework for value creation. It features two overlapping ovals at the top: the left one is labeled 'Value Creation: Social issues' and the right one is 'Value Creation: Consumer expectations'. Below these ovals are two stacked trapezoidal shapes representing the foundational capabilities: 'Technological Capabilities' (top) and 'Organizational Capabilities' (bottom).</p>
<p>“One Kirin” Values</p>	<p>“Passion and Integrity”</p>

Seeking profit growth in our existing businesses

While maintaining this swift progress in structural reform, we are intent upon achieving our quantitative targets and profit guidance. At the same time we will accelerate implementation of measures with a view toward our next medium-term plan and beyond. Realizing profit growth in our existing businesses is our top priority.

Among our existing businesses, we are seeking new heights of profitability in Kirin Brewery and Lion Beer, Spirits, and Wine business (Oceania). It is generally recognized that beer markets in Japan and other industrialized nations in North America, Europe, and other regions are becoming ever more mature.

Domestic beer consumption has dropped one fourth from its peak. Against Japan's background of declining fertility and an aging population we foresee further reduction in consumption ahead. Over the medium to long term it is unrealistic to hope for unit growth. Aggressive price competition has continued for some time but the revised Liquor Tax Law and related legislation

of June 2017 established the Guidelines on Fair Liquor Trade, which offers opportunities for the beer industry to move decisively toward focusing on profitability.

In this reshaped business environment, Kirin Brewery is among the first to shift its orientation away from price, putting even greater emphasis on brands than we have in the past. Specifically, in January 2017, preceding this regulatory reform, we slashed sales promotion costs, while reclassifying marketing cost as an investment in brands, which are intangible assets. This allows us to allocate resources to branding by launching products with fresh appeal and introducing innovations in places where alcoholic beverages are served or sold.

In July 2017 for example, we revamped *Ichiban Shibori* with an improved flavor, which we communicated through an ad campaign, winning the hearts of a large cross-section of beer lovers. The rate of sales growth surpassed that of the market itself while enhancing the attractiveness of the beer category as a whole. We also expanded our craft beer business to revitalize the market by further boosting beer's appeal.

Going forward we will further narrow down the products

Initiatives to Maximize Shareholder Value

Implement three initiatives to maximize shareholder value based on the foundation built since 2015

1. Profit growth of existing businesses
2. Synergy creation capitalizing on business strengths
3. Financial strategy focusing on cost of equity and non-financial strategy to reduce future risks

Hands-on management

Integrated management of the Kirin Holdings Company and the Kirin Company
Quick decisions by executive officers

Progressive corporate governance

Strengthen management oversight by the Board of Directors
Increase the transparency and fairness of business operations

CSV Commitment

We are committed to CSV for sustainable growth by addressing social issues in three priority areas, recognizing our responsibility as an alcohol producer.

in which we invest, aiming to build strong brands supported by long-term fans. At the same time, we will invest in the growth categories of craft beer and ready-to-drink (RTD) pre-mixed cocktails. Through these measures we intend to stimulate new growth for Kirin Brewery and boost profitability over the medium term to a level comparable to global competitors.

Regarding Lion Beer, Spirits, and Wine business, we are regaining profit following conclusion of distribution agreement with Anheuser-Busch InBev (ABI) in Australia. Specifically, we are leveraging our strengths by boosting the brand equity of our main brands and expanding craft beer sales. In 2018 we will ramp up these efforts to achieve profitability levels seen when the ABI agreement was in force.

We are pursuing a growth strategy for Myanmar Brewery, Kirin Beverages, and Kyowa Hakko Kirin, as these are the main drivers of Group growth. In the case of Myanmar Brewery, we are building the brewer's main brand, *Myanmar Beer*, and expanding production facilities and capacity to support long-term growth. Over the past two years we have greatly improved the profitability of Kirin Beverages by dropping unprofitable operations and

cutting supply chain costs.

Going forward we are taking the next step up in our strategy, shifting from profitable growth to growth-based profit generation. By developing a robust brand portfolio and creating value beyond existing domains, we aim to raise our normalized operating profit margin to 10% by the year 2021.

In the Kyowa Hakko Kirin pharmaceuticals and bio-chemicals business we are making steady progress with development of our global strategic products, KRN23 (Burosumab) and KW-0761 (Mogamulizumab). In February 2018 the European Medicines Agency (EMA) granted Conditional Marketing Authorisation to KRN23. Having obtained FDA marketing approval in April 2018, we plan to launch KRN23 in both the U.S. and Europe within the year.

Progressing favorably with its five-year plan, Kyowa Hakko Kirin is enhancing its marketing capabilities and other aspects of its business in addition to developing global strategic products. Advancing steadily, KHK drives the Kirin Group's medium- to long-term growth as it makes the leap to become a global specialty pharmaceutical company (GSP).

Profit Growth of Existing Businesses

Further improve profitability

Kirin Brewery	Turn selling expenses from a "cost" to an "investment" Invest aggressively in growth categories
Lion Beer, Spirits, and Wine	Steadily implement the "Post ABI strategy"

Driving Group Growth

Myanmar Brewery	Strengthening main brands
Kirin Beverage	Step up from profitable growth to growth-based profit generation
Kyowa Hakko Kirin	Achieve outstanding growth to become a global specialty pharmaceutical company (GSP)

Lion Dairy and Drinks will continue the ongoing efforts to improve profitability and accelerate growth in nutritious beverages.



Advancing CSV with stronger intangible assets and new business development

Seeking medium- to long-term growth in the years ahead, we will prioritize profitable growth of our existing businesses, while accelerating our shift to CSV as the core of our management. CSV management is key to raising corporate value and attaining sustainable growth. While fulfilling our responsibility as an alcohol producer, we create value by addressing social issues in the key areas of health and well-being, community engagement, and the environment.

We follow two policies to further CSV management and develop businesses, products and services that address customers' latent needs and have a positive impact on society.

The first policy is to strengthen management's intangible assets: human resources, brands, R&D, and supply chain and IT. These are assets that the Group has gained over the years in response to changes in the business environment. Strengthening our human resources is of particular importance as human resources are our engine for growth.

Kirin Group 2016–2018 Medium-Term Business Plan

<p>Basic policy</p>	<p>Restructure and revitalize Kirin, groupwide</p>
<p>Key initiatives</p>	<p>Implement specific strategies in accordance with the positioning of each business</p> <ul style="list-style-type: none"> ● Invest, strengthen and grow profit base in beer businesses (Kirin Brewery; Lion Beer, Spirits and Wine; Myanmar Brewery) ● Restructure and revitalize low-profit businesses (Brasil Kirin, Kirin Beverage, Lion Dairy and Drinks) ● Invest in Pharmaceuticals and Bio-chemicals business to leap upward in growth (Kyowa Hakko Kirin)
<p>2018 quantitative targets</p>	<p>Raising Group profitability is our top priority, targeting increased capital efficiency and sustained growth in shareholder value.</p> <ul style="list-style-type: none"> ● ROE: 15%+ ● Normalized EPS: CAGR 6%+
<p>Financial strategy</p>	<p>Stable shareholder returns through dividends, enhanced financial flexibility</p> <ul style="list-style-type: none"> ● Consolidated dividend payout ratio 30% or more of normalized EPS ● Repayment of interest-bearing debt

To enhance diversity in human resources and organizational structure, we offer not only entry-level positions, but also an increasing number of mid-career positions to attract candidates with valuable experience and expertise. To accelerate workstyle reform we are cultivating an environment that encourages all employees to develop and use their full potential.

With human resources as our core growth driver, we are reinforcing our business foundation in many ways. These include enhancing brand equity, R&D in our strong areas such as immunity, strengthening and optimizing the supply chain, which encompasses production technology and engineering technology, and applying information technology to enhance business processes.

The second policy is to develop new domains along with existing businesses to support Group growth over the next 10 years. Kirin Holdings will find opportunities for synergy among existing businesses while fostering new ventures in the areas of health and well-being, and pre-disease.

For the most part we can leverage the tangible and intangible assets the Group has cultivated over the decades to create

new value without relying on major investments. When a challenge calls for supplementing the Group's own functionality and resources, we will use partnerships and M&A, evaluating each case on its own merits.

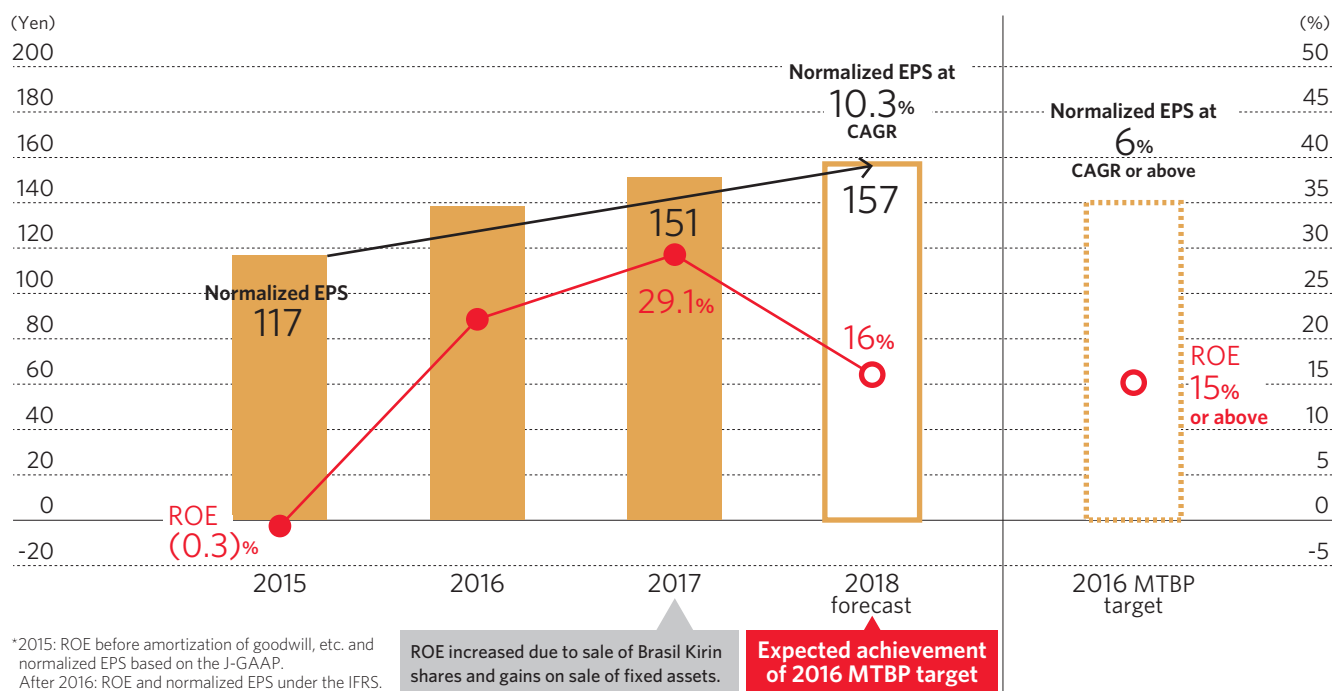
To promote sustainable growth of the Group and raise corporate value, we are continuing our rapid structural reform and pursuit of profit growth in existing businesses, while quickening the pace of innovation and creating new value by putting CSV management into practice.

Moving forward, we will exercise and extend our full performance potential, always striving to be worthy of the trust and support of our stakeholders.

Yoshinori Isozaki
President & CEO

Progress toward MTBP quantitative targets

(Figures are past performance and forecast for ROE and compound annual growth rate of normalized EPS*)



Identifying the challenges facing the Kirin Group and laying a path toward future growth

Matsuda The chief financial officer is not simply responsible for basic financial matters; it is an important leadership position that involves executing strategies, ensuring corporate governance on a group-wide basis, and making key decisions about fund procurement, growth-oriented investments, and financial policies. From your standpoint as CFO, what are the main challenges currently confronting the Kirin Group?

Yokota Our challenges are to reach the targets for return on equity (ROE) and normalized earnings per share (EPS) set in our 2016 medium-term business plan. Our initial goal for profitability now appears to be attainable. The target for free cash flow has already been exceeded and the company has made real progress in repaying interest-bearing debt.

The basic policy of the 2016 medium-term business plan is to restructure and revitalize the Kirin Group. One by one, steps were taken toward that end, and we managed to reach respectable levels of corporate profitability and financial soundness. At present, we recognize that the biggest concern among shareholders and investors is how the Kirin Group plans to use the cash it has generated to ensure future growth.

Matsuda In other words, now that finances are in order, the issue is what to do next. I think there are three key questions regarding how companies use cash. The first is how to use it to ensure sustainable growth over the medium and long terms. The next is how to allocate resources in a business portfolio that can realize that growth, and the CFO plays a very important role in that regard. Finally, the question is how to structure finances so that cash continues to be generated dependably.

As part of the 2016 medium-term business plan, the Group's business portfolio in particular was restructured. What are your objectives going forward?

Yokota Up until now, we focused on how to reach a respectable level of profitability, which includes the asset turnover of existing businesses, and how to revitalize the Group if that level of profitability could not be reached. As a result of our efforts,

Kirin Beverage increased its normalized operating profit margin to 7.6%, and Brasil Kirin was sold off.

Looking ahead, we intend to follow the same basic objectives as before while managing the Group's existing businesses. At the same time, however, it will be necessary to consider new lines of business. I think that identifying such businesses will be a task for our next medium-term business plan.

Matsuda Investors generally prefer specialized companies over corporate groups with diversified businesses due to concerns that a situation known as conglomerate discount may occur. In order to eliminate such concerns, the CEO and CFO, who are also investors in the Group, must strictly manage the



Continuing to proactively invest in growth while maintaining a sound financial structure based on a long-term management vision

company's assets and capital with even more discipline than investors from outside the Group. It is also essential to pursue synergies between businesses, which is not possible for specialized companies.

Yokota I agree with you. Especially in terms of creating synergy effects, the Kirin Group's competitive advantages as a manufacturer are its wealth of technologies and expertise. For instance, by drawing from microorganism cultivation techniques developed over many years in the beer brewing business, the Group generated synergies with other businesses, including the development of antibody pharmaceuticals and their production methods, and the application of technologies



for mass producing amino acids in its pharmaceutical business. I believe the Group can create more new value in the future by combining the wide range of technologies it has built up over the years as well as technologies from outside the Group.

Discussions of Kirin's long-term management vision and next medium-term business plan are currently underway. One issue is how to bolster the Group's exiting businesses while utilizing its assets to create synergies. We also want to channel synergies toward launching all-new businesses that create economic and social value for stakeholders. That is the kind of vision we would like to put forward.

Matsuda As market conditions grow increasingly volatile, companies will need to more clearly state their objectives for the future. That means it will be important to formulate a straightforward and coherent long-term vision, and work toward accomplishing its goals by carrying out each related measure step by step. With that in mind, I would like to hear your plans regarding how cash will be allocated for the purpose of realizing growth in the future.

Yokota I think the Kirin Group can continue to grow, so, when all is said and done, our policy for allocating cash is to give first priority to growth-oriented investments, which tend to be associated with expanding business through mergers and acquisitions. Indeed, the Group will continue searching for outstanding companies to merge with or acquire, but such opportunities are limited because many have already been acquired by our global competitors. Therefore, it is important for us to exercise discipline when making such investment decisions.

Under those circumstances, creating shared value is our strategy for ensuring the sustainable growth of the Kirin Group. Specifically, we aim to leverage the Group's competitive advantages and unique business portfolio to increase economic and social value. Accordingly, our policy is to step up investment in intangible assets that support this objective, namely human resources, the Group's brands, R&D, supply chain and IT.

Matsuda Nowadays, investors are not only concerned with financial performance and shareholder value; they also attach importance to the social contributions of companies, such as initiatives related to environmental, social and governance (ESG)

Noriya Yokota × Chieko Matsuda

Director of the Board, Senior Executive Officer & CFO, Kirin Holdings Co., Ltd.
Senior Executive Officer, Kirin Company, Ltd.

Mr. Yokota was appointed as a senior executive officer and member of the Board of Directors in 2018. He joined Kirin Brewery Co., Ltd., in 1984, where he was appointed as an executive officer and head of the Production Division. At Kirin Holdings, he has served as the director in charge of group-wide personnel and general affairs, senior executive officer, and director in charge of group-wide management strategies.

Outside Audit & Supervisory Board Member, Kirin Holdings Company, Ltd.

Ms. Matsuda was appointed as a member the Outside Audit & Supervisory Board of Kirin Holdings in 2016. She had joined Long-Term Credit Bank of Japan, Ltd., in 1987, after which she worked for Moody's Japan, Ltd., Corporate Directions, Inc., and Booz & Co., Inc. Ms. Matsuda is also a professor at Tokyo Metropolitan University in the Department of Urban Liberal Arts and the Graduate School of Social Science.



criteria. I believe Kirin's approach of creating shared value is a forward-looking, exemplary management initiative. Generally, however, since people are not very familiar with this concept, it needs to be clearly explained, which might be difficult.

Yokota You are right to say that. Creating shared value is not merely a conceptual approach, and, as CFO, I have an important duty to provide a clear and comprehensive explanation to investors about the Group's initiatives for tackling issues confronting society, specifically in the three areas of health and well-being, community engagement, and the environment, and how those initiatives eventually lead to economic value.

Matsuda Among the four important intangible assets being targeted, I think the value of Kirin's brands has a big impact on the competitiveness of its business since beer and beverages are business-to-consumer businesses. How do you plan to enhance brand equity?

Yokota It will be important to raise the value of Kirin's brands by implementing a thoroughgoing plan-do-check-act cycle and improving our marketing strategies. Toward those ends, we have actively brought new capabilities to our organization, such as inviting highly experienced personnel from outside the Group to lead the marketing division. Consequently, our strategies and processes got off to a fresh start and we have been steadily improving results, just like we did before with *Ichiban Shibori* beer and *Nama-cha* bottled green tea.

Aiming to make operations more advanced and efficient by adopting cutting-edge IT and ERP systems

Matsuda Please tell me about the company's future plans for strategic investment in IT.

Yokota In the Japan Integrated Beverages business, we will begin using enterprise resource planning (ERP)* software in production, logistics, and accounting operations by January 2020, and integrate numerous information systems that have been built and operated separately. By doing so, we will reduce costs and labor for system maintenance, and centralize management data that had been decentralized across various systems in the past, allowing that data to be more effectively utilized.

Matsuda Does that mean operations will be standardized with the ERP system?

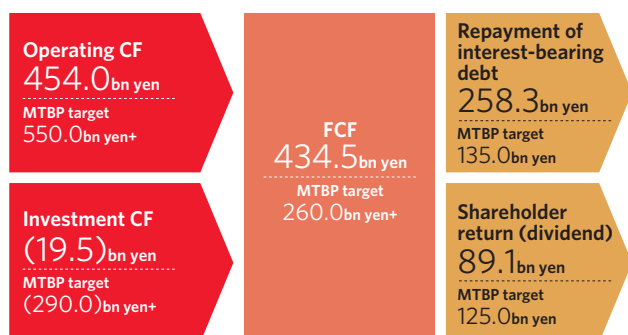
Yokota Yes, in an effort to facilitate efficiency and save labor costs, we plan to standardize operations in each division, eliminating factors that are dependent on the experience and skills of individual employees.

Matsuda For Japanese companies, raising the productivity of administrative and management divisions is an important issue with respect to realizing workplace reforms in the years to come. While adopting ERP systems, it will also be essential to re-examine operational processes themselves. Indeed, improvements that result from that will probably be a factor underlying differences between the competitiveness of companies' headquarters in the future.

Yokota ERP systems are not the only ones; we will also need to automate administrative operations using robotic process automation (RPA), and make use of artificial intelligence (AI) and the internet of things (IoT) in manufacturing. The challenge will be how to incorporate such new technologies while taking into account their cost effectiveness.

* ERP is a concept and a system that integrates key data about sales, production, personnel, accounting, and other factors as a means for making management more efficient.

Cash flow over two years from 2016 to 2017



	2016	2017
Operating CF	232.3	221.7
Investment CF	(82.7)	63.2
Free CF	149.6	284.9
Repayment of interest-bearing debt	111.0	147.3
Shareholder return (dividend)	43.2	45.9

Promoting international exchanges and leadership grooming while bringing innovations to diverse and highly capable organizations

Matsuda How does the Company plan to motivate and improve the performance of its human resources?

Yokota In the Japan Integrated Beverages business, we are proceeding to centralize our human resources system, making it possible to utilize a common personnel database for domestic Group companies. Although this allows us to examine uniform data on the career tracks of individual employees and other matters, we still cannot monitor data about their future career goals. Therefore, we intend to improve and replenish the quality of the data in the future in order to more effectively assign personnel to the most suitable jobs.

Matsuda What is being done for personnel outside Japan?

Yokota Although databases of human resources in Japan have not yet been integrated with those outside Japan, we have been actively promoting interaction among personnel on a global level. The Group has already held international conferences for manufacturing, marketing, R&D, IT, and other divisions, and plans to hold more for administrative divisions, such as finance. In Australia, an exciting leadership development program is being carried out by Lion Pty Ltd., and it has been used as a model for a leadership enhancement program that started in the



Japan Integrated Beverages business. (Please refer to pages 38 – 39 for more details.)

Matsuda If the Kirin Group steps up such international exchange and leadership promotion initiatives, it may indeed transform its corporate culture in the future.

Yokota Yes, I hope we can shift toward having organizations that are more engaged and accepting of diverse values.

Striving to ensure stable dividend payments while giving consideration to the Company's capital structure

Matsuda Finally, I would like to hear about the Company's approach to its capital structure and shareholder returns.

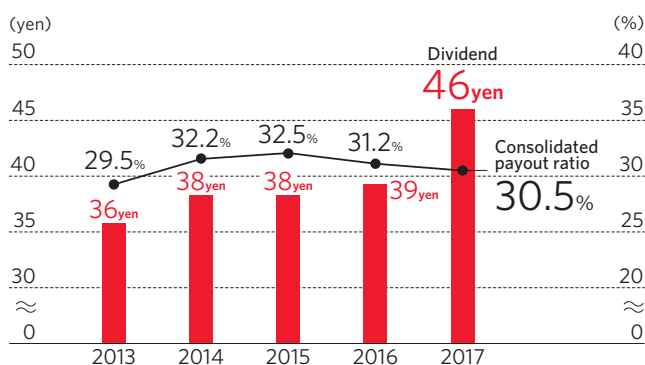
Yokota Under our former 2016 medium-term business plan, the debt-to-equity ratio grew to approximately 1 in fiscal 2015, but it was brought down to 0.51 by the end of fiscal 2017. At the stage we are at now, I think it is appropriate to maintain this level while giving consideration to cost of equity. At present, we are targeting a consolidated payout ratio of at least 30%, but we will review this target in the future along with our financial strategies based on business and investment strategies. Of course, we will make that decision while discussing it with investors.

Matsuda Looking ahead, the Company expects to generate substantial cash flows. In that context, while it is obviously important to pay dividends and repay interest-bearing debt, your policy is to give top priority to investments for future growth, right?

Yokota That's right. Although our operating environment is challenging, we want to ensure that the Kirin Group will grow by carrying out our management strategy of creating shared value while continuing to meet consumers' expectations and respond to requests from stakeholders and the general public. For that purpose, and based on very strict criteria, we intend to carefully select investment targets that offer high returns on investment when allocating capital.

Matsuda As you know, many people will depend on your ability to make shrewd decisions as the company's CFO. Thank you for sharing your views today.

Dividend/Consolidated payout ratio



Philosophy and Strategy

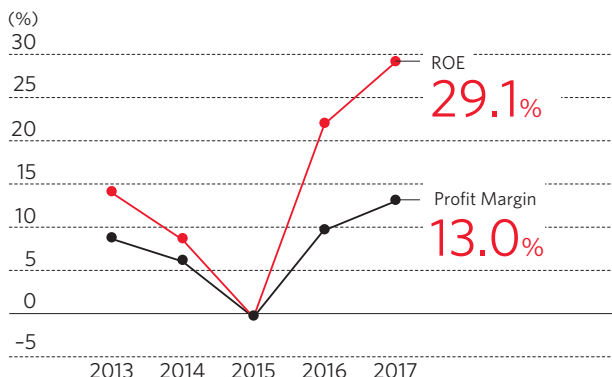
Financial and Non-Financial Highlights

Pp. 7–8 Value Creation Model
 OUTCOME: Main achievement of economic value

Financial Highlights (Fiscal 2017 Results)

Note: Began applying the International Financial Reporting Standards (IFRS) in December 2017.

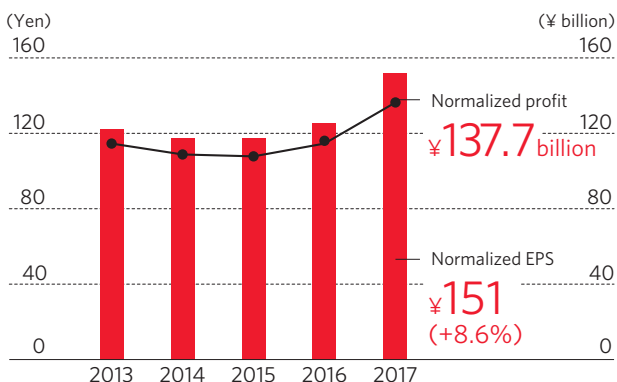
ROE/Profit margin*1



Note: Until fiscal 2016, ROE before amortization of goodwill, etc., net profit margin before amortization of goodwill

*1 Margin of profit attributable to owners of the parent

Normalized EPS*2/Normalized profit*3

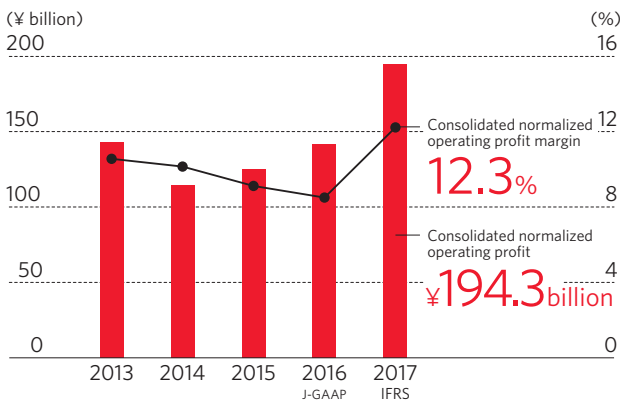


Note: Until fiscal 2016, normalized net income

*2 Normalized EPS = Adjusted profit / Average number of shares outstanding during period

*3 Adjusted profit = Profit ± Other operating income and expenses and other items after income taxes

Consolidated normalized operating profit*4/ Consolidated normalized operating profit margin



Note: Operating income (margin) until fiscal 2016

Note: Revenue excluding liquor tax (sales)

*4 Normalized operating profit = revenue - cost of sales - (selling, general and administrative expenses)

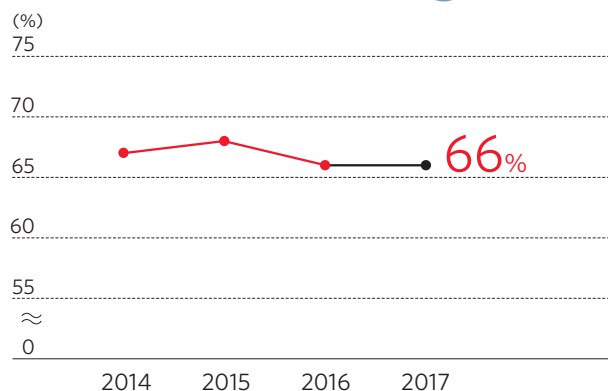
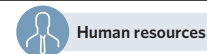
Used as a profit indicator to measure ordinary business performance

Pp. 7–8 Value Creation Model
 INPUT: Main achievements of human resources, brand, R&D, and supply chain/IT

Non-Financial Highlights

Note: All results exclude Brasil Kirin.
 Myanmar Brewery has been counted since 2016. However, greenhouse gas emissions have been counted since 2015.

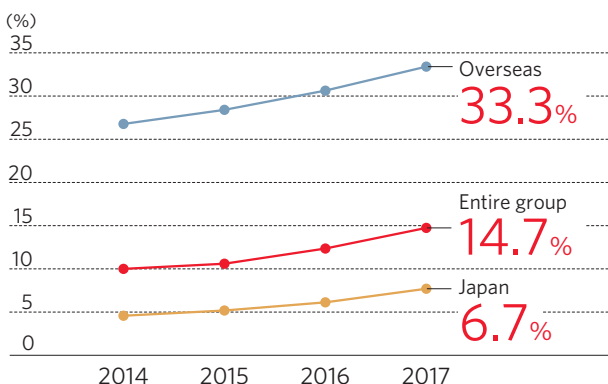
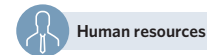
Employee engagement*5



Having employees that empathize with the direction and goals of their company and are willing to do their utmost to achieve them will lead to sustainable performance improvement and innovation creation. Employee engagement is seen as an important indicator for that.

Note: Weighted average of survey results at target companies. Myanmar Brewery and Kyowa Hakkō Kirin Group counted since fiscal 2016

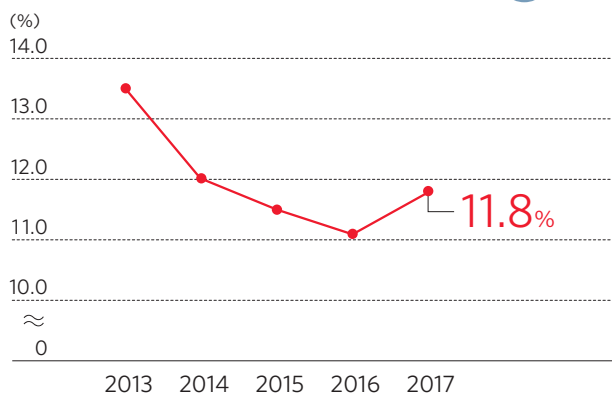
Ratio of female managers*5



The organization's diversity is an important factor in raising human resource skills, the basis of innovation. We are taking steps to promote the active participation of women in the workplace with the aim of a corporate culture that reflects more than ever the diverse views and challenges of each and every employee in management and business.

*5 Scope: (Japan) Kirin Holdings, Japan Integrated Beverages Business (Kirin, Kirin Brewery, Kirin Beverage, Mercian), Kyowa Hakkō Kirin Group
 (Overseas) Lion, Myanmar Brewery

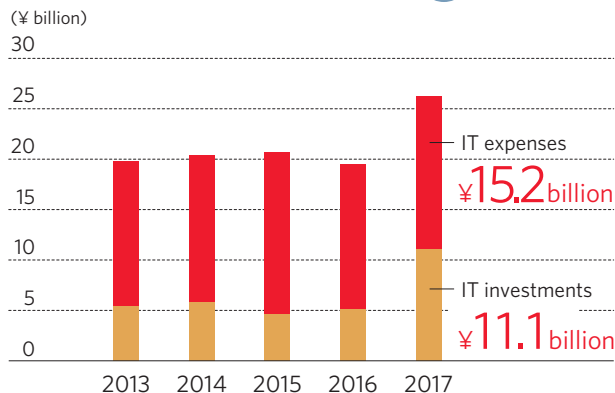
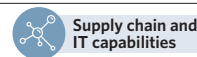
Advertising expense ratio^{*6}



While expenditures to raise sales volume in the short term are made as efficiently as possible, a certain amount of ongoing investment is necessary for advertising that contributes to raising brand value.

Note: Percentage of advertising expenses to total rebates (regardless of whether substantially discounted or not), compensation for handling of products for business use, marketing expenses for sales promotion measures, and advertising expenses.

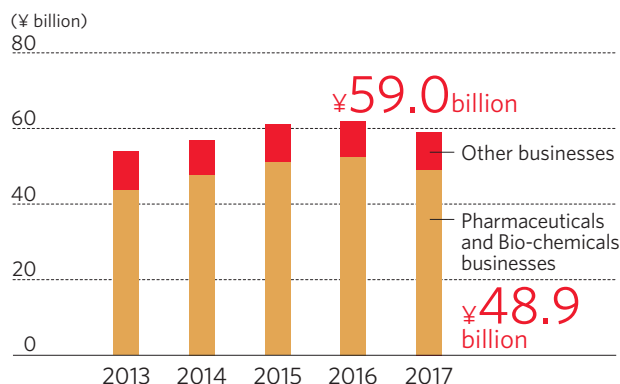
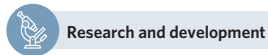
IT expenses/IT investments^{*7}



Fixed expenses for IT will be invested to improve efficiency while benchmarking global and domestic industry standards. Meanwhile, aggressive IT investment needed for future business growth will be actively incorporated into the medium- to long-term investment plan, starting with investments from 2017 and beyond for the introduction of ERP.

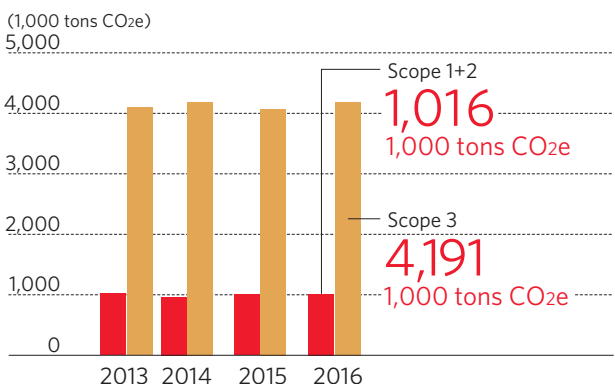
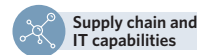
Note: Cash basis amount excluding depreciation and amortization expenses

R&D expenses



Through innovation, the importance of R&D is increasing more and more as a source for continuously realizing new value creation. We will continue to promote value creation by constantly investing a fixed amount in R&D, while working to raise R&D efficiency.

Greenhouse gas emissions (Scope 1+2)/(Scope 3)



The prevention of global warming is an issue that needs to be addressed by society as a whole and merely reducing GHG emissions (Scope 1+2) through our business activities will not solve the problem. In addition to reducing Scope 1+2, the Kirin Group sets targets for reducing GHG emissions (Scope 3) throughout the value chain and will contribute to the prevention of global warming.

*6 Scope: (Japan) Japan Integrated Beverages Business (Kirin Brewery, Kirin Beverage, Mercian); (Overseas) Lion, Myanmar Brewery

*7 Scope: (Japan) Kirin Holdings, Japan Integrated Beverages Business (Kirin, Kirin Brewery, Kirin Beverage, Mercian); (Overseas) Lion

* Those without are the entire domestic and overseas Group

CHAPTER

II

Kirin's Value Creation

Turning Kirin's strengths into value, worldwide

The Kirin Group's strengths in technology and marketing are the foundation we use to deliver appealing products and services to consumers worldwide. Innovative technology goes beyond the fruits of our R&D efforts. It includes continuous innovation in manufacturing, engineering, raw material procurement and logistics. Similarly, our marketing expertise encompasses more than advertising and sales promotion. We also uncover consumer insights and latent needs for which we develop new products and services, thereby creating new markets in concert with communities and consumers. To these strengths we add human resources, brands, R&D, supply chains, and information technology backed by management resources. This process reinforces the foundation and creates new value shared with communities worldwide. In this way, we contribute to health and well-being, community engagement, and environmental protection through our Group businesses around the globe. Here we introduce our initiatives to create value by leveraging the Kirin Group's strengths.





Community
engagement

CASE 1

***Kirin Ichiban Shibori Relaunch and
Craft Beer Market Development***

P. 25



Health and
well-being

CASE 2

***Pharmaceuticals for
Worldwide Markets***

P. 27



Health and
well-being

CASE 3

***Lactococcus lactis
strain Plasma Stars
in New Products***

P. 29



The
Environment

CASE 4

***Advanced High-Efficiency Facilities
at Myanmar Brewery***

P. 31

Kirin Ichiban Shibori Relaunch and Craft Beer Market Development

Restoring beer's appeal through customer-centered marketing

Over the past two decades, Japan's beer market has continued to shrink. A decline in the drinking population is not the sole cause. At Kirin, we also perceive that beer has lost some of its appeal. In response, we have taken measures to make beer an attractive choice again.

In 2017, we revamped *Ichiban Shibori* ("Kirin Ichiban" for export), our flagship brand, for the first time in four years. Rather than the common tendency to introduce products as the manufacturer sees them, we constructed the new story of *Ichiban Shibori* from the customer's point of view.

This shift to a customer-centric approach extended to reformulation of the brew itself.

To discover what customers really want in the taste of beer, we performed extensive market surveys. We then performed test brewing more than 1,000 times over a three-year period. Ultimately we succeeded in brewing a deliciously well-balanced, highly drinkable beer with richer "umami" in the barley

flavor, while reining in sour notes and overly sweet aromas.

Backed by the customer-centric marketing power of the Kirin Group, our "New *Ichiban Shibori*" campaign was crafted to focus on the "four moments of truth" that build the customer-brand relationship. We also drew from our contacts and experience in developing our 2016 offering, "47 *Todofuken no Ichiban Shibori*." This involved fine-tuning our marketing in terms of customer desires and regional characteristics, through collaboration with local governments and agricultural cooperatives, as well as other stakeholders throughout Japan.

From January to March 2018, sales of the revamped *Ichiban Shibori* have reached 6.65 million cases, an increase of 12.4% (over the same period last year). Going forward, we are committed to making *Ichiban Shibori*, Japan's mainstream beer, by applying our creating shared value (CSV) approach to refine the flavor and build local pride.



Partnering to reshape Japan's beer market

CO-CREATION

Increasing customer touchpoints, revitalizing the craft beer market

Another way we are working to boost beer's allure is by invigorating the craft beer market. In Japan craft beers account for only about 1% of beer sold, by both volume and revenue*. The U.S. market stands in sharp contrast, with craft beer market share at 12% by volume and more than 20% by revenue, making this a major segment. Seeing similar strong potential for dramatic growth in Japan, Kirin Beer is creating more customer touchpoints to expand and establish craft beer's presence in the market.

As part of this thrust, we have extended our craft beer range by adding high-status brands such as YO-HO Brewing (Japan) and Brooklyn Brewery (USA), which complement our own Spring Valley Brewery and Grand Kirin offerings.

Meanwhile, we are increasing the number and type of touchpoints so people can experience craft beer from different



angles. To simplify serving a variety of craft beers at restaurants and bars, we developed the convenient Tap Marché beer dispenser. Our Spring Valley Brewery brewpub is now at three locations, with plans for more. We also serve the craft beer community by offering digital content and tasting seminars. Through initiatives like these, we deliver new value to customers in collaboration with partners inside and outside Kirin.



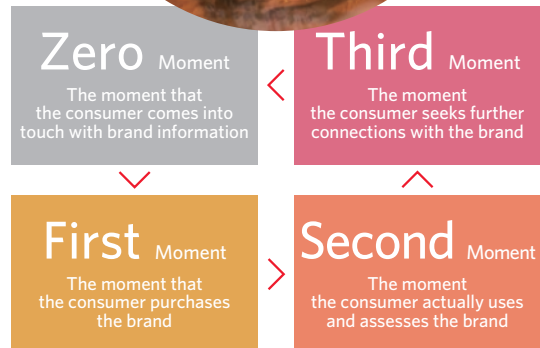
* Based on Kirin's in-house research



Branding with "four moments of truth" (Four MOTs)

Kirin Beer's customer-centric marketing is structured according to the "four moments of truth." These are the four key moments where the customer's feelings and behavior regarding the brand are most influenced by targeted advertising and promotional activities.

For example, the Zero Moment of Truth is when the prospect gathers information about a potential purchase. We target this moment by raising brand awareness through TV commercials, events, social media, and so on. The First Moment of Truth is when the prospect makes the decision to purchase. Here, we build desire based on analysis of behavior at large liquor stores, supermarkets, bars and restaurants.





RESEARCH & DEVELOPMENT

Innovating therapeutic antibody drugs

Leaping forward as a global specialty pharmaceutical company

Kyowa Hakko Kirin Group provides high-quality products and services in the pharmaceutical and biochemical fields to contribute to the health and well-being of people around the world.

At the Group's core is Kyowa Hakko Kirin (KHK), a rapidly evolving global specialty pharmaceutical company (GSP). KHK develops innovative ethical drugs, driven by state-of-the-art

biotechnologies, focusing on nephrology, oncology, immunology/allergy, and neurology. Our clinical pipeline and product portfolio contain four main modalities: next-generation therapeutic antibodies, new types of small molecule drugs, nucleic acid drugs, and regenerative therapeutics.

Development of four major modalities

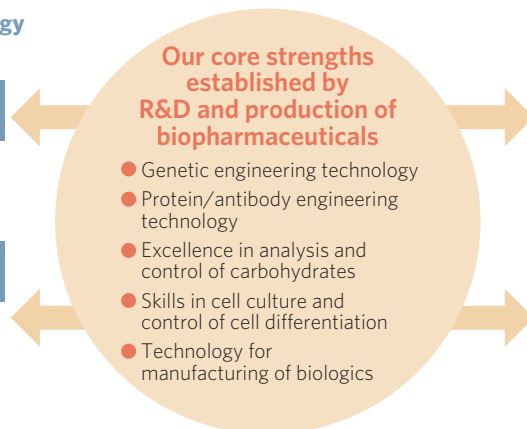
Further evolution of existing technology

Next-generation therapeutic antibodies

- Immuno activating antibody
- Cell/tissue homing antibody

New small molecule drugs

- Integrated approach with science of biologics
- Precise drug design and synthesis based on structural analysis of target molecule



Establishment of new technology

Nucleic acid drugs

- Nucleic acid function-enhancing technology
- DDS technology using lipid nanoparticles

Regenerative therapeutics

- iPS-T cell technology (collaboration with Kyoto University)
- Skills in stem cell culture and differentiation control



KRN23 (burosumab) for XLH: New treatment for a rare disease

A strategic product driving KHK's growth as a GSP is KRN23 (burosumab), which treats X-Linked hypophosphatemia (XLH), a bone disease caused by overexpression of phosphaturic hormone fibroblast growth factor 23 (FGF23).

In XLH, reduced serum levels of phosphorus and vitamin D prevent adequate mineralization of bone, leading to skeletal abnormalities, impaired growth, and extreme pain. XLH is a rare disease occurring in one out of 20,000 people in the world.

KRN23 is the first treatment to target the cause of the disease, by controlling excess FGF23. Current treatment offers only symptomatic relief by replacing phosphate and vitamin D, but requires frequent dosing and may cause renal calcification.

KHK discovered KRN23 — a recombinant fully human monoclonal IgG1 antibody — which effectively raises serum phosphorus level and maintains it within the normal range. Having proven safe and highly effective in clinical trials, KRN23 is attracting attention as a new treatment for this rare disease.

Collaboration for innovation

Since 2013 KHK has been progressing toward commercialization of KRN23 in collaboration with Ultragenyx, a U.S. biopharmaceutical company that focuses on treatment of rare genetic diseases.

In June 2016 the U.S. Food and Drug Administration (FDA) assigned breakthrough therapy designation to KRN23 for the treatment of XLH in pediatric patients, while in February 2018 the European Medicines Agency (EMA) granted Conditional Marketing Authorisation to KRN23 under the name Crysivita®. We also plan to introduce KRN23 to the U.S., Oceania, Japan, and other Asian nations following expanded regulatory approval.

Through the process of commercializing KRN23 we are building our marketing network and strengthening our foundation to leap ahead as a global specialty pharmaceutical company. We look forward to continued collaboration within and outside the Group as we fulfill our commitment to meeting society's needs through pharmaceutical innovation.



Adapted from Kyowa Hakko Kirin Group's FY2016–2020 Mid-term Business Plan

***Lactococcus lactis* strain Plasma Stars in New Products**

Kirin discovers lactic acid bacterium that activates "commander in chief" of immune system

An aging population and increased interest in wellness are driving demand for health-supporting foods that fit people's lifestyles. In response, we have formed a group-wide joint research team to leverage our experience and expertise in biotechnology and fermentation. Based on its scientific studies, this joint R&D team applies its findings to the development of food products for healthy living.

Lactococcus lactis strain Plasma was discovered by our joint team in 2011. This is the only lactic acid bacterium that has

been confirmed to directly activate Plasmacytoid dendritic cells (pDCs) — which together act as the "commander in chief" of the immune system. The team's findings on the unique activity of *Lactococcus lactis* strain Plasma have been met with critical acclaim following presentations at medical conferences and publication in respected journals.



IP Health-supporting food products based on scientific research
DEVELOPMENT





Targeting healthcare professionals

Kirin Group companies are applying the fruits of this research to their businesses. Koiwai, Kirin Beverages, and Kyowa Hakko Bio have rolled out products incorporating *Lactococcus lactis* strain Plasma in the yoghurt (probiotic drink), soft drink, and dietary supplement categories, respectively. In 2017 we unified the branding of our own *Lactococcus lactis* strain Plasma formulated products and partnered with external companies to grow this market.

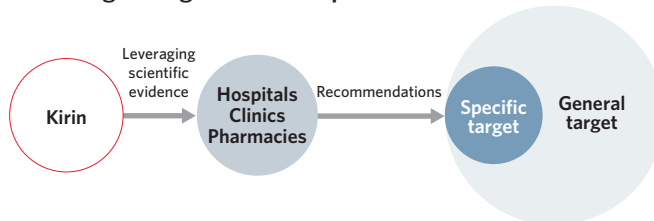
In addition, we have developed products specifically to be marketed through healthcare professionals, including doctors, pharmacists, nurses and nutritionists. The first such product, launched in December 2017, is a chewable supplement that can be taken without water.

Academic journals, worldwide, have published 13 of our research team's papers about *Lactococcus lactis* strain Plasma functionality. These articles have been cited frequently by other researchers in their own research papers.

Meanwhile, we are educating the public about *Lactococcus lactis* strain Plasma. Based on expert opinion and the scientifically verified efficacy of *Lactococcus lactis* strain Plasma, we have also begun promoting it through specialists advising those with elevated health concerns — such as the elderly and

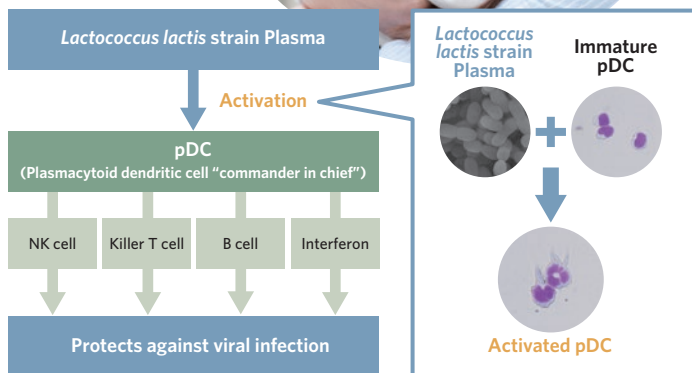
parents of small children. As we raise awareness of *Lactococcus lactis* strain Plasma among the general population and bolster our unified marketing efforts, the Kirin Group is helping to meet the health challenges that today's society faces.

Working through healthcare professionals



Plasmacytoid dendritic cells (pDCs) are directly activated by *Lactococcus lactis* strain Plasma

Various types of immune cells work together to protect against viral infection. But conventional lactic acid bacteria can stimulate only a few of these, such as NK cells. In contrast, *Lactococcus lactis* strain Plasma directly activates pDCs, which act together in the role of "commander in chief" of the immune system. This greatly increases the anti-viral potential of the peripheral immune function.



Further information is available in "The *Lactococcus lactis* strain Plasma anti-viral defense mechanism."

Advanced High-Efficiency Facilities at Myanmar Brewery



ECO-FACTORY

Leader in a growing market

Strengthening our dominant position

In 2015, we welcomed Myanmar Brewery (MBL), the largest beer producer in Myanmar, to the Kirin Group. Holding 80% market share, MBL is Myanmar's dominant brewer, but competition is heating up as global brewers enter this growth market.

To hold onto the reins of leadership, Kirin Group is applying its expertise and experience to help strengthen MBL's product development, marketing, operations, sourcing and other functions.

Our brand portfolio strategy is to sell more low- and medium-priced products and strengthen the brand, while adjusting brand architecture to encompass premium beers where we see growing demand. Of course, we are providing MBL with fully coordinated marketing support, including product concept design, in-store display tools, and consumer communication.

Myanmar Brewery — robust brand portfolio





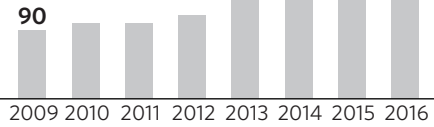
Burgeoning Myanmar beer market

Myanmar, "Asia's last frontier," has been in the spotlight since 2011, when political and economic reforms began. Rapid economic growth, evidenced by GDP rising 7–8% over the past few years, includes an expanding beer market. Its size was 330 million liters in 2016, which, on a per capita basis, is still low compared to neighboring Thailand and Vietnam. As the economy continues to grow, we look forward to beer consumption rising dramatically.



Beer consumption in Myanmar

(million liters)



(Kirin estimate)



Engineering expertise supports production increase

To meet Myanmar's rapidly growing demand, MBL is greatly expanding its facilities for brewing as well as bottling and canning. With a view to markedly stepping-up production capacity by year-end, in early 2018, we added a high-efficiency production line with a capacity of 100 million liters per year.

Supporting this expansion is Kirin Engineering Company together with engineering divisions from Group companies. At home and abroad, Kirin Engineering has earned a high reputation for constructing and equipping manufacturing facilities, not only for the Group but also for other firms.

To help maximize investment efficiency in MBL, Kirin Engineering staff and Kirin Brewing engineering personnel posted to Myanmar share their expertise and experience. This collaboration covers overall design and selection of equipment, not to mention installation, fine-tuning and instruction in operation, thereby bringing out the facility's full potential.



Energy and water conservation measures

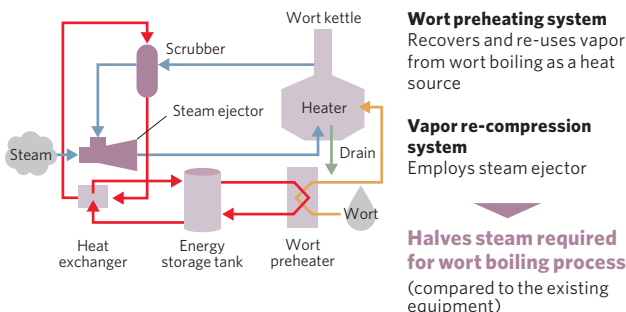
Myanmar's economy is developing so rapidly that the nation may soon face an energy shortage. To minimize the energy consumption of each process, the MBL plant is investing in advanced energy-saving equipment, assisted in some areas by Joint Crediting Mechanism (JCM) financing from the Japanese government.

Drawing on the Group's expertise, we are taking steps to conserve water resources as well. Wastewater discharged from factories is purified in-house under strict water quality management while we continue to expand the capacity of facilities to handle increased production.

By boosting process efficiency and using advanced technology, we aim to achieve a 25% reduction in unit water usage by 2020, relative to 2015 levels, a notable achievement in the industry.

With our contribution to economic growth and environmental protection, the Kirin Group is committed to Myanmar's sustainable development.

Energy-saving equipment introduced at MBL





CSV priority issues and commitment progress and goals

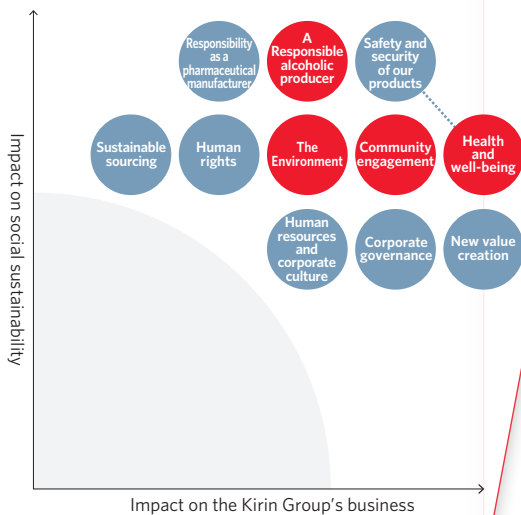
(As of December 31, 2017)

When it formulated the long-term management vision New KV2021, the Kirin Group identified management issues to achieve sustainable growth, and organized the Group Materiality Matrix (GMM).

In 2016, we established "health and well-being," "community engagement," and "the environment" as CSV Key Initiatives to be dealt with in a focused manner with the view of being "a responsible alcoholic producer" as outlined in GMM.

To share our purpose together as a Group and work on CSV Key Initiatives, we have formulated our vision as 16 commitments, while also consulting the Sustainable Development Goals (SDGs) adopted by the U.N. in 2017. Further, we have established a concrete approach to achieving our commitments and we update our approach depending on yearly progress.

Group materiality matrix



	CSV key initiatives	Commitments	
A responsible alcoholic producer	Education in appropriate drinking and nurturing a positive drinking culture	0.1 <ul style="list-style-type: none"> Promote measures against harmful alcohol intake Develop no-alcohol and low-alcohol products 	
	Supporting self-care for healthy people and people with pre-disease	1.1 <ul style="list-style-type: none"> Support customer control of calorie and nutritional intake 	
		1.2 <ul style="list-style-type: none"> Create innovative products and services that contribute to improving customers' quality of life 	
	Health and well-being	Evolution in medical treatment	1.3 <ul style="list-style-type: none"> Continuously discover innovative new drugs
		Health-oriented business management	1.4 <ul style="list-style-type: none"> Contributing to the spread of bio-pharmaceuticals and the reduction of medical costs, a global issue
	1.5 <ul style="list-style-type: none"> Improve employee health 		
Community engagement	Safety and security of our products	1.6 <ul style="list-style-type: none"> Improve global safety and customers' sense of security 	
	Enhancing sustainability of the supply chain	2.1 <ul style="list-style-type: none"> Contribute to the revitalization of producing areas by brewing unique beers that can only be made by using Japanese hops 	
		2.2 <ul style="list-style-type: none"> Provide long-term support for Sri Lankan black tea farmers 	
		2.3 <ul style="list-style-type: none"> Develop Japanese wines and contribute to products that ensure global recognition, and thereby revitalize producing areas 	
		2.4 <ul style="list-style-type: none"> Provide sustainable support for dairy farmers 	
2.5 <ul style="list-style-type: none"> Develop products and services that revitalize local communities 			
The Environment	Reflecting environmental activities in our business strategies	3.1 <ul style="list-style-type: none"> Reduce greenhouse gas emissions 	
		3.2 <ul style="list-style-type: none"> Preserve water resources 	
		3.3 <ul style="list-style-type: none"> Preserve biological resources 	
		3.4 <ul style="list-style-type: none"> Improve sustainability of containers and packaging 	



Please refer to our website for details about our commitment approach, performance indicators and other information.
https://www.kirinholdings.co.jp/english/csv/commitment/pdf/CSV_all_E.pdf



Major achievements in 2017

- G** Kirin Zero Ichi (Japan) drove the Group's total sales volume of non-alcoholic products to a 57% increase compared to the previous year.
- LN** Our Goodness Promise progressed steadily. The "Best for you" and "Good for you" categories accounted for 76% (74% in the previous year) of Lion Dairy & Drinks sales volume, while the Health Star Labeling adoption rate was 60% (43% in the previous year) of stock keeping unit (SKU) (Australia)
- G** Launched a unified brand across the Group that combines *Lactococcus lactis* strain Plasma (¥23 billion in sales is expected in 2027).
- KHK** Application for approval of the manufacture and sales of KRN23 (burosumab) was accepted in Europe and designated for priority review by the U.S. Food and Drug Administration.
- KHK** Successfully litigated a patent in the U.K. of an adalimumab biosimilar candidate (FKB327), and our application for marketing approval in Europe was accepted.
- KC** Reduced overtime work hours by 4.7% over the previous year
- KHK** Divisions that reduced prolonged- work hours from the previous year: 89.8%
- G** Decided the certification rate for Global Food Safety Initiative (GFSI)-recognized schemes would be a performance indicator (certification rate: 33%)
- KC** Disclosed list of soft drink ingredients and nutritional information
- KB** Promoted the Home Town of Beer Initiative to revitalize regions that collaborate with hop producers, citizens, and the government in Tono City, Iwate Prefecture
Started a Hop Summit with hop producers and craft brewers in various regions in collaboration with Kirin's project to add value with domestic hops
- KBC** Achieved about a 50% ratio of number of highly sustainable farms among Sri Lankan black tea supplier farms
Number of farms that have obtained Rainforest Alliance certification: 44
- ME** Château Mercian has won high praise at prominent domestic and international wine competitions, including winning the gold medal at the International Wine Challenge
Kikyo decided to build a new Hara winery (2018) and Mariko winery (2019)
- LN** Started Lion Dairy Pride Program, an online program to support sustainable and productive dairy farming. Provided grant funding to 10 dairy farmers in partnership with Landcare Australia in 2017

Same as 2.2

KB Launched Kirin 47 Todofuken no Ichiban Shibori Beer

- G** Greenhouse gas reduction target approved by Science Based Target (SBT)
- KB** **KBC** Supplied electricity with hydroelectric power generation to the Kirin Beer Toride Plant and the Kirin Beverage Shonan Plant
- G** Continued water-source forestation project activities (conducted at 10 locations, 19 times)

- KB** Completed FSC® certified paperboard packaging for six packs
- KC** Obtained COC certification license from FSC®

Major goals in fiscal 2018

- G** Create responsible alcohol consumption program across the Group and establish indicators and targets to measure the spread of activities to educate people on responsible alcohol consumption
Further improve perception of no-alcohol products
- KBC** Focus on spreading sugar-free products (Japan)
- LN** Aiming to achieve its targets for 2019, LN will expand the Milk Loves You Back initiative to spread knowledge about nutrients necessary for living through it on pack information (Australia)
- G** Raise social awareness of *Lactococcus lactis* strain Plasma through healthcare experts
Begin developing the health business and products to follow those mentioned above
- KHK** Launch KRN23 in Europe and the U.S. and try to penetrate the market
- KHK** Apply for approval of an adalimumab biosimilar (FKB327) in the U.S. and obtain approval in Europe.
- KC** Turn the PDCA cycle on initiatives to reform and improve work by reforming working styles
- KC** **KHK** Obtain Excellent Enterprise of Health and Productivity Management (White 500)
- G** Increase the certification rate for GFSI-recognized schemes to more than 50%
- KC** Disclose the list of alcoholic beverage ingredients and nutritional information on website
- KB** Expand the development of craft beers that use domestic hops
Seek to establish a hop production system that can maintain a domestic hop procurement volume of 100 tons by 2026
- KBC** Aim to achieve a 70% ratio of number of highly sustainable farms among Sri Lankan black tea supplier farms by 2020
Support those farms (7,750 farms) in obtaining certification
- ME** Open the Kikyogahara winery and complete construction of the Mariko winery
Contribute to the development of Japanese wine through the growth of the Château Mercian business (sales target for rate of sales volume increase: 10% increase over the previous year)
- LN** Develop Orchard Pride Program for Lion fruit suppliers
- KB** Continue to release nationwide the Kirin Brewery "9 Factory Ichiban Shibori" can design advertising and supporting regional revitalization
- KC** Formulate GHG reduction roadmap for 2018–2030
- KB** Expand renewable energy ratio for plant purchased electric power to 50% by 2030
- LN** Install 10 MW solar power generation facilities by 2026
- G** Continue water-source forestation activities (planned: 10 locations, 19 times)
- MB** Reduce water-use intensity by 25% (compared to 2015)
- KHK** Reduce water usage by 30% by 2030 (compared to 2015)
- KC** Switch all paper containers and packaging to FSC® certified paper by 2020
- LN** Raise recyclable material packaging rate to 90% or more by 2030

Same as 2.2

Related page

- Risk Management Page 50
- Kirin's Value Creation Case 3, page 29
- Kirin's Value Creation Case 2, page 27
- Kirin Group Environmental Report
- Kirin Group Environmental Report
- Kirin Group Environmental Report
- Kirin Group Environmental Report
- Kirin Group Environmental Report

G Kirin Group **KC** Kirin Company, Limited **KB** Kirin Brewery Company, Limited **KBC** Kirin Beverage Company, Limited
ME Mercian Corporation **LN** Lion Pty Limited **MB** Myanmar Brewery Limited **KHK** Kyowa Hakko Kirin Company, Limited

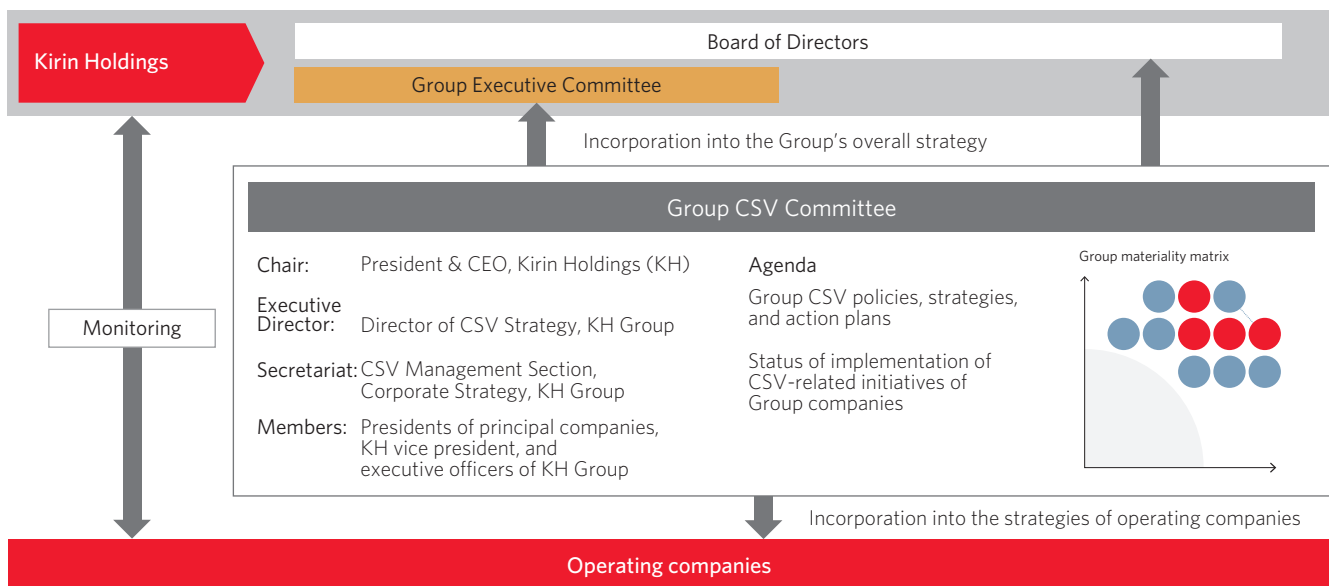
Group CSV Committee

To proactively and independently support Group companies' CSV management, the Kirin Group convenes the Group CSV Committee once a year, in principle. The presidents of major operating companies also attend committee meetings, which are chaired by the president of Kirin Holdings Company, Limited, as members. The committee members discuss CSV policies, strategies and action plans and monitor the status of the implementation of our CSV commitment.

The details of decisions made by the Group CSV Committee are, as needed, discussed and reported to the Group

Executive Committee and Kirin Holdings' Board of Directors. In addition, the committee chair provides instructions for improvements necessary to promote CSV to all department and Group companies of Kirin Holdings. This increases the effectiveness of CSV policies and strategies determined by the committee. The Kirin Holdings CSV Management Section, which serves as the secretariat for the committee, supports the operating companies and lead units by providing CSV-related information and initiatives taken by each company.

System to promote CSV



Report on Fiscal 2017 Activities

The Group CSV Committee held its fiscal 2017 meeting on June 8, 2017. Mr. Toshio Arima, outside director and chairman of the board of Kirin Holdings, and chairman of the board, Global Compact Network Japan and Mr. Minoru Matsubara, chief manager, Asset Management Business Planning Division of Resona Bank, Ltd., who lectured on "ESG and Corporate Valuation."

After the lecture, committee members shared the progress of our CSV commitment and opinions were shared regarding the common issues facing these commitments. Meeting participants also engaged in lively discussions, making comments such as "We should approach environmental investments as part of our overall capital investments, and we should also incorporate environmental investments that reflect our medium- to long-term plan and roadmap." "We should focus on the cost of environmental investments as well as the overall return that can be

realized in a project." And "We need to consider how the Group should acknowledge the evaluation items as investors (urgency, repercussions, incompatibility and range), which were touched on in the lecture given by Mr. Matsubara."



Corporate activities in line with the United Nations Global Compact

The United Nations Global Compact (UNGC) is a voluntary, global initiative for companies and groups committed to exercising creative leadership for maintaining responsible business practices and sustainability as good corporate citizens. The UNGC asks for the commitment of the senior management of companies that support the 10 principles relating to the protection of human

rights, elimination of unfair labor practices, response to environmental issues, and prevention of corruption.

The Kirin Group announced its participation in the UNGC in September 2005. We are taking steps to achieve the UNGC principles in our corporate activities through our relationship with employees, stakeholders, and the global value chain.



President's message

The operating environment is drastically changing, and numerous issues have emerged and are growing increasingly serious. There is a growing shared awareness that not only governments and NGOs, but also companies should play a positive role to solve these social issues. Greater voluntary efforts are required by companies in the latest international frameworks for improving global sustainability, such as the United Nations Sustainable Development Targets (SDGs) and the Paris Agreement adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21).

The Kirin Group is a signatory to the United Nations Global Compact (UNGC) and carries out its social responsibility through its corporate activities worldwide. Based on the 10 principles in four fields established by UNGC (human rights, labor, the environment, and anti-corruption), we are advancing Group initiatives to achieve sustainability for society and companies.

We have drawn up and announced our CSV commitment with regard to SDGs for 2017 and will contribute to solving issues through our business over the medium to long term.



Gostinori Suogata

President & CEO



Strengthen leadership and promote diversity to improve human resources, the foundation of value creation.



Focus on transforming our human resources and corporate culture with the aim of a disciplined yet caring company

Improving human resources and creating innovation

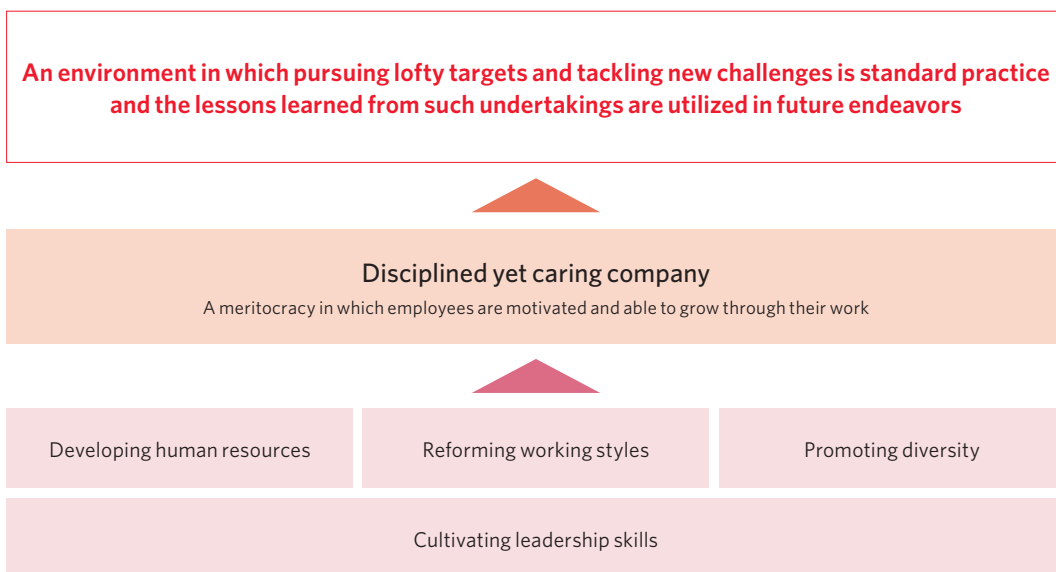
Aiming for sustained growth through value creation that contributes to solving various social issues, the Kirin Group believes that human resources are the most important resource of a company. To create new value and corporate growth, the Kirin Group is striving for a “game change” to ensure its competitiveness by breaking away from the conventional viewpoint held by each business. To achieve a “game change,” innovation in the corporate activities of all divisions including R&D, as well as production, distribution, and marketing, is essential. Human resources are the most important resource for achieving this innovation. The power of employees with rich and flexible ideas and strong reform consciousness who enjoy taking on new challenges is the basis of all value creation activities of the Kirin Group, which promotes CSV management.

Transforming into a disciplined yet caring company

However, the Kirin Group currently lacks a sense urgency that demands a change of the status quo and a challenging spirit that says, “I want to take on new challenges myself.” To transform itself into a company that achieves innovation routinely, the Kirin Group is now pursuing human resource and organizational culture reforms.

Through this initiative, the Kirin Group seeks to become a disciplined yet caring company. Employees who strive to innovate with a high degree of motivation are given opportunities regardless of age, rank, affiliation, and career, their growth is supported, and their results are fairly evaluated. On the other hand, we encourage self-change for employees who settle for the status quo. By fostering a merit-based organizational culture, we are taking steps to evolve into a company that boldly innovates for new value creation.

Approach to strengthening human resources





Developing leadership in senior management

Senior management's number one mission to develop human resources

In transforming into a disciplined yet caring company, the awareness of senior leadership and changing how they act is a key point. Although the Kirin Group has changed its organizational culture, we have not yet achieved our vision. This is mainly because the role required of leaders who should be at the center of reform was not clearly defined. While one of the most important missions of a leader is to develop human resources, organizational reforms will not advance unless

senior management is strongly self-aware and motivates employees with powerful leadership.

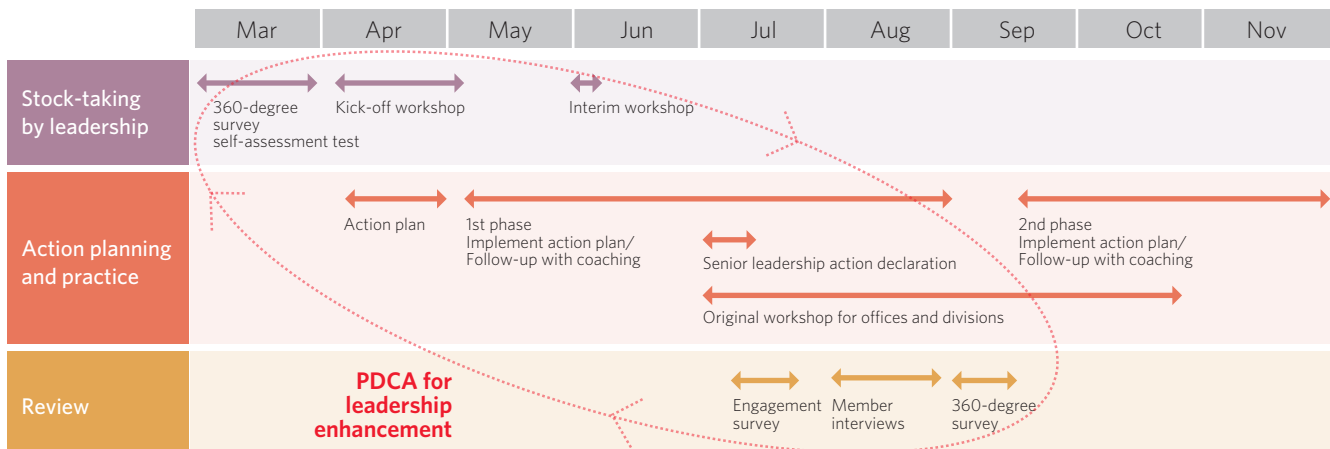
With this understanding, the Kirin Group established a policy of changing the awareness and actions of senior leadership. The Group also launched a leadership development program in fiscal 2017 for about 130 employees of senior leaders including directors of Kirin Holdings, the top management of major operating companies, and the heads of offices and divisions nationwide. This program was developed in conformity with conditions in Japan while drawing on the program of Lion Pty Ltd. of Australia.

2017 senior leader session



Lecture by Peter David Pedersen, co-founder of E-Square Inc. and Director, TAOL Leadership Academy

Leadership development program schedule






Continually encourage self-change in a PDCA cycle

In the leadership development program, each employee is continually encouraged to undergo self-change through a PDCA cycle. Specifically, we conducted a 360-degree survey in March 2017 to evaluate each survey participant from multiple viewpoints including those of subordinates and co-workers and conducted a self-assessment test to objectively assess their leadership qualities. Based on the results, a kick-off workshop was held and each person took stock of the current reality (objective assessment and clarification of issues regarding their leadership) and formulated an action plan.

In May, as the first phase of implementation under the action plan, we began implementing regular one-on-one coaching by outside coaches and conducting workshops in divisions and other units. In July, all participants pronounced the senior leader action declaration to every employee. After that, we evaluated the results of initiatives by re-implementing the 360-degree survey, conducting member interviews, and implementing the employee engagement survey. At the same time, we have continually improved the program's content. We will continue to carry out organizational culture reforms by encouraging self-change from senior management to mid-level leaders and all employees.



Coaching by outside coaches

 Employee engagement data are shown on page 21.

Lion's leadership program

Aiming to achieve sustainable growth

Lion Pty Ltd. of Australia, an alcoholic and non-alcoholic beverages business in the Oceania region, is working to fortify its leadership with the goal of sustainable growth. Every officer and employee sets competency, skill, and performance targets for themselves each fiscal year through coaching. They are then reviewed for their attainment of those targets at the end of each fiscal year. A variety of programs are conducted for senior management including "Growing Our Authentic Lion," which teaches about organizational management adapted to changes in the business environment, "Leader's Conference," where management targets and business strategies are shared, and "Leadership at Lion" for employees who are new to management because of promotion or mid-career recruitment. These have earned an excellent reputation as high-quality programs that have comprehensively strengthened leadership and greatly contributed to the development and acquisition of excellent leaders in the field.





Leveraging diverse viewpoints and values to achieve innovation

Create an environment where employees can flourish

The diversity of an organization is a key factor in the enhancement of human resources. To understand market changes and contribute to solving social issues, we need to transform into a corporate culture that is able to reflect diverse employees' opinions and challenges in management and business more than ever before. With this awareness, the Kirin Group has set the creation of an organizational culture that enables all employees to flourish regardless of gender, disability, age, nationality, sexual orientation, and gender identity as an important management task.

For example, to promote the active participation of women, four of our domestic companies*1 have set a goal of tripling the number of female leaders in 2013 to 300 (12% of all managers) by 2021 and have expanded the employee education program, as well as the work-life balance program, which is based around life events such as pregnancy and childbirth. A series of initiatives that promote the empowerment of women in the workplace were evaluated and Kirin was selected a Fiscal 2017 Nadeshiko Brand*2. In 2017, we revised the compliance guidelines, which is the code of conduct for all Group employees. The guidelines specify that individuals are to



Nadeshiko Brand logo

be respected and discrimination based on sexual orientation and sexual identity will not be tolerated. At the same time, the requirement for obtaining condolence leave from work, which thus far has been confined to legal marriages, was expanded to also include common-law and same-sex marriages, and we have also conducted training to make this information widely known. These initiatives are appreciated by society and Kirin Company, Limited has received the top-level gold certification from "work with Pride."*3



*1. Kirin Company, Limited, Kirin Brewery Company, Limited, Kirin Beverage Company, Limited, and Mercian Corporation.

*2. The Nadeshiko Brand initiative is a project aiming to introduce certain TSE-listed enterprises that are outstanding in terms of encouraging the empowerment of women in the workplace as attractive stocks to investors who put emphasis on improving corporate value in the mid- and long-term, thereby promoting investment in such enterprises and accelerating efforts encouraging women's success in the workplace.

*3. A private organization that supports the pursuit and establishment of diversity management

Data on the ratio of female managers are shown on page 21.

Kirin's Program to Simulate the Work-Styles of Mothers and Fathers

Promoting an understanding of diverse working styles and raising productivity

Kirin's Program to Simulate the Work-Styles of Mothers and Fathers, which started in 2016 with female sales department employees, is in fact an attempt to get employees without children to act, through simulated experience, as though they are working mothers and fathers. Because a parent's time is restricted by child rearing and emergencies such as a child coming down with a fever, we are promoting an understanding of diverse working styles, reviewing how a person and the organization work, and improving work efficiency through simulated experiences that efficiently improve work by gaining the cooperation of those around us. Since the program's inception, there have been significant results such as productivity improvement. Therefore, in 2018, we expanded it to cover the entire company. Further, the program has been expanded so that employees can select from the three simulated scenarios of childcare, nursing care, and family illness.



The desks of participants in the program to simulate the work-styles of mothers and fathers

Program goals

Creating time for challenges x Strengthening consumer perspective
Lessons learned from previous challenges are applied to subsequent challenges

Corporate culture that can leverage diverse human resources, such as by limiting constraints due to child and nursing care

Improve leadership and management skills through experience

Shift employee thinking from "not causing trouble for each other" to "understanding and supporting each other"



CHAPTER

III

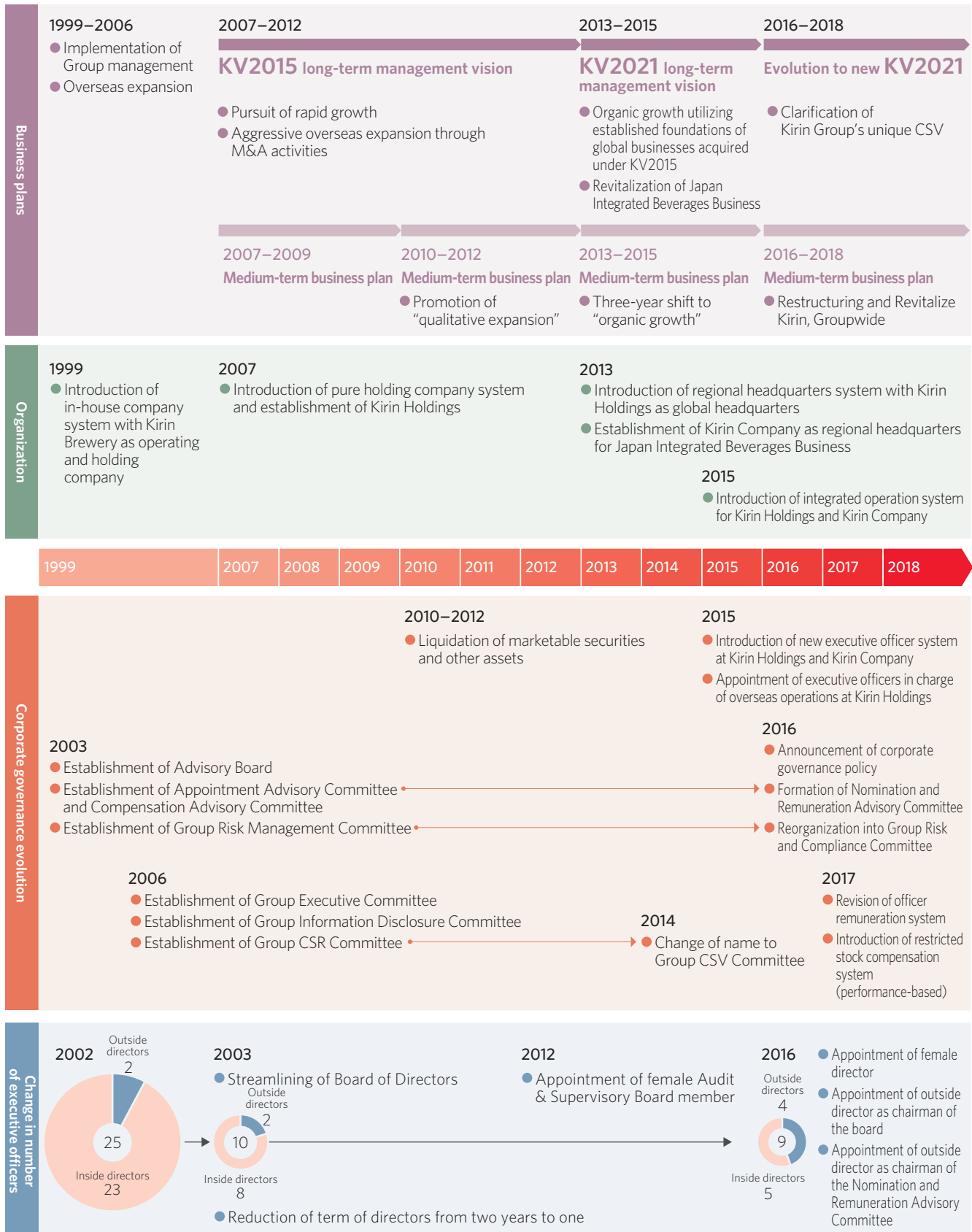
Corporate Governance

Basic view on corporate governance

In line with the Group's corporate philosophy and the "One Kirin" values that are shared across the Kirin Group, the Group believes that achieving the 2021 Vision outlined in its long-term management vision New KV2021 will lead to the Group's sustainable growth and to greater corporate value over the medium to long term. Accordingly, the Group will develop a corporate governance system that can effectively and efficiently reach that goal.

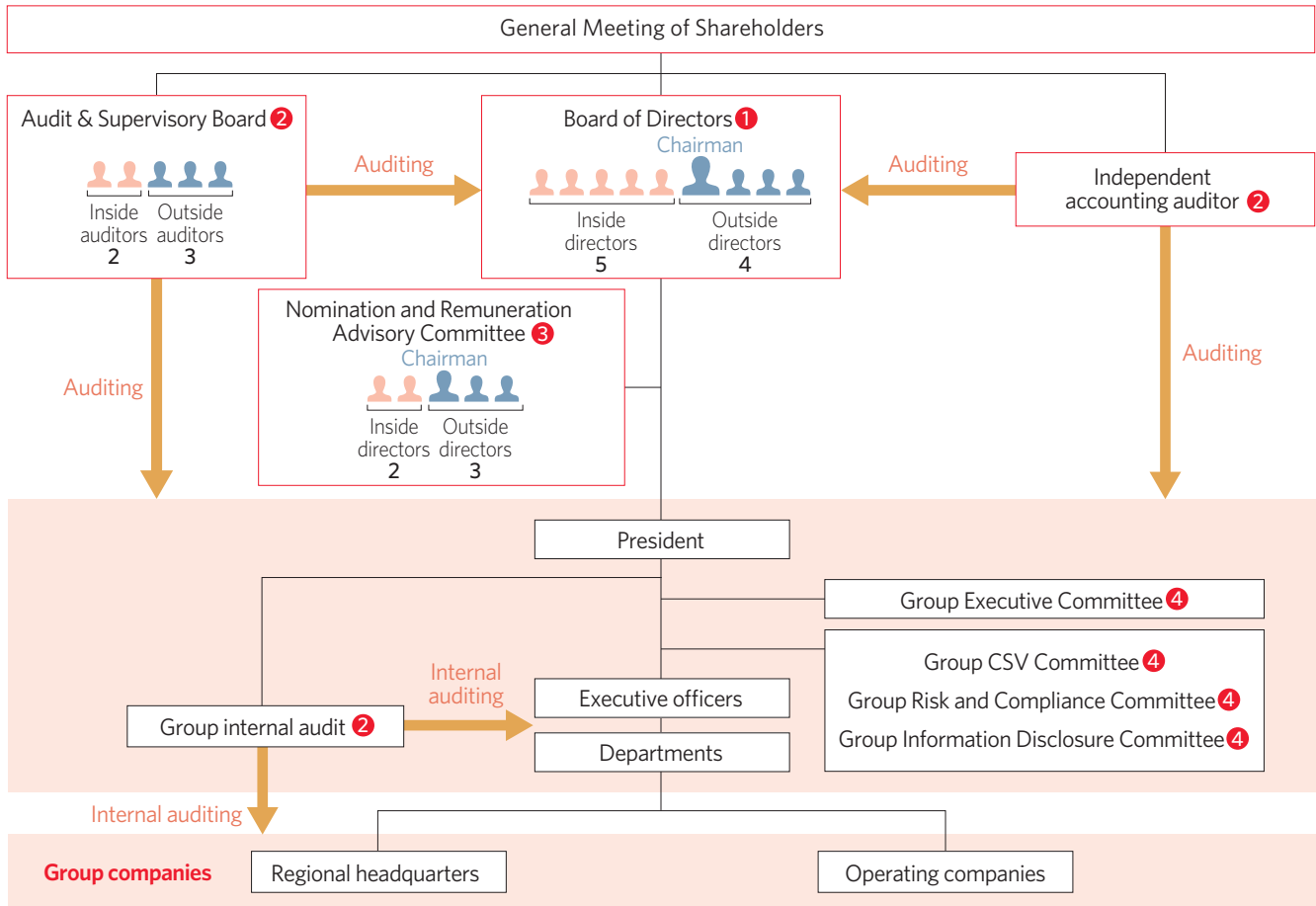
The Kirin Group believes that cooperation with its stakeholders will be indispensable to putting its corporate philosophy into practice and turn the 2021 Vision into reality, and therefore the Group respects its stakeholders' respective viewpoints. We will promptly disclose information to shareholders and investors based on transparency, fairness and continuity, actively engage in constructive dialogue, and fulfill accountability in good faith.

Evolution of corporate governance system



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

Corporate governance organizational chart



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

By verifying the executive branch and operating company strategies and making sound recommendations from a broad-ranging view, we demonstrate “important decision-making” and “monitoring” functions and enhance corporate value over the medium to long term.

“Important decision-making” functions

- Focus on important matters and discuss them from a medium- to long-term management perspective
- Decision-making function is accelerated (delegation of authority to the executive branch)

“Monitoring” Functions

- Establish corporate governance policy and enhance monitoring
- Increase number of outside officers and exercise monitoring function from a specialized and objective standpoint

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

- In addition to the Audit & Supervisory Board, Audit & Supervisory Board members also attend important meetings including Board of Directors meetings, and audit directors’ performance of their duties through visits to Group companies in Japan and overseas. Audit & Supervisory Board members also work closely with corporate auditors of Group companies to enhance the effectiveness of audits.
- The Group internal audit director (Internal Audit Division of Kirin Company, Limited) conducts internal audits of the Group’s major risks and internal control system. Further, the Group internal audit director, Audit & Supervisory Board members, and independent accounting auditor exchange information and views and hold discussions when necessary. The group internal audit director and Audit & Supervisory Board members obtain necessary 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 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 officers, thus ensuring objectivity and transparency. The term of office is one year.

Outside directors: 👤 Kimie Iwata (Chairman), 👤 Shoshi Arakawa,
👤 Katsunori Nagayasu

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 35.

Group Risk and Compliance Committee: 📖 Refer to page 51.

Evaluations of the Board of Directors' effectiveness

Kirin Holdings routinely conducts evaluations of the management of the Board of Directors, the content of its discussions, and strives to ensure important decision-making and monitoring functions.

Fiscal 2016	Fiscal 2017
Discussions were held among the Board of Directors based on self-evaluation surveys and the Board conducted an overall review.	Conducted a survey that included evaluation criteria based on the research of third-party advisers and discussed it at the Board meeting in light of existing initiatives and improvements
<p>Evaluation Criteria</p> <ol style="list-style-type: none"> 1. Relationship between the Board of Directors and management 2. Composition of the Board 3. Proceedings and discussions at Board meetings <p>Evaluation Results</p> <ul style="list-style-type: none"> • It was determined that the Board of Directors was generally effective • The desired functions of the Board of Directors were reaffirmed 	<p>Evaluation Criteria</p> <ol style="list-style-type: none"> 1. Supervision of development, execution, and monitoring of strategies 2. Risk management and supervision of crisis control 3. Thorough understanding and implementation of healthy corporate ethics and supervision thereof 4. Supervision of decision-making such as business acquisition/withdrawal 5. Supervision of executive remuneration and plans such as succession planning for next-generation leaders 6. Supervision of overall disclosure to stakeholders 7. Structure and management of the Board of Directors <p>Evaluation Results</p> <ol style="list-style-type: none"> 1. It was determined that the Board of Directors functions properly overall 2. It was determined that the Board of Directors was generally effective
<p>Enhancement Policy</p> <ol style="list-style-type: none"> 1. Expand discussions from the viewpoint of Group management Shift from monitoring each individual project to monitoring each Group strategy issue 2. Expand the sharing of management information Report the progress of monthly performance of principal companies in a timely manner <p>Enhancement Result</p> <ol style="list-style-type: none"> 1. Exchanged views about partnering and financial strategies in a timely manner to reflect changes in the managerial environment and expanded discussions about important issues from a Group management perspective 2. Facilitated quarterly monitoring through greater sharing of Group management information 	<p>Enhancement Policy</p> <p>We will strive to maintain and improve the effectiveness of the Board of Directors through constructive discussion as outlined below:</p> <ol style="list-style-type: none"> 1. Discussion from the standpoint of non-financial topics including the environment, society, and governance (ESG) 2. Discussion on enterprise risk management (ERM) adapted to complicated global risks

Governance and performance evaluation of Group companies

Operational execution and monitoring system for Group companies

Kirin Holdings, a pure holding company, fulfills the function of formulating and promoting Group strategy, monitoring each business, and creating synergies across the Group.

Each company of the Kirin Group is managed autonomously and speedily in locations that are close to stakeholders including customers. Kirin Holdings grants business execution authority tailored to the strategy stage of each company while working to improve governance through the Board of Directors meetings of each company by sending directors to each Group company. Please note that regarding principal Group companies, Kirin's

directors or executive officers concurrently serve as directors of each company.

Performance evaluation of each Group company

Performance evaluation indicators of Group companies are ROA linked to ROE, a quantitative target, and the normalized operating profit of each company is directly linked to normalized operating profit guidance. In accordance with the voluntarily application of International Financial Reporting Standards (IFRS), the performance indicators of Group companies have been replaced with IFRS. ROA is calculated based on normalized operating profit/total assets.

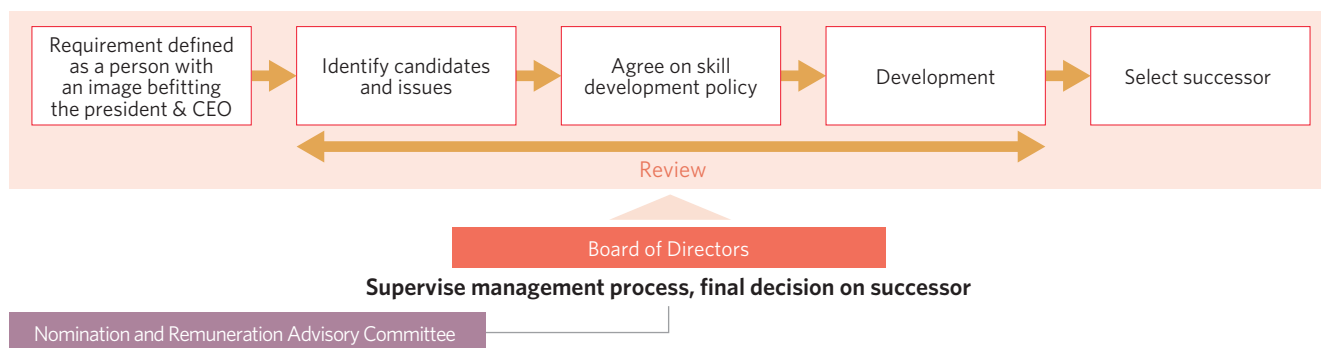
Candidate plan for president & CEO (succession planning)

Kirin Holdings' Nomination and Remuneration Advisory Committee deliberated on the formulation of policy for the President & CEO Succession Planning in 2016 and reported on the requirement (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.

Management process of succession planning



Remuneration system for executive officers

Kirin Holdings introduced a new remuneration system for executive officers in March 2017 in order to more strongly motivate officers to achieve the management plan and to further promote medium- and long-term value sharing with shareholders and investors.

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 Director of the Group.
3. Executive remuneration shall be reviewed by the Nomination and Remuneration Advisory Committee in which Outside Directors account for the majority of the Committee members, in order to ensure objectivity and transparency.

Decision process

- Deliberated on in the Nomination and Remuneration Advisory Committee, the majority of whose members are outside directors, and whose chairman is an outside director, and then reported 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 to decide Audit & Supervisory Board Member remuneration within a range of the total remuneration previously decided at the General Meeting of Shareholders.

Remuneration of position

Directors (excluding outside directors)

Because they are responsible for the execution of business, we have established remuneration structure that takes into account the 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 position, only basic remuneration (fixed remuneration) is provided.

Audit & Supervisory Board members

Because of their role of auditing the performance of directors' execution of their business from an objective position, only basic remuneration (fixed remuneration) is provided.

Overview of remuneration system for executive officers

	Fixed remuneration Approximately 50%	Performance-linked remuneration Approximately 50%	
	Basic remuneration	Yearly bonus	Restricted stock compensation
	Basic remuneration	Yearly bonus	Restricted stock compensation (performance-based)
Position	Fixed remuneration	Short-term incentive remuneration	Medium- to long-term incentive remuneration
Those receiving payment	<ul style="list-style-type: none"> ● Directors (excluding outside directors) ● Outside directors ● Audit & Supervisory Board members 	Directors (excluding outside directors)	Directors (excluding outside directors)
Allocation policy	Cash	Cash	Stock (monetary compensation receivables for the allocation of restricted stock)
Evaluation indicators	—	<ul style="list-style-type: none"> ● Consolidated normalized operating profit ● Individual performance evaluation (excluding chairman of the Board and president & CEO) 	<ul style="list-style-type: none"> ● ROE ● Normalized EPS
Allocation policy	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"> ● Shares with transfer restrictions will be allocated each fiscal year, in principle ● The rate at which shares with restrictions that are to be lifted is set within the range of 33% to 100% according to the achievement of targets in the first year of the transfer restriction period (in principle, three years).
Calculation formula	—	<p>Calculation formula of individual remuneration</p> $\frac{\text{Individual remuneration}}{\text{Standard bonus}} \times \left(\begin{array}{l} \text{Company performance pay rates} \times A \\ \text{Individual performance pay rate} \times B \end{array} \right)$ <ul style="list-style-type: none"> ● A standard bonus is set for each officer based on internal regulations ● "A" is the ratio of the part that is linked to company performance, and "B" is the ratio of the part that is linked to individual performance. Each ratio is set for each position based on internal regulations. 	<p>Calculation formula for the rate of lifting the restrictions</p> $\frac{\text{Rate of lifting the restrictions}}{\left(\begin{array}{l} \text{Rate of lifting the restriction based on ROE} (\%) \times \frac{1}{2} \\ \text{Rate of lifting the restriction based on normalized EPS} (\%) \times \frac{1}{2} \end{array} \right)}$



Please refer to the Corporate Governance Report for details about director and Audit & Supervisory Board member compensation in fiscal 2017. https://www.kirinholdings.co.jp/english/ir/policy/pdf/e_governance_report.pdf

(As of April 1, 2018)

Directors



Yoshinori Isozaki

President & CEO

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

Major Concurrent Positions
Representative Director and President & CEO of Kirin Company, Limited

Keisuke Nishimura

Representative Director of the Board, Senior Executive Vice President

Investment Strategy, Overseas Business

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

Major Concurrent Positions
Senior Executive Officer of Kirin Company, Limited
Director of San Miguel Brewery Inc.
Director of China Resources Kirin Beverages (Greater China) Company, Limited
Director & Vice Chairman of Myanmar Brewery Limited



Toshiya Miyoshi

Director of the Board, Senior Executive Officer

HR and General Affairs, Marketing, Corporate Brand Management

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

Major Concurrent Positions
Senior Executive Officer of Kirin Company, Limited
Director of San Miguel Brewery Inc



Yasuyuki Ishii

Director of the Board, Senior Executive Officer

Supply Chain Management (Production, Logistics, Procurement)

1980 Joined the Company
2017 Director of the Board, Senior Executive Officer of the Company (current position)

Major Concurrent Positions
Senior Executive Officer of Kirin Company, Limited



Noriya Yokota

Director of the Board, Senior Executive Officer & CFO

Chief Financial Officer, IR, IT

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

Major Concurrent Positions
Senior Executive Officer of Kirin Company, Limited
Director of Kyowa Hakko Kirin Co., Ltd.
Director of Kirin Business System Company, Limited

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/policy/pdf/governance20160215e_02.pdf

Outside directors*1



Toshio Arima

Outside Director of the Board*2
Chairman of the Board

- 1967 Joined Fuji Xerox Co., Ltd.
- 2002 President and Representative Director of Fuji Xerox Co., Ltd.
- 2006 Director of FUJIFILM Holdings Corporation
- 2011 Outside Director of the Company (current position)
- 2012 Executive Advisor of Fuji Xerox Co., Ltd. (current position)



Shoshi Arakawa

Outside Director of the Board*2

- 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)



Kimie Iwata

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

- 1971 Joined the Ministry of Labour
- 2004 Director and Corporate Officer of Shiseido Company, Limited
- 2008 Director and Executive Vice President of Shiseido Company, Limited
- 2012 Outside Audit & Supervisory Board Member of the Company, Advisor of Shiseido Company, Limited
- 2016 Outside Director of the Company (current position)



Katsunori Nagayasu

Outside Director of the Board

- 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. (current position)
- 2018 Outside Director of the Company (current position)
- 2018 MUFG Bank, Ltd. Senior Adviser

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

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

Audit & Supervisory Board members



Motoyasu Ishihara

Standing Audit & Supervisory Board Member

- 1981 Joined Kirin-Seagram Co., Ltd. (currently, Kirin Distillery Co., Ltd.)
- 2015 Standing Audit & Supervisory Board Member of the Company (current position)
- 2016 Auditor of Kyowa Hakko Kirin Co., Ltd. (current position)
- 2017 Audit & Supervisory Board Member of Kirin Company, Limited (current position)



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)
- Audit & Supervisory Board Member of Kirin Company, Limited (current position)



Masakatsu Mori

Outside Audit & Supervisory Board Member*3

- 1969 Joined Arthur Andersen, LLP
- 1995 Japan Representative of Andersen Consulting (currently, Accenture Japan Ltd.)
- 2013 Vice Chairman of International University of Japan (current position)
- 2015 Outside Audit & Supervisory Board Member of the Company (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)

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

Executive officers



Hiroshi Ogawa

Senior Executive Officer

Director of the Board, Senior Executive Vice President of Kirin Company, Limited

Public Relations,
Risk Management, Legal



Ryosuke Mizouchi

Senior Executive Officer

Director of the Board, Senior Executive Officer of Kirin Company, Limited

CSV



Noriaki Kobayashi

Senior Executive Officer

Director of the Board, Senior Executive Officer of Kirin Company, Limited

R&D, Quality Assurance



Toru Yoshimura

Executive Officer

Director of the Board, Executive Officer of Kirin Company, Limited

Director,
Group Corporate Strategies



Supporting value creation through more effective governance

Kimie Iwata

Outside director

Ms. Iwata is chairman of the Nomination and Remuneration Advisory Committee. She has served as an outside director at Kirin Holdings since 2016. From 2008 to 2012 she held the position of representative director and executive vice president at Shiseido Co. Ltd. She retired from her post as director-general of equal employment, Children and Families Bureau of Ministry of Health, Labour & Welfare in 2003, after serving the ministry since 1971.

Q

As chairman of the Remuneration Advisory Committee, how do you rate Kirin Holdings' corporate governance system?

Kirin has been committed to reinforcing its corporate governance system for many years. Due to enactment of Japan's Corporate Governance Code of 2015, the company advanced these efforts. Kirin's Nomination and Remuneration Advisory Committee has formulated an improved performance-related remuneration system and a succession plan for top executives.

To promote awareness of business goals and corporate value, Kirin's new remuneration system, effective 2017, boosts performance-linked remuneration to 50%. More than a yearly bonus system tied to corporate profit targets, this introduces stock-based remuneration to promote medium-term shared value with shareholders.

Details of the system have been disclosed through IR activities and explained at the shareholders meeting. I see this executive remuneration system as a highly desirable improvement in governance. Going forward, I expect the committee to continuously re-evaluate which indicators are best and what percentage of the total payment package is appropriate for performance-related remuneration.

Regarding succession, the committee has taken the time to thoroughly discuss the qualities required in the CEO of Kirin Holdings and how to configure a highly transparent decision-making process for candidates.

At many Japanese firms, the CEO selection process is a black box when viewed from outside. Kirin's succession plan calls for the Nomination and Remuneration Committee to apply due diligence in deliberating whether the candidate suggested by operating officers is the right person for the job.

When outside officers are central to the task of nominating successors, the benefits are twofold. One is impartiality and objectivity in evaluating individual candidates. The other is the range of viewpoints committee members bring to the process, reflecting their specialized knowledge of diverse fields and industries. Moreover, the succession plan provides for systematic cultivation of successor candidates over time, a valuable advantage.

Q How is Kirin doing in terms of diversity and inclusion?

A When I was an executive at another publicly listed company, the Kirin Group asked me to be an instructor for their female management candidate development program. I was impressed that Kirin was one of the few firms back then that was serious about promoting female advancement. The Kirin Group's progressive stance has won independent acclaim, as evidenced by its inclusion in the New Diversity Management Selection 100 project of Japan's Ministry of Economy, Trade and Industry (METI).

Some issues remain. To promote female advancement we must enable employees to give birth and raise children while holding onto their jobs. In Kirin's supportive system, we take it for granted that women will be able to return to their positions after taking child-rearing leave. When it comes to career path support, we are committed to professional development leading to key positions for women. More time is required, however, before we achieve significant results.

That said, we are proud to have our first female executive officer, as well as women in such positions as general managers of plants and general managers of regional sales head offices. The Company is also committed to increasing the number of female leaders to 300 by 2021, a ratio of 12%. I hope that Kirin will give solid support to guide promising young employees on a career path to leadership.

Q In conclusion, please share your opinion on the effectiveness of the board of directors, and issues to be addressed going forward.

A Regarding evaluation of the board's effectiveness, in FY2016 we conducted and disclosed self-evaluation surveys of directors of the board and Audit & Supervisory Board members.

Survey results consistently confirm the board's effectiveness as a whole. To continuously improve operations we are using the PDCA cycle. This has helped us, for example, to narrow down the agenda of the board of directors to Group oversight and weighty decisions from the viewpoint of Group management. As a result, the board can now allot more time to productive deliberation on high-priority issues.

In my two years as an outside director, the biggest issue we faced was the sale of Brasil Kirin shares. It was a difficult decision for the board, requiring many discussions to decide whether or not to sell and what conditions to impose upon the sale. We then reassessed all processes, from acquisition to sale, regarding Brasil Kirin. By devoting time to discussing what the case had to teach us, the board was able to discuss and comprehend matters in greater depth.

Going forward, the board is dedicated to in-depth discussion of important issues such as formulation of the next long-term management plan, medium term plans, and fiscal year plans. For Group growth, we must articulate a clear strategy. As an outside director, I hope to contribute to continuous long-term growth and increased corporate value through decision making concerning matters of importance and oversight of business matters.



Kirin Group risk management system

The Kirin Group defines risk as uncertainty that seriously impedes the accomplishment of its business targets or impacts its business continuity. The Group establishes risk management systems to properly recognize and address risks in light of new strategies and important changes in the external environment. In risk management, we identify the most critical risks from the two perspectives of “the risk of not achieving the business targets” and “the risk of things turning into a crisis.”

Group companies identify serious risks in line with business environment analysis and strategies based on the above perspectives and formulate risk statements and response measures as part of the process of establishing annual business plans.

Kirin Holdings oversees overall risk management of the Group and verifies important risks for each company. At the same time, it examines the impact on the Group should the risks manifest and establishes the important risks facing the Kirin Group.

Each company implements the risk management cycle which includes monitoring the status of risk response plans on a quarterly basis and reviewing the identified risks when necessary. Moreover, the Group Risk and Compliance Committee periodically receives reports from each company concerning risk status, and when necessary, it instructs and supports them to strengthen and support Group risk management.

Major identified risks

Risks related to business environment

1. Laws, regulations, and tax systems
2. Fluctuations in foreign currency exchange rates and interest rates
3. Increases in raw material/energy prices, and logistics costs
4. Weather, climate change, natural disasters, and infectious diseases
5. Financing
6. Changes in the value of asset holdings
7. Changes in the trends of economic and market environments and population movements
8. Overseas operations

Risks related to business operations

1. Business and capital alliances
2. Human resources
3. Product safety
4. Information leakage and information systems
5. Occurrence of litigation and fines

* Each risk item is reviewed every year.

WEB For detailed information on risk awareness that affects the business environment and business execution, please refer to Kirin Holdings' website. https://www.kirinholdings.co.jp/english/csv/governance/risk_management.html

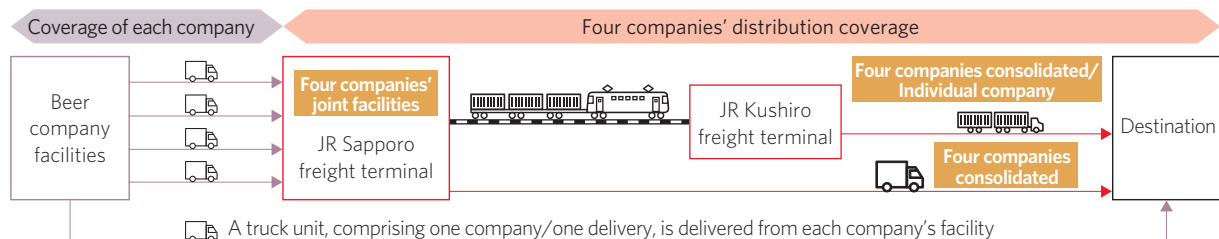
Example of Kirin's response to a serious risk

Impending risk to logistics infrastructure due to a driver shortage for long-distance truck transport

An example of a serious risk was Kirin's response to the logistics infrastructure. Japan's logistics infrastructure was strained due to the shortage of truck transport drivers and the logistics environment had grown increasingly tight. A truck driver shortage is a social issue and could have a negative impact, such as fragmenting the supply chain or sharply raising the transportation costs of the Kirin Group. Therefore, the Group opened a joint distribution

center in Kanazawa, Ishikawa Prefecture in 2017. Through joint transportation using railway containers from Kansai area factories, we were able to shift from long-distance truck transportation equivalent to 10,000 vehicles per year to railway containers. In 2017, we agreed to conduct joint distribution with four beer companies in a part of eastern Hokkaido and we expect a reduction of 800 long-distance trucks annually.

Joint distribution in Hokkaido



Key Initiatives for ESG

1. Key initiatives for the Environment

The Kirin Group has established four key initiatives, biological resources, water resources, containers and packaging, and global warming. Specifically, we are monitoring the effect that water risk has on management by working on water conservation, purification, and pollution prevention to preserve water resources.

Conservation of water resources

We are working on high-level water conservation activities in each country and region where our business facilities are located, reliable wastewater treatment, and forest conservation activities at the water sources of manufacturing plants that began to pioneer the industry.

Because water resources are unevenly distributed, we tried to identify the impact of water risk on management from a long-term perspective. We did this by conducting water risk assessments of the site basins at 35 major manufacturing plants in six countries in 2014, and water risk assessments in the upstream value chain, mainly in Japan's integrated beverages business.



For detailed information on risk awareness and compliance with environmental management, please refer to the Environmental Report on our website. <https://www.kirinholdings.co.jp/english/csv/report/env/>

2. Key initiatives for society

Alcohol-related problems

Alcohol-related problems are now one global issue. In 2015, the United Nations included the prevention of harmful use of alcohol in the Sustainable Development Goals (SDGs).

To respond in this environment, the Kirin Group joined the International Alliance for Responsible Drinking (IARD), an international NPO. We are promoting its "Beer, Wine and Spirits Producers' Commitments," a collective commitment to promote responsible drinking and reduce harmful drinking, with the world's major alcoholic beverage producers.

In addition, in each business area, we are complying with voluntary industry codes for the advertising and promotion of alcoholic beverages and conducting educational activities on responsible alcohol consumption. In Japan, an industry-wide movement is being advanced in coordination with government agencies and healthcare professionals under the Basic Plan for Promotion of Measures against Alcohol-related Harm.



Meeting with CEOs of IARD-affiliated manufacturers (2017)

In Australia and New Zealand, meanwhile, we are expanding our assortment of low-alcohol beers while at the same time participating in industry initiatives for promoting healthy drinking habits among youths and all other adults.

Human rights

In February 2018, Kirin Holdings formulated The Kirin Group's Human Rights Policy in accordance with the United Nation's Guiding Principles on Business and Human Rights. In Japan and overseas, we will promote respect for human rights based on the Guiding Principles, which reflect the global standard.

The Kirin Group's Human Rights Policy Framework

Scope of application of human rights policy

- All executives and employees of the Kirin Group (Kirin Holdings Company, Limited and its consolidated subsidiaries)
- Business partners are expected to adhere to this policy and suppliers are expected to comply with it

Positioning of human rights policy

- This human rights policy governs all other policies and documents related to the Kirin Group's efforts to respect human rights across its global operations

Person responsible for management of the human rights policy

- The senior executive officer for human resources strategy at Kirin Holdings Company, Limited

Summary of commitments expressed in the human rights policy (partial)

- Identify and remedy adverse impact on human rights and implement corrective measures (including the establishment of inquiry channels and improvement of effectiveness)
- Training and skill development for executives and employees
- Prohibit discrimination and harassment, provide a safe and healthy environment, ensure a minimum wage, oppose forced labor and child labor, and uphold our responsibility to the communities, including indigenous people



For the full text of our human rights policy, please refer to our website. https://www.kirinholdings.co.jp/english/csv/human_rights/

3. Key initiatives for governance

Prevention of bribery

With the reinforcement of restrictions on bribery in countries around the world including Japan, the Kirin Group complies with the applicable laws and regulations of countries and regions in which it conducts its business activities, and conducts fair business activities in line with sound business practices and ethics and completely prohibits bribery and corruption to gain unfair profits.

Specifically, in 2014, we established the Kirin Group Guidelines for the Prevention of Bribery and Kirin Group Regulations for the Prevention of Bribery. We are responding to the risks of each company and business based on these guidelines and regulations.

We will continue to take steps to prevent corruption based on guidelines in Japan and overseas and applied case law.

Prevention of bribery procedures



Overview by segment and business for fiscal 2017

Japan Integrated Beverages

Key operating companies

- Kirin Company, Limited.
- Kirin Brewery Company, Limited.



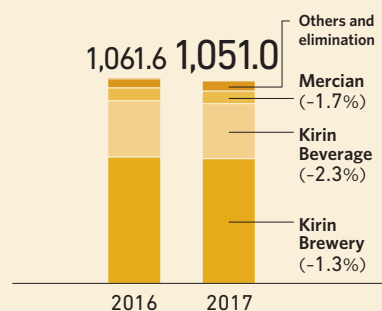
- Kirin Beverage Company, Limited



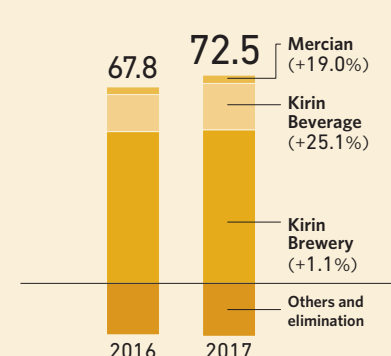
- Mercian Corporation



Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



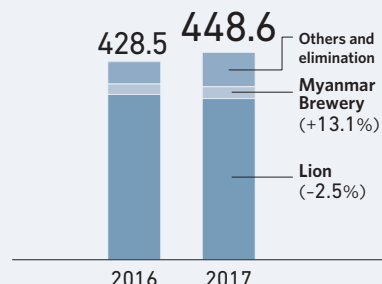
Overseas Integrated Beverages

Key operating companies

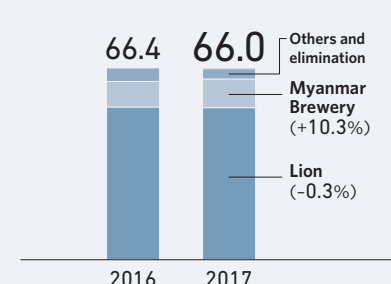
- Lion
- Myanmar Brewery



Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



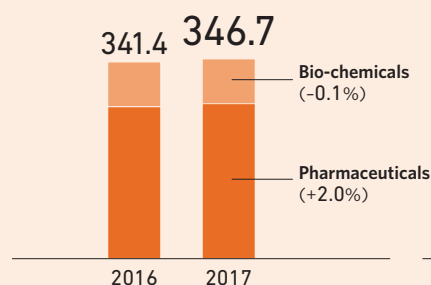
Pharmaceuticals & Bio-chemicals

Key operating companies

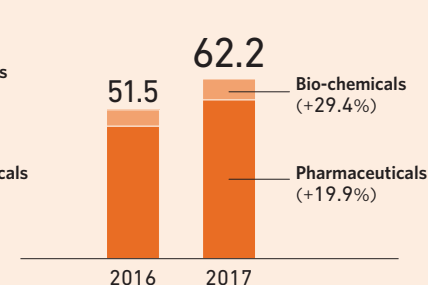
- Kyowa Hakko Kirin
- Kyowa Hakko Bio



Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



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

■ Kirin Brewery

Amid a sluggish beer market that declined 2.6%, Kirin Brewery reviewed its trading conditions from January onward in anticipation of the enforcement of the Standard for the Fair Trade of Alcohol accompanying the revision of the Liquor Tax Act in June. As a result, the review found that the effects of continued high retail prices over a certain period compared with competitors' products caused beer sales volume to decline 4.2%. By brand, *Ichiban Shibori* dropped 2.4%, in line with the overall market decline, but sales of cans were strong after conducting intensive sales promotion activities in September to upgrade the product, pushing sales volume upward (up 0.6%) for the year. On the other hand, sales volume of the *Nodogoshi* brand declined (down 4.9%), leaving Kirin Brewery the challenge of recovering market share in the new genre category.

RTD increased 8.4%, centering on *Hyoketsu* and *Honshibori*, and sales of non-alcohol beer-taste beverage increased 58.7% with the launch of *Kirin Zero ICHI*.

Although revenue declined due to decreasing sales volume of beer products, unit sales and product mix improved thanks to a review of trading conditions and a rising ratio of can sales. Moreover, cost reductions were successful and normalized operating profit increased.

■ Lion

Lion Beer, Spirits and Wine business concluded its beer distribution agreement in Australia with Anheuser-Busch InBev (ABI) in September 2016. However, the changes offer an opportunity to focus more investment behind Lion's retained portfolio of owned and licensed brands. While sales volume sharply declined (down 10.5%) due to the loss of the ABI brands, volumes of core Lion beer brands remained solid, particularly in growth categories such as contemporary, and craft. Excluding the impact of the loss of the ABI brands, revenue and normalized operating profit were largely unchanged from the previous year.

In the Lion Dairy & Drinks business, raw material costs increased due to sharply rising Australian orange prices, impacting sales volumes of juice. Despite the short-term set-backs, the underlying performance of the business was solid and normalized operating profit increased only slightly due to the loss recognized in 2016 on inventory

Despite a decline in sales due to the impact of generic drugs in Japan, the pharmaceuticals business saw sales and profits increase due to higher technology licensing revenue and lower SG&A expenses including R&D expenses. In R&D, global strategic product development advanced steadily.

In the bio-chemicals business, raw material sales for pharmaceuticals and health foods and online sales remained steady both in Japan and overseas, and revenue remained unchanged from the previous year. Normalized operating profit increased year on year due to a higher composition ratio of highly profitable products.

■ Kirin Beverage

Gogo-no-Kocha increased 2%, recording its highest-ever volume of sales, and the sales volume of *Nama-cha*, including the effects of last year's product renewal, increased 5%. Meanwhile, Kirin Beverage's total sales volume decreased 2%, falling below the market average of $\pm 0\%$ due to the termination of contract manufacturing agreements, as well as declining sales volume of *FIRE* (down 8%). The functional beverages category was up 11% on strong performance of new products under the *Suppli* brand.

While revenue decreased due to declining sales volume, normalized operating profit increased substantially on the rising composition ratio of *Gogo-no-Kocha* and *Nama-cha*, as well as cost reduction effects.

■ Mercian

Products centered on domestically produced and imported wines fared well, and the sales volume of wine increased (+2%). Although revenue declined because of an increase in low-priced imported wine for daily drinking, normalized operating profit rose due to cost reductions and the rationalization of marketing expenses.

revaluation. The turnaround program has laid the foundation to return the business to growth in FY18.

■ Myanmar Brewery

Taking advantage of demand for low-priced and can products, the sales volume of *Andaman Gold* increased sharply (up 85%), and the promotion of bottled *Myanmar Beer* was also successful, rising 4%, causing total sales volume to increase a substantial 17%. Although the product mix deteriorated due to a considerable increase in the economy category, revenue increased on a local currency basis on a significant jump in sales volume and the effects of a price revision carried out in the previous and current fiscal years. Raw material expenses increased due to the effects of foreign exchange rates, but efforts to reduce supply chain costs had a beneficial effect, pushing normalized operating profit up on a local currency basis.

Japan Integrated Beverage Strategy

Kirin Brewery



Market environment

Due to the declining birthrate and aging population and diversification of preferences, it is expected that the domestic beer market will continue to shrink. Moreover, in accordance with the revision of the Liquor Tax Act in June 2017 Standard for the Fair Trade of Alcohol came into effect, the retail price of alcoholic beverages including beer rose. Concerns of declining demand for beer products due to retail price increases have been recently mounting, and a shift in demand to lower-priced products and RTDs can also be seen. On the other hand, with the revision of the Liquor Tax Act (Figure 1), the liquor tax for beer, *happo-shu*, and new genre categories will be gradually unified by 2026, the definition of beer will be expanded in April 2018, and liquor tax differences between beer and RTD will widen over the medium and long-term.

Kirin Brewery considers the above-mentioned changes in the business environment as opportunities and seeks to increase profitability to profit margin levels equivalent to those of global beer makers.

Regarding beer (Figure 2), Kirin Brewery will continue to increase the composition ratio of the highly profitable beer category in anticipation of a future revision to the liquor tax. It will consistently seek to enhance the appeal of the beer category, which is a pillar of its strategy in the 2016 MTBP and attain profit growth even in markets where total consumption is declining. The primary focus of the strategy is to raise the brand equity of *Ichiban Shibori*, strengthen the craft beer business, and expand the Japanese craft beer market. (Please refer to pages 25 – 26 for *Ichiban Shibori* and craft beer initiatives.)

With the beer liquor tax on the road to unification, the categories of current beers, *happo-shu* and new genre will gradually disappear, and other categories will form. Among these, economy products could be a category that accounts for a certain share of the market. To restore current market share and acquire a future presence, even in the economy category, recovering market share in the new genre category is an urgent

task. Kirin Brewery will strengthen *Nodogoshi*, which has been the No. 1* new genre brand in sales in the other brewed liquors (sparkling) 1 category since its launch in 2005. It will also make the new genre product *Honkirin*, launched in March 2018, a new pillar brand.

The RTD category, which continues to grow, will become even more important due to rising retail prices for beer, future liquor tax revisions, the diversification of preferences, and changes in lifestyles. In the RTD market, the top brands that account for about 60% of the total market are driving growth and product types are diverse. To increase sales volume in these markets, Kirin Brewery will continue to strengthen its core *Hyoketsu* and *Honshibori* brands and also expand its brand portfolio. It will nurture *Kirin The Strong*, launched in April 2018, in higher-alcohol percentage products, which have a particularly high growth rate among RTDs. Furthermore, Kirin Brewery is taking steps to increase the profitability of the RTD category by building production facilities at the Nagoya Plant, responding to growing demand, and streamlining transportation to the east and west.

* 2005 “Other miscellaneous liquors 2.” From 2006 to 2017, based on taxable quantity shipped of “other brewed liquors (sparkling) 1”

Figure 1: Applicable tax rate for each alcoholic beverage (350ml equivalent)

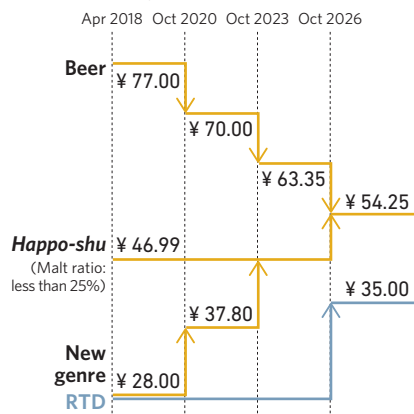
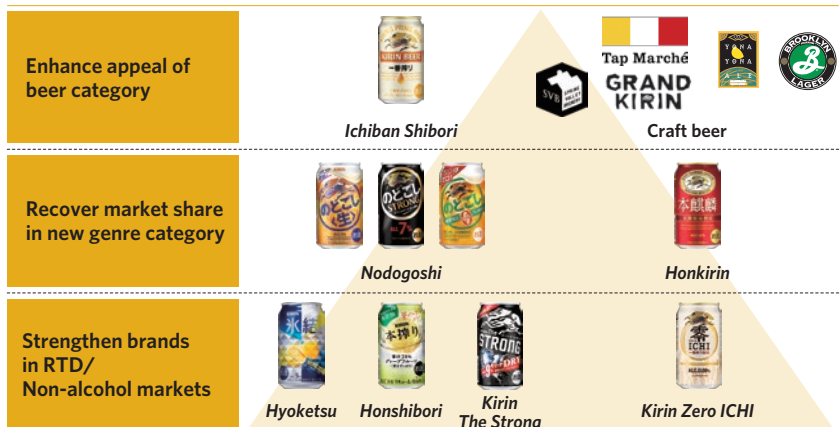



Figure 2: Category/Brand strategy



A key strategy for achieving these category and brand strategies is Customer-centered Marketing. In Customer-centered Marketing, Kirin Brewery will focus on brands in which it invests and will continuously create points of contact with focus brands and consumers by working its long-term brand plan. Further, it will market based on customer feelings and behavior at points of contact with the brand. This will enable long-term customer engagement by creating integrated

communication that captures the “four moments of truth (Four MOTs)” (📖 please see page 26 for a description of the Four MOTs) when customers encounter the brand and strengthening digital marketing that leverages consumer data.

In this way, Kirin Brewery will maximize the marketing return on investment, increase brand equity while reducing sales promotion expenses to secure short-term sales volume, and grow into a highly profitable business.

<p>Kirin Beverage</p> 	<p>Market environment</p> <p>The non-alcoholic domestic beverage market accounts for more than 60% of sales volume in the three categories of carbonated beverages, coffee, and sugar-free tea. In the next few years, the total non-alcoholic beverage market, though maintaining flat growth or a slight increase, is expected to decline thereafter due to inflow from the hand-brewed tea market in the tea category. Against the backdrop of falling birthrates and an aging population, consumers are expected to grow increasingly health-conscious.</p>
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Kirin Beverage has worked to revitalize in line with its 2016 MTBP to solve the challenge of fully implementing a profit focus, strengthening brand equity, and improving cost structure. Kirin Beverage carried out reforms including the introduction of target controls focused on highly profitable containers, released a new version of *Nama-cha* in March 2016, captured demand from the hand-brewed tea market, successfully revitalized the brand and reduced supply chain costs. As a result, the profit margin improved from 1.5% in fiscal 2015 to 7.6% in fiscal 2017.

Kirin Beverage, which has steadily resolved these challenges will shift from fiscal 2018 to a stage (Figure 3) of “growth-based profit generation” that will raise the top and bottom lines

while increasing the profit margin in preparation for sustainable growth. Its goal is to achieve a normalized operating profit margin of 10% by fiscal 2021. The three pillars of the strategy to achieve this are “growth in existing domains,” “initiatives for new domains” and “development of a sustainable framework.”

1 Growth in existing domains (Figure 4)

The basis for growth is to strengthen brands in the domestic beverages business domain, which is now underway. Specifically, Kirin Beverage will allocate, on a priority basis, marketing investments in the foundational brands of *Gogo-no-Kocha*, *Nama-cha*, and *FIRE* to further enhance the brands’ equity. It will build a robust brand portfolio by building brands in the health, Japanese domestic water, and sugar-free tea categories, where further growth is expected.

Figure 3: Kirin Beverage growth strategy for 2021

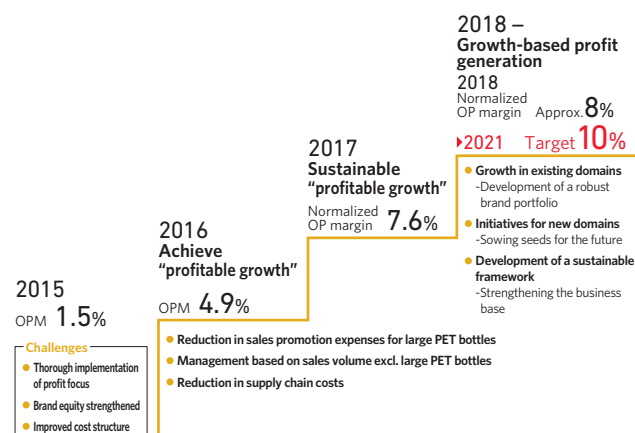


Figure 4: Growth in existing domains



Japan Integrated Beverage Strategy

2 Initiatives in new domains

With limited growth expected in the domestic beverage market, we need to plant seeds for the future to achieve sustainable growth. Kirin Beverage will consider all possible new initiatives to expand the world of beverages, including brand alliances and overseas expansion.

3 Development of a sustainable framework

To raise brand equity and further strengthen the profit base, Kirin Beverage will conduct CSV activities (Figure 5), promote greater efficiency, and further reduce costs. Kirin Group's key CSV Issues of health and well-being, community engagement, and the environment will help strengthen the brand and achieve greater cost efficiency. In addition to addressing issues common to the industry, alliances with competitors to reduce costs that cannot be achieved independently will be actively considered.

Figure 5: Kirin Beverage CSV initiatives

Health and well-being


- In addition to developing products utilizing *Lactococcus lactis* strain Plasma, provide health value with food for specified health uses and food with function claims
- Focus on developing non-sugar and decaffeinated products

Community engagement

- Expanding our support of Sri Lankan black tea farmers to small-scale farmers, to assist in their efforts to acquire the Rainforest Alliance certification
- Conservation of the water resources of those farmers

The Environment

- Promotion of resource conservation including the reduction of container weight
- Reduction of environmental impact throughout the value chain

<p>Mercian</p> 	<p>Market environment</p> <p>Although an increase in total demand in the domestic alcoholic beverages market is limited, wine, with its diversity and healthy image, is expected to grow steadily over the medium to long term in a category that has grown 1.5-fold over the past 10 years. Wine, which has established itself as a daily alcoholic beverage, is driven by the household market and tends to polarize consumption into daily wine and high-priced/fine wine.</p>
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As a leading domestic company, Mercian will enhance the appeal of wine and continue to grow by driving market expansion. It will also continue to improve productivity, minimize the impact of fluctuations in raw material prices and exchange rates, and improve profitability.

To enhance the appeal of diverse wines, Mercian will make a selective, focused allocation of resources on brands to be strengthened in each area, while it addresses all areas including fine wine, mid-price range, daily wine domestic production, and daily wine imports. In this way, it will build a highly profitable product portfolio.

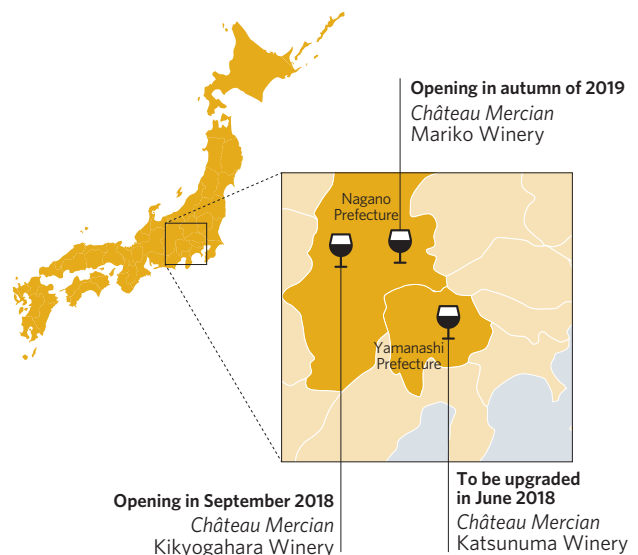
In the fine wine domain, Mercian will continue to fortify its flagship brand *Château Mercian*. The raw grapes for the Japanese wine *Château Mercian* are cultivated by Mercian or by contract in four Japanese prefectures, and Mercian plans to build two more wineries in the future (Figure 6). Mercian seeks to create Japanese wine brands through community engagement by strengthening its *Château Mercian* business.

Mercian will also fortify its brands in the mid-price range and daily wine domains and address the polarization of consumption. In mid-price wines, it will maintain its focus on *Casillero del Diablo*, as well as advertise, promote sales, and develop new products. Daily wine, which is driving the growth of the whole market, will not only boost sales of domestically


produced daily wine, but also of imported daily wine, including Chilean wines, which continue to enjoy high growth.

Mercian will work to improve productivity at its factories, headquarters and sales departments, and increase profitability.

Figure 6: Creating new *Château Mercian* wineries



Overseas Integrated Beverages Strategy

<p>Lion</p> 	<p>Market environment</p> <p>Australia's economy is expected to maintain steady growth thanks to the country's rich natural resources and growing population. Maturation of the market, changing lifestyles, rising health consciousness, and other trends are expected to continue.</p> <p>Australia's mature beer market has about one-third of the total consumption (Figure 7) of Japan's, but consumption per capita is about 1.7 times that of Japan's. However, consumption per capita is decreasing slightly, and the total market is expected to remain relatively flat or contract. The growth of the mid-strength alcohol and contemporary categories tailored to the modern lifestyle, and the increasing move to craft and premium beers are also expected to continue.</p> <p>Dairy product and non-alcohol drink markets are increasing slightly overall, despite differences in performance across categories. Health consciousness also affects consumption trends in the dairy and drink categories, and these trends are expected to continue.</p>
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■ Beer, Spirits and Wine

In fiscal 2017, the Lion Beer, Spirits and Wine business saw profits decrease due to the loss of the ABI brands in Australia, but the profit margin remained at 28%, slightly above the 27% of fiscal 2015. By 2020, Lion seeks to restore its profit level to that of fiscal 2016, before the loss of the ABI brands, and return to sustainable growth.

In Australia, Lion will reform its cost structure and implement its Post-ABI Strategy (Figure 8) that seeks to increase sales volume and raise the component ratio in growth categories. It will seek to bolster sales of *Iron Jack* beer, a recently-launched product in the growing contemporary category, while strengthening its foundation brands including *XXXX Gold* in the classic category.

Lion will take steps to improve product mix by increasing the sales volume of premium products. In the craft beer business, Lion will bolster its flagship brands *James Squire* and *Little Creatures* while continuing to develop products and brands tailored to the regionalization of craft beers that is underway in Australia. It has set up an internal craft-focused team just for that purpose and will strive to further increase its presence

in the growing craft beer market.

In the international premium category, it will focus on *Ichiban Shibori* (KIRIN ICHIBAN) and *Heineken*. Lion has been producing and selling the *Heineken* brand under a joint-venture agreement with Heineken International B.V., but this was dissolved in 2017, and moving forward, *Heineken* will be fully incorporated into the Lion Australia beer business portfolio.

In addition, Lion will improve price and mix while streamlining costs throughout the supply chain over the medium term.

In New Zealand, Lion will continue to promote a comprehensive alcohol beverage strategy centered on beer. In August 2017, Lion entered into an agreement to sell ABI's Australian brands in New Zealand. In addition to its key brands, Lion will seek to further increase market share and improve its product mix by leveraging its brand portfolio comprising ABI brands such as *Corona* and ABI's Australian brands.

■ Dairy & Drinks

The Lion Dairy & Drinks business will continue to implement its business strategy based on simplification and growth, through a continued focus on cost management and the concentration

Figure 7: Total consumption of Australian beer market

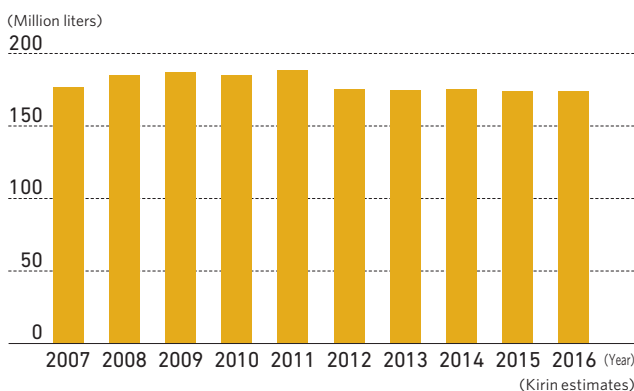


Figure 8: Post-ABI strategy in focus products



Overseas Integrated Beverages Strategy

of investment behind focus product categories. The aim of the strategy is to become a leading nutritional dairy and beverages business to increase profitability to a normalized operating profit margin of 5%, which is the guidance for 2016 MTBP.

In the key milk-based beverages category, Lion consolidated its production in a new plant with state-of-the-art production equipment in fiscal 2017. It will continue to strengthen its brands focusing on the flagship *Dare Iced Coffee* brand and rebuild its sales network based on improving production capabilities and expanding sales channels. Lion will also improve price and mix by increasing sales volume in the focus categories of yoghurt and specialty cheese and respond to the consumer trend toward premium products.

Lion will also continue to respond to the growing consumer

desire for products that support healthy living by fulfilling its Our Goodness Promise commitments.

Along with optimizing its operations and supply chain, Lion will work for the stable procurement of milk through its ongoing support for Australian dairy farmers, which is based on delivering competitive pricing, partnerships and purpose.

Figure 9: Key categories/Brands



Myanmar Brewery



Market environment

The Myanmar economy is expected to maintain high single-digit GDP growth and inflation rates in the future.

The current rate of beer market growth is expected to be largely in line with the GDP growth rate, and that trend is likely to continue for the foreseeable future. The total consumption and per capita consumption of Myanmar's beer market is very low (Figure 10) compared to Japan and other Southeast Asian countries. With a population of over 50 million and a low average age, there is much room for future market growth.

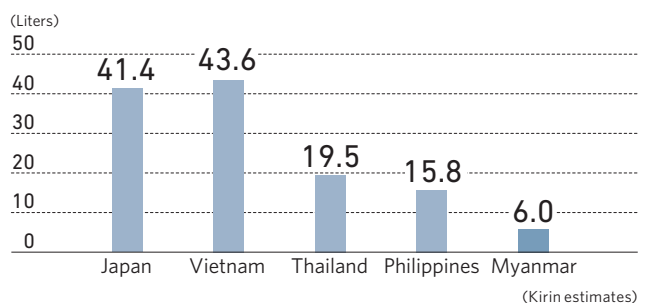
With outstanding brand awareness of its products including *Myanmar Beer* and a strong distribution network as its strengths, Myanmar Brewery boasts a high market share of nearly 80%. It will maintain its high market share by strengthening the brand equity while steadily obtaining market growth by developing its manufacturing base to drive Group growth.

In 2015, when Myanmar Brewery became an operating company of the Kirin Group, it lost the international premium category and premium category brands, which it had been selling under license. However, shortly thereafter, it launched *Black Shield Stout* in the premium category, and in 2016, *Myanmar Premium*, and in the international premium category *Ichiban Shibori (KIRIN ICHIBAN)*. With a brand portfolio (see page 31 for details) that ranges from international premium to economy across all categories, Myanmar Brewery will undoubtedly capture the customer base consisting of the beer entry segment, as well as the consumer segment that upgrades to higher-priced categories, which increase according to economic growth. The brewery will focus on its flagship brand *Myanmar Beer*, the most important mainstream category, and will bolster it as a brand to arouse the public's pride.

As a foundation to support volume growth, Myanmar

Brewery will work to retain and develop its human resources, maintain a distribution network that extends north and south, and enhance its highly efficient production facilities (see pages 31 – 32) for details about production facilities, please see pages 31 – 32). In the area of human resources, it will continue to build a corporate culture and develop human resources to enable employees to fully demonstrate their abilities. It will push domestic and Group procurement to reduce the impact on imported raw material costs caused by foreign exchange risks, and at the same time reduce costs by improving efficiency throughout the supply chain.

Figure 10: Beer consumption per capita (FY2016)



Pharmaceuticals and Bio-chemicals Strategy

Kyowa Hakko Kirin

KYOWA KIRIN

Domestic market environment

It is possible that the growth of the pharmaceuticals market in Japan could continue to level off due to the market penetration of generics and significant revisions to the drug price system, along with the progress of measures taken to reduce medical costs so that the public health insurance system can be maintained in a society with a declining birthrate and aging population.

Research and development-oriented pharmaceutical companies will have to accelerate their efforts to shift their sources of revenue from long-term listed drugs and the domestic market to new drugs and the global market. Kyowa Hakko Kirin is a corporate group that continuously creates new value based on state-of-the-art biotechnology, pursuing a pharmaceutical business model that combines its biosimilars and bio-chemicals businesses as it leaps forward to become a Global Specialty Pharmaceutical Company (GSP). Under the Kyowa Hakko Kirin Group's five-year 2016 to 2020 Mid-term Business Plan (Figure 11), the management targets for fiscal 2020, the final year of the plan, are to achieve a core operating income of at least ¥100 billion, an overseas sales ratio of 50% and ROE of 10% or higher.

In the five-year Mid-term Business Plan, Kyowa Hakko Kirin is taking steps to achieve its four strategic priorities:

1 Improvement of global competitiveness

Kyowa Hakko Kirin is working toward contributing to the health and well-being of people around the world through its successful launch of KRN23 (burosumab) and KW-0761 (mogamulizumab), its global strategic products, in the European and U.S. markets. (For information about KRN23, please see page 28.) In Europe and the U.S., Kyowa Hakko Kirin filed a biologics license application for mogamulizumab for the treatment of patients with cutaneous T-cell lymphoma, and the drug, like KRN23, was also granted Priority Review status by the FDA. To maximize the value of these global strategic products, Kyowa Hakko Kirin continues to take steps to increase market penetration and expand the business area.

2 Creating innovation

By combining the expertise Kyowa Hakko Kirin has gained by studying diseases and patients' needs at the research facilities it has established in each of the four categories of nephrology, oncology, immunology/allergy, and CNS, with the cutting-edge technology platforms for drug discovery cultivated in the fields of therapeutic antibodies, one of its areas of strength, small molecule drugs, nucleic acid drugs, and regenerative therapeutics, as well as outside technologies through open innovation, Kyowa Hakko Kirin will aim to build an attractive pipeline as a pharmaceutical company that discovers new drugs.

3 Continuous improvement for operational excellence

Kyowa Hakko Kirin is working to heighten its profitability by further strengthening cooperation in a consistent manner across every function from R&D to manufacturing and sales. At the same time, Kyowa Hakko Kirin strives to instill the core values

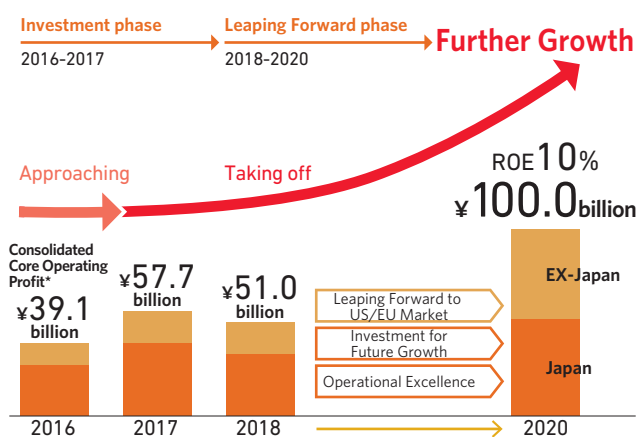
and the code of conduct that all employees of the Kyowa Hakko Kirin Group around the globe are required to adhere to. Moreover, Kyowa Hakko Kirin makes efforts to build a global governance framework and ensure thorough compliance awareness.

4 Contribution to the health and well-being of people

Kyowa Hakko Kirin is working to engage in efforts that involve discovering innovative drugs that satisfy unmet medical needs, additional indications and dosage formulations of products, and also ensuring stable supplies of high-quality products, while taking action in response to societal demands for lower medical costs. These efforts are part of Kyowa Hakko Kirin's "CSV Management" philosophy to create shared value with society, and Kyowa Hakko Kirin will contribute to helping people with a diverse range of medical needs. In addition, as a member of the Kirin Group, Kyowa Hakko Kirin will continue efforts aimed at contributing to the health and well-being of people in collaboration with the Kirin Group companies.

In the bio-chemicals business, Kyowa Hakko Bio is addressing the key issues of strengthening the profit base and providing value with a focus on people's health by taking advantage of its high share of the market in its specialty area encompassing the pharmaceuticals, medical and healthcare fields. To strengthen its profit base, Kyowa Hakko Bio has made steady progress in reorganizing its production facilities. As for efforts to create high-profit businesses for the future, Kyowa Hakko Bio is now jointly developing new products, which are launched together with the Kirin Group, including some products under the "IMIUSE" brand.

Figure 11: Kyowa Hakko Kirin Group's Mid-term Business Plan



* Gross profit - Selling, General and Administrative expenses - Research and Development expenses + Share of profit (loss) of investments accounted for by the equity method

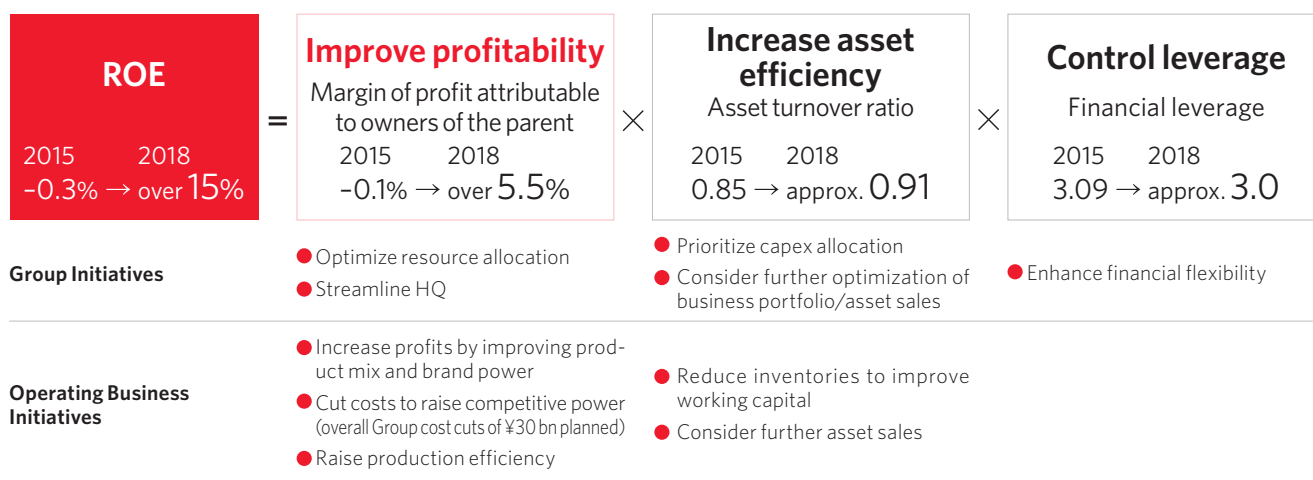
Management's discussion & analysis

In the Kirin Group 2016–2018 Medium-Term Business Plan (2016 MTBP), a ROE of 15% or more and a normalized EPS compound average growth rate of 6% or more have been set as quantitative targets and key indicators for measuring the revitalization of the Kirin Group through structural reforms. In addition, the reference value (guidance) at the time the quantitative targets are achieved is indicated by consolidated normalized operating profit. We are managing our business to achieve the three-year medium-term targets by achieving the profit plan for each single fiscal year.

Profit guidance seeks to achieve the plan by attaining the 2018 guidance (2020 guidance for the Pharmaceuticals and

Bio-chemicals Businesses) and cost cut targets established for each business. Kirin will achieve the ROE target by raising the margin of profit attributable to owners of the parent through higher profitability of each business. At the same time, Kirin Holdings, Group headquarters, is selling assets and optimizing its business portfolio to generate free cash flow of over ¥260.0 billion, the three-year target. Based on a consolidated payout ratio of 30% or more of normalized EPS, free cash flow will be set aside to provide stable shareholder returns and to repay interest-bearing debt. This will increase financial flexibility and provide for future growth investment.

2016 Medium-term business plan initiatives to improve ROE



Fiscal 2017 progress

In fiscal 2017, the second year of the 2016 MTBP, Kirin Holdings managed its businesses based on the above-mentioned MTBP policy and achieved better-than-expected results. Each business steadily improved profitability to achieve guidance for 2018 (or 2020), cost cut measures steadily produced results for the entire Group, and consolidated normalized operating profit increased ¥12.3 billion (up 6.8%) from the previous year to ¥194.3 billion. Cost cut initiatives achieved the 2016 MTBP target of ¥30.0 billion one year ahead of schedule. In addition to deciding to sell Brasil Kirin, which is positioned as a low-profit business, and completing the share transfer in May, the Group's structural reforms progressed faster than the 2016 MTBP originally expected thanks to management measures to liquidate non-core assets including property, plant and equipment.

These measures generated free cash flow of ¥284.9 billion,

achieving our three-year free cash flow generation target one year ahead of schedule. The repayment of interest-bearing debt significantly exceeded the MTBP target, raised the equity level by increasing profits, and sufficiently enhanced our financial flexibility.

Cost cutting progress (Billions of yen)

Operating companies	2016 actual	2017 actual	2016–2017 total
Kirin Brewery	7.2	2.7	9.9
Kirin Beverage	6.1	1.7	7.8
Brasil Kirin (Sold in 2017)	7.2	1.2	8.4
Other	4.5	3.4	7.9
Total	25.0	9.0	34.0

1) Consolidated statement of profit or loss

Revenue

Consolidated revenue including liquor taxes increased by ¥9.8 billion (up 0.5%) to ¥1,863.7 billion (an increase of ¥16.4 billion [up 1.1%] to ¥1,574.3 billion excluding liquor taxes). Broken down by segment, revenue of Japan Integrated Beverages decreased by ¥10.6 billion, Overseas Integrated Beverages increased by ¥20.1 billion, and Pharmaceuticals and Bio-chemicals increased by ¥5.3 billion. However, Overseas Integrated Beverages was affected by foreign exchange rates (+¥20.1 billion), as well as a revenue increase of a soft drinks business subsidiary in the United States due to its acquisition of a manufacturing and sales business in the territories adjacent to its own.

In Japan Integrated Beverages, Kirin Brewery revenue declined by ¥8.4 billion (a ¥1.0 billion decrease excluding liquor taxes) due to declining sales volume for beer products (down 4.2%), while Kirin Beverage revenue decreased by ¥6.8 billion due to declining sales volume for non-alcoholic beverages (down 2.2%) as a whole.

In Overseas Integrated Beverages, Lion revenue decreased by ¥8.9 billion. Lion Beer, Spirits, and Wine business sales volume declined (down 10.5%) due to the conclusion of the ABI brand distribution agreement in Australia in September 2016, and declining sales volumes due to the sale of the Australian wine business to focus its resources on the beer business. Revenue declined ¥15.1 billion, which includes the impact of the foreign exchange rate on consolidation of +¥11.5 billion. On the other hand, if we exclude the impact of the ABI brand loss and wine business divestiture, revenue remained in line with that of the previous fiscal year on a local currency basis. In the Lion Dairy and Drinks business, sales volume declined (down 3.0%) in the juice and drinks category due to a surge in orange juice prices that resulted in a decrease in overall sales volume. Revenue increased by ¥6.1 billion, which included the impact of the foreign exchange rate on consolidation of +¥9.0 billion. Even including the ¥(1.8) billion foreign currency effect, Myanmar Brewery revenue increased by ¥3.0 billion thanks to higher sales volume (up 17.1%), as well as the effects of price hikes carried out in fiscal 2016 and 2017.

Kyowa Hakko Kirin's Pharmaceuticals and Bio-chemicals businesses recorded a revenue increase of ¥5.3 billion thanks to a significant boost from higher technology licensing revenue in the overseas market in the Pharmaceuticals Business.

Normalized operating profit

Consolidated normalized operating profit increased by ¥12.3 billion, and Group profitability improved as the profit growth rate (6.8%) exceeded the revenue growth rate. Operating profit margin to revenue improved from 9.8% in fiscal 2016 to 10.4% (revenue

excluding liquor tax rose from 11.7% to 12.3%). The status of each business is as follows.

Japan Integrated Beverages

Kirin Brewery's normalized operating profit increased by ¥0.6 billion to ¥71.6 billion. In January 2017, after revising its trading conditions for beer products and reducing sales promotion expenses associated with beer product sales, retail prices remained higher than those of competing products until the end of May in retail channels. In June, due to a further increase in retail prices caused by the revision of the Liquor Tax Act, and the effects of unseasonable weather from summer through autumn, the sales volume of beer products as a whole declined 4.2%. As a result, the marginal profit of beer products decreased by ¥7.7 billion, but marginal profit increased by ¥5.0 billion due to an increase in RTD sales volume (up 8.4%) and an increase in non-alcohol beer-taste beverage sales volume (up 58.7%). Marginal profit as a whole increased by ¥0.6 billion due to a ¥3.3 billion increase in marginal profit owing to difference of change in composition of products (including an improvement in the marginal profit per liter through the reduction of sales promotion expenses related to beer sales). Advertising expenses increased ¥2.0 billion due to the renewal of *Ichiban Shibori*, but fixed sales promotion expenses decreased ¥2.4 billion (including a reduction in sales promotion expenses for beverage channels due to a review of beer trading conditions). Raw material costs decreased ¥2.6 billion due to cost cutting initiatives, which offset the increase in distribution

2018 and 2020 guidance progress for each business

Strengthen profit foundation of the beer business		2018 guidance
Kirin Brewery	Normalized operating profit margin 19% (excluding liquor tax)	OPM: 7%+
Lion Beer, Spirits, and Wine	No. 2 market position after loss of ABI brands	Maintain market position
	Normalized OP margin approx. 28%	Maintain high OPM
Myanmar Brewery	Market share of approx. 80% maintained	Maintain market position
	Production capacity improvements to be completed before the 2018 peak demand period	Capture share of market growth fields
Restructure and revitalize low-profit businesses		2018 guidance
Brasil Kirin	Transfer of all stocks is complete	Pave the way for a positive turnaround in 2019
Kirin Beverage	Normalized OP margin is 8%, significantly above guidance	OPM: 3%+
Lion Dairy & Drinks	Normalized OP margin approx. 4%	OPM: 5%+
Invest to achieve outstanding growth in Pharmaceuticals and Bio-chemicals businesses		2020 guidance
Kyowa Hakko Kirin	Good progress achieved in developing global strategic products	Core operating income: 100 billion yen+

costs and other expenses. The normalized operating profit margin on revenue excluding liquor tax was 19.2%, already exceeding the operating profit margin (J-GAAP) of 17%, the guidance for 2018.

Kirin Beverage's normalized operating profit increased a substantial ¥4.4 billion to ¥21.7 billion. Marginal profit declined ¥2.4 billion due to a decrease in sales volume (down 2.2%), but thanks to an increase in the sales volume of *Gogo-no-Kocha* and *Nama-cha*, the difference of change in product mix and composition ratio of containers improved and marginal profit increased ¥3 billion, with marginal profit increasing by ¥0.6 billion overall. The normalized operating profit margin improved to 7.6%, far exceeding the 3% operating profit margin (J-GAAP), which was the 2018 guidance. This was largely due to a ¥2.8 billion reduction in raw material expenses stemming from cost cutting effects.

■ Overseas Integrated Beverages

Lion Beer, Spirits, and Wine Business' normalized operating profit decreased due to the loss of the ABI brands. The profit impact of a sales volume decrease (down 10.5%) was A\$122 million, but a A\$77 million increase in profits due to unit price and mix improvement owing to price increases, an increase in sales volume in focus categories, and other cost decreases, resulted in normalized operating profit of A\$632 million, down A\$51 million. Normalized operating profit, which excludes the impact of the loss of the ABI brands, remained in line with that of the previous year, and the normalized operating profit margin of 27.9% enabled the Company to maintain high profitability. Normalized operating profit, after conversion to yen, came to only ¥0.9 billion due to a positive exchange rate effect of ¥3.2 billion.

The Lion Dairy and Drinks Business was affected by soaring orange juice prices, but because the inventory revaluation conducted in October 2016 pushed normalized operating profit downward in the previous fiscal year, normalized operating profit remained unchanged with that of the previous fiscal year. The impact on profits of a decrease in sales volume (down 3.0%) was A\$22 million, but was offset by A\$23 million, including unit price and mix improvement effects, due to increased sales volumes in focus categories. Normalized operating profit, after conversion into yen, increased ¥0.5 billion, including a consolidated foreign exchange effect of +¥0.3 billion.

Myanmar Brewery's normalized operating profit increased 18.3% on a local currency basis. Although the product mix deteriorated due to a sharp increase in sales volume in the economy category, the increase in sales volume, the effects of price hikes in fiscal 2016 and 2017, and cost cutting initiatives had a positive effect. As the impact of foreign exchange rate on consolidation was ¥(0.7) billion, normalized operating profit, after conversion to yen, increased ¥0.9 billion to ¥9.9 billion.

■ Pharmaceuticals and Bio-Chemicals

Kyowa Hakko Kirin's normalized operating profit increased by ¥10.7 billion (up 20.9%) to ¥62.2 billion. In the Pharmaceuticals

Business, profits increased ¥9.1 billion due to higher gross profit from higher technology licensing revenue in the overseas business, and a decrease in R&D expenses. In the Bio-chemicals Business, profit rose by ¥1.6 billion due to a more highly profitable sales mix.

Profit attributable to owners of the parent

Equity in earnings of affiliates increased by ¥9.6 billion due to strong performance of San Miguel Beer, as well as an increase in normalized operating profit. Furthermore, structural reforms progressed at a faster pace than initially anticipated due to the sale of Brasil Kirin, which was positioned as a low-profit business, and the liquidation of non-core assets. Profit from discontinued operations increased by ¥76.8 billion due to tax effects associated with the transfer of Brasil Kirin shares, resulting in a ¥93.1 billion rise in profit.

The margin of profit attributable to owners of the parent in fiscal 2017 reached 13.0% due to a one-time increase in earnings on progress made in structural reforms, but the improved profitability for each business excluding this effect was nearly in line with progress made in the 2016 MTBP.

The tax rate in fiscal 2017 was 22.2%. This was attributable to the effects of non-amortization of goodwill and brands following the adoption of IFRS, a reduction in the statutory tax rate in Japan, an increase in investment profit accounted for by the equity method, and other factors. There were no tax effects associated with the sale of Brasil Kirin included in profit from discontinued operations.

2) Consolidated cash flow status and financial strategy progress

Operating cash flow was ¥221.7 billion, investing cash flow came to ¥63.2 billion, and free cash flow was ¥284.9 billion. This was attributable to the improved profitability of each business, progress made in structural reforms including the sale of Brasil Kirin, and the liquidation of non-core assets.

The Company allocated ¥45.9 billion for shareholder returns (dividends) based on a consolidated payout ratio of 30% or more of normalized EPS, and ¥147.3 billion for interest-bearing debt repayment. As a result, the repayment of interest-bearing debt over the two-year period came to ¥258.3 billion, exceeding the target of ¥135.0 billion in the 2016 MTBP. Interest-bearing debt, as of the end of fiscal 2017, was ¥486.5 billion.

3) Consolidated statement of financial position

Assets

Total assets decreased ¥23.7 billion to ¥2,399.1 billion (compared with ¥2,422.8 billion at the end of the previous fiscal year). Property, plant and equipment decreased ¥82.0 billion on the sale of Brasil Kirin, which was a wholly owned subsidiary, as well as the reduction of assets by selling off the brewery site and other

property, plant and equipment. Because of that and other factors, non-current assets decreased by about ¥120 billion. This amount included over ¥40 billion that had been transferred to current assets due to the transfer of Kirin Amgen shares (gain on sale of equity-accounted investees), which was recorded in non-current assets. The shares were transferred in the first quarter of 2018. Capital expenditures came to ¥85.9 billion, which was lower than the ¥89.9 billion in fiscal 2016, and the timing and amount of investments for nonessential and nonurgent items were reviewed and kept within plan.

As mentioned above, revenue increased ¥9.8 billion, but since it was lower than the 2016 MTBP expectation based on J-GAAP, the asset turnover ratio remained at 0.77. Factors behind the decline in revenue compared to the 2016 MTBP included a deduction of sales promotion expenses linked to sales from revenue due to the adoption of IFRS from fiscal 2017, the sell-off of Brasil Kirin, the conclusion of ABI brand distribution in Australia by the Lion Beer, Spirits, and Wine Business, and a decrease in domestic beer product sales volume.

Equity and liabilities

Profit of ¥242.1 billion, which increased significantly due to the improvement of profitability and structural reforms, contributed to the increase in retained earnings, and total equity (excluding non-controlling interests and treasury shares) increased ¥251.9 billion to ¥955.9 billion (¥704.0 billion as of the end of fiscal 2016).

Financial leverage declined to 2.9 and the debt-equity ratio dropped to 0.51 (1.14 at the end of fiscal 2015) due to progress in reducing assets and repayment of interest-bearing debt, which exceeded the target of the 2016 MTBP, and financial flexibility improved.

4) Quantitative target progress and shareholder returns

ROE was 29.1% due to a margin of profit attributable to owners of the parent of 13.0%, including one-time factors. Although adjustments excluding non-recurring items (profit from discontinued operations due to the transfer of Brasil Kirin shares, and other operating income and expense after taxes and other adjustments) were

	2015 results	2016 results	2017 results	2018 forecast
ROE (%)	-0.3	22.0	29.1	16.0
Margin of profit attributable to owners of the parent (%)	-0.1	8.0	13.0	7.9
Asset turnover ratio (Times)	0.85	0.77	0.77	0.82
Financial leverage (Times)	3.1	3.4	2.9	2.5

made, normalized EPS increased ¥12 (8.6%) to ¥151.

Shareholder returns (dividends) were ¥46, an increase of ¥7 per share, based on a consolidated payout ratio of 30% or more for normalized EPS. We therefore expect to allocate ¥54.0 billion from free cash flow to dividends in fiscal 2018. However, due to the expected cash inflow from the transfer of Kirin Amgen shares, we decided to conduct an own-share repurchase with a maximum of ¥100.0 billion as an additional shareholder return.

Outlook for fiscal 2018

In fiscal 2018, we expect an operating cash flow of ¥230.0 billion. This amount will be used for investment cash flow, repayment of interest-bearing debt with repayment deadlines, and shareholder returns, including the above-mentioned own-share repurchase.

Regarding capital expenditures, we will allocate resources according to the positioning of each business while limiting the total amount based on the 2016 MTBP financial strategy. In 2018, we plan ¥98.0 billion in capital expenditures, but expect a positive investment cash flow of ¥10.0 billion, which includes the cash inflow from the sell-off of Kirin Amgen shares. We expect interest-bearing debt repayment of ¥80.0 billion, and shareholder returns of ¥154.0 billion, which include dividends of ¥54.0 billion and the own-share repurchase of ¥100.0 billion. As a result, an ROE of 16.0% is forecasted.

Profit attributable to owners of the parent is expected to decline due to a decrease in profit from discontinued operations, which increased in fiscal 2017 on the sale of Brasil Kirin. However, the expected decline of both revenue and normalized operating profit in Pharmaceuticals and Bio-chemicals should be covered by increases in other businesses.

Our policy is to maintain an appropriate capital structure considering the balance between cost of capital and financial flexibility while enhancing our capacity to generate cash through profit growth.

Future cash allocation policy

Our cash allocation policy after FY 2019 will be determined by the financial strategy of the next medium-term business plan, but our priority will be to first invest in growth opportunities, and then return profits to shareholders after repaying interest-bearing debt with repayment deadlines. As growth investment targets, we will continue to explore opportunities in Southeast Asia, as well as the area of “health and well-being” as future drivers of growth. We will also take a disciplined approach to future investments.

In the years ahead, we will boost investment in human capital, brands, R&D, and supply chain and IT, which are intangible assets that support the Group’s sustainable growth. (Please see pages 17 – 20).

Information related to total shareholder return

	2012	2013	2014	2015	2016	2017
Year-end stock price (Yen)	1,012	1,513	1,497	1,648	1,902	2,840
Dividends per share (Yen)	29	36	38	38	39	46
Cumulative dividend income per share (from fiscal 2013, Yen)	-	36	74	112	151	197
Amount of increase in stock price per share (from fiscal 2013, Yen)	-	501	485	636	890	1,828
Total shareholder return per share*						
Absolute amount (Yen)		537	559	748	1,041	2,025
Rate (%)		53.1	55.2	73.9	102.9	200.1

* Total shareholders' return per share is calculated at fiscal year-ends, starting in fiscal 2013, as if the investment was made at the closing stock price at the end of fiscal 2012.

Stock price and trading volume



Company overview

Trade name Kirin Holdings Company, Limited

Date of incorporation February 23, 1907
 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

Head office NAKANO CENTRAL PARK SOUTH, 10-2, Nakano 4-chome, Nakano-ku, Tokyo 164-0001, Japan

Paid-in capital ¥102,045,793,357

Number of employees (consolidated) 31033
 * Number of Kirin Holdings employees on a consolidated basis, as of December 31, 2017

Stock listings Tokyo, Nagoya, Fukuoka, Sapporo

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Our website

The integrated report has been edited to make it easy for stakeholders to understand by summarizing highly important information that has a direct bearing on corporate value improvement from the Kirin Group's financial and non-financial information and converting it into a story. More detailed activity information and data can be found on Kirin Holdings' corporate website.

KIRIN REPORT (booklet/website)

Issued: June 2018

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



Environmental Report

Issued: June 2018

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



Data Book

Updated as necessary

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



ESG data collection

Updated as necessary

https://www.kirinholdings.co.jp/english/csv/esg_gri/



2016-2018 Medium-term Business Plan

Announced: February 2016

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



Corporate Governance Report

Issued: April 2018

https://www.kirinholdings.co.jp/english/ir/policy/pdf/e_governance_report.pdf



Financial Statements

Issued: Early April 2018

<http://pdf.irpocket.com/C2503/VKXr/XwLD/tVpX.pdf>



Third-party evaluations



FTSE4Good

FTSE4Good Index*



FTSE Blossom Japan

FTSE Blossom Japan Index*

MSCI



2017 Constituent
MSCI Japan Empowering
Women Index (WIN)

MSCI Japan Empowering Women Index (WIN)*



CDP Climate Change A-List



CDP Water A-List



22nd IR Award "IR Special Award"
by the Japan Investor Relations Association



Please refer to our website for an explanation of each indicator.
https://www.kirinholdings.co.jp/english/csv/esg_gri/

KIRIN