

Overview by segment and business for fiscal 2017

Japan Integrated Beverages

Key operating companies

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



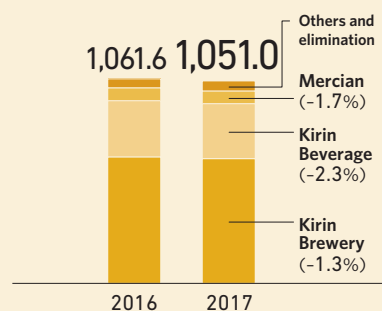
- Kirin Beverage Company, Limited



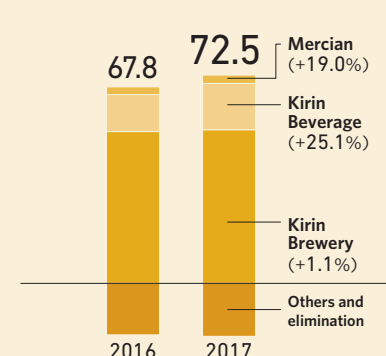
- Mercian Corporation



Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



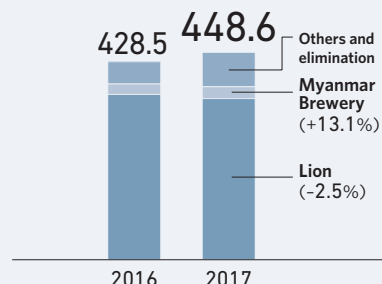
Overseas Integrated Beverages

Key operating companies

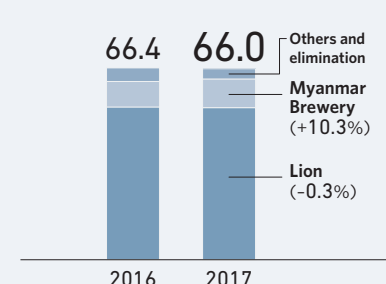
- Lion
- Myanmar Brewery



Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



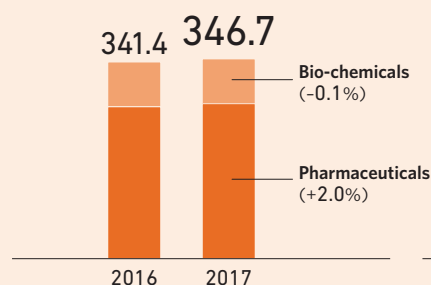
Pharmaceuticals & Bio-chemicals

Key operating companies

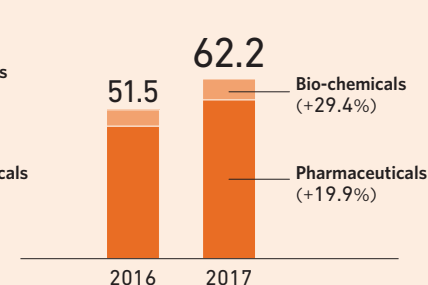
- Kyowa Hakko Kirin
- Kyowa Hakko Bio



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

<p>Kirin Brewery</p> 	<p>Market environment</p> <p>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, <i>happo-shu</i>, 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.</p>
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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)

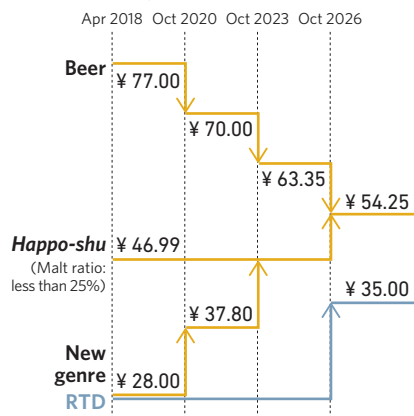



Figure 2: Category/Brand strategy



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

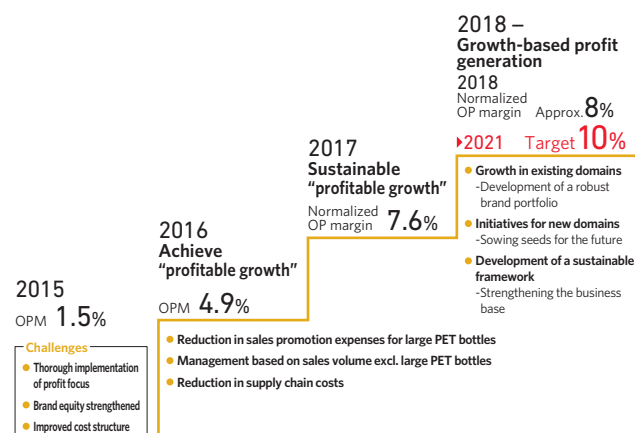


Figure 4: Growth in existing domains



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.

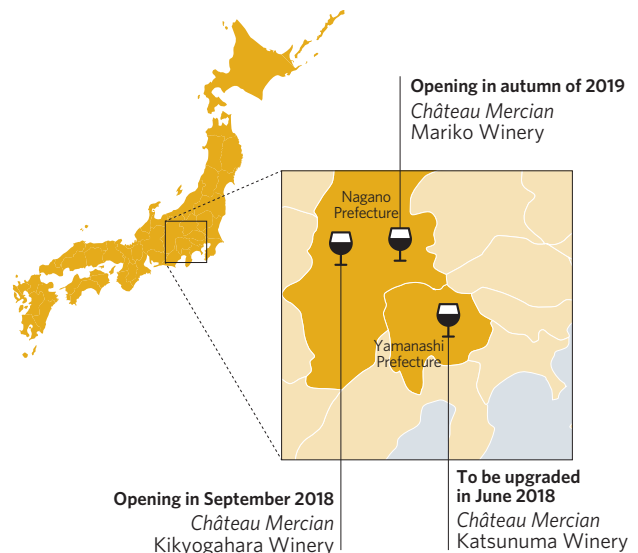
In the fine wine domain, Mercian will continue to fortify its flagship brand *Château Mercian*. The raw grapes for the Japanese wine *Château Mercian* are cultivated by Mercian or by contract in four Japanese prefectures, and Mercian plans to build two more wineries in the future (Figure 6). Mercian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

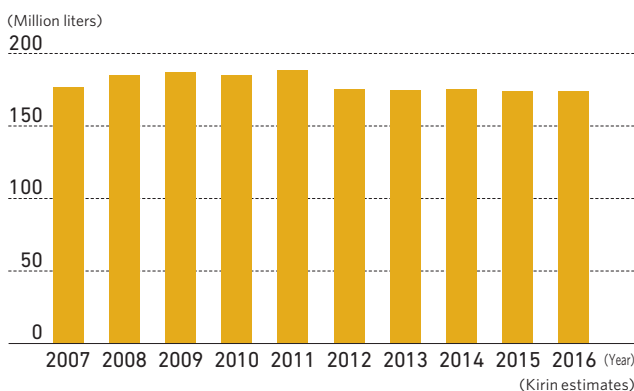


Figure 8: Post-ABI strategy in focus products



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.

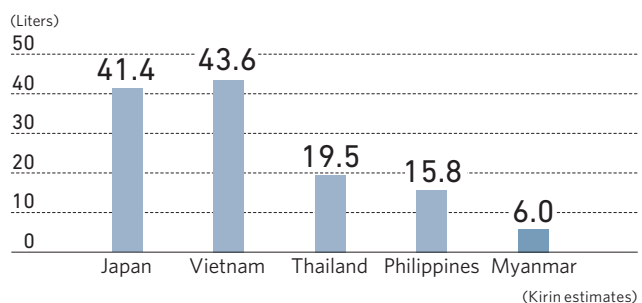
With outstanding brand awareness of its products including *Myanmar Beer* and a strong distribution network as its strengths, Myanmar Brewery boasts a high market share of nearly 80%. It will maintain its high market share by strengthening the brand equity while steadily obtaining market growth by developing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

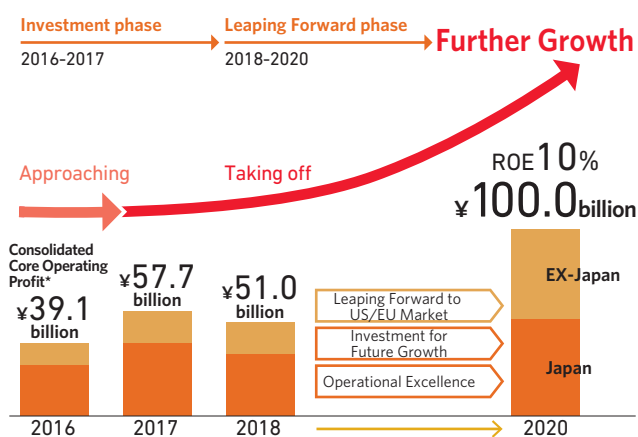
and the code of conduct that all employees of the Kyowa Hakko Kirin Group around the globe are required to adhere to. Moreover, Kyowa Hakko Kirin makes efforts to build a global governance framework and ensure thorough compliance awareness.

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