

Japan Beer and Spirits

Market environment

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

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

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

Strategies

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

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

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

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

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

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

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

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



Japan Non-alcoholic Beverages

Market environment

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

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

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

Strategies

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

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

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

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

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

Grow Existing Domains

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



Initiatives in New Domains

- > Develop KIRIN naturals



Create a Sustainable Structure

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



Oceania Integrated Beverages

Market environment

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

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

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

Strategies

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

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

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

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

Build our brands to grow the beer business



Initiative to generate new growth

Premium crafted adult beverages

Global craft beer business



Invest to establish a sustainable business

Establish ICT systems for the future

Business structural reform

Pharmaceuticals & Bio-chemicals

Market environment

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

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

Strategies

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

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

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

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

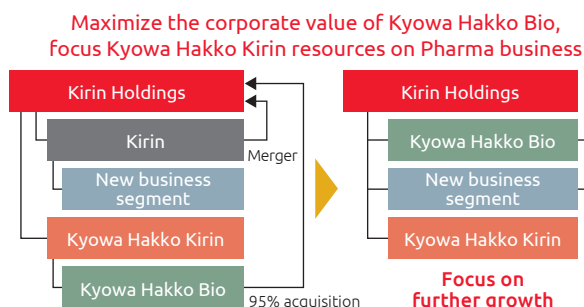
Maximize the value of global strategic products

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

Establish the "One Kyowa Kirin" structure

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

Kirin Holdings Acquisition of Kyowa Hakko Bio



Accelerating the creation of synergies

Fiscal 2019 Market Conditions and Strategies by Segment

Other

Strategies

Mercian

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

Myanmar Brewery

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

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

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

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

FY2019 Full-year Forecast — Normalized Operating Profit

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