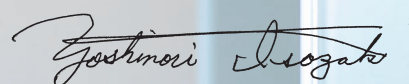


Enhancing CSV management
for next-stage growth that
addresses social issues



Yoshinori Isozaki
President & CEO



Committed to CSV management for growth in the age of uncertainty

Entering the third decade of the 21st century, the environment in which our business operates is more uncertain than ever. Natural disasters are increasing in both frequency and severity, represented by massive typhoons and rainstorms in Japan and bushfires in Australia.

The long running Sino-American trade dispute and the UK's official secession from the EU have thrown economic and political affairs into chaos worldwide. The dire state of the global economy is being further exacerbated by the new coronavirus pandemic which has reached world-disrupting proportions.

In this environment, we are about to begin the second year of the Kirin Group 2019–2021 Medium-Term Business Plan (2019 MTBP), which covers the first three years of the Long-Term Management Vision “Kirin Group Vision 2027” (“KV2027”). In these uncertain times it is essential to have a reliable beacon lighting the way for Group management. The CSV management philosophy we have adopted since 2013 serves me as just such a beacon. The society we live in faces difficult challenges, including but not limited to food supplies and healthcare, community concerns, and the environment. The Kirin Group will continue to address social issues through the businesses that leverage our strengths. By creating social value in harmony with economic value, we are pursuing sustainable corporate value growth.

Tackling social issues through businesses that leverage the Group's strengths

Governments worldwide are regulating alcohol consumption ever-more strictly. This represents a long-term risk factor for our core beer business, most notably, Kirin Brewery, Lion, and Myanmar Brewery. Alcoholic beverage advertising is already severely

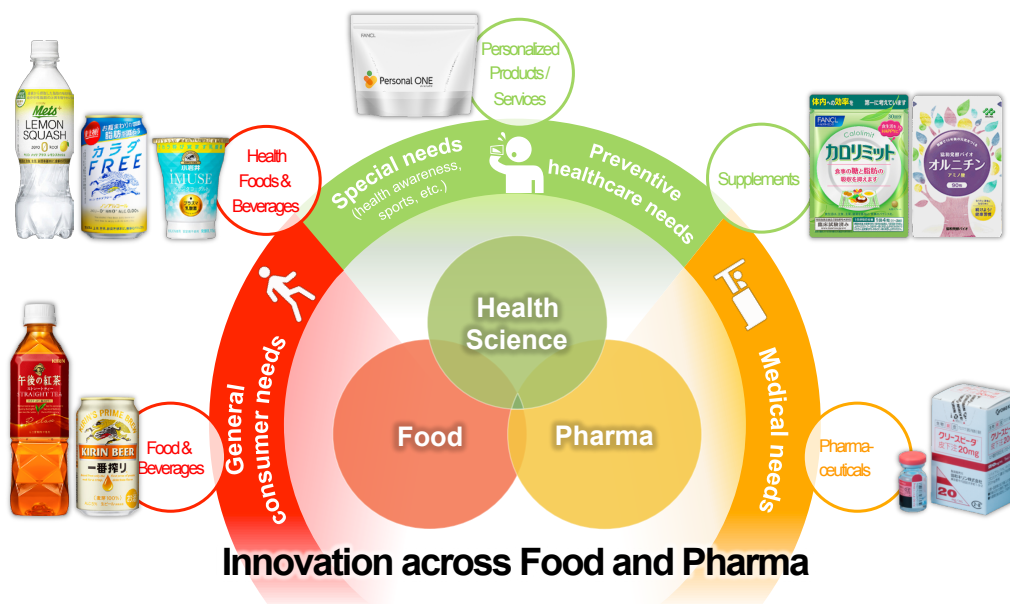
restricted in the EU and North America, to name two major regions. However, WHO directives aimed at reducing alcohol abuse are expected to press Japan and other nations to apply stronger measures. In response, the Kirin Group is developing non-alcoholic drinks and healthful foods while carrying out global campaigns to promote responsible drinking and deter driving while intoxicated.

Another major risk is the worldwide issue of climate change. In December 2018 Kirin became Japan's first food and beverage company to endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We conducted TCFD's recommended scenario analysis which revealed the potential impact of climate change on agricultural yields, water risk from climate change in agricultural production areas, and the impact of carbon pricing on the cost of carbon emissions. While continuing to reduce our environmental footprint, we are evaluating the risks and opportunities climate change presents to our business, taking action accordingly and disclosing material information.

On another front, the Japanese government's intensified efforts to contain medical costs portend



Message from Top Management



further reductions in the mandated price of prescription drugs covered by universal health care insurance. This poses a risk to our Pharmaceuticals businesses.

We recognize certain risk aspects of the Group's business portfolio. Yet behind each risk we see a social issue that we can tackle through our businesses, creating further business and growth opportunities in the process.

Our greatest core competence is our distinctive fermentation and biotechnology developed over the span of more than a century. Our business model has evolved into something truly exceptional by complementing this unique fermentation and biotechnology with the combination of engineering expertise fostered in our manufacturing facilities at home and abroad and the marketing and branding strengths centered on our Food & Beverages domain. Going forward we will continue to refine these core competencies to further accelerate CSV management.

Solidifying our growth foundation by boosting Food & Beverage earnings and accelerating growth in Pharmaceuticals

Under the 2019 MTBP we created a foundation for new growth. We focused on profit growth in our existing

Food & Beverages to Pharmaceuticals domains, and launched and nurtured our Health Science business to drive innovation across the organization.

As a priority in existing businesses, we further strengthened our Food & Beverages domain's profitability by keeping sales buoyant in fiscal 2019, particularly at Kirin Brewery, Kirin Beverage and Myanmar Brewery, underpinning our favorable outlook for ongoing profit growth. In the Food & Beverages domain we have made steady progress in strengthening profitability, with other businesses offsetting Lion-related challenges.

Going forward, a strategy of expanding high value-added offerings is critical for building a resilient business structure that can keep increasing earnings. We will explore craft beer growth opportunities not only in Japan, but also in North America and Australia. Kirin Brewery continues to do well. We cannot dismiss, however, the likelihood of increasing challenges in the Japanese market environment as demand shrinks due to population decline, phasing in of the liquor tax reform, and diversification of consumer preferences, among other factors. To maintain our competitive edge in such an environment, I deemed it wise to implement reforms while performance was favorable. Sales

force reforms included optimization of organizational structure and human resource allocation, as well as back-office streamlining.

Regarding the Pharmaceuticals domain, we have accomplished our strategy to invest to “achieve outstanding growth.” We launched three global strategic products with steady sales growth that boosted both revenue and profits. As a medium-term growth driver for the Group, we are discovering and launching new drugs that satisfy society’s demands, including unmet medical needs.

Reviewing the first year of the MTBP our steady progress in the Group’s existing business domains of Food & Beverages and Pharmaceuticals is gratifying to me, and has, I believe, significantly solidified our foundation for sustainable growth.

Our alliance with FANCL will accelerate health science product development

In our Health Science domain, we have entered into a capital and business alliance with FANCL. With its health and beauty focus, FANCL exhibits extraordinary brand strength in basic cosmetics and functional food products. FANCL is also respected

for its scientific policy of evidence-based research in product development and for its marketing expertise, particularly in direct marketing. The Kirin Group, meanwhile, is strong in fermentation and biotechnology. We possess a wealth of unique functional materials in the areas of high-performance amino acids, immunity, brain function, and the gut microbiome.

Recognizing these potential synergies in the strengths of the two companies, we project normalized profits in the vicinity of 5.5 billion yen to 7 billion yen by 2024. The Kirin and FANCL Alliance plans to begin launching new beverages and supplements. These and other new products will leverage Kirin and FANCL’s brand strengths, research and development capabilities, and high-performance materials.

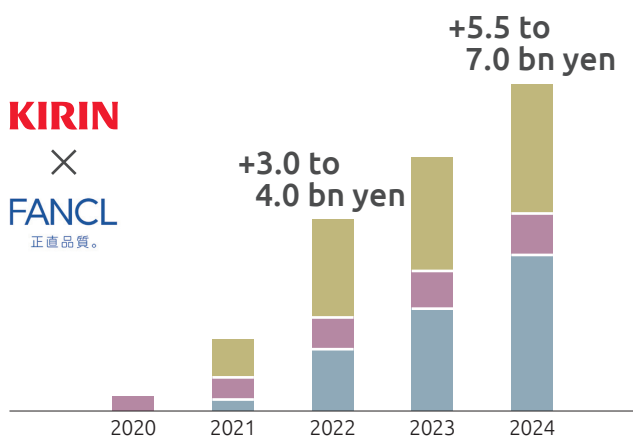
Kyowa Hakko Bio is a case in point with its very high value-added materials such as human milk oligosaccharides. Human milk oligosaccharides, a material of breast milk, have been found to foster an infant microbiome dominated by bifidobacteria. Demand for oligosaccharides is increasing for use in functional foods and infant formula products marketed by multinationals. Current estimates point to a market on the scale of 180 billion yen by 2030,

Build a strong value chain in Health Science

	Basic Research	Applied Research	Product Development	Manufacturing	Sales Channels
KIRIN	Food-to-pharma expertise		Beverage development Packaging	Manufacturing technologies and production control engineering	
FANCL 正直品質。		Functional evaluation Masking techniques	Formulation technology	Marketing expertise	Brand & wholesale channels Online & retail channels
協和発酵バイオ	Highly functional materials research			Low-cost fermentation production technology	EC B2B
KYOWA KIRIN	Drug pipeline	Not applicable to pharmaceuticals			

Message from Top Management

Contributions to Kirin Holdings' normalized operating profit



but the material's very high unit price poses an issue for market expansion. Kyowa Hakko Bio's efficient fermentation and production technologies are the keys to satisfying this high-volume demand.

Regarding such products and materials, the



2024

Product Development Synergies +2.5 to 3.0 bn yen

- Launch products utilizing brand synergy
- Launch supplements utilizing proprietary materials

Channel Synergies +0.5 to 1.0 bn yen

- Leverage both companies' sales channels
- E-commerce lead sharing

Functional Efficiency Synergies +2.5 to 3.0 bn yen

- Procurement reforms
- Collaborative production and logistics
- Improve marketing ROI

Kirin Group plans on joint research and new business development in alliance with FANCL in areas such as lifestyle-related diseases, brain function, physical function, immunity and intestinal function.

Products under the *iMUSE* brand, which uses Kirin's proprietary *Lactococcus lactis* strain Plasma, are already marketed through FANCL's domestic and cross-border EC channels in China.* We are steadily promoting such initiatives of our alliance going forward.

* Limited time offers

Driving innovation by fortifying organizational capabilities through diversity and Digital Transformation (DX)

To follow through on our growth strategy, the Kirin Group is developing organizational capabilities that can achieve innovation. One of our highest priorities is to strengthen our research and development system. This calls for recruiting diverse personnel who can bring us the skill sets,

Number of directors and independent officer ratio

	FY2019	FY2020	
Board members (total)	9	12	Priorities for enhancing skill set Health Science ESG / Sustainability Brand Strategy / Marketing Overseas business Finance / Accounting
Inside directors	5	5	
Non-executive directors	4	7	
Independent directors among total	3	7	
Female directors	0	2	
International directors	0	2	
Independent officer ratio	<p>33%</p> <p>Independent: Chairman, Non-independent</p> <p>Inside</p>	<p>58%</p> <p>Independent: Chairman, Female, International</p> <p>Inside</p>	

expertise, and creativity we need. We will also expand collaboration with business partners on joint research and new business ventures; in the process we will see our organizational structure evolve to generate still more innovation. Marketing, a mainstay of the Kirin Group, will gain even greater effectiveness by adopting the customer's perspective in the activities of all departments, not just marketing itself.

Digital Transformation (DX) is also a way to make each facet of operations advanced and efficient. DX is about more than just improving our current state of affairs. It will transform our business model to increasingly reduce costs and add ever more value.

Corporate governance is another area where we recognize that further fortification is essential. Regarding oversight, we have added new independent non-executive directors who are experts in their fields to assist specialization. The resulting significant increase in the ratio of non-executive directors to all directors is conducive to objective discussion. We are also adding more

incentives to executive compensation to drive stronger medium- to long-term performance and increased corporate value. By tracking progress toward CSV non-financial targets in addition to financial targets we are further reinforcing our commitment to CSV management. Regarding execution, we have clarified responsibilities by enhancing our research and development system and establishing the Health Business Strategy Office.

The Kirin Group will continue its results-oriented thrust to realize the 2019 MTBP, while also promoting CSV management through the Group's collective efforts. In addition, we will meet our stakeholders' expectations with sustainable profit growth, boosted medium- to long-term corporate value, and further enhancement of shareholder returns. We look forward to your ongoing support in the future.

Yoshinori Isozaki

President & CEO