

Segment and Business Overview

Japan Beer and Spirits

Core operating companies

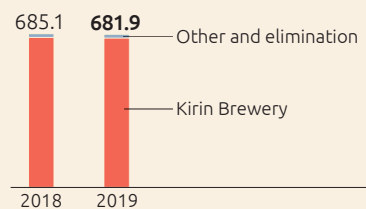
- Kirin Brewery

Food & Beverages

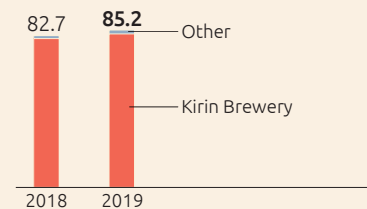
Pharmaceuticals

Health Science

Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



Japan Non-alcoholic Beverages

Core operating companies

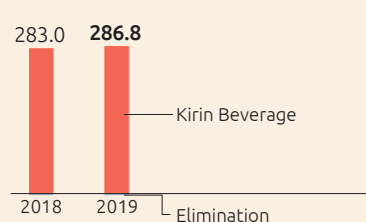
- Kirin Beverage

Food & Beverages

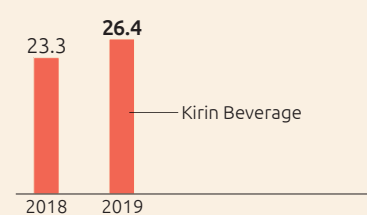
Pharmaceuticals

Health Science

Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



Oceania Integrated Beverages

Core operating companies

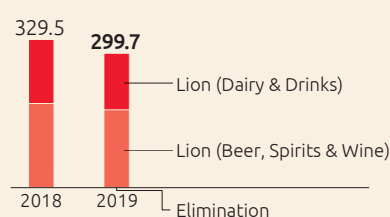
- Lion

Food & Beverages

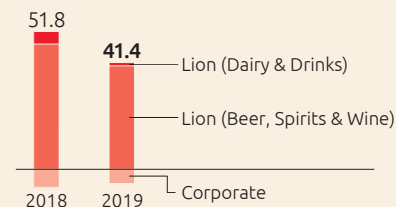
Pharmaceuticals

Health Science

Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



Pharmaceuticals

Core operating companies

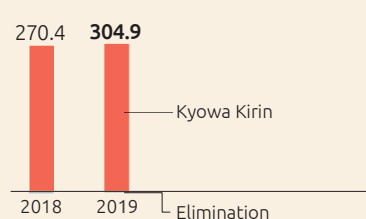
- Kyowa Kirin

Food & Beverages

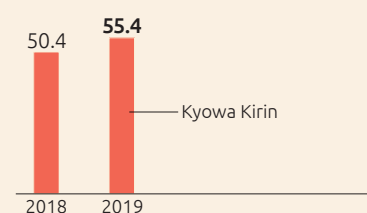
Pharmaceuticals

Health Science

Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



Other

Core operating companies

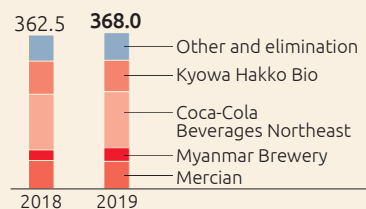
- Mercian
- Myanmar Brewery
- Kyowa Hakko Bio

Food & Beverages

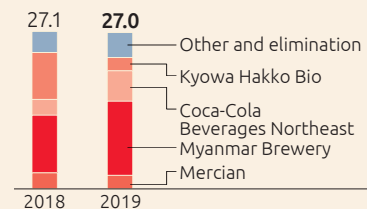
Pharmaceuticals

Health Science

Revenue (Billions of yen)



Normalized operating profit (Billions of yen)



Japan Beer and Spirits

Market environment

Kirin Brewery expects the domestic market for beer to continue gradually shrinking as the country's birthrate slows and its population ages as well as amid a trend of diversifying consumer preferences. At the same time, the company expects the ongoing preference for lower-priced products and the desire for increased variety to support a growing market for ready-to-drink (RTD) products.

The revision to the Liquor Tax Act that will start in

October 2020 will incrementally combine the three categories of beer, *happo-shu* (low-malt beer), and new genre into a single category in 2026. Management does not anticipate a significant impact from the liquor tax revision in 2020 because the first stage of revisions will not come into force until October, but it looks for the lower taxes to stimulate growth in the RTD and the beer categories beginning in 2021.

Strategies

Kirin Brewery anticipates a market environment of homogenizing competition and are seeking to differentiate our products by creating brands that will flourish for 10 years and more. It is specifically seeking to further establish its core brands by focusing its marketing spending on *KIRIN ICHIBAN* and *Honkirin* and by having its sales and head office work closely together to promote the brands.

For *KIRIN ICHIBAN*, management is increasing the number of higher-margin mass retail channels and enhancing its brand equity in the on-premise channels.

The company is also laying the groundwork for future growth by stepping up its activities to grow the market for craft beer and by developing innovative products and services anticipating evolving consumer needs. The company is creating more opportunities for consumers to experience craft beers and is steadily increasing installations of the Tap

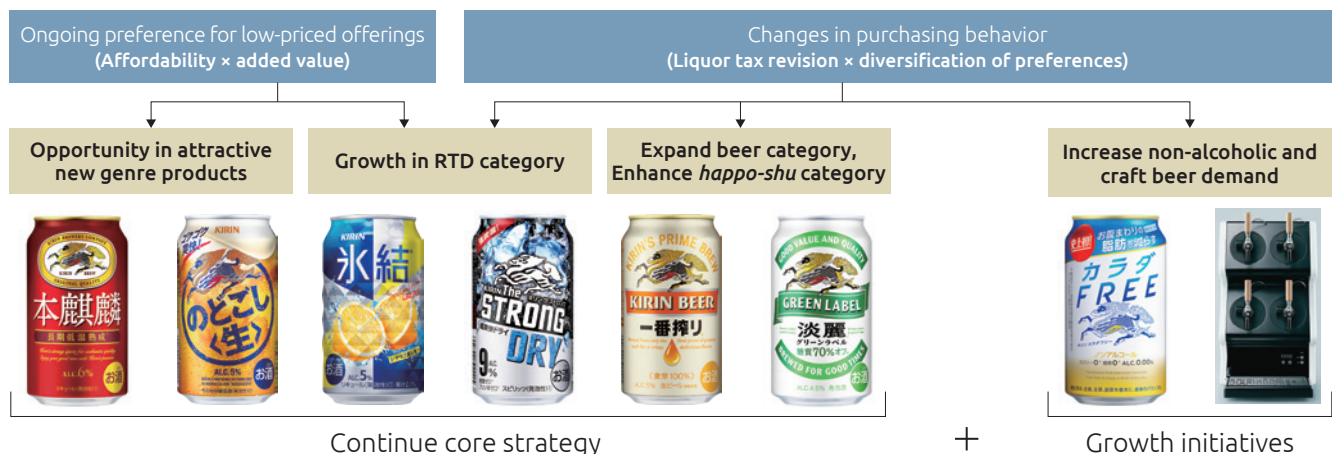
Marché beer dispensers at restaurants and bars.

Management will continue expanding sales in the growing RTD market by further strengthening the perennially popular *Hyoketsu* brand and presenting a comprehensive relaunch of *KIRIN The STRONG* to mark the brand's third successful year on the market.

In 2020, the company will also advance initiatives in the markets for non-alcoholic beer-taste beverages and whisky, both of which it expects to continue growing in coming years. In April this year, the company launched two new products—the non-alcoholic beer-taste beverage *KIRIN GREEN'S FREE* and the new whisky brand *Fuji*.

Anticipating rising costs for raw materials and logistics, the company plans to formulate a production and distribution structure that is optimal for Kirin Brewery, and will also seek to lower supply chain management costs.

Kirin Beer Plan for Fiscal 2020



Japan Non-alcoholic Beverages

Market environment

The steady growth in the Japan non-alcoholic beverage market turned to contraction in 2019 and, due to the declining population, Kirin Beverage expects it to continue gradually shrinking or holding flat in years ahead.

At the same time, however, Kirin Beverage expects the sugar-free category to continue growing supported by the trends of increasing health consciousness, the

aging population, and the shift in the consumer trend from making their own drinks to buying packaged beverages. The changes in society, such as the diversifying labor force and increasing environmental awareness, coupled with the soaring raw material costs are causing the competition in the market to emphasize profit margin over sales volume.

Strategies

Kirin Beverage will further pursue a high-profit business model in the rapidly changing market by advancing three strategic pillars of building a robust brand portfolio, further improving profitability, and creating new business opportunities designed to generate profit through growth driven by CSV. The company will also seek to strengthen brand longevity through intentional “purpose branding” highlighting the meaning of the brands in our society to create connections with consumers through the product story. At the same time, it will continue optimizing its stock-keeping units (SKUs).

Management will also continue building a robust brand portfolio by allocating more resources to the core brands of *Gogo-no-Kocha* and *Nama-cha*. In addition, management plans to expand and strengthen the company’s offerings centered on its core brands in the low-sugar and sugar-free products category, which grew roughly 9% year on year in 2019. The line of products using the *Lactococcus lactis* strain Plasma

cultivated by the Kirin Group will also be expanded. Management will strategically strengthen its product brand equity with the aim of assembling a portfolio of high-profit brands.

Management will progress with measures to “further improve profitability” among the anticipated increases in logistics demands and costs. Providing a stable supply of products with improved environmental performance, the company will also commence operations at factory-front warehouses near our manufacturing sites, which will give it more flexibility for raw material deliveries to the factories. The improvement to the logistics structure will enable a reduction in the number of long-haul trucks and lower CO₂ emissions.

Kirin Beverage will create new business opportunities by cultivating the KIRIN naturals business model of direct sales to corporate customers engaged in health-related activities, co-developing products with FANCL, and broadening the company’s export domain, particularly in Asia.

Generating profit through growth driven by CSV

Health and Well-being

Raise the number of healthy people, lower the number of sick people, and contribute to the people who are involved in healthcare



Build a robust brand portfolio

Increase offerings in the low-sugar/sugar-free and health categories

- Raise sales volume in the sugar-free and health categories

Create new business opportunities

Create a new business model responsive to social health issues and collaborate with FANCL

The Environment

Enrich the sustainable Earth for future generations through positive impact



Further improve profitability

Reconstruct a sustainable logistics structure

- Adopt an easy-to-supply production structure
- Continue developing the factory-front warehouse structure

Promote initiatives to fulfill the Kirin Group Plastic Policy

Refer to pages 41–42.

Oceania Integrated Beverages

Market environment

Lion anticipates sales volume in Australia to remain flat or decline modestly in the broad trend of increasing health consciousness. The company also expects higher purchase prices from the introduction of container deposit schemes aimed at reducing waste to affect consumer purchasing behavior. At the same time, the

markets for premium and craft beer are expected to continue growing.

Management believes the acquisition of Carlton and United Breweries by Asahi Group Holdings has the potential to trigger a change in the competitive landscape.

Strategies

Lion is seeking to boost sales of its brands and is conducting a deeper examination of the types of products that consumers desire. In addition to increasing asset allocation to its five core brands in the growth categories of contemporary, premium, and craft beer, the company is taking steps to improve its profitability and build a brand portfolio capable of sustainable growth through the medium and long terms.

Lion has also introduced a new enterprise resource planning (ERP) system that will improve the operating efficiency at its head office by consolidating internal processes and enable faster decision-making by accelerating data analysis. On top of this, the addition of North America craft beer maker New Belgium Brewing to the Group in January 2020 is a major step toward establishing a strong competitive position in the global craft beer market. Lion will lead to the post-merger integration. Lion anticipates higher costs owing to increased promotional spending as part of brand investments, increased supply chain costs, and temporary costs associated with installing the ERP system. However, it plans to offset most of these costs by reducing costs in other areas, such as selling, general and administrative expenses.

Lion will continue implementing measures to advance the Medium-Term Business Plan 2019 strategies to maintain high profitability and expand the foundation for new growth.

Lion Plan for Fiscal 2020

- Focus resources on consumers to grow its brands
- Focus on avenues for growth through craft beer in the U.S. and the U.K.
- Execute the Australia ERP implementation



Segment and Business Overview

Pharmaceuticals

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. These measures include promoting the use of generic drugs and annually reviewing drug prices, which could cause a

slowing of the growth in the domestic drug market.

At the same time, awareness of unmet medical needs continues to drive efforts worldwide to develop groundbreaking new medicines.

Strategies

Kyowa Kirin is committed to applying its CSV management to boost corporate value by creating new value that fully meets the true needs of customers. This is done by developing highly distinctive products and services through constant innovation using its cutting edge biotechnology. The company aims to make a strong contribution to the health and well-being of people around the world and to be a world-leading R&D-driven company in the life science field. It will accelerate the creation of new medical value and drugs by leveraging the latest biotechnology, particularly antibody technology, and efficiently investing in R&D mainly in the four areas of nephrology, oncology, immunology/allergy, and the central nervous system.

In 2019, the company advanced further toward becoming a global specialty pharmaceuticals company by expanding sales of *Crysvita* and *Poteligeo* in the European and United States markets and with the introduction of *Nourianz* to the United States market. In 2020, the company is aiming to continue raising the value of its global strategic products while boosting revenue by expanding the indications for *Crysvita* and completing the launch of *Poteligeo* in Europe.

Kyowa Kirin is establishing the One Kyowa Kirin* structure and will continue to cultivate the corporate culture of a global specialty pharmaceuticals company.

* One Kyowa Kirin is a matrix management structure combining a regional organization based on four regions—Japan, EMEA (Europe/Middle East/Africa), North America, and Asia / Oceania—and a functional organization based on the functions that transcend regions.

Groundbreaking new drugs for the world

Other	Cancer	Central Nervous System	Immunology / Allergy
Japan United States Europe	Japan United States	Japan United States	Japan United States Europe
Crysvita Sales launched	Poteligeo Preparing for sales launch in Europe	Nouriasst / Nourianz Submitted for approval in Europe	Benralizumab Sales launched
Anti-FGF23 Fully Human Antibody FGF23-related hypophosphatemic rickets, osteomalacia, etc.	Anti-CCR4 Humanized Antibody Cutaneous T-cell lymphoma Peripheral T-cell lymphoma Adult T-cell leukemia/lymphoma, etc.	Adenosine A _{2A} receptor antagonist Parkinson's disease	Bronchial asthma
	Global strategic product		Out-licensed to AstraZeneca
Worldwide revenue 32.6 billion yen (2019) 60.2 billion yen (2020 forecast)	Worldwide revenue 12.8 billion yen (2019) 16.3 billion yen (2020 forecast)	Worldwide revenue 9.8 billion yen (2019) 13.4 billion yen (2020 forecast)	Sales royalties 8.9 billion yen (2019)

Other

Strategies

• Mercian

All tariffs on European-made wines imported to Japan were lifted in 2019 with the enforcement of the Japan-EU Economic Partnership Agreement. In 2020, the US-Japan Trade Agreement will begin incremental reductions in tariffs on exports of bottled wines between the countries. However, wine sales have plateaued, and the company expect sales to remain flat or slightly decline.

Mercian's strategies in these conditions are to avoid over-reliance on sales growth to boost profits. Specifically, it will continue to review the profitability of its offerings in each category and brand channel and will seek to augment the shelf presence of its products and generate demand by developing and promoting innovative products, such as organic wines*1 and casual sparkling*2 wines, to broaden the appeal of wine to a wider audience.

*1 Organic wine meeting the standards of the International Federation of Organic Agriculture Movements (IFOAM)

*2 Sparkling wine that is easy to drink and buy, fits every occasion, and can be enjoyed in a wide variety of situations

• Myanmar Brewery

Myanmar Brewery is facing increasing competition from new market entrants but anticipates its beer market to continue expanding by 5–10% annually. The company will flexibly respond to the changing market and capture the growing demand by leveraging its strongpoint of highly efficient supply chain management and by employing advanced marketing techniques centered on its flagship *Myanmar Beer*

brand and the *Andaman Gold* brand in the expanding economy category.

• Coca-Cola Beverages Northeast

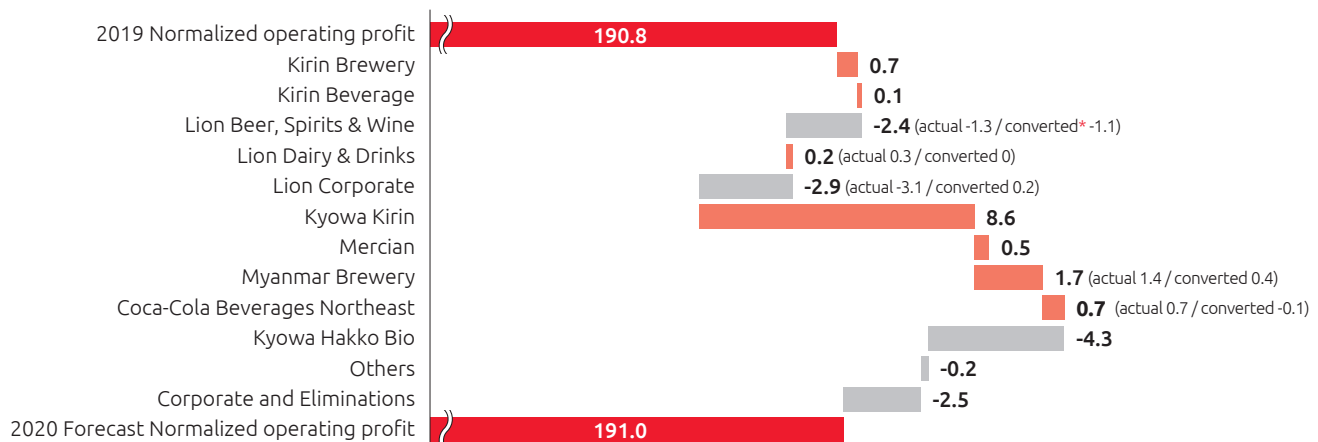
Coca-Cola Beverages Northeast will continue to enhance its profitability by revising the product pricing of its carbonated beverages, improving its operating efficiency, and reducing costs. The company will continue efforts to foster a sense of unity following the expansion of its geographic business domain while also progressing with structural reform aimed at further boosting its earning power.

• Kyowa Hakko Bio

Kyowa Hakko Bio became a direct subsidiary of Kirin Holdings in April 2019. As a core company in the Group's drive to expand its business in the Health Science domain, the company is exploring advanced materials and low-cost fermentation production technology to develop products and services to meet unfulfilled consumer needs in the health field.

In August 2019, an issue was discovered in the company's manufacturing processes. Management is responding by completely overhauling its quality assurance system, revising its employee training and procedure manuals, and increasing the use of automated equipment. The company is aiming for this reconstruction of its manufacturing and quality control structure to put its business back on a growth trajectory by 2021.

Fiscal 2020 earnings forecast by Group company (Billions of yen)



* Converted = when converted to Japanese yen using the Company's forecasted exchange rate as of the start of FY2020.