



# KIRIN

**KIRIN REPORT 2016**

# READY FOR A LEAP

**Toward Sustainable Growth  
through KIRIN's CSV**

**Kirin Holdings Company, Limited**

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This section introduces the Kirin Group's strengths, the fruits of the Group's value creation efforts, and the essence of the Group's results and issues in an easy-to-understand manner.

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### Editorial Policy

This report provides comprehensive explanations of the Kirin Group's corporate value in terms of both financial value and non-financial value.

The editing of this report was conducted with the aim of presenting the Group's vision for moving from revitalization to sustained growth by leveraging the Group's strengths to create new value, centered on the needs of consumers and society.

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### 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 2017 are as of the announcement made on February 13, 2017.



What is Kirin?

# OUR VISION & STRENGTH

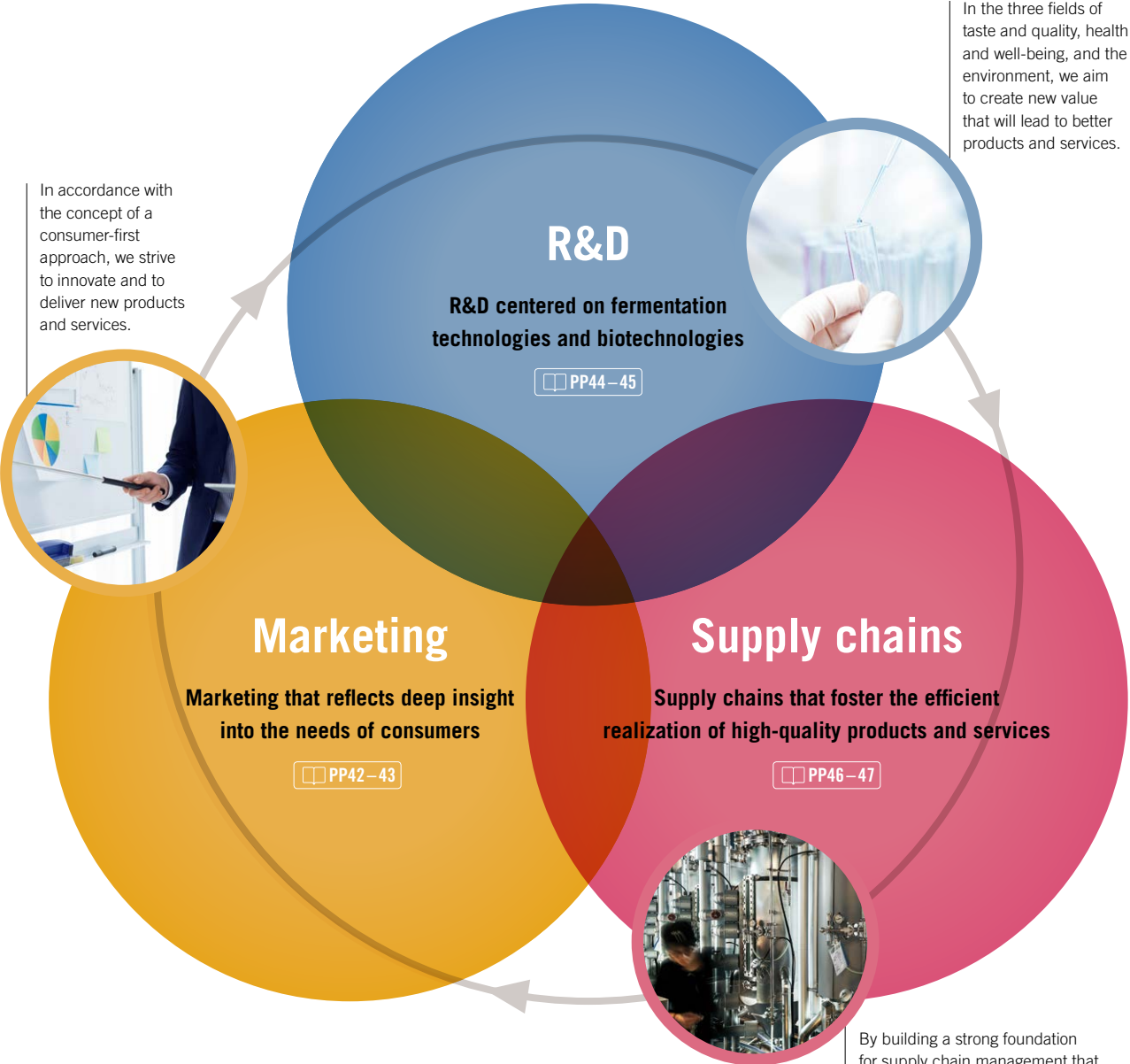
## The Kirin Difference

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The Kirin Group was founded in 1907. At that time, Japanese consumers were not familiar with beer, and the Group created a new lifestyle and tradition by providing consumers with beer products. The Kirin Group subsequently broadened its business fields to include alcoholic beverages, non-alcoholic beverages, and foods as well as advanced pharmaceuticals that leveraged beer fermentation technologies and biotechnologies. Moreover, the Group expanded its geographic presence from Japan to global markets. Throughout this process of growth, the Kirin Group has emphasized the creation of health and comfort in our lives and has worked together with consumers toward a brighter future. To that end, we have drawn on technology to maintain a steady focus on quality in the manufacturing of products in the fields of “food and well-being.” This is Kirin’s philosophy.

Supported by this philosophy, we have taken on the challenge of continually creating new value while addressing changes in the competitive environment. In this way, the Group has developed distinctive strengths. These strengths include R&D centered on fermentation technologies and biotechnologies, supply chains that foster the efficient realization of high-quality products and services, and marketing that reflects deep insight into the needs of consumers. These strengths work in an organic manner to provide a solid foundation that supports sustained growth for the Kirin Group.

# Taking on the Challenge of Deploying Unique Strengths to Create Value







COVER  
STORY

What is Kirin?

# OUR LEADERSHIP

## Kirin—Leading the Way Forward

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The Kirin Group has forged ahead of other companies in a number of areas. These include genuine flavor that addressed latent consumer demand and functional beverages that anticipated health consciousness, as well as pharmaceuticals, where we help patients suffering from diseases for which there are currently no adequate treatments.

We do not pursue market needs that have already emerged in the same way as our competitors. Rather, our approach is to leverage our unique competitive advantages to create new value for our consumers. The Kirin Group has consistently implemented this approach. We strive to create new markets and technologies through innovation and to take the lead in fostering cultural advances that lead the times. In this way, we work together with consumers to nurture product and corporate brands that earn the enduring support of consumers. This unique approach is the pride of the Kirin Group and has become the driving force that further strengthens the Group's value creation foundation.



Luxurious flavor made with a first-press wort brewing process

◀ Kirin Ichiban Shibori



Leading the RTD market with Kirin's quality made of "not-from-concentrate" fruit juice and vodka

◀ Kirin Hyoketsu®

OUR LEADERSHIP

# Creating New Markets and Consumer Culture

Delicious and reasonably priced  
Creating a new category by reducing carbohydrate



Tanrei Platinum Double (left) ▶  
Tanrei Green Label (right) ▶

Leading the market for craft beers in Australia



James Squire ▶



Global standard for an anemia-relieving treatment for renal anemia  
Striving to contribute to improvement in the quality of life of patients

◀ NESP®



Authentic black tea beverage that can be readily enjoyed in a PET bottle

◀ Kirin Gogo-no-Kocha



What is Kirin?

# OUR NEW DEVELOPMENTS

## Kirin's New Initiatives

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Targeting sustained growth over the long term, the Kirin Group is taking on a new challenge—creating shared value (CSV).\*

It has been more than 100 years since the founding of the Kirin Group, and today society faces a range of increasingly serious issues, such as health problems, rising healthcare costs, an aging society, the disintegration of bonds between people, economic disparity, global warming, and the increasingly serious destruction of the natural environment. The Kirin Group believes that working to help resolve these social issues through its business activities will contribute to the happiness of consumers. Initiatives that draw on the Group's strengths to address social issues change our way of thinking and foster innovation, thereby enhancing organizational capabilities and continuously generating value for consumers.

The Kirin Group regards this as corporate management itself. We advance investment in growth markets with a clarified strategic focus. Moving forward, we will work to establish a presence in the craft beer market, strengthen our beer operations in Myanmar and other Southeast Asian markets, and advance global initiatives in the Pharmaceuticals and Bio-chemicals Businesses.

\* Creating Shared Value. The aim of CSV is to realize improvements in corporate value based on both "social value creation" and "economic value creation" through addressing social issues.



OUR NEW DEVELOPMENTS

# Accelerating CSV



01

Competitive Advantage in Craft Beer

**Unique flavor**  
**Providing new ways of enjoying beer**

02

Expansion into Southeast Asian Markets

**Moving first to implement business development initiatives and establish solid positions in new, high-growth markets**



03

Global Business Development in the Pharmaceuticals and Bio-chemicals Businesses

**Contributing to the health and lifestyles of consumers by launching innovative new products**

What is Kirin?

# OUR ACHIEVEMENTS and CHALLENGES to OVERCOME

## Kirin's Progress and Future Challenges

We got off to a strong start in the first year of the Kirin Group 2016–2018 Medium-Term Business Plan (2016 MTBP), with results that exceeded the plan's targets.

We made progress with measures to reform the profit structure for businesses with declining profitability, such as our non-alcoholic beverages business in Japan, our business in Brazil, and our Dairy and Drinks business in Australia. In addition, our initiatives to foster growth led by the creation of value have started to show favorable results.

However, in the domestic beer business, the decline in sales volume in the *happo-shu* (low-malt beer) and new genre categories has become an important challenge. Furthermore, profits in the Beer, Spirits, and Wine business in Australia will decline due to the loss of a brand distribution license. We are taking these challenges seriously, and moving forward we will implement countermeasures in an appropriate yet rapid manner.

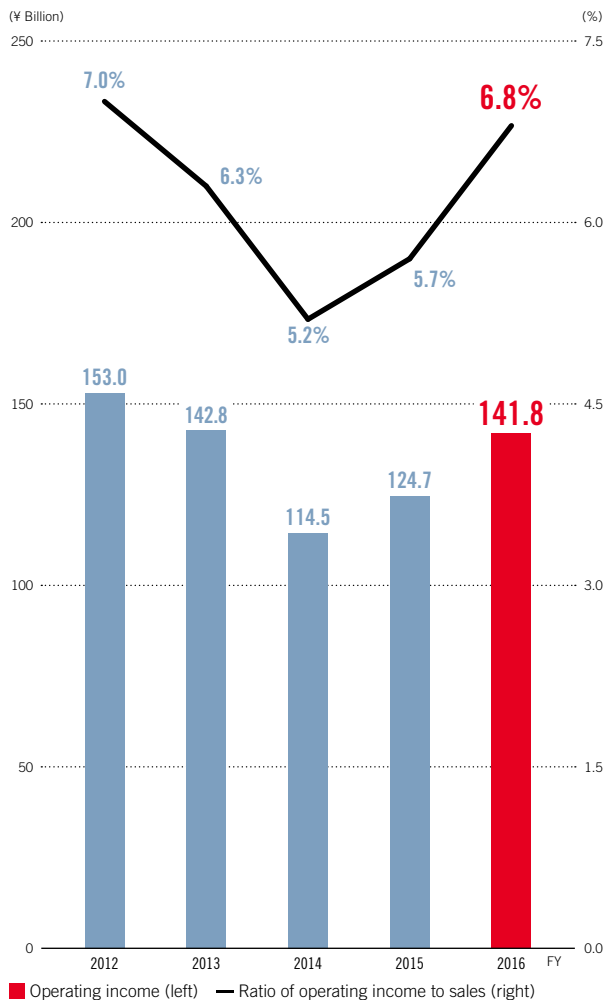
In the future, we will continue to advance structural reforms to increase the profitability of low-profit businesses. Moreover, in the high-profitability beer businesses, we will work to strengthen the profit foundation by further enhancing the appeal of our products and services and expanding our operations.

# Raising Our Sights and Aiming for Further Growth

## ACHIEVEMENTS

### Kirin Group consolidated results

Steady progress is being made improving profits



## CHALLENGES

### Sustained gains in corporate value: The next challenge on the path to achieving our objectives

1

#### Further invest, strengthen, and grow profit base in beer businesses

- ▶ Accelerating the creation of customer value that addresses the diversification/individualization of preferences, such as in the expansion of craft beer
- ▶ Further reinforcing our business foundation in Southeast Asia

2

#### Continuing to implement structural reforms in low-profit businesses

3

#### Implementing steady launches of major new products and global business initiatives in the Pharmaceuticals and Bio-chemicals Businesses

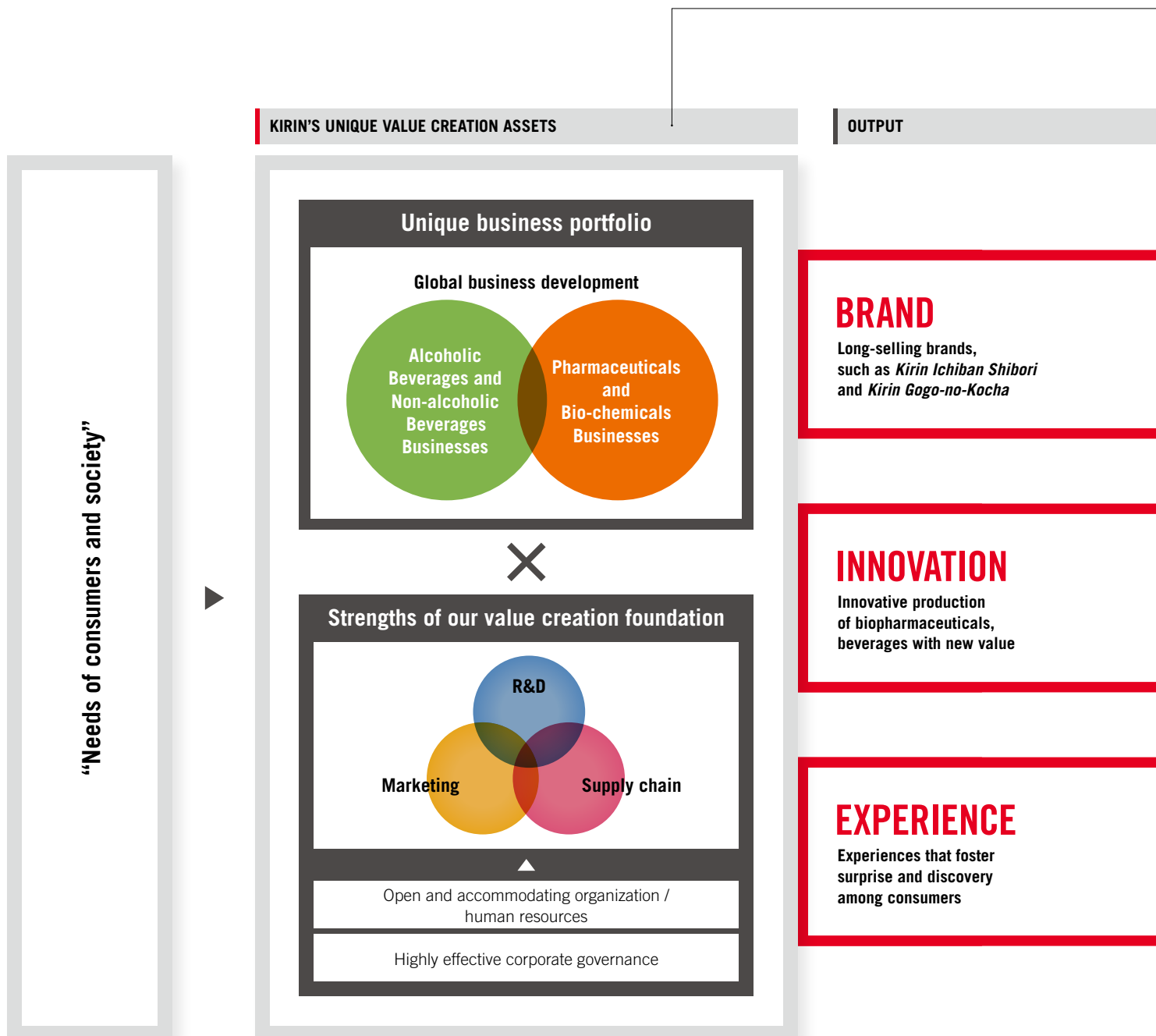


# OUR VALUE CREATION PROCESS

## The Kirin Group's Value Creation

In accordance with the needs of customers and society, the Kirin Group is implementing global business development initiatives in the Alcoholic Beverages, Non-alcoholic Beverages, and Pharmaceuticals and Bio-chemicals businesses.

In each business, through products and services that leverage the strengths of the value creation foundation to offer diverse added value, we will realize CSV ("creating shared value" based on the creation of both social value and economic value) and work to address the needs of all stakeholders.



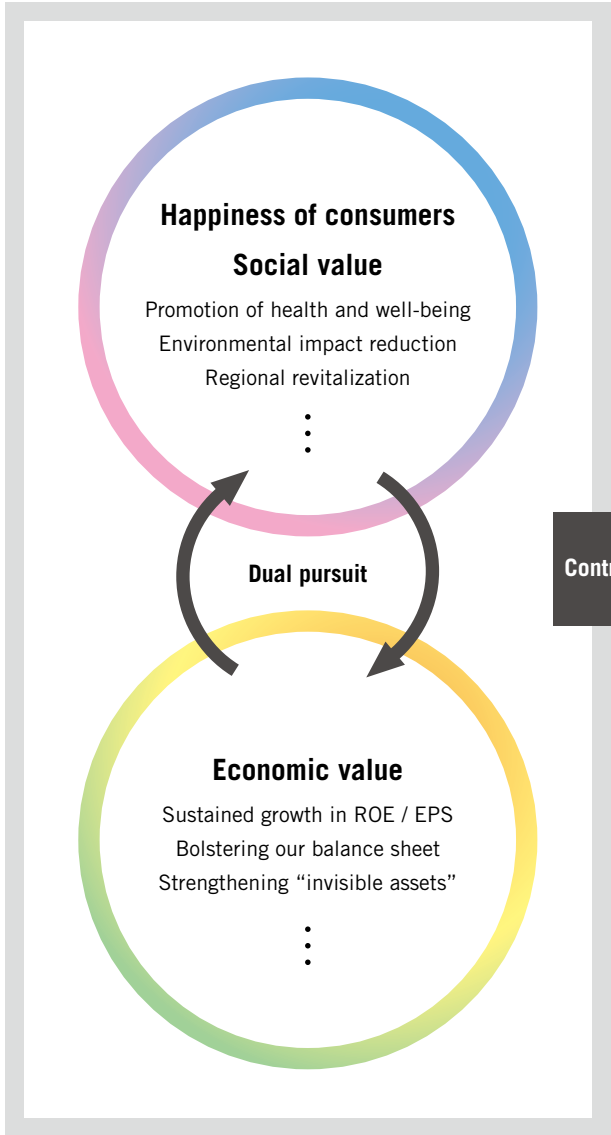
**The Kirin Group**



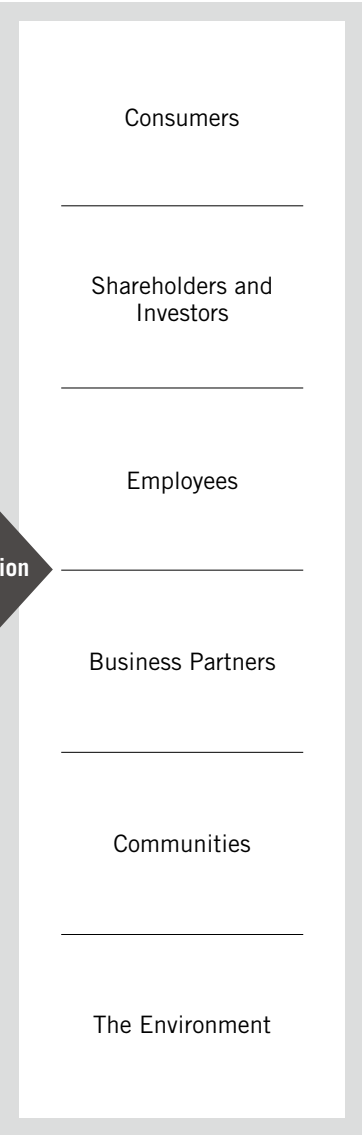
**Stakeholders**



**OUTCOME**



**VALUE PROVISION**



## What is Kirin?

## Financial and Non-Financial Highlights

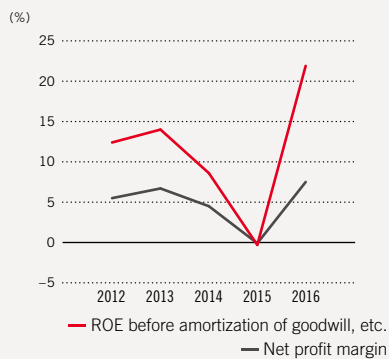
## Financial Highlights (Fiscal 2016 Results)

ROE before Amortization of Goodwill, etc.

**21.9%**Net Profit Margin\*<sup>1</sup>**7.5%**

Increase ROE by improving the net profit margin

\*1 Margin of sales (before amortization of goodwill, etc., and including Japanese liquor taxes)



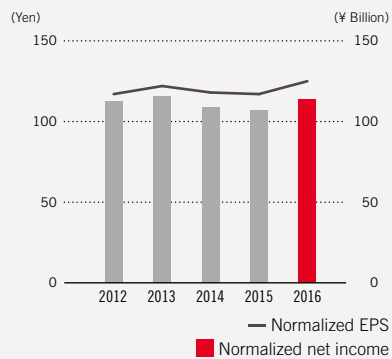
Normalized EPS

**¥125 (+6.8%)**

Normalized Net Income

**¥113.8 billion**

Grow EPS through increased Group profitability

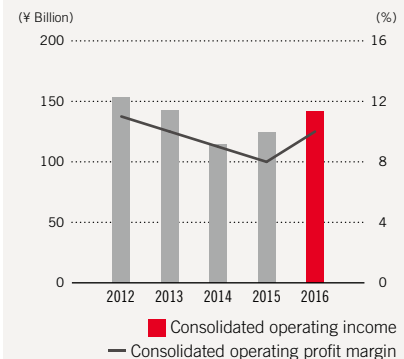


Consolidated Operating Income

**¥141.8 billion**Consolidated Operating Profit Margin\*<sup>2</sup>**9.6%**

Deploy concrete strategies based on business positioning to target operating income increases of ¥10.0 billion in beer businesses and ¥20.0 billion in low-profit businesses

\*2 Margin of sales (before amortization of goodwill, etc., and excluding Japanese liquor taxes)



Cash Flows from Operating Activities

**¥226.4 billion**

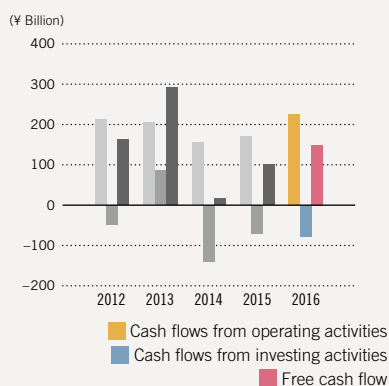
Cash Flows from Investing Activities

**¥(77.5) billion**

Free Cash Flow

**¥148.9 billion**

Steadily expand cash flows through clearly prioritized resource allocations and improved business profitability



Consolidated Dividend Payout Ratio (Normalized EPS)

**31.2%**

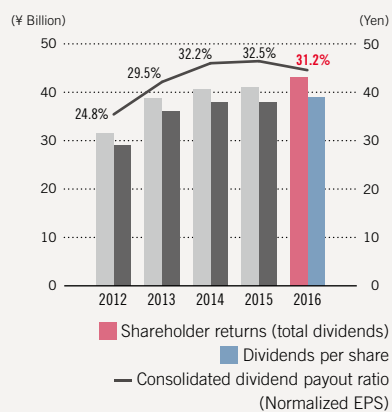
Shareholder Returns (Total Dividends)

**¥43.1 billion**

Dividends per Share

**¥39**

Issue stable shareholder returns by targeting a consolidated dividend payout ratio of more than 30% of normalized EPS

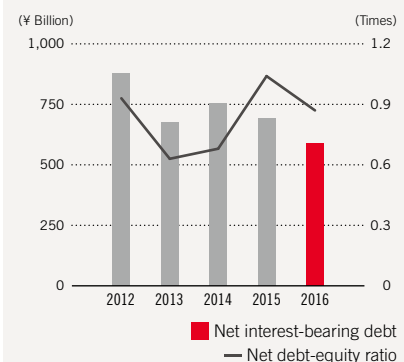
Net Interest-Bearing Debt\*<sup>3</sup>**¥589.6 billion**

Net Debt-Equity Ratio

**0.87 times**

Steadily pay off debt to improve financial flexibility

\*3 Interest-bearing debt – Cash and time deposits – Deposits received, etc.



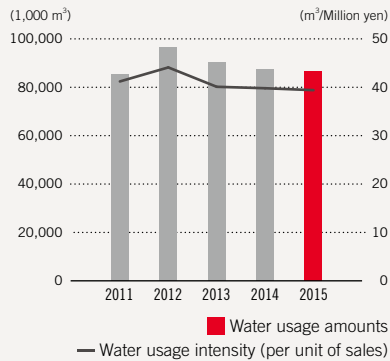


## Non-Financial Highlights

### Water Usage Amounts

**86,625,000 m<sup>3</sup>**

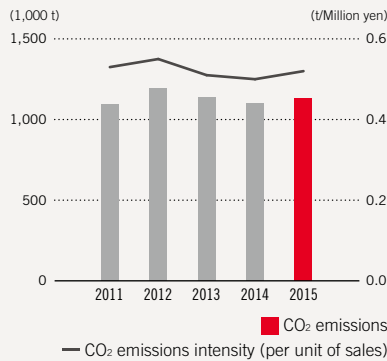
Water is a vital resource. Aiming to ensure this resource can be used indefinitely, we are promoting proper water use in all regions of operation based on the issues faced therein. Accordingly, we seek to maintain an understanding of the water risks associated with our production sites and the regions that produce the resources we use to advance ongoing water conservation and preservation activities.



### CO<sub>2</sub> Emissions

**1,134,000 t**

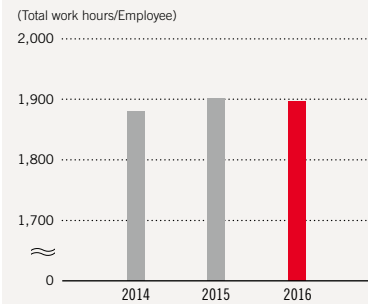
The Company is implementing initiatives aimed at limiting the amount of CO<sub>2</sub> emitted across our value chain to within the amount capable of being absorbed by the earth. In addition to our conventional energy-saving activities, we are also stepping up other initiatives, such as expanding our use of renewable energy.



### Total Work Hours per Employee\*4

**1,896.5 hours**

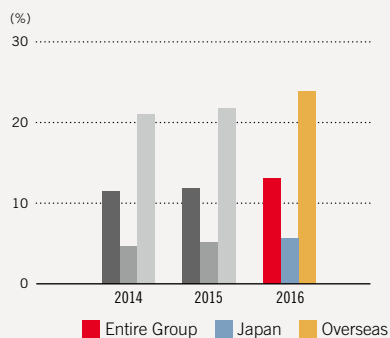
In fiscal 2016, the total number of hours worked by employees in Japan was relatively unchanged year on year. Beginning in 2017, we will be deploying systems and measures that let employees work in flexible ways as part of our efforts to practice health and productivity management.



### Ratio of Female Managers\*5

**13.1%**

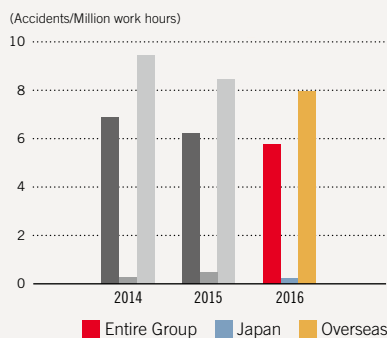
Through systematic development and assignments based on “Promoting Active Participation by Women” (KWN2021), Kirin Company has developed women’s careers in such positions as executive officer, president of Group companies in Japan and overseas, general manager, and plant manager. At Kyowa Hakko Kirin, meanwhile, the ratio of managers that are women has risen to 7.1%.



### Accidents That Result in Lost Work Days per Million Work Hours\*5

**5.77 accidents**

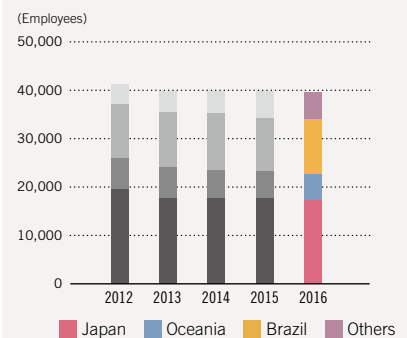
Occupational accidents have been decreasing since occupational health and safety initiatives were reinforced overseas.



### Number of Regional Employees

**39,733 people**

The distribution of employees by region has remained relatively unchanged over the past several years.



\*4 Scope: (Japan) Kirin Holdings, Japan Integrated Beverages Business (Kirin, Kirin Brewery, Kirin Beverage, Mercian), Kyowa Hakko Kirin Group

\*5 Scope: (Japan) Kirin Holdings, Japan Integrated Beverages Business (Kirin, Kirin Brewery, Kirin Beverage, Mercian), Kyowa Hakko Kirin Group; (Overseas) Lion, Brasil Kirin

## **SECTION 1**

Kirin's Philosophy and Strategies

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### **To Our Stakeholders**



**Yoshinori Isozaki**  
President & CEO of Kirin Holdings

**The Kirin Group will draw on its unique strengths  
to create value together with society and  
to achieve sustained growth.**

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In 2016, the first year of the 2016–2018 Medium-Term Business Plan (2016 MTBP), we achieved profits that substantially exceeded the guidance given at the beginning of the year.

Our measures to restructure low-profit businesses are making progress at a faster pace than expected, and in addition we have gotten off to a favorable start in addressing the issue of leveraging the Kirin Group's strengths to create new value.

However, the Kirin Group has just begun to address the issues that it faces. Accordingly, we will continue to move ahead with structural reforms and establish a strong profit base. Moreover, we have positioned “health and well-being,” “community engagement,” and “the environment,” which are closely related to the Group's core businesses, as priority social issues over the medium to long term. On that basis, we will further accelerate innovation and advance management with a commitment to the realization of social value and economic value.

As the Kirin Group's CEO, I will focus on results and work to achieve gains each year to enhance corporate value. In this way, I will strive to ensure that the Kirin Group continues to earn the trust of its stakeholders.



## To Our Stakeholders

# 01 Kirin's Management Environment, Vision, and Strategies

## Integrated Beverages Business

### Addressing the Current Changes in the Operating Environment, with a Focus on Value Creation

The Kirin Group's Integrated Beverages Business faces two major trends in the external environment. The first is a ceiling on market growth due to such factors as aging populations and declining birthrates, especially in industrially developed countries. In this setting, global companies have led industry reorganizations on a worldwide scale. The second trend is the diversification/individualization of consumer preferences due to changes in lifestyles. As a result of this trend, it has become difficult for brands to maintain their market presence, even for large global brands.

In this environment, I believe that simply pursuing share in markets that have limited growth potential will not contribute to gains in the corporate value of the Kirin Group. Instead, we will choose a path of targeting sustained growth by leveraging the strengths of our value chain to create new value for consumers.

### Kirin Group Strengths: Supporting Sustained Growth through New Value Creation

The Kirin Group has successfully addressed the changes in its competitive environment by continually providing new value to consumers. We have created brands that, together with consumers, have created new facets of consumer culture and become long-selling brands. These include *Kirin Ichiban Shibori*, the world's first beer to be made with only first-press wort; *Kirin Gogo-no-Kocha*, which opened up a new market for authentic black tea beverages in PET bottles; and *Kirin Hyoketsu*<sup>®</sup>, which leveraged an innovative concept to rapidly expand the RTD\*<sup>1</sup> market. In addition, the fermentation technologies and biotechnologies that we have cultivated through the brewing of beer have enabled us to develop biopharmaceuticals, establish a production system that achieves stable quality, and build the Pharmaceuticals and Bio-chemicals Businesses into two of the Group's core businesses.

Through this type of value creation, we have built a value chain that has unique strengths that are not found in other companies. This value chain includes R&D that facilitates

a wide range of manufacturing based on the fermentation technologies and biotechnologies that are a shared foundation of the Group's businesses; a supply chain that delivers diverse products and services to consumers in an efficient, high-quality manner; and marketing that leverages deep insight into the needs of individual consumers and drives innovation. By coordinating the utilization of these strengths in a more organic manner, I believe that we can create new value that addresses the diversifying preferences of individual consumers and increase the profitability of our existing businesses.

Moreover, this value creation foundation also supports synergies with our initiatives to advance into new markets. Myanmar Brewery became a member of the Kirin Group in 2015, and in the process of integrating this company into the Group we have fully leveraged our production technologies and marketing capabilities. The Group's experience and knowledge will also be useful in such areas as increasing production capacity and bolstering our sales capabilities, which will be necessary to address future market growth. The cumulative effect of these synergies will be a major asset in expanding our beer operations in Southeast Asia, a growth market.

\*1 Ready-to-Drink. RTD liquors are packaged low-alcohol beverages sold in a prepared "ready-to-drink" form.

## Pharmaceuticals and Bio-chemicals Businesses

### Globalizing and Strengthening New Product Development Capabilities

The strengths of the Pharmaceuticals and Bio-chemicals Businesses, which are two of the Kirin Group's core businesses, include therapeutic antibodies and other biopharmaceuticals. Biopharmaceuticals are expected to offer limited side effects and high levels of effectiveness against diseases for which existing treatments have not been satisfactory, such as cancer and autoimmune diseases. On the other hand, measures to control healthcare expenditures have led to the growing use of generics and to large-scale drug price reductions, especially in Japan. As a result, growth in pharmaceutical markets is sluggish. To achieve continued growth over the long term in this



environment, we will need to further strengthen our global competitiveness and new product development capabilities.

### **Focusing on Launching Global Strategic Products and Enhancing Our Portfolio in New Fields from a Long-Term Viewpoint**

Kyowa Hakko Kirin, which is responsible for the Kirin Group's pharmaceutical operations, has world-class technical capabilities in the field of therapeutic antibody R&D, such as POTELLIGENT® technology and human antibody production technology. To realize outstanding growth by 2020, Kyowa Hakko Kirin will need to fully utilize these technologies to rapidly launch global strategic products in Europe and the United States. In addition, utilizing cutting-edge R&D capabilities cultivated in fields other than therapeutic antibodies, Kyowa Hakko Kirin will move forward with the establishment of a promising pipeline in next-generation fields that offer substantial potential, such as nucleic acid drugs and regenerative therapeutics. Kyowa Hakko Kirin's five-year mid-term business plan commenced in 2016, and the period covered by the first half of the plan has been positioned as an investment phase in preparation for the company's leaping forward phase. On that basis, priority will be given to aggressive development investment rather than short-term profits.

### **Aiming to Be a Company That Records Sustained Growth Together with Society**

Kirin's business portfolio, which includes the Integrated Beverages Business and the Pharmaceuticals and Bio-chemicals Businesses, is one of the Group's major distinctive strengths. Moving forward, the Group will strive to fully leverage this strength in order to continue to create new value and achieve sustained growth. To that end, creating shared value (CSV)—i.e., creating value that is shared with society\*<sup>2</sup>—is a strategic framework that provides the foundation for Group management and supports the utilization and reinforcement of the value creation framework discussed above.

Accompanying several decades of global economic growth,

there has been an increase in serious social issues, such as lifestyle-induced diseases and global warming. In this setting, the role of companies in contributing to the resolution of those issues is drawing considerable attention. Moreover, there are changes in the value that consumers seek from companies and their products and services, especially in mature markets; they are increasingly making purchase decisions based not only on superior functionality and appealing design but also on usefulness in improving society.

In 2012, Kirin moved quickly to introduce the concept of CSV, and since that time, we have achieved a series of successful CSV initiatives in each business. Through the formulation of "Our CSV Commitment," we have laid the foundation for further progress in addressing these issues and clarified the direction that the Kirin Group will take in the future. Through this commitment, the Group has selected the following as priority social issues that have a particularly close connection to the Group's businesses: "health and well-being," "community engagement," and "the environment." We have announced how our businesses will contribute to the resolution of these issues, including approaches and results indicators. Kirin will solicit opinions from inside and outside the Group and strive to foster innovation that transcends the boundaries of the Integrated Beverages and Pharmaceuticals and Bio-chemicals businesses, thereby further bolstering our value creation foundation.

The Kirin Group aims to achieve the creation of both social value and economic value, and to record sustained growth together with society.

\*<sup>2</sup> Creating Shared Value. The aim of CSV is to realize improvements in corporate value based on both "social value creation" and "economic value creation" through addressing social issues.

## To Our Stakeholders

# 02 Progress with the Medium-Term Business Plan

### Implementing Structural Reforms to Improve Profitability

Looking at the Kirin Group's consolidated results in fiscal 2016, our operating income and net income\*<sup>1</sup> both exceeded the initial planned levels. To achieve sustained increases in corporate value, we determined that we needed to improve profitability, which had declined, and to revitalize businesses. To that end, we implemented structural reforms quickly, and I believe that those initiatives have generated results.

\*1 Net income attributable to owners of the parent

### Major Progress in Restructuring and Revitalizing Low-Profit Businesses

The Kirin Group has included both comparatively high-profit businesses, such as Kirin Brewery, Kyowa Hakko Kirin, and Lion, as well as low-profit businesses, such as Kirin Beverage and Brasil Kirin. The damaging effect of the latter businesses on the Group's overall corporate value became a major issue for the Group. Since I became president in March 2015, we have implemented policies of bolstering the domestic beer business and not accepting low profits at businesses with profitability issues.

#### ► Kirin Beverage

##### Solid Results in Targeting Profit Growth

Aiming to nurture a brand to follow *Kirin Gogo-no-Kocha*, which has earned a dominant share in the black tea category, we took steps to strengthen our positioning in the categories of sugar-free teas, coffee, and carbonated beverages, which account for a large share of the market. One success was the

re-branding of *Kirin Nama-cha* through a complete renewal, which led to a substantially enhanced presence in the green tea market by addressing consumer needs in the areas of flavor and bottle design. As a result, we generated a favorable cycle of growing sales of small containers, which offer high profits; efficient control of sales promotion expenses thanks to *Nama-cha* becoming a staple item in stores; and improvement in the in-house manufacturing ratio. In this way, Kirin Beverage recorded substantial gains in profitability.

#### ► Brasil Kirin

##### Achieving Revitalization at a Pace Exceeding Plans; Deciding to Sell the Business

With the market contracting due to sluggish economic conditions, we rigorously implemented a detailed product strategy by region, and in 2016 we succeeded in restoring sales volume to positive growth. Furthermore, we successfully reduced costs by improving the management efficiency of our own distribution system and the use of our supply chain, as well as selling one plant to optimize production sites. In these ways, we advanced the revitalization initiatives at a pace that exceeded our plans. However, in consideration of the uncertain future of the political, economic, and social situation in Brazil, as well as the competitive environment, it will be difficult for Brasil Kirin to achieve sustained growth operating on its own. We compared a number of options, including independent restructuring, and as a result we decided that the transfer of the business at this time was the best solution for the stakeholders of both the Kirin Group and Brasil Kirin. In February 2017, we resolved to transfer all the shares in Brasil Kirin to Bavaria S.A., a subsidiary of Heineken International B.V.

### Fiscal 2017 Annual Plan of Low-Profit Businesses

Progress made toward increasing operating income by ¥20.0 billion



\*2 Excluding the ¥4.6 billion impact due to the change in depreciation method

### **Off to a Good Start with New Value Creation, Targeting a Stronger Profit Base in Beer Businesses**

As with low-profit businesses, we have also pursued cost efficiency in high-profit beer businesses. Targeting the Groupwide cost cut initiative of ¥30.0 billion in the 2016 MTBP, we are making progress at a pace that exceeds our plans. Supported by these initiatives, we have taken steps to advance new value creation, targeting growth in our beer businesses over the medium to long term, and we are already starting to see the results of these initiatives.

#### **▶ 47 Todofuken no Ichiban Shibori**

The domestic beer market continues to contract, but nonetheless *47 Todofuken no Ichiban Shibori* has become a major hit, with annual shipments of 2.7 million cases, more than double the initial target. This success is attributable to innovative marketing that addresses the preferences of consumers in each region while leveraging the presence of *Ichiban Shibori* as a national brand. This project—which offers different tastes and characteristics for each prefecture in Japan—was made possible by our strengths in marketing, R&D, and supply chain management. Moreover, it has contributed to the revitalization of local regions while providing new value to consumers. These comprehensive activities have been highly evaluated, and *47 Todofuken no Ichiban Shibori* received the 2016 Japan Marketing Award. We are making steady progress in realizing the Kirin Group's vision and strategies—to leverage our fundamental strengths to target the creation of value and the achievement of sustained growth together with society.

#### **▶ Craft Beer**

In Japan, to drive further growth in the craft beer market, we are taking steps to nurture our in-house brands and are working in cooperation with YO-HO BREWING COMPANY. In addition, we have also commenced a capital and business partnership agreement with the Brooklyn Brewery Corporation. Targeting the revitalization of the beer market, we will strive to expand Japan's original beer culture through craft beer. In Australia, our subsidiary Lion continues to record favorable sales of such products as *James Squire* and *Little Creatures*.

To meet consumer needs for true flavors and individual tastes, Lion has acquired craft beer companies in Australia and New Zealand, thereby strengthening its base for future business growth.

#### **▶ Myanmar Brewery**

We have made favorable progress in integrating Myanmar Brewery into the Group, following its acquisition. One challenge we faced was efficiently establishing a system for increasing production to address the rise in demand accompanying economic growth. To that end, we are successfully transferring Kirin's know-how in the area of efficient production. In addition, in response to rapid gains in the standard of living, another challenge was rapidly enhancing the lineup of products other than existing national brands. To address this, we quickly launched such brands as *KIRIN ICHIBAN* and *Myanmar Premium*, leveraging synergies with Kirin once again, thereby building a strong brand portfolio that covers each price range.

### **Expanding Global Business to Realize Outstanding Growth in Pharmaceuticals and Bio-chemicals**

We are making favorable progress in the development of global strategic products. In particular, KRN23 was granted breakthrough therapy designation by the Food and Drug Administration (FDA) in the United States in June 2016, and the European Medicines Agency (EMA) accepted for review the Marketing Authorisation Application (MAA) for KRN23 at the end of 2016.



## To Our Stakeholders

# 03 Issues and Future Initiatives

### Accelerating Structural Reforms and Achieving Profitable Growth

The Group's profitability increased substantially in comparison with fiscal 2015, but we still have considerable room for further reforms. I believe that we must continue to accelerate the pace of structural reforms with an aggressive approach.

At Kirin Beverage, targeting the realization of profitable growth, we will further advance initiatives with a focus on the two key factors of brand strengthening and profit structure reform. In fiscal 2016, we achieved an operating profit margin of 4.9%, above the planned level, and moving forward we aim to build an even stronger profit foundation. Targeting a robust brand system, we will follow up *Kirin Gogo-no-Kocha* and *Kirin Nama-cha* with a focus on *Kirin FIRE* in the coffee category, and we will strive to nurture these products into long-selling brands. However, in aiming for a double-digit operating profit margin comparable to global peers, there are limits to what we can accomplish through our own initiatives. Targeting reforms of the cost structure in such areas as distribution and manufacturing, we will continue to consider alliances, such as with other companies in the industry.

### Continuing to Invest, Strengthen, and Grow Profit Base in Beer Businesses

To improve the Group's profitability, our highest priority challenge is to strengthen the profit base for Kirin Brewery. In fiscal 2016, sales volume in the *happo-shu*/new genre category declined substantially. In particular, restoring *Kirin Nodogoshi Nama*, the No. 1 brand in the new genre market, to a path of growth is an urgent challenge, and we must reverse the current trend as quickly as possible. Another challenge is changing the market structure. To revitalize the beer market, we will continue to taking steps to leverage our unique strengths to enhance the appeal of beer, such as with the *47 Todofuken no Ichiban Shibori*. At the same time, we will accelerate business development initiatives in the field of craft beer. Under the revision of the Liquor Tax Act in 2018, the definition of "beer" is expected to be substantially expanded. This will make it possible to

propose products with diverse added value, and accordingly it will represent a major opportunity for Kirin Brewery. Through such initiatives as "Tap Marché," a new service for restaurants, we will provide increased opportunities for consumers to experience craft beer. Moreover, to break away from excessive competition, we will take the lead in controlling sales promotion expenditures.

At Lion, we face the challenge of how to overcome the effect of the decline in sales resulting from the termination of the license agreement for the sale of *Corona* and other imported beers. However, over the medium to long term, I believe this transition will work as a positive factor since it enables us to focus on nurturing in-house brands. Also, to focus resources on the core beer business, we transferred the low-profit wine business in Australia. Moving forward, we will further increase the value of core brands, such as *XXXX Gold*, and accelerate initiatives to fully leverage our fields of strength, such as craft beer, which is enjoying growing popularity.



### Strengthening the Business Base for Beer in Asia and Oceania

First, we will strengthen the business base for beer in South-east Asia, which has high growth potential, with our highest priority being the realization of sustained growth at Myanmar Brewery. To acquire a manufacturing and shipping base in northern Myanmar, we decided to invest in Mandalay Brewery. As a result, we will be able to accurately capture market growth and further reinforce our dominant position of leadership in the market. Furthermore, by leveraging Group synergies throughout the Asia/Oceania region, we will work to achieve growth in Kirin brands and craft beer brands. In addition, as one more effective strategic option, we will also consider investments in and alliances with local companies.

### Creating New Businesses from a Long-Term Perspective

We will leverage our fundamental strengths in such areas as R&D to implement our distinctive value creation process. I believe that these initiatives will not only bolster our competitiveness in existing businesses but also lead to the creation of new businesses in fields that transcend past business frameworks.

Examples include our initiatives utilizing “*Lactococcus lactis* strain Plasma” and plant biotechnology. We have already commercialized “*Lactococcus lactis* strain Plasma” in beverages, yogurt, and supplements, and we are now investigating the potential for proposing new value by leveraging the distinctive characteristics of “*Lactococcus lactis* strain Plasma” in enhancing the fundamentals of immunity. We are also moving forward with technologies related to plant biotechnology. These plant-related technologies can be utilized in the production of materials related to pharmaceuticals and other materials, and we are advancing development while collaborating with universities and other companies. In operations conducted with assistance/consignment from NEDO,\* Kirin’s original large-scale plant propagation technologies are being used for the high-efficiency, low-cost production of activated vitamin D<sub>3</sub>.

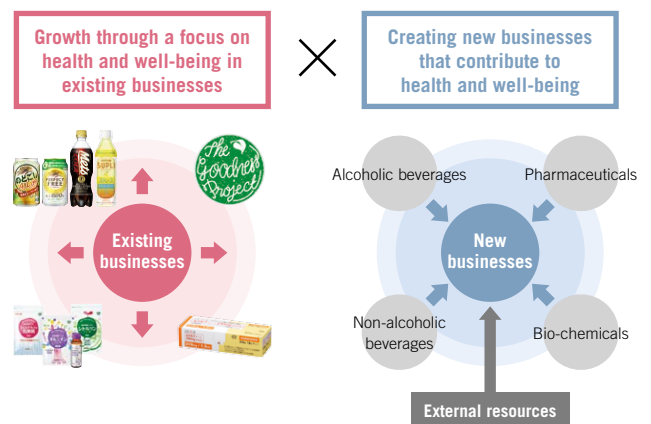
While enhancing the growth potential of existing businesses, we will also aggressively search for opportunities to expand the scope of our business activities and resolutely take on the challenge of promising business opportunities. In addition, we will also take a flexible approach to investment in basic research and open innovation, which are necessary for those purposes.

\* New Energy and Industrial Technology Development Organization

#### Developing Beer Businesses in Asia and Oceania



#### Health and Well-being Initiatives



## To Our Stakeholders

# 04

## Initiatives Targeting ESG

# Aiming to Be a Company That Is Completely Trusted

### Further Strengthening Corporate Governance

To achieve sustained gains in corporate value over the medium to long term, it is necessary to solidify the Company's foundation for the creation of value and the implementation of strategies. In addition, for the Kirin Group, which has announced its commitment to CSV, it is extremely important to earn the trust of a variety of stakeholders. This is our approach to the implementation of initiatives targeting ESG issues.\*<sup>1</sup>

First, we will further strengthen corporate governance. At Kirin Holdings, in fiscal 2016 we moved to a system under which seven of 14 Board members, including Audit & Supervisory Board Members, are outside officers (of whom six are independent officers). The Chairman of the Board of Directors is selected from among the outside officers. In addition, we merged two committees to form the Nomination and Remuneration Advisory Committee, for which three of the five members are outside directors, and the chairman is an outside director. At meetings of the Board of Directors, discussions have become more dynamic, and the management supervision has been significantly enhanced. I believe that these changes will lead to improved business performance in the future. Furthermore, in fiscal 2017, to provide incentives for both achieving annual plans and increasing corporate value over the medium to long term, we revised the remuneration system for officers. This will enhance performance and further promote a sense of sharing value with the shareholders through commitment to the achievement of management plans by executives, including the president.

\*1 Issues related to the environment, society, and governance. Initiatives that address these issues are advocated in order to achieve sustainable growth for society and companies.

### Human Resource and Organizational Culture Reforms

No matter how accurate they are, a company's visions and strategies are implemented by human resources and organizations. If the company does not have a system that fully draws out their capabilities, then I believe that its visions and strategies will not be of any use. The Kirin Group aims to be a "rigorous, warm company." In other words, we aim to be a company that is a meritocracy and that establishes an environment in which

employees work energetically and can grow through their work while continually taking on the challenge of creating new value. To that end, on the basis of leadership reform, we will enhance our implementation of human resource allocation and development as well as working styles. In addition, to create new value, it is important to support diversity and establish an organizational culture that fully leverages the power of diversity. Moving forward, we will aggressively implement initiatives in this area, centered on the promotion of opportunities for women.

### Working toward the Realization of a Society That Is Based on 100% Recycling

For Kirin, which uses the bounty of nature to deliver products to consumers, it is essential to implement initiatives that address environmental problems. Countries around the world are working together to implement full-scale countermeasures to global warming, and I believe that the Kirin Group must work aggressively to make a contribution. As the first step, from 2017 we will introduce renewable energy on a scale that will place Kirin among the top companies in Japan in terms of the domestic use of such energy. I think that this measure will also contribute to long-term cost optimization.

Moving forward, we will continue aiming toward the realization of a society that is based on 100% recycling, and to that end we will implement a range of initiatives.

### Striving for Further Increases in Shareholder Value

We have implemented aggressive measures for shareholders' returns, such as through stable dividends and own stock repurchases. Moving forward, we will continue to steadily implement a dividend payout ratio on normalized EPS\*<sup>2</sup> of at least 30%. In this way, we will pass on to shareholders the fruits of the Group's growth in an appropriate, timely manner.

Of course, shareholder value is not something that can be increased simply through dividends, and accordingly we will further advance management that reflects consideration for the stock price. Through the revision of the remuneration system

for officers, we have introduced a system for the direct granting of shares to officers and have further reinforced the link between remuneration and results.

\*2 Removing special income and expenses and other non-recurring items to reflect actual earnings more accurately

### To Our Stakeholders

The Kirin Group aims to be a group that is highly regarded and trusted by society and is considered by all stakeholders, including shareholders, employees, and suppliers, to have a valuable presence and to be indispensable to society.

Moving forward, we will do our utmost to extend the favorable performance in fiscal 2016, and accordingly I would like to ask for the continued support of our stakeholders.



President & CEO of Kirin Holdings

### Yoshinori Isozaki

I joined Kirin Brewery in 1977. Working principally in the Corporate Planning Department, I gained experience in Japanese beer business branches and in business development units, both in Japan and in Los Angeles. I studied at the Cornell University School of Hotel Administration and worked in the Kirin Group's hotel business. I also worked in PR at Kirin and served as vice president of San Miguel Corporation, in the Philippines. I became a managing director of Kirin Holdings in 2010, and in 2012, I was appointed as president & CEO of Kirin Brewery. In 2013, I became president & CEO of Kirin Company, and I was subsequently appointed as president & CEO of Kirin Holdings in March 2015.





# » TOPICS «

## Initiatives for Creating Value in the Future

In order for the Kirin Group to achieve sustained growth, it will be absolutely essential for the Group to develop new businesses by creating value unique to Kirin in addition to bolstering the competitiveness of existing businesses. In this section, we will introduce such initiatives for creating value in the future.



### › Kirin's Pioneering Spirit

The SPRING VALLEY BREWERY is a beer brewery that was previously located in Yamate, Yokohama—the birthplace of *Kirin Beer*. Opening its doors in 1870, this small brewery built the initial foundation for Japan's beer industry. The site of this brewery would later be used to establish Kirin Brewery Company. Nearly 150 years later, we are seeking to revive the pioneering spirit of this brewery to once again utilize craft beer to make beer more varied and appealing.

### › Ever-Growing Presence in the Craft Beer Market

As beer markets have been becoming overly saturated, particularly in developed countries, consumers have begun to turn their attention back to the fundamental draws of beer, namely its variety and taste. As a result, craft beers have been growing rapidly and the number of innovative breweries has been on the rise. The Kirin Group was quick to realize the potential of craft beer, and we have thus been undertaking the challenges of invigorating the beer market and cultivating our craft beer operations into a growth driver.

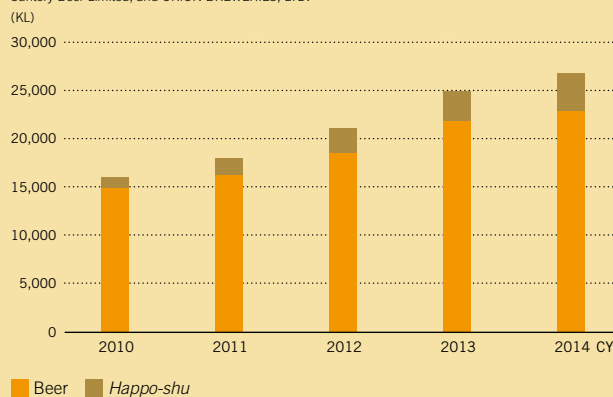
In Japan's craft beer market, we have been cementing our presence through our *SPRING VALLEY BREWERY* brand, which inherited the name of the brewery that symbolizes Kirin's pioneering spirit, and the *Grand Kirin* brand, which is proving particularly popular in the off-premise market. In addition, our craft beer operations have maintained the leading share in the Australian market, posting growth of roughly 10% in 2016.

Our growth in Australia is driven by the *James Squire* brand, a representative craft beer in this market; the *Little Creatures* brand, an offering that embodies the sense of fun characteristic of craft beers; and other prominent brands.



### Craft Beer Sales Volumes

Excluding sales volumes of Kirin Brewery; Asahi Breweries, Ltd.; SAPPORO BREWERIES LIMITED; Suntory Beer Limited; and ORION BREWERIES, LTD.



Source: Craft beer production reports issued by the National Tax Agency

### › Appealing Lineup Cultivated through Borderless Collaboration

The appeal of craft beers lies in their variety and individuality. Brands that have attached stories to their beers and combined these with superior taste and quality have increasingly been able to win favor from consumers outside of Japan. Kirin has been fostering its own craft beer brands while also expanding its lineup by pursuing borderless collaboration with breweries in Japan and overseas. For example, in 2016 we commenced a capital and business partnership with Brooklyn Brewery, a leading player in the U.S. craft beer market boasting global popularity. Together with our alliance with YO-HO BREWING COMPANY, a prominent domestic craft beer brewery,

this new partnership has helped us create a strong foundation for better meeting diversifying consumer needs. Looking ahead, we plan to merge the accumulated experience, technologies, and insight of these partners with those of Australian subsidiary Lion Pty Ltd. We thereby aim to further increase the value of our brand and reinforce our foundations for value creation to give the world of craft beer more depth and variety.



➤ **Aggressive Expansion of Opportunities to Experience New Beer Cultures**

Increasing the opportunities for consumers to try out craft beers will be crucial to further energizing the craft beer market, meaning that creating opportunities for consumers to experience these beers will be vital. SPRING VALLEY BREWERY operates restaurants with breweries as important points of transmission for new beer cultures through which it provides completely new beer experiences using innovative beers and collaboration events. For example, a new joint restaurant-brewery is scheduled to be opened in Kyoto during fall 2017, adding to the popular restaurants currently in operation in Daikanyama, Tokyo and Yokohama. Lion, meanwhile, has opened a *Little Creatures* brand beer restaurant in Hong Kong, which is contributing to a rise in its brand recognition in the growing Asian market. Furthermore, we plan to deploy our new “Tap Marché” service targeting the on-premise market in Japan beginning in 2017. The goal of this initiative is to expand the range of opportunities for consumers to easily experience a diverse lineup of craft beers. This service will utilize specialized dispensers and three-liter plastic bottle containers developed utilizing Kirin’s technological prowess to offer consumers a choice of various craft beer brands, including those of our partners. In the first year of this initiative, we hope to deploy this service at 1,000 restaurants in the Tokyo metropolitan area.

The Kirin Group remains committed to realizing a more exciting future for beer by achieving growth in the craft beer market.



Diverse lineup with taste, variety, and innovativeness



The Kirin Group has begun engaging in initiatives that exceed the boundaries of its Integrated Beverages Business, which provides alcoholic beverages and non-alcoholic beverages, and its Pharmaceuticals and Bio-chemicals Businesses in order to develop new businesses that leverage its superior foundations for value creation. As one facet of these efforts, in April 2016 we established the Business Creation Department. With this organization in place, employees with diverse experience and specialized expertise, including those seconded from the Kyowa Hakko Kirin Group, are seeking out opportunities to create new markets based on innovative and unrestrained ideas.

The Company is also actively utilizing open innovation in the development of new businesses. For example, in 2016 we launched KIRIN ACCELERATOR, a corporate accelerator program\* aimed at giving rise to innovative new businesses that help realize healthy and more fulfilling lifestyles. Through this program, we received 167 business plan submissions. Submissions from six teams were selected, and support for enacting these plans was provided over the period from August 2016 to January 2017.

Going forward, the Kirin Group will continue to combine its foundations for value creation with outside assets as it strives to develop new businesses.

\* Program in which large companies and venture companies work to augment each other’s strengths and compensate for their weaknesses in order to co-create businesses



## Long-Term Management Vision and Medium-Term Business Plan

### 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.

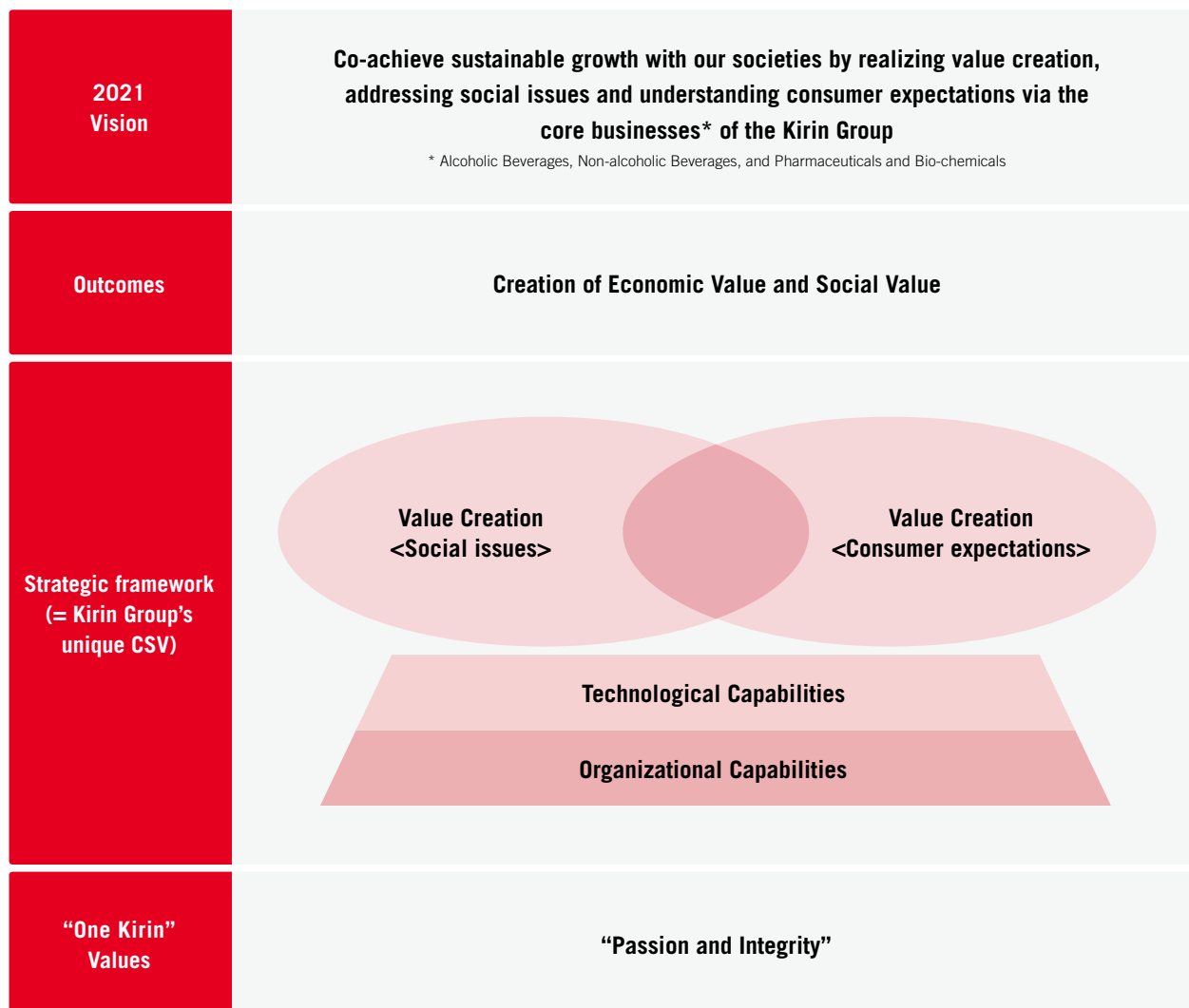
And naturally, we do not stop there.

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.

### Long-Term Management Vision New KV2021

New Kirin Group Vision 2021



## Kirin Group 2016–2018 Medium-Term Business Plan

<b>Basic policy</b>	<b>Restructure and revitalize Kirin, groupwide</b>
<b>Key initiatives</b>	<p><b>Implement specific strategies in accordance with the positioning of each business</b></p> <ul style="list-style-type: none"> <li>▶ Invest, strengthen, and grow profit base in beer businesses (Kirin Brewery, Lion Beer, Spirits and Wine, Myanmar Brewery)</li> <li>▶ Restructure and revitalize low-profit businesses (Brasil Kirin, Kirin Beverage, Lion Dairy and Drinks)</li> <li>▶ Invest to achieve outstanding growth in Pharmaceuticals and Bio-chemicals Businesses (Kyowa Hakko Kirin)</li> </ul>
<b>2018 quantitative targets</b>	<p><b>Raising Group profitability is our top priority, targeting increased capital efficiency and sustained growth in shareholder value</b></p> <p>▶ <b>ROE before amortization of goodwill, etc.: 15% +</b>    ▶ <b>Normalized EPS: CAGR 6% +</b></p> <p><small>Guidance: Fiscal 2018 Group operating income based on achieving above targets: ¥160.0 billion +</small></p>
<b>Financial strategy</b>	<p><b>Stable shareholder returns through dividends, enhanced financial flexibility</b></p> <ul style="list-style-type: none"> <li>▶ <b>Consolidated dividend payout ratio 30% + of normalized EPS</b></li> <li>▶ <b>Repayment of interest-bearing debt</b></li> </ul> <p><small>Fiscal 2017 annual dividend forecast: ¥39 per share (Fiscal 2016 annual dividend: ¥39 per share)</small></p>

### Recognizing the Challenges and Future Initiatives

#### ▶ Invest, strengthen, and grow profit base in beer businesses

- Kirin Brewery** — Recovering market share in the *happo-shu* and new genre categories and reform the market structure for domestic beer products
- Lion Beer, Spirits, and Wine** — Grow earnings behind Lion & Kirin brands post-ABI in Australia
- Myanmar Brewery** — Grow Myanmar Beer business by expanding the business platform  
Strengthen the business base for beer in Asia and Oceania

#### ▶ Restructure and revitalize low-profit businesses

- Kirin Beverage** — Further strengthening of the brand power and ongoing cost structure reform
- Lion Dairy and Drinks** — Shift to increased profits on increased sales
- Brasil Kirin** — Smooth business transference

#### ▶ Invest to achieve outstanding growth in Pharmaceuticals and Bio-chemicals Businesses

- Kyowa Hakko Kirin** — Approval in Europe and the U.S. for the global strategic product KRN23




## CSV Commitment



The Kirin Group is focusing its efforts on three key social issues: “health and well-being,” “community engagement,” and “the environment.” Addressing these issues with a deep commitment, we envision a bright future and aim to realize our goals as we work together with our customers.

\* “Our CSV Story” can be viewed in its entirety on Kirin Holdings’ corporate website.

 “Our CSV Story”  
<http://www.kirinholdings.co.jp/english/csv/materiality/story.html>



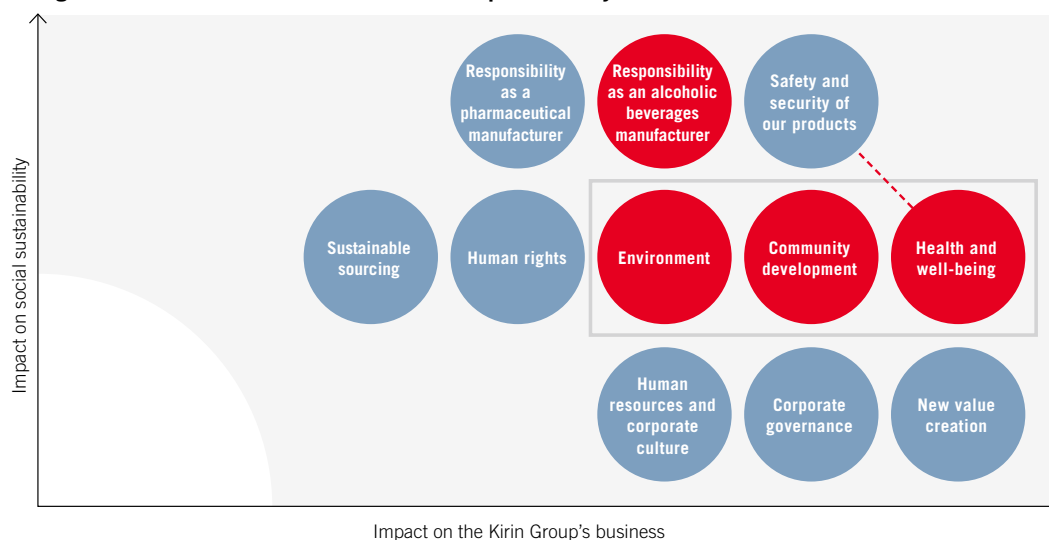
Under the New KV2021 long-term management vision, we have positioned CSV as the core of our management in order to grow continuously with society.

We have also established “health and well-being,”\*1 “community engagement,” and “the environment” as key social issues on which we will focus, in addition to being “a responsible alcoholic producer,” given the fact that we are a corporate group that deals with alcoholic beverages. For these social issues, we have referenced the Sustainable Development Goals (SDGs)\*2 and decided on 17 commitments (please see page 30) that will help clarify the kind of company we aim to be through our business over the medium to long term. In addition, we have formulated specific approaches to reach desired outcomes for fulfilling these commitments. By making Groupwide efforts toward these commitments, we aim to contribute to a happy and prosperous future for our customers.

\*1 As we provide health value to our customers through many of our beverages, we have placed “safety and the security of our products” as an issue we will tackle under our “health and well-being” initiative.

\*2 The Sustainable Development Goals (SDGs) pertain to issues that international society should address over the next 15 years between 2016 and 2030 in order to realize sustainable global development. The SDGs were adopted at the United Nations summit in September 2015.

**Management Issues for Sustainable Growth (Group Materiality Matrix)**



**Establishment of “Our CSV Commitment”**

A discussion on the social issues that the Group should seek to address took place at a June 2016 meeting of the Group CSV Committee\* between the president & CEO of Kirin Holdings, who chairs this committee, and the presidents of major Group companies. It was based on this discussion that we defined the priority themes for the Group’s initiatives. Subsequent discussions were at operating companies and relevant units to complete “Our CSV Story” and “Our CSV Commitment.” International guidelines were referenced to incorporate a social perspective while Group CSV representatives met with external experts. The input gained through these meetings was reflected in “Our CSV Commitment.”

\* To support the Kirin Group’s proactive and independent CSV initiatives, the Group CSV Committee meets once a year in principle, with the meeting chaired by the president & CEO of Kirin Holdings.

**Input from External Experts**

**Alcohol-related problems:** It will be important to verify the effectiveness of the initiatives implemented to date. It would be best for the Company’s programs to be able to formulate measures and provide education based on issues identified through communication with patients and healthcare professionals.

**Health and well-being:** The Kirin Group’s initiatives are a beneficial undertaking for addressing the issue of rising healthcare expenditures, which is a shared concern faced by the entire world.

**Community engagement:** Would it not be possible to go beyond simply procuring Japanese hops and wine grapes for use in Kirin products to create sustainable businesses from the perspectives of sightseeing and other aspects of regional development?

External experts:  
 Mariko Kawaguchi, Chief Researcher, Research Division, Daiwa Institute of Research Ltd.  
 Hideto Kawakita, CEO, International Institute for Human, Organization and the Earth (IHOE)  
 Kirin Group representatives:  
 Seiichi Hashimoto, Senior Executive Officer in Charge of CSV Strategy, Kirin Holdings Company, Limited  
 Masaya Hayashida, Executive Officer & General Manager, CSV Management Department, Kirin Company, Limited  
 Hiroyuki Morita, Director, CSV Management Section, Kirin Holdings Company, Limited (As of December 2016)



## CSV Commitment

The Kirin Group has defined 17 commitments based on which it will advance medium- to long-term initiatives. Information on our approach toward fulfilling these commitments and the indicators that will be used to measure progress can be found on Kirin Holdings' corporate website.



### "Our CSV Story"

<http://www.kirinholdings.co.jp/english/csv/materiality/story.html>

CSV Priority Issue	Item	SDGs	Our Commitment	
A Responsible Alcohol Producer	Education in appropriate drinking and nurturing a positive drinking culture		<ul style="list-style-type: none"> <li>▶ We will work toward eradicating the harmful use of alcohol, consistent with regional challenges.</li> <li>▶ We will work to develop no- and lower-alcohol products in each category and improve consumer acceptance of these products.</li> </ul>	
			▶ We will contribute to enhancing customers' quality of life throughout their lifetime, and strive to create revolutionary products, services, and new businesses.	
Health and Well-being	Supporting self-care for healthy people and people with pre-disease		▶ We will help consumers manage their daily energy (calories/kilojoules) and nutrient intake through providing a balanced portfolio of products and information—helping them address major noncommunicable diseases, including obesity.	
			▶ We will contribute to enhancing customers' quality of life throughout their lifetime, and strive to create revolutionary products, services, and new businesses.	
	Evolution in medical treatment		<ul style="list-style-type: none"> <li>▶ We will continuously discover innovative drugs and expand our commercialization activities globally. (Kyowa Hakko Kirin)</li> <li>▶ By providing inexpensive, high-quality biosimilars and "Authorized versions" of biologics, we will contribute to the further use of biomedicines and to solving a global issue—increases in healthcare spending. (Kyowa Hakko Kirin)</li> </ul>	
	Health-oriented business management		<ul style="list-style-type: none"> <li>▶ As a company that delivers products and services contributing to consumer health, we will create an environment and opportunity for our employees to proactively improve their own health.</li> <li>▶ We will address any mental health issues facing our employees and work to prevent life-style-related diseases. Also, as a member of the alcohol beverage industry, we will promote responsible drinking that encourages employees to be role models for society.</li> </ul>	
	Safety and security of our products		<ul style="list-style-type: none"> <li>▶ We will establish a hygiene management system for the production process based on global standards* and continue to work on improving product safety. Also, we will enhance communication related to quality in order to build trust and increase a sense of security among our customers.</li> </ul> <p>* HACCP: Hazard Analysis and Critical Control Point</p>	
Community Engagement	Enhancing sustainability of the supply chain		<ul style="list-style-type: none"> <li>▶ We will work on improving the quality and stable procurement of Japanese hops and brew unique beers that can only be made by using Japanese hops, while contributing to the revitalization of key producing areas. (Kirin Brewery)</li> <li>▶ We will support Sri Lankan black tea farmers through long-term initiatives such as facilitating the acquisition of Rainforest Alliance certification, and expand the use of certified tea leaves. (Kirin Beverage)</li> <li>▶ We will drive development of Japanese wines to ensure global recognition, and contribute to revitalizing key producing areas and local communities that are the foundations of growing grapes and making wines. (Mercian)</li> <li>▶ We will continue to develop long-term, sustainable and mutually beneficial partnerships with our dairy farmers that build a profitable demand for dairy and ensure sustainable returns and the creation of value through the supply chain. (Lion)</li> </ul>	
		Regional revitalization through business activities		<ul style="list-style-type: none"> <li>▶ We will develop products and services that energize local communities, with each of our business sites cooperating with local stakeholders.</li> <li>▶ We will support the entrepreneurship of local residents responsible for small-lot deliveries, and contribute to the improvement of local economies. (Brasil Kirin)</li> </ul>
		The Environment	Reflecting environmental activities in our business strategies	
	▶ We will reduce water usage in production activities, and continuously preserve water sources.			
	▶ We will protect the natural environment and preserve the ecosystems surrounding our business sites as well as areas rich in raw materials.			
	▶ We will continue to reduce the weight of containers and packaging, and rely less on non-renewable resources and increase the sustainability of materials.			

## A Closer Look at Our Commitments



### Health and Well-being

#### Supporting self-care for healthy people and people with pre-disease

##### Our Commitment

We will help consumers manage their daily energy (calories/kilojoules) and nutrient intake through providing a balanced portfolio of products and information—helping them address major noncommunicable diseases, including obesity.

##### Our Approach

Our food and beverage (F&B) businesses will provide a balanced portfolio of products, with optimized energy and nutrition—without compromising taste and safety. Specifically, each F&B business will commit to some or all of the following, relevant to their local markets' health priorities:

- ▶ to reduce added sugar, salt, and fat;
- ▶ to increase the availability of sugar-free, and lower-sugar and lower-energy options;
- ▶ to have smaller pack sizes available across the product portfolio;
- ▶ to improve the nutrition and product information available to consumers;
- ▶ to provide consumers with educational advice on achieving a balanced diet and lifestyle;
- ▶ to enhance R&D efforts to provide an optimal portfolio of products for consumers.

##### Our Outcomes

Specific targets will be developed and aligned to our approach.

##### Initiatives

The prevention of lifestyle-induced diseases is a global issue requiring urgent attention. Our portfolio of products for supporting consumers in their self-care efforts will be utilized to help address this issue while also increasing the risk resilience of our businesses. Lion, which heads up our dairy products and juice beverages businesses in Australia and New Zealand, unveiled Our Goodness Promise in 2014 to guide its efforts to contribute to better balanced meals and lower child obesity rates. Since then, Lion has proceeded to increase the portion of its products that allow for healthy living, even if consumed every day, while reducing additives. Smooth progress is being made toward Lion's targets for 2019 as this company seeks to improve consumer lifestyles and heighten the value of its business.



### Community Engagement

#### Enhancing sustainability of the supply chain

##### Our Commitment

We will work on improving the quality and stable procurement of Japanese hops and brew unique beers that can only be made by using Japanese hops, while contributing to the revitalization of key producing areas. (Kirin Brewery)

##### Our Approach

- ▶ We will work on various programs from a long-term perspective to maintain stable harvest volume and realize improved quality of Japanese hops, including developing seed varieties, increasing the attractiveness of hop-producing regions, and increasing the number of new farmers to mitigate such issues as aging and a lack of successors.
- ▶ By developing unique beers, utilizing the characteristics of Japanese hops, and gaining a high reputation, we will enhance the value of Japanese hops and attract many craft beer makers from around the world.

##### Our Outcomes

- ▶ Stop the reduction in harvest volume of Japanese hops. Develop unique products that use Japanese hops.
- ▶ Aim to be highly valued and used by not only Kirin but many brewers around the world.
- ▶ Disclose actual results related to the cooperation between local communities and Kirin.

##### Initiatives

Hops provide beer with many distinctive characteristics. However, the harvest of Japanese hops is declining year by year due to the aging of domestic producers. We will build long-term relationships with Japanese hops farmers and work on improving the quality of the harvest while also helping to revitalize local communities by cooperating with local producers. By doing so, we will continue and expand the distinctive, high-quality brewing that can only be made possible by using Japanese hops. For example, *Ichiban Shibori Toretate Hop* uses freshly picked Japanese hops, while another one of Kirin's craft beers uses a Japanese hop called *IBUKI*, freshly picked and unprocessed. At the same time, we will promote globally the value of distinctive Japanese hops.



### The Environment

#### Reflecting environmental activities in our business strategies

##### Our Commitment

We will continue to reduce the weight of containers and packaging, and rely less on non-renewable resources and increase the sustainability of materials.

##### Our Approach

- ▶ We will expand the use of recycled/sustainable materials, i.e., recycled PET, bioplastics, and Forest Stewardship Council (FSC)-certified paper.
- ▶ We will introduce Life Cycle Assessment (LCA) for selecting container raw materials at an early stage of container/product development. (Lion)

##### Our Outcomes

- ▶ Maintain and expand the bottle-to-bottle initiative (use of 100% recycled PET for certain products).
- ▶ Study and promote the use of bioplastics.
- ▶ Maintain and expand the use of FSC-certified paper for primary and secondary containers.
- ▶ Increase the use of recyclable container raw materials: > 90% by 2030. (Lion)
- ▶ Increase the use of recycled packaging raw materials: > 50% by 2030. (Lion)
- ▶ Develop a lighter weight PET bottle for mix juice products in 2017. (Brasil Kirin)

##### Initiatives

The Kirin Group consumes large quantities of paper for use in its containers and packaging, which include the paperboard packaging for six packs, gift boxes, paper packs, and cardboard boxes for products.

Recognizing this fact, the Group revised its Action Plan for Sustainable Use of Biological Resources in February 2017. This revised plan sets forth our goal to switch to paper certified by the Forest Stewardship Council for all paper containers and packaging used in the Japan Integrated Beverages Business by the end of 2020. This plan relates to two of the four priority themes of the Kirin Group Long-Term Environmental Vision: biological resources and containers and packaging. By using more sustainable materials for our containers and packaging, we aim to also ensure the sustainability of our use of biological resources and containers and packaging.



## CFO's Message



**We will further improve profitability through structural reforms and work to increase corporate value while simultaneously achieving increases in asset efficiency and financial flexibility.**

**Akihiro Ito**

Director of the Board  
Senior Executive Officer & CFO

### The CFO's Mission

Targeting gains in ROE before amortization of goodwill, etc., and growth in normalized EPS, I am working as CFO to address three challenges. The first is raising profitability. Moving forward, we will strive to increase profitability by advancing measures to revitalize the Group through structural reforms. The second is increasing asset efficiency. To that end, we will take steps to streamline our balance sheet by reevaluating asset holdings and considering business portfolio optimization. The third is increasing financial flexibility. In that regard, we will provide stable dividends, and we will steadily advance repayment of interest-bearing debt, thereby optimizing the financial leverage balance.

### Increasing Profitability (Profit and Loss Management)

Targeting gains in ROE before amortization of goodwill, etc., we are focusing on increasing the net profit margin. For subsidiaries, targets have been set for improvements in operating profit margin through brand strengthening and cost cut initiatives, and we are monitoring the status of the implementation of those measures. Progress has been favorable, and operating income in fiscal 2016, the first year of the MTBP, exceeded the planned level. At the Group Head Office, we are working to implement optimal allocation of resources among businesses, to reform headquarters functions, and to consolidate operations. In these ways, we are striving to increase administrative productivity.

#### KEY POINTS Initiatives to Increase ROE under the 2016 MTBP

ROE before amortization of goodwill, etc.

Fiscal 2018 target:  
**15% or higher**

Net profit margin

Net income before amortization of goodwill, etc.

Sales (including Japanese liquor taxes)

Fiscal 2015: (0.1)%

Fiscal 2018:

**5.5% or more**

Total assets turnover ratio

Sales (including Japanese liquor taxes)

Total assets (average of previous year and current year)

Fiscal 2015: 0.85 times

Fiscal 2018:

**Approximately 0.91 times**

Financial leverage

Total assets (average of previous year and current year)

Shareholders' equity before amortization of goodwill, etc. (average of previous year and current year)

Fiscal 2015: 3.09 times

Fiscal 2018:

**Approximately 3.0 times**

## Increasing Asset Efficiency (Balance Sheet Asset Management)

We are working to reevaluate low-profit assets and increase the total assets turnover ratio. Through asset reductions, such as the sale of the Macacu Plant at Brasil Kirin and the transfer of Lion's wine business in Australia, we worked to increase efficiency and implement the principles of selection and concentration in management resources.

## Financial Optimization (Balance Sheet Liability/Equity Management)

We used cash flow to accelerate the reduction of interest-bearing debt in order to enhance financial flexibility. We want to maintain our current ratings\* so that we can continue to implement strategic investment in the future, and accordingly we will strive to reduce the net debt-equity ratio to 0.7 times or below by the end of fiscal 2018. The Company will consider M&A transactions that have clear objectives and appropriate pricing as one effective strategic option for increasing corporate value.

\* R&I: A+ (outlook: negative); Moody's: A3 (outlook: negative) (As of December 31, 2016)

## Stable Dividends and Lower Cost of Shareholders' Equity

We implement shareholder returns based on a policy of stable dividends with a consolidated dividend payout ratio on normalized EPS of 30% or more. In fiscal 2016, we generated free cash flow exceeding the planned level, and accordingly we increased dividends by ¥1. In the future, through further increased profitability, we will strive to record growth in normalized EPS, thereby enhancing shareholder return. In addition, by conducting management in a way that enhances the trust of

## Changes in Major Financial Indicators

	Fiscal 2015 (Results)	Fiscal 2016 (Results)	Fiscal 2017 (Plan)
Operating profit margin* <sup>1</sup>	8.4%	9.6%	9.5%
Net profit margin* <sup>2</sup>	(0.1)%	7.5%	5.0%
Total assets turnover ratio	0.85 times	0.87 times	0.89 times
ROE before amortization of goodwill, etc.	(0.3)%	21.9%	13.9%
Net debt-equity ratio	1.0 times	0.9 times	0.7 times
Financial leverage	3.09 times	3.35 times	3.10 times

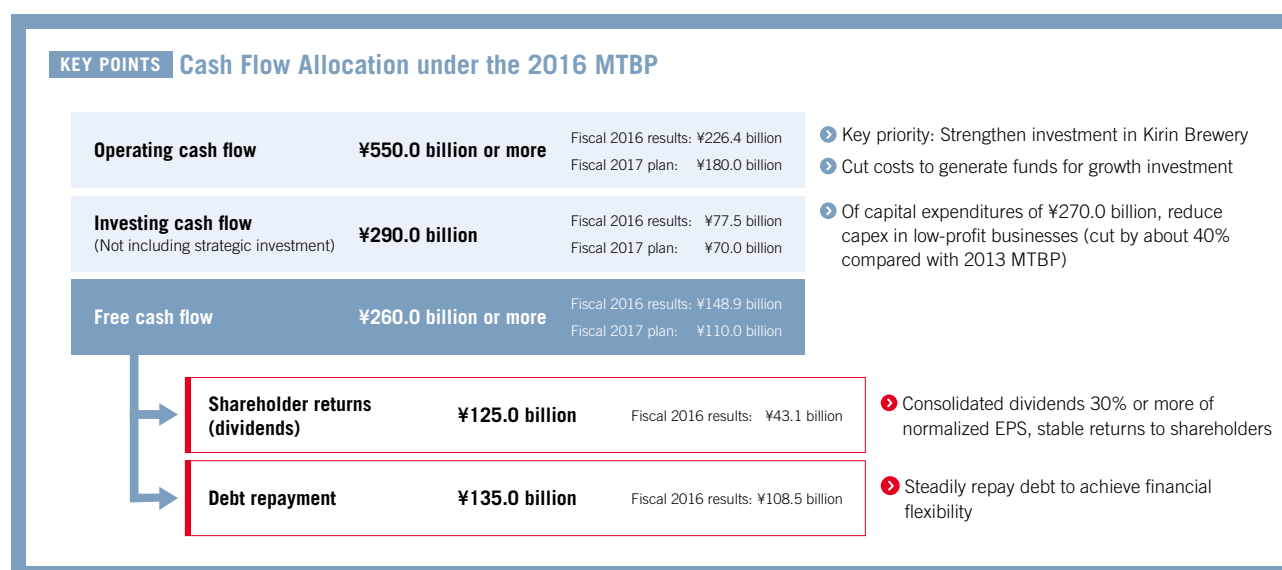
\*1 Excluding liquor taxes/Before to amortization of goodwill, etc.

\*2 Including liquor taxes/Before to amortization of goodwill, etc.

shareholders and investors, and by continuing to implement appropriate information disclosure and constructive dialog, we will work to reduce the cost of shareholders' equity, which we believe is about 5% for the Company.

## Sale of Brasil Kirin

The Company determined that selling Brasil Kirin was the best option to enhance Groupwide profitability, reduce liabilities on the balance sheet, and increase shareholder value. Currently, the timing of the completion of the sale has not been determined. Accordingly, the profit or loss on the sale is pending and will be disclosed when the decision is made.



## Overview of the Kirin Group's Business

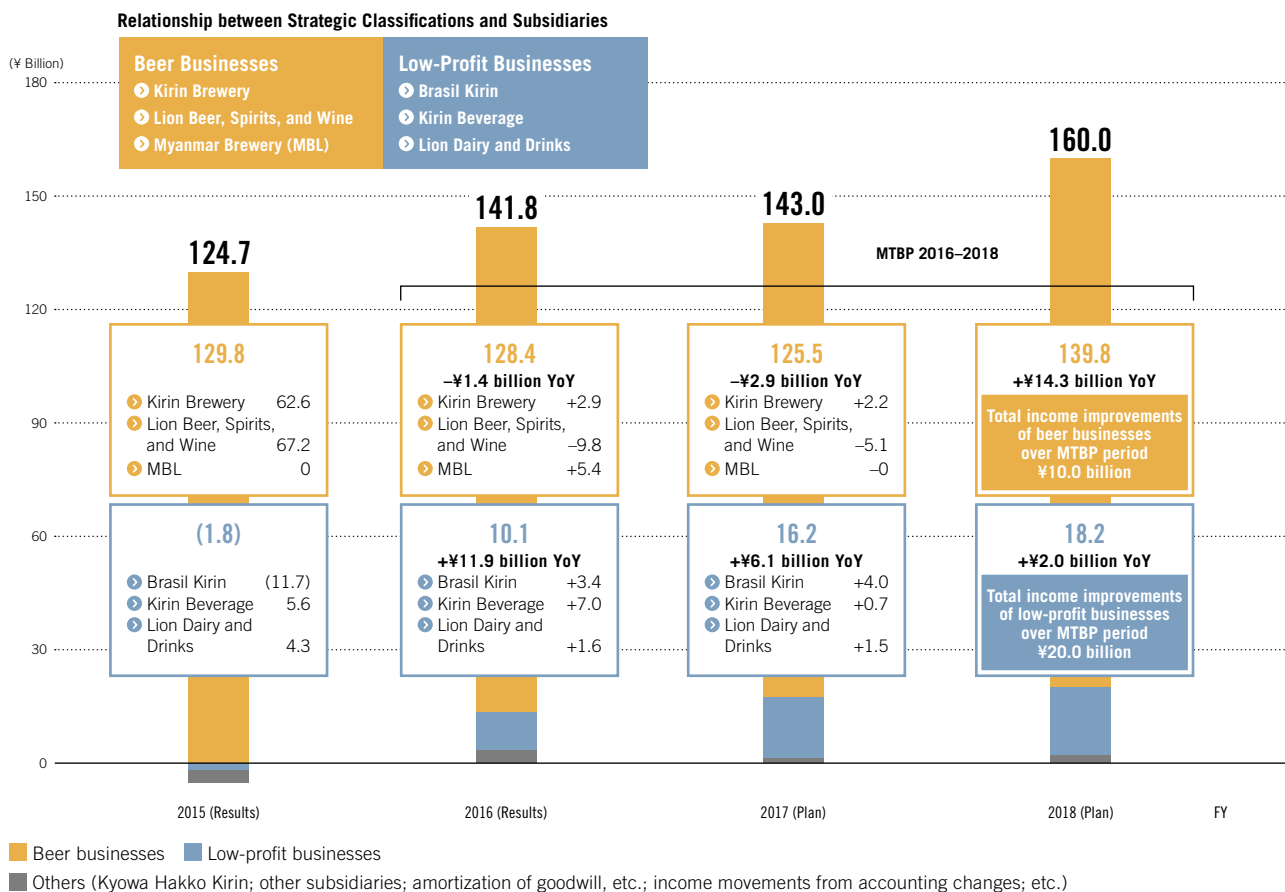
### Business Structure

The Kirin Group is centered on Kirin Holdings, a pure holding company. In markets around the world, the Group conducts business in the domains of “food and well-being.” The Integrated Beverages Business provides alcoholic beverages and non-alcoholic beverages. In this business, Group companies coordinate with local overseas subsidiaries to gather feedback from consumers and other members of society and supply products and services that are suited to various lifestyles and sensibilities. The Pharmaceuticals and Bio-chemicals Businesses advance proprietary research projects utilizing sophisticated technologies and unique perspectives. We thereby seek to develop and offer high-quality products that improve the health and enrich the lives of people around the world. Through these businesses, we are realizing sustained growth by providing society with new value.

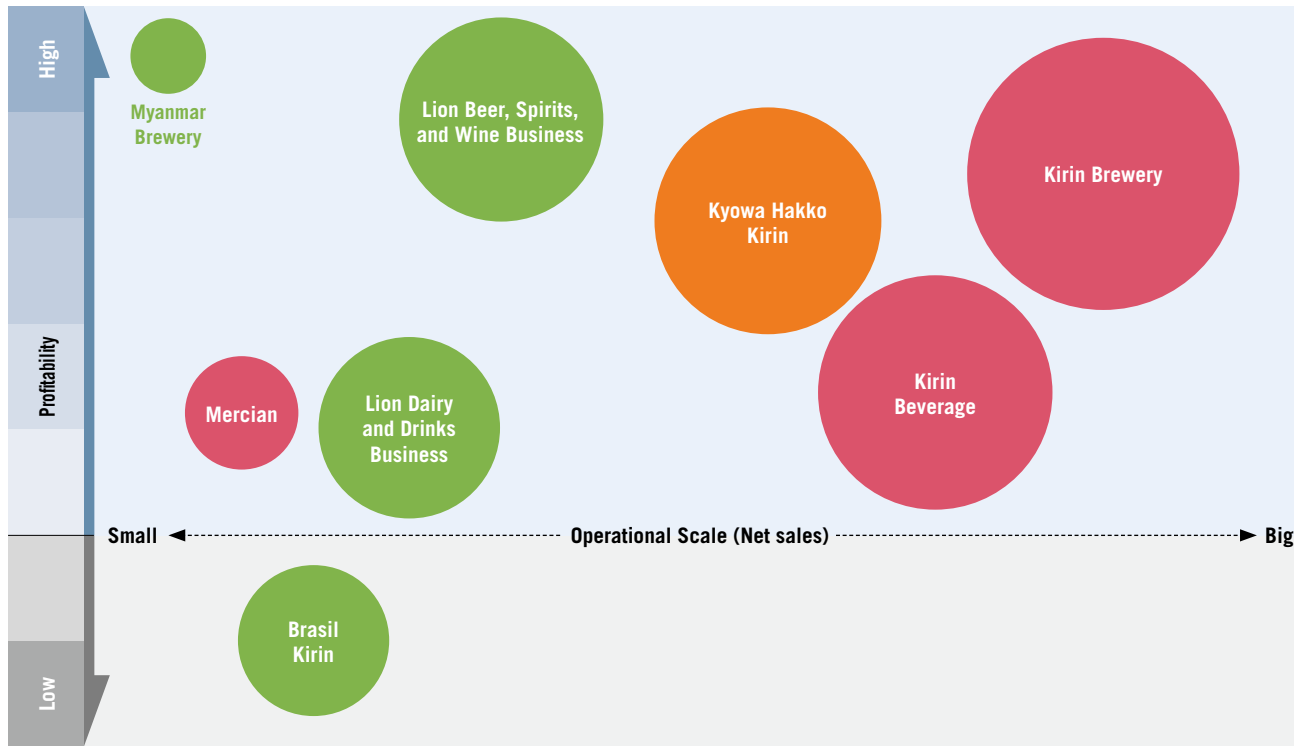
### Earnings Structure

The composition of the Kirin Group's consolidated operating income by business segment is extremely well balanced. On the foundation provided by this earnings structure, the Group has formulated strategies for each of its businesses from the viewpoints of market growth potential and earnings potential. The Group's earnings are supported by its beer businesses, in which we are strengthening our profit base. Meanwhile, we are actively investing in R&D activities in the Pharmaceuticals and Bio-chemicals Businesses with the aim of achieving outstanding growth in the medium to long term. In low-profit businesses, we will accelerate efforts to build a strong brand portfolio and implement structural reforms in order to realize profitable growth. Through the finely tuned allocation of management resources, Kirin Holdings will enhance the Group's profitability, leading to sustainable growth.

### Operating Income of Subsidiaries by Strategic Classification—Progress in First Year of Medium-Term Business Plan (MTBP)



### Scale and Profitability of Subsidiaries



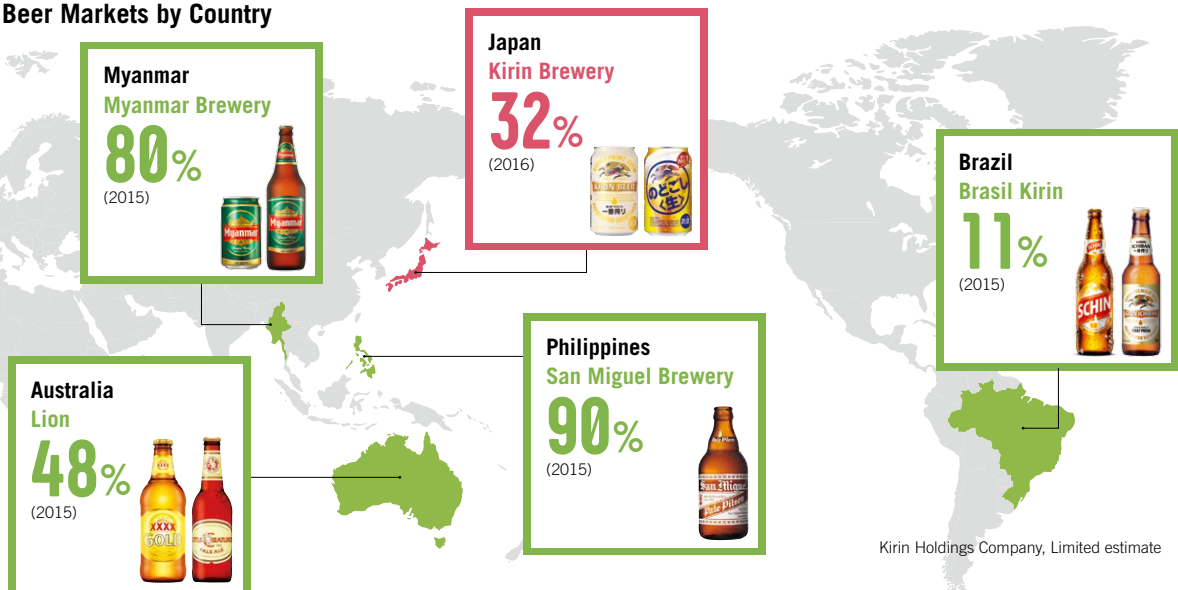
	Kirin Brewery <sup>*1</sup>	Kirin Beverage <sup>*1</sup>	Mercian <sup>*1, *2</sup>	Lion Beer, <sup>*3</sup> Spirits, and Wine business	Lion Dairy and Drinks business <sup>*3</sup>	Brasil Kirin <sup>*3</sup>	Myanmar Brewery <sup>*3</sup>	Kyowa Hakko Kirin	
Fiscal 2016									
Net sales (¥ Billion)	402.2	354.6	66.3	222.8	149.8	117.9	22.4	335.7	
Operating income (¥ Billion)	69.8	17.2	3.6	57.4	5.9	(8.3)	8.8	34.7	
Operating profit margin (%)	FY2015	15.1	1.5	2.7	27.0	2.3	(8.7)	—	13.2
	FY2016	17.4	4.9	5.4	25.8	4.0	(7.0)	39.2	10.3
	FY2017	17.3	5.1	3.3	26.4	4.9	(2.9)	36.2	11.3

\*1 Operating income for Kirin Brewery, Kirin Beverage, and Mercian is prior to deduction of management fees.

\*2 Net sales of Mercian include liquor taxes.

\*3 Operating income for Lion, Brasil Kirin, and Myanmar Brewery is operating income before amortization of goodwill, etc.

### Shares of Beer Markets by Country



Kirin Holdings Company, Limited estimate



## Advantages of the Foundation as Demonstrated by Examples of Value Creation

## CASE

01

Revitalizing the Beer Market

### *47 Todofuken no Ichiban Shibori*



**Transcending conventional wisdom:  
Changing local pride into flavor through creative initiatives implemented  
in co-creation with consumers**

Kirin Brewery launched the *47 Todofuken no Ichiban Shibori* Project in May 2016. Until then, the conventional wisdom in the beer industry had been that beer tasted the same no matter where in Japan it was made, but this project proved that was not the case.

The scale of the domestic beer market has declined by approximately 1.8 million kiloliters over 20 years, and the reason is thought to be that beer has started to lose its appeal for consumers.

Accordingly, we started this project with the slogan of “changing local pride into flavor.” We aimed for beer that enables consumers to enjoy a more diverse range of flavor, individuality, and regional characteristics as well as different ideas from brewers. Brewmasters from nine plants and salespeople from around the country worked together with people from the local regions to develop recipes by region with a focus on ingredients and brewing methods. In this way, we created 47 kinds of beer, representing the 47 prefectures of Japan. Each plant produced an average of five to six varieties of beer, and we were able to achieve the desired flavors with no test brewing and just a single brewing.

This product concept earned support in the marketplace, and we sold 2.7 million cases (large bottle equivalents), about two times the initial target. Reflecting this success, *47 Todofuken no Ichiban Shibori* received the fiscal 2016 Japan Marketing Award.



## Strengths of Value Creation Foundation That Led to the Success of 47 *Todofuken no Ichiban Shibori*



### Marketing Foundation

#### Involving Local Regions from the Concept Formation Stage

The development of *47 Todofuken no Ichiban Shibori* started with three ideas—Popular in Daily Lifestyles, Communicating the Appeal and Interest of Beer to Younger Consumers, and Regional Revitalization. First, to extend the brand concept of *Ichiban Shibori*—Beer that is Popular in Daily Life—and to closely connect it to the lifestyles, spirit, culture, and local appeal of each region in Japan, we held co-creation workshops with consumers in regions around the country. At these workshops, our branch offices leveraged their networks and invited people well-versed in each prefecture's communities. In this way, we worked together with the local community to develop each concept. In Hiroshima, for

example, workshop participants included employees from the Chugoku Shimbun, a local newspaper publishing company, managers from OTAFUKU SAUCE CO., LTD., and a group of female fans of the Hiroshima Carp professional baseball team. In this way, we were able to incorporate the pride of the local region into the beer.

Our branch managers and other employees throughout the country worked together with members of local communities to consider the appeal of each region and develop concepts based on that appeal. These concepts generated favorable responses. Kirin's assets include strong bonds with local regions, and our co-creation capability, which leverages these bonds in accordance with the idea of revitalizing local regions, is one of our strengths.



### R&D Foundation

#### Achieving 47 Varieties of Flavor with Advanced Brewing Technologies

The number of beers offered by beer companies in Japan each year currently ranges from just a few to about a dozen. In this environment, it was a major challenge for Kirin to develop 47 varieties of beer in one year. The concepts that were created in cooperation with local people at the co-creation workshops in each region gave shape to the pride of each community, and accordingly they were highly individualistic. It was not a simple matter for us to give priority to each of those individual characteristics while creating products that were accepted by regional consumers.

Kirin Company operates the Research Laboratories for Alcoholic Beverage Technologies. This facility, which conducts development and evaluation related to beer

products and RTD products, has a large stockpile of brewing technologies related to ingredients and yeast as well as brewing and fermentation conditions. Making full use of this technology stockpile, the brewers at each plant worked in cooperation with the Research Laboratories for Alcoholic Beverage Technologies to turn the concept for each region into a product.

As a result, we were able to make 47 unique *Ichiban Shibori* products with different colors, aromas, and alcohol content. Kirin's strengths are seen in the Company's brewing technologies, the commitment and sensibilities of the technicians, and the product development capabilities that bring these elements together. These strengths enabled us to create a variety of products.



### Supply Chain Foundation

#### Effective Collaboration That Fosters Close Communications

The *47 Todofuken no Ichiban Shibori* Project effectively leveraged day-to-day collaboration among procurement, production, and logistics departments.

First, in procurement, with a short period of time for preparations, wide-ranging procurement networks were leveraged and a variety of ingredients were secured in a timely manner, including local ingredients that enable consumers to experience the pride of their local region and are used only for their region's product.

Production at plants is typically commenced after the recipe is confirmed through test brewing at a testing plant. However, this project involved small-lot production, and accordingly we made full use of our accumulated knowledge to turn the concepts into

products with no test brewing and just a single brewing. In addition, our nine plants in Japan are a major strength that enabled us to implement flexible production in a short period of time. In logistics, we conducted optimal demand-supply management based on market information. With everyone involved maintaining close communications, we were able to deliver products to consumers with no out-of-stock problems.

No matter how good an idea is, we cannot create value if we do not manufacture the products and deliver them to consumers in a timely manner. Our supply chain foundation, which supports seamless, close collaboration from raw material distribution through to production and logistics, is one of the Company's strengths.

## Advantages of the Foundation as Demonstrated by Examples of Value Creation

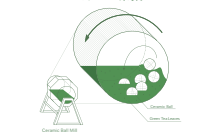
## CASE

## 02 A Better Green Tea Renewing *Nama-cha* to Restore Its Popularity

### 日本のお茶を変えたい。

生茶は、つくりかたから変えました。

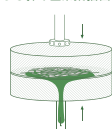
## 1. ミクロン茶葉



## 2. カット茶葉



## 3. まる搾り生茶葉抽出物



味も、香りも、色も。お茶のいいところ、まるごと出し切る。新 生茶 3月22日発売



**We want to change Japanese green tea.  
Creating new value by combining the latest technologies with  
traditional production methods**

This project started in 2016 with the launch of a product intended to revitalize the *Nama-cha* brand. *Nama-cha* became a major hit after its introduction in 2000, with sales of more than 35 million cases in 2003. Subsequently, however, sales started to gradually decline, and by 2014 sales had fallen to about half of the peak level. It is difficult to revitalize a product that has lost its strength, and we even considered launching a new brand.

After deliberating, however, we decided on a new concept—to realize the traditional flavor and vitality of green tea, with the objective of creating an entirely new image while making the very most of the *Nama-cha* brand.

The renewed *Nama-cha* showcased our attention to detail, not only in the flavor, which was achieved through leading-edge technology and original production methods, but also in the container, which was based on the image of a glass bottle.

We had to overcome a number of challenges in order to commercialize this concept, but new *Nama-cha*, with a new taste and a refined design, created new value for green tea in PET bottles, and achieved sales of 26.2 million cases, more than the 22.5 million cases that were sold when *Nama-cha* was launched in 2000.



## Strengths of Value Creation Foundation That Led to the Success of *Nama-cha*



### Marketing Foundation

#### Leveraging Insight about Consumers to Improve Products

We decided to rebrand *Nama-cha* by starting from the viewpoint of creating a new green tea beverage culture. Rather than developing a new product, we took on the challenge of revitalizing the brand by maintaining the name *Nama-cha*, which had reached 15 years since its launch, while enhancing all of the other elements of the brand.

Green tea has always been a beverage for satisfying personal preferences. As a manufacturer, we had not provided a product that satisfied consumers, and

accordingly we aimed to leverage our own advanced technology to create the product content as well as to offer a stylish bottle design so that consumers would be pleased to carry it around at any time. In addition, we thought that the finely powdered tea leaves that collect at the bottom offer flavor, and consumers could also enjoy the process of shaking the bottle when they drink it. Kirin's marketing strengths include our continued commitment to carefully nurturing our brands, cultivating insight so that consumers are always satisfied, and enhancing our products.



### R&D Foundation

#### Creating New Value with Both Content and Packaging

To revitalize *Nama-cha*, we implemented development activities including both content and packaging, starting with the idea of creating a new green tea beverage culture. In regard to the content, rather than focus on tea leaves and tea dealers, we aimed to use our original technologies to make a tea that could not be brewed with small teapots at home. As a result, we decided to use the latest technologies (whole powdered tea leaves: finely powdering whole tea leaves with a ceramic ball mill) combined with traditional production methods (enhancing the tea brewing method through such means as using low-temperature extraction to draw out sweetness). In this way, we developed a taste that has a good balance between umami and bitter flavors and that consumers do not grow tired of, even if they drink it every day.

In addition, one of the Company's strengths is the Research Laboratories for Packaging Technologies, which has technologies and equipment enabling the in-house development of containers.

In accordance with the concept that we want *Nama-cha* to be enjoyed like a luxury product, we used Kirin Brewery's *Heartland Beer* bottle as an inspiration, and at the Research Laboratories for Packaging Technologies we developed a refined bottle design that is reminiscent of a glass bottle. Moreover, even while it features a stylish design that is not available anywhere else, the container has a durability that enables it to handle the stresses encountered during the storage and shipping stages. For new *Nama-cha*, our R&D strengths allowed us to realize both content and packaging that brought about the creation of a new green tea beverage culture.



### Supply Chain Foundation

#### Kirin Pride in Striving for Zero Out-of-Stock Problems, Even with Demand Increasing

One strength of our supply chain is the ability to consistently enable consumers to make a purchase when they decide they want a product. We made full use of this strength during the renewal of *Nama-cha*. We anticipated issues during the packaging process due to such factors as the addition of finely powdered tea leaves and a stylish bottle design that poses a high degree of difficulty in conveyance processes. Nonetheless, we were able to enhance production lines and establish a stable production system for *Nama-cha* in just a short development period. In addition, typically there is said to be a risk of out-of-stock issues when

shipments exceed 120% of planned levels. This product became a hit immediately after it was launched, and as a result shipments reached 170% of initial plans. Nonetheless, related departments—procurement, production, logistics, and marketing—worked together to implement a flexible response. Consequently, there was not a single out-of-stock problem, and we were able to continue to make deliveries to stores. This involves more than just the use of a system that facilitates the visualization of demand and supply. The detailed operational skills of our managers, which were cultivated in accordance with our commitment to sustaining the trust of consumers, are one of our important strengths.



## Advantages of the Foundation as Demonstrated by Examples of Value Creation



## CASE

## 03 Next Step to Capture Overseas Market Growth Myanmar Brewery Limited



### Focusing the Group's comprehensive strengths Achieving further growth with a robust system

Myanmar is known as the final frontier in Asia. Myanmar Brewery has established a leading position in the market, with a dominant share of about 80%. The business environment is changing on a daily basis, however, due to rapid economic growth, competition, consumer needs, and other factors.


Following the acquisition of Myanmar Brewery in August 2015, we took steps to reinforce the company's position as the market leader. To that end, we executed holistic initiatives for post-merger integration in a short period of time and introduced the know-how that we have cultivated through our operations in Japan as well as overseas M&A activities. Through these initiatives, critical issues have been resolved.

In particular, we quickly addressed not only the establishment of a stronger brand portfolio but also the expansion of production capacity, which had been an issue for many years. Our relationship with Myanmar Brewery has gotten off to a favorable start with a high operating profit margin\* of 39% in the first year of consolidation.

Moving forward, to accommodate further growth in demand, we will leverage the Kirin Group's value creation foundation by addressing medium- to long-term issues, such as securing and developing human resources. In February 2017, we decided to invest in Mandalay Brewery, which is located in Mandalay, Myanmar's second-largest city. Going forward, we will steadily capture market growth and expand our business in Myanmar as the core of our beer businesses in Southeast Asia.

\* Based on operating income before amortization of goodwill, etc.

Details on Myanmar Brewery can be found on the following website.

 Myanmar Brewery Limited  
<http://myanmarbeer.com/>



## Strengths of Value Creation Foundation That Led to the Success of Myanmar Brewery



### Marketing Foundation

#### Leveraging Original Research Methods to Formulate Brand Strategies for New Markets

Global competitors have entered the attractive Myanmar beer market, where mainstream products account for the majority of the market. For Myanmar Brewery, the most important strategic issue is to further reinforce *Myanmar Beer*, the core product in this price range. What are consumers' latent needs? And what value can we provide to satisfy those needs with this product? To thoroughly analyze these issues, we utilized Kirin's unique research method, which is a part of the Group's

shared marketing framework. Moving forward, the results of this analysis will be reflected in the fundamental concept of the *Myanmar Beer* brand. In addition, Myanmar Brewery has an extremely strong sales network, and channel diversification is anticipated as the economy grows. In anticipation of a shift toward mass retailer channels in Yangon and other urban areas, we will transfer the know-how that we have cultivated in other markets, including the implementation of store-level branding and the establishment of relationships with retail chains.



### R&D Foundation

#### Achieving New Product Development in a Short Period of Time

Accompanying improvement in economic conditions in Myanmar, the beer market is expecting record growth in demand for premium products. Moreover, competitors have already started to boost their efforts in the premium sector. When Kirin made this investment in August 2015, the premium sector was a weak point in the Myanmar Brewery brand portfolio. Therefore, by fully utilizing the pilot plants and evaluation technologies of the Research & Development Division of Kirin Company, we developed and launched *Myanmar Premium* and *KIRIN ICHIBAN*. In this way, we have built a brand portfolio with a full lineup that can compete with those of other companies. To achieve the desired beer flavor

while having to work within a tight time frame, it is necessary to determine in advance the best ingredients and brewing conditions, with a high degree of accuracy. Our success with Myanmar Brewery benefited from our ability to fully leverage our know-how, which systematically incorporates the results of multiple, large-scale brewing tests that we have conducted in the past.



### Supply Chain Foundation

#### Kirin's Know-How That Facilitates the Achievement of High Quality and Low Cost

To meet rapidly rising beer demand, it is important to increase production capacity in a timely manner. However, in designing production facilities, we need to meet high targets in areas as diverse as quality, cost, safety, and environmental protection. To achieve these targets, we made full use of technologies in operation and engineering that Kirin Brewery has cultivated. In 2016, we introduced new technologies in the brewing process and improved operation efficiency in the packaging process. In this way, we increased annual production capacity by more than 10%. Currently, we are

implementing a large-scale expansion of brewing and packaging facilities, with a target of commencing operations in 2017. As a result, we expect to achieve a substantial increase in production capacity. Furthermore, by utilizing Kirin's advanced analytical technologies in quality control, we have been able to further boost quality, which was already highly regarded, and to increase consumers' satisfaction. In procurement, by participating in the joint procurement scheme of the Kirin Group, Myanmar Brewery has been able to reduce costs and increase its capacity for business investment targeting future growth.

# Marketing



**Junko Tsuboi**

Executive Officer  
General Manager of  
Strategic Branding Department

## Kirin Group Marketing Supporting Sustained Growth

Kirin aims to implement marketing that always integrates corporate activities from the consumer's perspective. "Quality with Surprise"\* is our key phrase for value creation, leveraging our inherited corporate DNA of "Quality First." This approach comprises the foundation of marketing at Kirin. The Kirin Way for (4) Brand Building (KW4BB), a marketing framework shared throughout the Group, is our platform for giving shape to "Quality with Surprise" and putting together consumer-based marketing.

CSV and digital marketing are drivers that advance consumer-based marketing. We will strive to realize value for society as value for consumers, and to use the latest digital technologies to optimize and advance marketing as a whole with a focus on consumers.

Throughout our long history, we have fostered bonds with consumers, and these bonds are our greatest asset. Moving forward, we will strive to achieve sustained growth by continuing to rigorously create innovation from the consumer's viewpoint.

\* "Quality with Surprise," our key phrase for value creation of the Japan Integrated Beverages Business, comprises Kirin's fundamental approach to marketing—continuing to rigorously work from the consumer's viewpoint and to create new experiences for consumers through superb production and quality control capabilities ("good experiences through good products").

## The Superiority of Kirin's Marketing Foundation

Based on the knowledge that we have cultivated, we independently formulated KW4BB with reference to examples of companies around the world that have excellent marketing. Under KW4BB, Lion and the Japan Integrated Beverages Business have rebuilt the targeted consumer insight\*<sup>1</sup> and proposition\*<sup>2</sup> for each brand, transitioning to insight-first marketing. In addition, we are applying KW4BB to the overseas *KIRIN ICHIBAN* business. For *Nama-cha*, we conducted a renewal rooted firmly in the brand's DNA at the time of its launch. KW4BB was implemented with comprehensive communications from the consumer's viewpoint. This received significant support from consumers and led to the creation of value through increased brand strength.

We are implementing unique initiatives with CSV-driven marketing. These include *47 Todofuken no Ichiban Shibori*, which has generated excitement in support of the pride of local regions and has been implemented in cooperation with consumers.

Furthermore, digital marketing offers a deep understanding of consumers through the use of data and helps to deepen the brand experience. With *Kirin Hyoketsu*®, we succeeded in revitalizing the brand with comprehensive communications utilizing digital initiatives.

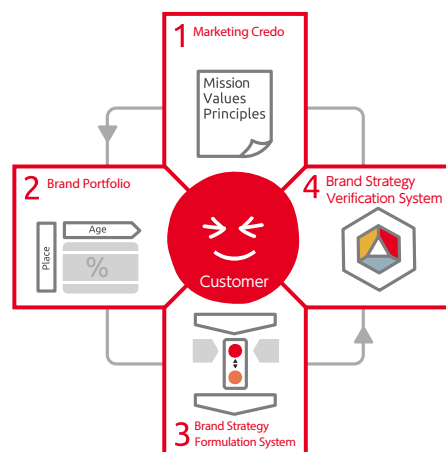
Our bonds with consumers are one of our assets, and to reinforce those bonds we will need to continue to build brands

with everyone who is involved with our businesses. In the future, through programs and other initiatives to deepen understanding of KW4BB, we will take steps to ensure that all employees work with a consumer focus. In this way, we will create a range of innovation and bolster the foundation for "good experiences through good products."

\*<sup>1</sup> The true feelings of consumers, not limited to what they say

\*<sup>2</sup> Proposals drawing on distinctive brand characteristics to reflect insight

## Overview of the KW4BB Common Group Marketing Framework



### Example **Château Mercian Leads Japanese Wine**

One of Kirin's marketing strengths is the incorporation of CSV concepts, which enables us to provide products that offer value for society as value for consumers.

Japanese wine is the focus of growing international attention, and Mercian is working to increase the quality of domestically produced grapes, which are an ingredient for Japanese wine, and to expand vineyards from a long-term perspective. At the Mariko Vineyard in Nagano Prefecture, grape cultivation implemented with an aim of suitable varieties on suitable land has led to the utilization of idle land. By contributing to Japanese agriculture and regional revitalization through winemaking, we will develop Mercian into a brand that local communities care about and are proud of. Moreover, through *Château Mercian*, we will contribute to increasing the international evaluation of Japanese wine by expanding awareness of the quality of Japanese wine and providing it to more consumers.



## Initiatives for Further Growth

With digital marketing, we are achieving results that are drawing attention, even from other industries.

Integrated marketing, which coordinates mass marketing, digital marketing, and real communication, has started to accelerate. In particular, *Kirin Ichiban Shibori*, *Kirin Hyoketsu*<sup>®</sup>, and *Kirin Tanrei Green Label* have drawn significant attention, including among younger consumers, and a contribution is being made to increasing the image not only of the brands but also of the Company. DRINX, our original e-commerce site, is a platform for co-creation of value with consumers. We are building a new marketing model for developing craft beer, Japanese wine, and whiskey brands, including the establishment of relationships especially with consumers who are interested in alcoholic beverages.

Having accumulated consumer behavioral data through these types of marketing activities, we will provide personalized, optimal brand experiences to each consumer. In this way, we are aiming to build sustained relationships with consumers. In addition, we are working to increase marketing ROI by using digital data to improve effectiveness verification and are striving to achieve innovation in marketing through the aggressive introduction of AI and other leading-edge technologies and through the use of big data.

In the current age, digital initiatives are used to build ongoing relationships between individual consumers and brands. It is the capabilities of people that support brands and generate new innovation. Moving forward, we will further increase marketing organizational capabilities, enhance relationships with individual consumers, and further deepen marketing. Digital marketing using the latest technologies will be the driver of these initiatives.





# Research & Development



**Noriaki Kobayashi**

Senior Executive Officer  
in Charge of R&D Strategy

## Kirin Group R&D Supporting Sustained Growth

Over its long history, Kirin has leveraged its technical expertise to offer consumers products with a variety of added value. By drawing on the fermentation technologies, biotechnologies, and mass production technologies cultivated in the beer business, we advanced into the pharmaceuticals business. Subsequently, Kyowa Hakko Kirin, which was created through a merger with Kyowa Hakko Co., Ltd., joined the Kirin Group. As a result, the Group has a wide range of technical expertise.

We are advancing the generation of innovation through effective, efficient R&D resulting from cross-over activities among the six laboratories of Kirin Company's R&D Division and through R&D based on the self-initiative and mutual collaboration of the category-based and function-based organization, which is the characteristic structure of the R&D Division of Kyowa Hakko Kirin. Furthermore, we are taking on the challenge of creating value that is only available from the Kirin Group by combining the technologies and know-how of both companies.

We will further strengthen the technical expertise that is a strength of the Kirin Group and provide new value to society and consumers.

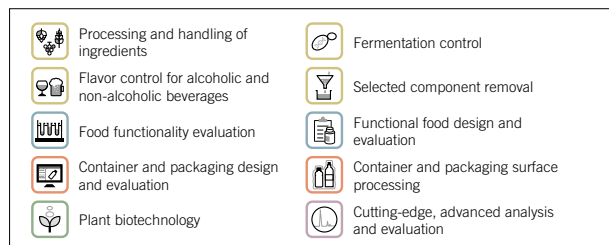
## The Superiority of Kirin's R&D Foundation

### Kirin Company's R&D

Kirin Company's Research & Development Division conducts R&D with the aim of creating new value in fields centered on food and health and well-being. About 300 researchers reach beyond the walls that separate individual laboratories to combine technologies and ideas and aggressively introduce knowledge from inside and outside the Group. In this way, we are generating a wide range of innovation.

Leveraging our strengths, such as the Research Laboratories for Alcoholic Beverage Technologies, which has pilot plants that can accommodate test brewing of a diverse range of beer products, and the Research Laboratories for Packaging Technologies, which conducts in-house development and evaluation of containers and packaging, we rapidly incorporate the results of R&D initiatives into products and services.

We have cultivated strengths in our 10 major R&D technologies, and we draw on combinations of various technologies to leverage our strengths in order to create new value with a focus on the future.



■: Beverages   
 ■: Health   
 ■: Container and packaging   
 ■: Plant biotechnology  
■: Advanced analysis and evaluation

### Kyowa Hakko Kirin's R&D

Kyowa Hakko Kirin is making full use of original R&D capabilities and technical expertise in manufacturing that were cultivated in the field of biopharmaceuticals, as well as open innovation. In this way, the company is implementing new drug discovery activities, centered on four major modalities—therapeutic antibodies, small molecule drugs, nucleic acid drugs, and regenerative therapeutics. Aiming to continue to discover innovative drugs that address unmet medical needs and to be the first to launch them, Kyowa Hakko Kirin is advancing R&D under an integrated system that extends from discovery to development and post-marketing development with a special focus on nephrology, oncology, immunology and allergy, and the central nervous system.

Therapeutic antibody manufacturing technologies are one of the representative technologies of Kyowa Hakko Kirin. As a result of many years of biopharmaceutical research, the company has established POTELLIGENT® and COMPLEGENT® technologies, which dramatically enhance the performance of therapeutic antibodies, as well as a technology that enables us to fully generate human antibodies with the same level of diversity as those produced naturally by humans. A consistent research platform and a variety of technologies from creation to improvement of therapeutic antibodies have greatly contributed to our therapeutic antibody development.

### Example 1 Application of Selected Component Removal Technologies

Selected component removal technologies, which are one of our major R&D technologies, are used to selectively remove only unnecessary components while maintaining flavor.

*Kirin Tanrei Platinum Double*, which utilized a world-first technology for the selected removal of the purine body content in *happo-shu*, has earned strong support from consumers, and sales in 2016 totaled 6.5 million cases, an increase of 6.6% year on year.

In addition, through the use of natural adsorbents that selectively adsorb caffeine, our technology for the removal of caffeine from tea while maintaining the flavor, aroma, and other elements of taste of green tea and black tea, received an award from the Japan Soft Drink Association at the 2016 Society of Soft Drink Technologists, Japan. This technology, which has been extended to *Kirin Caffeine Zero Nama-cha* (a renewal to *Kirin Nama-cha Decaffeinated* is planned for May 2017) and the *Kirin Gogo-no-Kocha Kodawari Sozai* series, is contributing to the creation of products that can be consumed with peace of mind by pregnant women and nursing mothers, small children, and other consumers.



### Example 2 Development of Global Strategic Product KRN23

Kyowa Hakko Kirin is developing KRN23 as a global strategic product that will drive gains in global competitiveness. The development of KRN23 began with research focused on phosphorus metabolism.\*<sup>1</sup> The company subsequently discovered FGF23, a factor involved in diseases such as tumor-induced osteomalacia and X-linked hypophosphatemia (XLH).\*<sup>2</sup> Utilizing its unique antibody technology, Kyowa Hakko Kirin created KRN23, an antibody that inhibits the activity of FGF23. Kyowa Hakko Kirin not only recognized the scientific significance of the discovery of FGF23 but also created therapeutic candidate KRN23 by utilizing antibody technology. This action was based on the desire of the company to develop novel drugs needed by patients suffering from diseases. In order to achieve sustainable growth in overseas markets, Kyowa Hakko Kirin is advancing Global Phase III Clinical Trials of KRN23 for XLH in such countries as the U.S., Europe, Japan, and South Korea.



\*<sup>1</sup> In addition to absorption and excretion, optimal blood concentration of phosphorus is maintained by metabolic turnover that uses bone as storage.

\*<sup>2</sup> A rare disease that causes bone growth disorder as a result of the onset of hypophosphatemia following the excessive excretion of phosphorus due to high concentrations of FGF23 in the blood.

## Initiatives for Further Growth

To foster further collaboration between the alcoholic and non-alcoholic beverages businesses and the pharmaceuticals and bio-chemicals businesses, as well as to accelerate the creation of new value through combinations of the technologies possessed by each business, we have commenced initiatives to step up exchange among researchers from Kirin Company and

the Kyowa Hakko Kirin Group. We will strive to make steady progress in the collaborative themes of both companies and to achieve concrete research results.

In addition, we will implement Open Innovation more aggressively to foster the development, application, and commercialization of promising technologies.

## Supply Chain



**Yasuyuki Ishii**

Director of the Board,  
Senior Executive Officer  
in Charge of SCM Strategy

### \*\*\* Kirin Group Supply Chain Supporting Sustained Growth

A high-quality, efficient supply chain foundation is indispensable for the stable operation of the Group's businesses and the sustained creation of value.

In the Japan Integrated Beverages Business, the procurement, production, and logistics departments work closely together to provide consumers with a steady supply of safe, secure products at low cost. In addition to the technologies and know-how that we have cultivated, we are also aggressively introducing new technologies and facilities. In this way, we are working to create new value. In particular, in the midst of a shift toward consumers enjoying products in individual ways, it has become important to establish a supply chain that realizes the provision of a diverse array of products and services.

In addition, in recent years the operating environment in the pharmaceutical industry has changed dramatically. To respond to the Japanese government's measures to control healthcare expenditures, the reevaluation of production costs has become a necessity. Kyowa Hakko Kirin will be able to achieve higher efficiency and improved GMP\* as well as improve cost competitiveness through a reorganization of its production and facilities, which is currently under way. In addition, Kyowa Hakko Kirin will make continued efforts to improve production technologies while maintaining and increasing its competitive advantage.

\* Good Manufacturing Practice (criteria for manufacturing and quality control management of pharmaceutical products, etc.)

## The Superiority of Kirin's Supply Chain Foundation

### Kirin Brewery's Production Technologies

Technology for the small-lot production of a wide range of products is one of the strengths of Kirin Brewery's production technologies. Consumer preferences have diversified, and there is an increased need for beers that enable greater enjoyment of individuality by reflecting varying tastes and different ideas from brewers. Through the development and introduction of new technology, Kirin Brewery has established a system that can efficiently produce a wide range of products in just the amounts that are needed. In this way, we have been able to produce *47 Todofuken no Ichiban Shibori* products among nine plants and a variety of craft beers including *Yona Yona Ale* and *Brooklyn Lager*.

In addition, in 2014 we established Kirin Innovation Factory Yokohama, which has small-scale, diverse brewing facilities, at the Yokohama Plant. In 2015, in Daikanyama, Tokyo, we opened SPRING VALLEY BREWERY TOKYO, which combines a brewery and a restaurant. In fall 2017, we plan to open SPRING VALLEY BREWERY KYOTO. Through these facilities, we will contribute to the creation of diverse value that is not limited to existing beers, such as craft beers and cider.

### Kyowa Hakko Kirin's Production Technology

By combining the unique techniques and know-how developed to date with advanced technology, Kyowa Hakko Kirin has established a production process that has world-class quality and productivity. At the Bio Process Research and Development Laboratories and the CMC R&D Center, Kyowa Hakko Kirin is developing production processes and drug formulation technologies, and by offering products that incorporate various developed technologies, the company continues to provide new value to people around the world.



## Engineering Technologies

Engineering technologies that support the production foundation are another strength that supports the Kirin Group supply chain. Kirin Engineering is a company that handles the construction of plants and the installation, expansion, and repair of production facilities for the Group, principally for Kirin Brewery, Kirin Beverage, and Kyowa Hakko Kirin. Kirin Engineering has special strengths in food and pharmaceutical plants and is also implementing business initiatives outside the Group in the

food, beverage, pharmaceutical, and biochemical industries.

Kirin Engineering has developed a workforce of engineers in a variety of fields. These engineers have acquired experience and technologies in plant construction and repair over many years. The company is also participating in large-scale construction projects by Group companies overseas, such as Lion and Myanmar Brewery. In this way, Kirin Engineering is contributing to the efficient, effective utilization of capital expenditures.

### Example Initiatives to Increase Group Competitiveness

Reducing costs across the supply chain is an important issue in increasing the Group's competitiveness.

Procurement departments are working to reduce costs by leveraging the Group's economies of scale. We have consolidated the procurement functions of such companies as Kirin Brewery, Kirin Beverage, and Mercian, and we are working to reduce costs and increase efficiency as well as to implement joint procurement activities with the Kyowa Hakko Kirin Group. In addition, in collaboration with Lion and Myanmar Brewery, we are conducting joint procurement of malt, which is a primary ingredient of beer, and other commonly used items, and implementing the mutual sharing of best practices.

In production departments, we are advancing cost reductions through the introduction of new technologies. Kirin Beverage was a leader in making its own PET bottles and introduced Japan's first in-line PET bottle aseptic blow-fill equipment. In this way, we achieved reductions in production costs through mass production. Moreover, steps were taken to conduct in-house manufacturing of the preform used to form PET bottles, and we achieved an industry-first with the introduction of preform molding machinery on a beverage production line.

In logistics departments, through such initiatives as joint delivery with other companies in the same business and the implementation of a modal shift from long-distance truck transport to railway container transport, we are working to reduce transport costs and emissions of carbon dioxide and to address a shortage of truck drivers.



## Initiatives for Further Growth

At Kirin Company, to continue working together with suppliers, who are our business partners, in order to create diverse value through business activities that address social demands and expectations, we formulated the "Kirin Group Supplier CSR Guidelines" and are working to implement CSR procurement. We establish a shared understanding of items that the Group's suppliers must comply with in such areas as respect for compliance and humanity, the environment, safety and security, alcohol-related problems, and social contribution. Major suppliers are asked to submit a "Supplier CSR Confirmation," and we are aiming for a response rate of 100% for suppliers of ingredients and packaging materials. Moreover, we conduct a

supplier satisfaction survey each year. Moving forward, we will strive to implement open, fair transactions through two-way communication with suppliers.

In the future, we will take steps to further bolster CSR procurement in cooperation with suppliers, such as nurturing domestic hops farmers, expanding Rainforest Alliance certification<sup>\*1</sup> and Forest Stewardship Council (FSC) certification,<sup>\*2</sup> and utilizing green electricity.

<sup>\*1</sup> International certification system that audits farms and certifies that they are sustainable in all of the areas of environmental protection, social equity, and economic viability

<sup>\*2</sup> Certification that wood and paper products are produced in a way that shows consideration for environmental conservation of forests, addresses the interests of the regional communities where the forests are located, and is economically sustainable

## Participation in the United Nations Global Compact

The United Nations Global Compact (UNGC) is a voluntary initiative through which companies and organizations committed to exercising responsible and creative leadership act as good citizens to help create global frameworks for realizing sustainable growth.

Companies and organizations participating in the UNGC have their senior management commit to practice 10 universally accepted principles outlined in the areas of human rights protection, elimination of inappropriate labor practices, environmental preservation, and anti-corruption, and advance ongoing initiatives to accomplish the aim of these principles.

The Kirin Group announced its participation in the UNGC in September 2005, and has since been implementing concrete measures for realizing the goals encapsulated in the UNGC's principles. These measures have been incorporated into the Company's relationships with employees and other stakeholders as well as into its business activities spanning the global value chain.



**Message from the President**

The world around us has been going through radical changes, and a wide range of issues have emerged that are getting increasingly serious. It is becoming a global consensus that not only governments and non-governmental organizations but also companies should play an active role in addressing social issues. The latest international frameworks for achieving sustainable global growth, including the Sustainable Development Goals set forth by the United Nations 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), stress the need for companies to make a more proactive contribution.

The Kirin Group signed the UNGC and carries out its social responsibility through its corporate activities

worldwide. Based on the UNGC's 10 principles in the areas of human rights, labor, the environment, and anti-corruption, we are advancing initiatives targeting the realization of sustainability for society and companies.

Furthermore, the Company has established and announced "Our CSV Commitment," a medium- to long-term vision that pertains to the Sustainable Development Goals. Guided by this vision, we will help address global issues as a signatory to the UNGC.

President & CEO of Kirin Holdings



**SUSTAINABLE DEVELOPMENT GOALS**  
17 GOALS TO TRANSFORM OUR WORLD





## ESG Initiatives

To address environmental, social, and governance (ESG) issues, the Group identified management issues for sustainable growth of the Kirin Group (Group Materiality Matrix)<sup>\*1</sup> as important themes for the long-term sustainability and development of the Kirin Group and of society. Based on this matrix, we will enhance our human resources and corporate culture and strengthen corporate government as these factors support our foundations for value creation. At the same time, we will faithfully fulfill our responsibilities to address social issues, such as those related to the environment, as a company seeking harmonious coexistence with society.

\*1 Please see page 29 for more details.

### Initiatives Related to Major Issues

Below, we will introduce the initiatives the Group is advancing in relation to major issues with the aim of living up to the demands and expectations of society. These issues—namely global warming, alcohol-related problems, and food safety and security—are being addressed on a Groupwide basis through activities that include tackling the priority issues described in “Our CSV Commitment.”<sup>\*2</sup>

\*2 Please see page 28 for more details.

#### 1 Global Warming

In 2013, the Kirin Group established the Kirin Group Long-Term Environmental Vision together with the long-term targets for 2050. The aim of this vision is to guide us in stabilizing our business management and preserving the global environment to ensure that we can continue to benefit from nature's bounty.

The importance of global warming prevention measures began to increase rapidly following the 2015 adoption of the Paris Agreement. Accordingly, the Company has formulated medium-term greenhouse gas emission reduction targets based on the methodology of Science Based Targets.<sup>\*3</sup> We are promoting more efficient energy use while also expanding our usage of renewable energy in order to accomplish these targets.

\*3 Science Based Targets is a joint initiative created by CDP, the UNGC, the World Resources Institute, and the World Wildlife Fund to encourage companies to establish reduction targets based on scientific insight in order to keep the average increase in global temperature below 2°C.

#### 2 Alcohol-Related Problems

As a responsible alcohol producer we are concerned that the harmful use of alcohol can create adverse health consequences and contribute to social problems. To address these issues, we have in place rigorous voluntary regulations for advertisements and promotions and are engaged in activities to educate people on the subject of responsible alcohol consumption.

In Japan, the national government unveiled the Basic Act on Measures to Prevent Damage to Health Due to Alcohol in 2016. Based on this plan, an industrywide movement is being advanced to prevent attempts to lure individuals into inappropriate imbibing habits through coordination with government agencies and healthcare professionals. In Australia and New Zealand, meanwhile, we are expanding our lineup of low-alcohol beers to help facilitate responsible drinking while at the same time participating in industry initiatives for promoting healthy drinking habits among youths and all other adults.

#### 3 Food Safety and Security

Consumer concern for food safety and security, in relation to quality specifically, has been rising in the midst of threats to food safety in forms such as food terrorism, food mislabeling, and food poisoning (norovirus). We realize that addressing these threats is a top priority among our responsibilities as a corporate group that deals in food products. The Kirin Group's basic quality policies entail a consumer orientation and a focus on quality. Accordingly, we strive to ensure the safety of our food products and utilize our various points of contact with consumers to provide them with information that gives them peace of mind when using our products. These efforts have stimulated an increase in the sense of security and reliability consumers hold with regard to the quality of our products. Moreover, we earnestly listen to consumer input and value communication with consumers, which enables us to faithfully supply information that proves Kirin's reliability.

## Human Resources—Valuable Resource Supporting Sustained Growth



### Message from Executive Officer in Charge of Human Resources

Our human resources, which have unlimited potential, support the sustained growth of the Kirin Group and are the Group's most valuable management resource. In the belief that employees and the Company are equal partners, the Kirin Group respects the hard work and individuality of its employees, who are thoroughly committed to their work and have a strong appetite for growth through their work. To this end, the Group strives to provide these employees with opportunities to take on new challenges and grow. This policy forms the foundation of the Basic Human Resources Principle, which outlines the basic principles for the Group's human resources development initiatives and guides us in facilitating employee growth and career development.

The Company's operating environment continues to change, and we thus recognize the need to heighten our organizational capabilities, which underpin our efforts to continue providing consumers with new value. It is for this reason that we are engaged in various initiatives focused on cultivating leadership skills, developing human resources, reforming working styles, and promoting diversity.

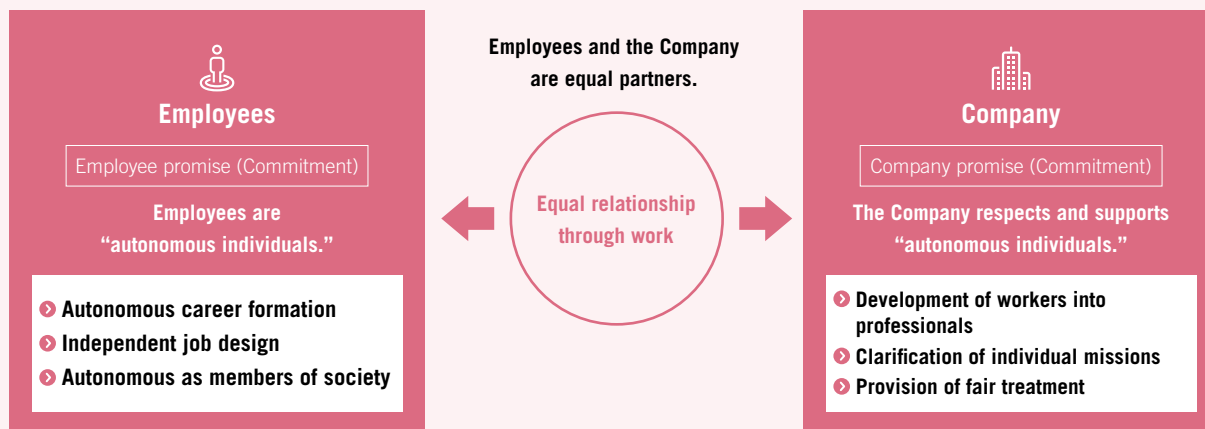
### Toshiya Miyoshi

Director of the Board,  
Senior Executive Officer in Charge of Human Resources

### Basic Human Resources Principle

#### Basic Human Resources Principle = Respect for Humanity

We respect the efforts and individuality (humanity) of all employees, who have unlimited potential and naturally continue to grow and develop, and we strive to create an environment in which they can do their best.



## Human Resources and Corporate Culture Reforms for Creating New Value

The Kirin Group aims to reform its human resources strategies and corporate culture in order to remain a company that continually creates new value for consumers.

Accordingly, we seek to provide employees that are thoroughly committed to their work and have a strong appetite for growth through their work with opportunities to take on new challenges and grow, regardless of their age or other attributes. In this quest, we seek to become a disciplined yet caring company that is passionately committed to developing its employees through their work and is actively involved in this growth process.

Thereby, in creating new value, we will strive to give rise to an environment in which pursuing lofty targets and tackling new challenges is standard practice and the lessons learned from such undertakings are utilized in future endeavors. Important initiatives to this end include cultivating leadership skills, developing human resources, reforming working styles, and promoting diversity.



**An environment in which pursuing lofty targets and tackling new challenges is standard practice and the lessons learned from such undertakings are utilized in future endeavors**

### **Disciplined Yet Caring Company**

A meritocracy in which employees are motivated and able to grow through their work

**2**

**Developing Human Resources**

**3**

**Reforming Working Styles**

**4**

**Promoting Diversity**

**1**

**Cultivating Leadership Skills**

### **1 Cultivating Leadership Skills**

A corporate culture in which pursuing lofty targets and tackling new challenges is standard practice and essential to the Company's ability to continue providing consumers with new value. The Group is aware of the massive influence that the words and deeds of leaders can have on the corporate culture and is thus dedicated to cultivating leadership skills. As one facet of these efforts, we are increasing opportunities for direct and reciprocal communication between senior management and division heads and the rest of our employee base. Furthermore, we have set up a program spearheaded by 130 prominent organization leaders aimed at encouraging leaders to act differently in order to better fulfill their responsibilities of accomplishing organizational targets and developing human resources.

## Human Resources—Valuable Resource Supporting Sustained Growth

### 2 Developing Human Resources

At the Kirin Group, we continually work to develop human resources, who we strongly believe are sources of value creation. To strengthen our competitiveness in a challenging operating environment and in an era that requires change, we must do our utmost to develop the people that will lead the growth of the Group in the future and people that can realize the creation of value linked to our growth strategies.

The Kirin Group's fundamental belief regarding human resources development is that "people grow through their work." Our policy for human resources development is to aim for autonomous, enthusiastic self-development by each individual in order to realize management reform. On that basis, we are taking steps to address the three high-priority challenges described below.

1. Leaders should have responsibility for the development of their people and implement on-the-job training.
2. Everyone should understand the human resources development system and actively use the system to work toward self-development.
3. People aiming to be management leaders of the future should take steps to develop their capabilities with self-awareness and resolution.

### 3 Reforming Working Styles

The Kirin Group has continued to push forward with workplace environment initiatives for ensuring the proper management of work hours, including promoting strict compliance with arrangements pertaining to Article 36 of the Labor Standards Act and encouraging employees to take multiple consecutive days off. In 2017, we will deploy measures to help create time for employees to tackle new challenges and engage in reflective thought. Through these initiatives, we are cultivating an environment in which pursuing lofty targets and tackling new challenges is standard practice and the lessons learned from such undertakings are utilized in future endeavors.

One specific initiative in this regard is the implementation of measures that enable all employees to work from home, which include making it possible for employees to connect to Company servers from their home computer via the Internet. These measures are helping to create more free time for employees through increased productivity and efficiency.

Meanwhile, Kyowa Hakko Kirin Co., Ltd., launched its "smart work" campaign following the July 2016 relocation of its head office as an initiative for cultivating its desired corporate culture and employee awareness.

### Health-Oriented Business Management

As a conglomerate that delivers products and services contributing to consumer health and well-being, the Kirin Group will promote health-oriented business management and work to create an environment and opportunities that allow employees to proactively improve their own health. The end goal of these efforts is to thoroughly energize the organization. We are implementing measures that go a step further than our customary occupational health and safety activities (regular health examinations, stress checks, measures for preventing health issues from working excessive hours, etc.), with an eye to enhancing the effectiveness of these activities.

In 2017, the president & CEO of Kirin Holdings made a health-oriented business management declaration to employees. Our initiatives on this front are focused on four themes of particular importance with regard to occupational health and safety and employee healthcare: lifestyle diseases, mental health, workplace environment, and appropriate relationship with alcohol.

In February 2017, Kirin Holdings and Kyowa Hakko Kirin were recognized in the Excellent Enterprise of Health and Productivity Management—White 500 list released by the Ministry of Economy, Trade and Industry (METI).



#### 4 Promoting Diversity

Currently, the Kirin Group employs approximately 40,000 people at bases around the world. An important management challenge that we face is to increase our organizational capabilities by making full use of the strengths of these diverse human resources. Under the New Kirin Group Vision 2021 (New KV2021), we are aiming for a corporate culture in which all people associated with Kirin Group businesses in global business fields accept each other and in which diversity is leveraged as a strength. Centered on the Diversity Development Section, we are working to create a corporate culture and workplaces in which enthusiastic, diverse employees can work energetically to create new value and achieve growth through their work, without regard to gender, disability, age, nationality, sexual orientation, or gender identity.

##### ▶ Promoting Opportunities for Women

More than a decade has passed since the establishment of the Kirin Women's Network, an internal organization for actively supporting women's careers and network formation. Today, we continue to implement both top-down activities, in which the Group creates opportunities and environments that facilitate active careers for women, and bottom-up activities, which support women's self-development and career growth.

As a recent initiative, we formulated the Long-Term Plan to Promote Active Participation by Women "KWN2021" in 2013, a step ahead of the implementation of the Act on Promotion of Women's Participation and Advancement in the Workplace. Through systematic development and assignments, this plan has expanded career opportunities and advanced promotions for women and developed women's careers in such positions as executive officer, president of Group companies in Japan and overseas, general manager, and plant manager.

##### EIJYO COLLEGE Award

Kirin has been involved in EIJYO COLLEGE, a cross-industry organization for promoting the efforts of women employees in sales positions, since its establishment. As part of our involvement, we conducted an experiment in which a team of female employees without children sought to realize substantial improvements in labor productivity while adhering to the time restrictions that are faced by working mothers. Based on the findings of this experiment, we made suggestions including relevant management reforms to help women in sales positions to continue working after having children (mother accommodation guidelines), and training for male employees to encourage conduct that contributes to a more accommodating corporate culture. Another suggestion was giving working mothers special business cards that identify them as such in order to foster understanding among business partners regarding their efficiency efforts and time limitations. These suggestions were highly evaluated by third-party judges, and Kirin was thus presented with the fiscal 2016 EIJYO COLLEGE Award. Kirin has actually put these suggestions into practice and is thereby working to cultivate a corporate culture that is more conducive to the efforts of female employees.



##### TOPICS Support for Human Resources Development at Myanmar Brewery

The Company commenced investment in Myanmar Brewery Limited in August 2015, and we have since been leveraging the full capacity of the Kirin Group to help this company maintain and fortify its leading position in Myanmar's rapidly changing beer market. These efforts have included planning and conducting training for management candidates at Myanmar Brewery to support the company's human resources development. The goal of these efforts is to cultivate understanding with regard to the Kirin Group and facilitate engagement in order to foster management literacy that is suited to global leaders.

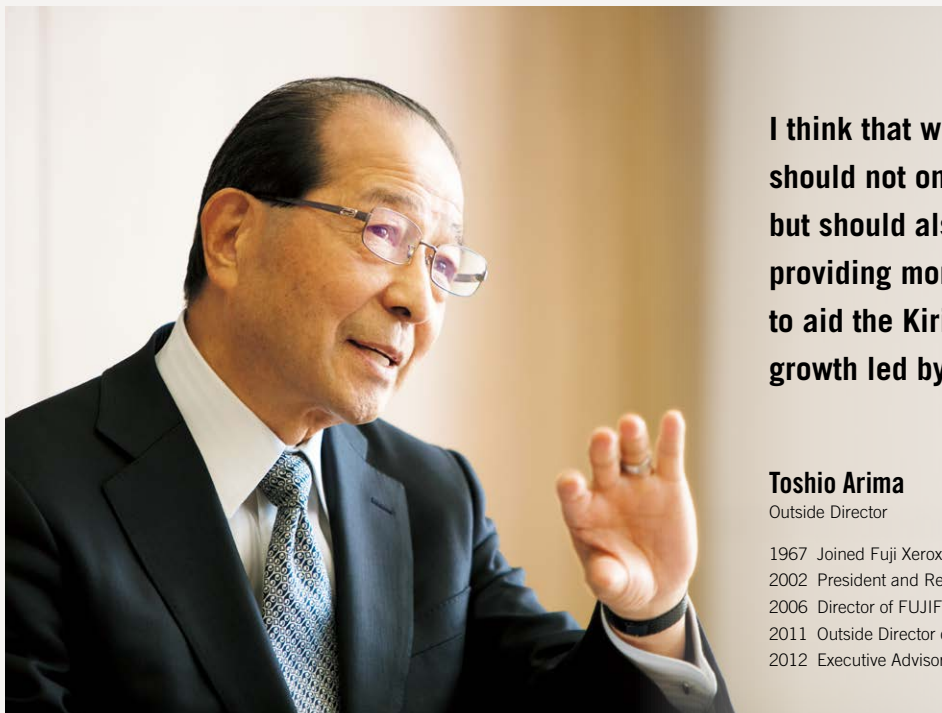
Support and involvement in the development of future leaders at an overseas company is a first for Kirin. This undertaking enabled us to accumulate expertise in this area and to strengthen our organizational capabilities with regard to global human resources management.





## Corporate Governance

### Interview with an Outside Director



**I think that we outside directors should not only offer sideline support but should also fulfill our role in providing monitoring functions in order to aid the Kirin Group in achieving growth led by the creation of value.**

**Toshio Arima**  
Outside Director

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)

Outside Director Toshio Arima assumed the position of Chairman of the Board at Kirin Holdings in April 2016. We asked Mr. Arima for his honest opinions regarding the Company's corporate governance system.

**Q**

**What is your evaluation of Kirin Holdings' corporate governance system?**

Kirin Holdings has been rapidly reinforcing its corporate governance system, particularly in the past few years. Today, around half of the members of the Board of Directors are outside directors. In addition, I received the important post of Chairman of the Board in 2016. Other reinforcement measures included unifying the Nomination Advisory Committee and the Remuneration Advisory Committee. The Company also revised its officer remuneration system to provide officers with more incentive to pursue medium- to long-term improvements in corporate value through ongoing increases in yearly performance, as opposed to simply focusing on single-year business plans. Thanks to these efforts, I would say that Kirin Holdings'

corporate governance system has been evolving into something truly leading edge.

**Q**

**Is this reinforced corporate governance system functioning effectively?**

One of the strengths of Kirin Holdings can be found in its proactive stance toward boosting the effectiveness of its corporate governance system.

This stance is exemplified by the Company's outside director system. Rather than being content with bringing its system in line with Japan's Corporate Governance Code, I strongly believe that Kirin is committed to making its system truly effective. The Kirin Group will have to move forward with globalization

and the creation of new value if it hopes to achieve sustained growth. This endeavor, however, will entail exposure to various risks. Growing while minimizing the potential impacts of these risks will require management to incorporate outside insight and diverse perspectives, and I feel that Kirin Holdings is well aware of this fact.

Outside directors must have an in-depth understanding of executive management policies and the circumstances surrounding front-line operations in order to effectively fulfill their role. To help foster such an understanding, we had the Company start holding study meetings for outside directors and joint briefings with President Isozaki last year. We also have the Company provide us with various opportunities to monitor front-line operations in Japan and overseas. As a result of these measures, outside directors have been actively participating in meetings of the Board of Directors, and unique and diverse perspectives from outside directors have been increasingly incorporated into management. Specifically, such perspectives have been utilized in defining the desired function of the Board of Directors, in conducting negotiations related to M&A activities, and in monitoring management.

Q

**I assume that, given the time restrictions placed on outside directors, efficient Board of Directors proceedings are important. What are your thoughts on this matter?**

You are exactly right. After taking up the position of Chairman of the Board last year, I have continued to discuss, in depth, the subject of efficiency in the proceedings of Kirin Holdings' Board of Directors with President Isozaki.

Previously, a large amount of time was devoted to issues related to individual subsidiaries. Beginning this year, however, we have begun delegating responsibility regarding such issues to the executive branch and to operating companies whenever possible. This has enabled Kirin Holdings' Board of Directors to focus more on discussions of overarching, Groupwide strategies.

Q

**I understand that you are a member of the United Nations Global Compact Board. From that standpoint, how do you view the Kirin Group's CSV management?**

The Kirin Group positions CSV as the foundation for its management, and I think that this stance makes the Group a forerunner in terms of CSV management in Japan. Moreover, I feel

that there is a high degree of understanding with regard to concepts such as shared value and ESG, which exceed the traditional boundaries of CSR. What I would like to commend the most is the fact that the Group based its business plan on the three social issues of health and well-being, community engagement, and the environment. The process of incorporating these ideas into the business plans of Group companies is the very essence of CSV management.

Looking ahead, the Kirin Group will have to overcome the challenge of effectively explaining how its initiatives for addressing social issues will contribute to higher economic value in addition to improvements to social value. Good examples of initiatives that realize increases in both economic and social value have begun to generate results. *47 Todofuken no Ichiban Shibori* is one such example. I hope that the Group will continue to accelerate and expand these initiatives into the future.

Kirin was also quick to respond to the United Nations' SDGs. The SDG Industry Matrix is a set of industry-specific documents showcasing examples of initiatives from numerous global companies created by the UN Global Compact to provide guidelines for corporate action related to the SDGs. The Kirin Group began referencing these documents even prior to the release of their Japanese translations. In the future, I look forward to seeing Kirin grow into the type of major global company that can be introduced in the SDG Industry Matrix.

Q

**In closing, could you explain what you hope to accomplish as the Chairman of the Board?**

If I may make a soccer analogy, a good referee, with mutual respect between the players, recognizing them as the stars of the event, manages the game to guarantee high quality. I aim to play this type of role as the Chairman of the Board.

The Kirin Group has numerous strengths. It is my hope that the Group will be able to fully leverage these strengths into the future in order to improve its economic and social value and thereby achieve growth led by the creation of value.

In supporting these efforts, I think that we outside directors should not only offer sideline support but should also fulfill our role in providing monitoring functions.

## Corporate Governance

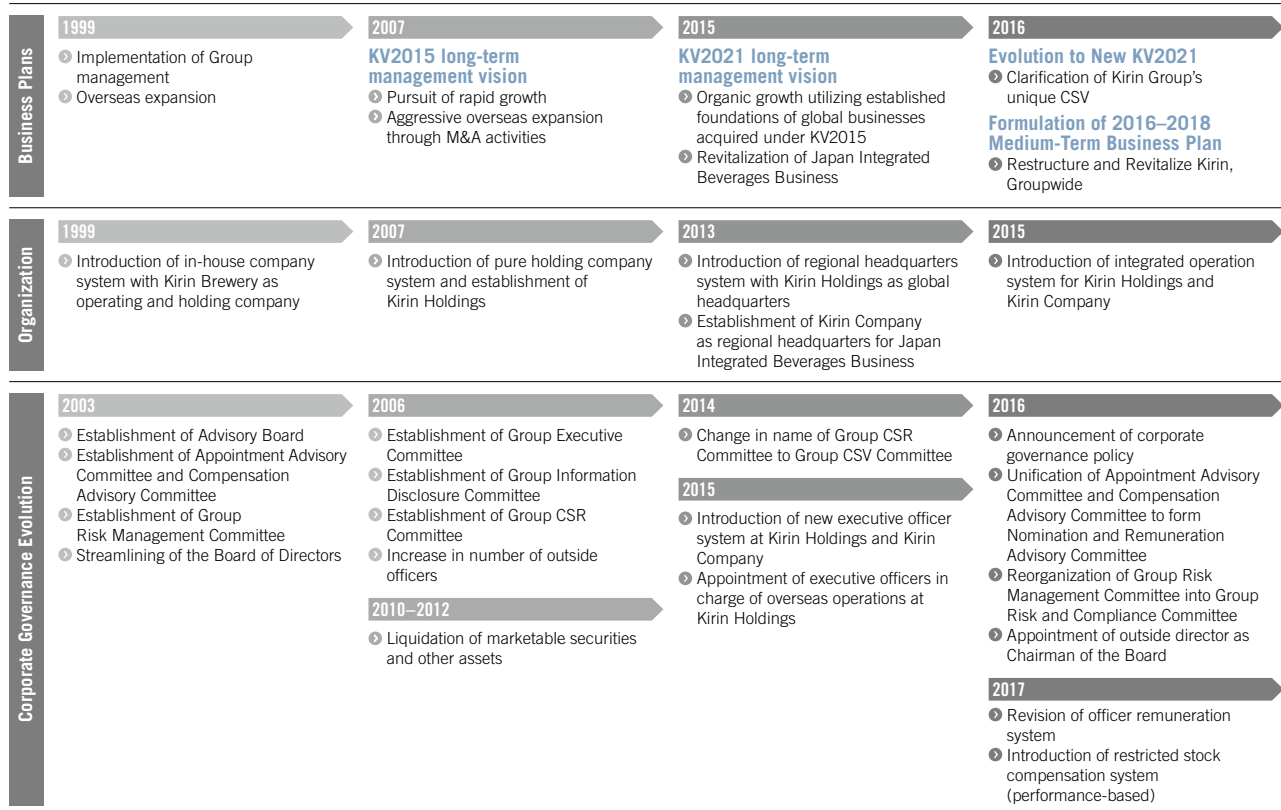
### Basic View on Corporate Governance

The Kirin Group views the reinforcement of corporate governance as a top management priority. In line with its 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 sustainable growth for the Group and to greater corporate value over the medium to long term. Accordingly, the Kirin Group will continue to build upon its corporate governance system to keep it in tune with the times.

The Kirin Group believes that cooperation with its stakeholders will be indispensable to putting its corporate philosophy into practice and turning the 2021 Vision into a reality, and therefore the Group respects its stakeholders' respective viewpoints. With regard to shareholders and investors, the Kirin Group will exercise management accountability with integrity.



### Evolution of Corporate Governance System



Note: Details regarding the Kirin Group's corporate governance rules, including its Corporate Governance Policy and Corporate Governance Report, can be found on the Company's corporate website.



**Corporate Governance (Related Rules)**

<http://www.kirinholdings.co.jp/english/ir/policy/provisions.html>

### Key Points of Corporate Governance

- Point 1**    **Highly Transparent and Impartial Corporate Governance Structure**    ➔ P58

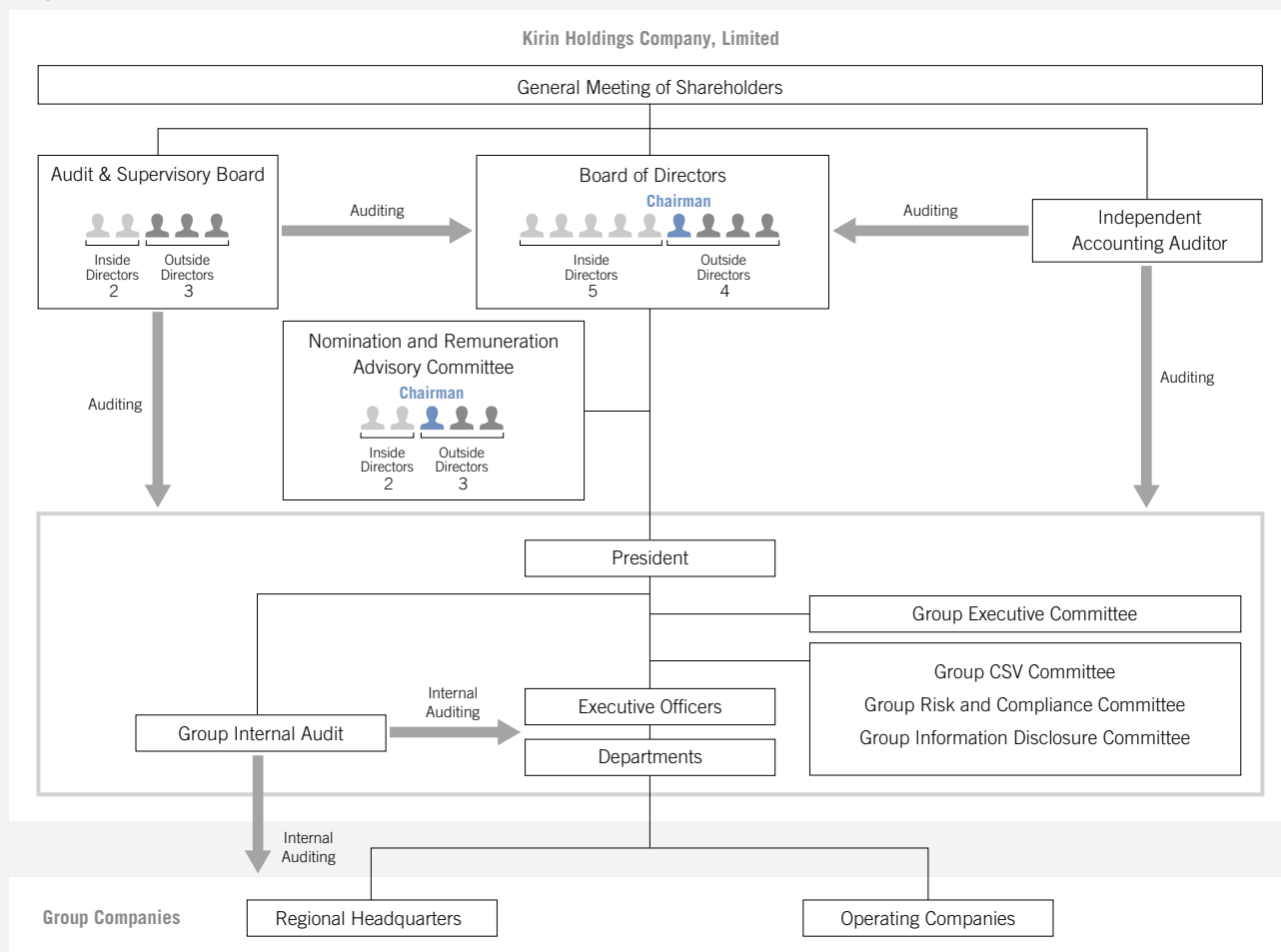
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- Point 2**    **Highly Flexible Operational Execution System**    ➔ PP59-60

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- Point 3**    **Remuneration System Increasing Incentive to Improve Shareholder Value**    ➔ P61

**Corporate Governance Structure** (As of April 1, 2017)



## Corporate Governance

Point

### Highly Transparent and Impartial Corporate Governance Structure

#### Duties of the Board of Directors and Audit & Supervisory Board

The Board of Directors takes on decisions on legal matters and on important Group operational execution matters and is also responsible for monitoring operational execution by directors and for developing appropriate internal control systems across the Group. Four of the nine directors are outside directors, one of whom serves as the Chairman of the Board, helping to ensure the objectivity and effectiveness of management monitoring functions.

The Audit & Supervisory Board is able to call upon both the ability of standing Audit & Supervisory Board Members to collect information within the Group and the independence of outside Audit & Supervisory Board Members. The Audit & Supervisory Board also exchanges opinions with outside directors and shares information gained through auditing activities.

#### TOPICS

##### 1 Evaluations of the Board of Directors' Effectiveness

The Company implemented a new system for the Board of Directors at the end of March 2016. After putting this system in place, discussions were held among the Board of Directors based on self-evaluation surveys filled out by directors and Audit & Supervisory Board Members. An overall review of the Board of Directors was then conducted from the perspectives of the relationship between the Board and management, the composition of the Board, and proceedings and discussions at Board meetings. Through this review, it was determined that the Board of Directors was generally effective. However, there were issues identified with regard to the sufficiency of discussions from a Group

management viewpoint and the sharing of management information. Initiatives to address these issues were launched in January 2017.

##### 2 Opportunities for Sharing of Information by Outside Officers

We seek to foster a deeper understanding of the Kirin Group's business among outside officers. Accordingly, the Company has begun organizing study meetings at beer breweries exclusively for outside officers as well as forums for exchanging opinions between outside officers led by the Chairman of the Board. In addition, information sharing meetings are held to facilitate coordination between outside directors and Audit & Supervisory Board Members.

#### Nomination and Remuneration Advisory Committee

As an advisory body to the Board of Directors, the Nomination and Remuneration Advisory Committee discusses the following matters from an objective and fair perspective and reports to the Board of Directors. The matters that are discussed and reported on include the nomination and remuneration of directors, executive officers, and Audit & Supervisory Board Members. This committee comprises a majority of outside directors and is also chaired by an outside director in order to ensure high levels of transparency in corporate governance.

#### Matters Examined by the Nomination and Remuneration Advisory Committee

- Officer\* nomination policies and successor proposals
- Officer\* remuneration systems, levels, and amounts
- Kirin Holdings CEO successor plan

\* Directors, executive officers, and Audit & Supervisory Board Members of Kirin Holdings and major Group companies

#### TOPICS

##### 1 Deliberation regarding Remuneration Systems for Officers (Please refer to page 61.)

##### 2 Oversight of CEO Successor Plan

The Nomination and Remuneration Advisory Committee examined the CEO successor plan with regard to matters including the necessary criteria for being the CEO and highly transparent candidate selection processes.



## Point 2 Highly Flexible Operational Execution System

Kirin Holdings has established the following committees to function as advisory bodies to the president & CEO.

	Group Executive Committee	Group CSV Committee	Group Risk and Compliance Committee	Group Information Disclosure Committee
Chairman	President & CEO	President & CEO	Executive officer in charge of Risk Management	Executive officer in charge of Finances (CFO)
Members	<ul style="list-style-type: none"> <li>Executive officers</li> <li>Standing Audit &amp; Supervisory Board Members</li> <li>Heads of divisions related to agenda items</li> <li>Presidents of Group companies</li> </ul>	<ul style="list-style-type: none"> <li>CEOs of regional headquarters</li> <li>President of Kyowa Hakko Kirin</li> <li>Executive officer in charge of CSV</li> </ul>	Same as members of Group Executive Committee	Director of Group Corporate Strategy, Group Finance, Group Legal, and Group Corporate Communications Observers: Audit & Supervisory Board Members, Director of Group Internal Audit
Secretariat	Group Corporate Strategy	Group CSV Management Section, Group Corporate Strategy	Group Corporate Strategy	IR Section, Group Corporate Communications
Meeting frequency	Once a month	Once a year, in principle	As necessary based on risk management cycle and circumstances	Once a quarter

### Group Executive Committee and Group CSV 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.

The Group CSV Committee meets to support the Kirin Group's efforts to actively promote CSV. The presidents or CEOs of major Group companies assemble at committee meetings to confirm the progress of the CSV initiatives forming the foundation for Group management and take part in discussions based on input from society and stakeholders. This committee also functions as a forum for enhancing our CSV initiatives, and is thus used as a means of monitoring measures related to "Our CSV Commitment." The chairman of the Group CSV Committee offers guidance on how to increase the effectiveness of the CSV initiatives implemented in a given fiscal year during the following year.

### Governance of Group Companies

Kirin Holdings is reinforcing the governance of Group companies through the Board of Directors. In addition to appropriately delegating authority to Group companies, directors and executive officers are also dispatched to these companies. With regard to the Overseas Integrated Beverages Business, an executive officer of Kirin Holdings has been assigned responsibility for the entirety of overseas operations, and executive officers with operational execution responsibilities have been appointed at Brasil Kirin and Myanmar Brewery. These officers enable swift and accurate response to management issues faced overseas.

#### COLUMN

#### Cross-Shareholdings

Kirin Holdings' Board of Directors examines the rationality of cross-shareholdings on an annual basis. The holdings are evaluated from a comprehensive perspective considering factors such as their necessity to business operations for contributing to stable financing and the procurement of raw materials, business partnerships, and sales policies, as well as share price trends, profitability, shareholding risks, etc. Those cross-shareholdings for which the reason for holding has been diminished will be sold. As of December 31, 2016, the Company held shares of 39 companies, with a total value on the Consolidated Balance Sheets of ¥72,232 million, for purposes other than pure investment.

## Corporate Governance

### Point 2 Highly Flexible Operational Execution System

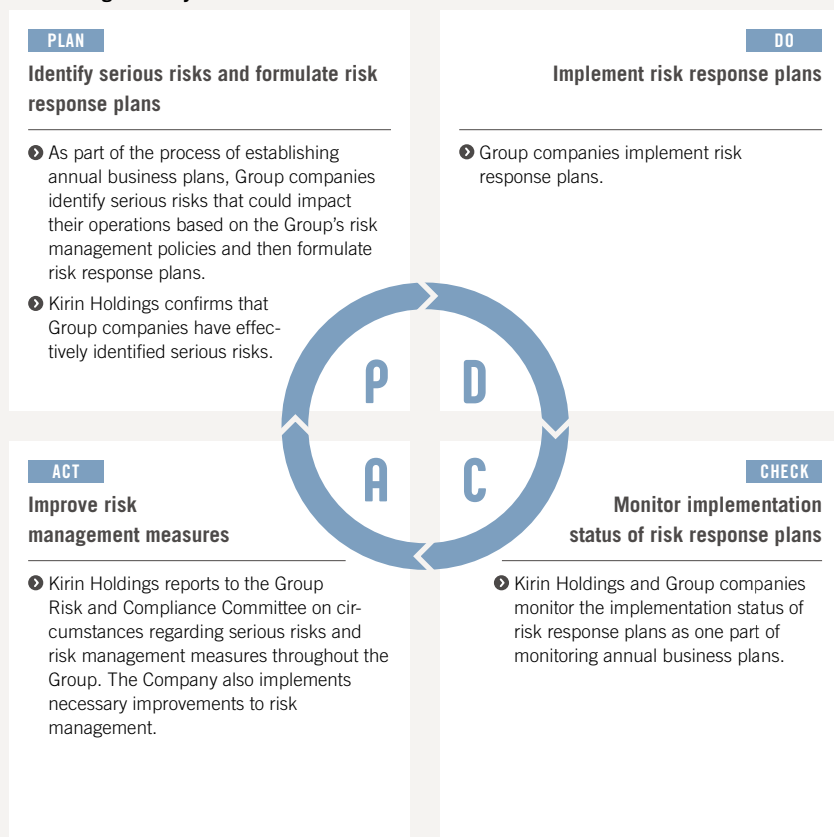
#### Risk Management

The Kirin Group establishes risk management systems and works to manage risk to ensure that it can accurately identify and address risks with the potential to seriously impede the accomplishment of its targets or impact its business continuity. Priority risk areas have been defined that include risks related to new strategies or initiatives and risks arising from major changes in the operating environment.

Group companies identify serious internal and external risks and formulate response measures as part of the process of establishing annual business plans.

Kirin Holdings promotes Groupwide risk management. Specific measures to this end include putting forth the Group's risk management policies, confirming that Group companies have effectively identified serious risks, and monitoring the status of response plans relating to these risks and their implementation.

#### Risk Management Cycle



#### 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 and energy prices
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

Note: Details regarding Business and Other Risk Factors can be found on the Company's corporate website.

**WEB Business and Other Risk Factors**  
<http://www.kirinholdings.co.jp/english/ir/policy/risks.html>

### Point 3

## Remuneration System Increasing Incentive to Improve Shareholder Value

### Introduction of New Remuneration System for Officers

In March 2017, Kirin Holdings revised its remuneration system for officers with the aim of providing officers with strong motivation to accomplish the goals of business plans and of better sharing medium- to long-term value with investors and shareholders. This new system for remuneration of directors and executive officers comprises fixed remuneration as well as annual bonuses offering short-term incentives and a restricted stock compensation system (performance-based) providing medium- to long-term incentives. The remuneration system for outside directors and Audit & Supervisory Board Members comprises basic remuneration only out of consideration of the duties of these officers, which are centered around oversight and auditing.

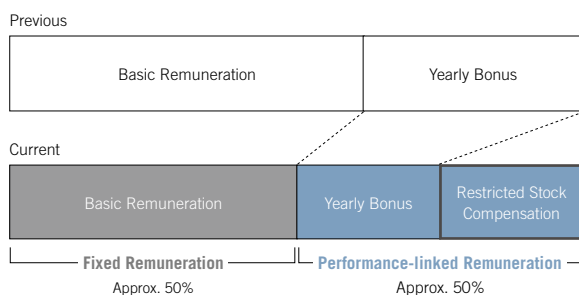
In fiscal 2017, the remuneration system will employ the following frameworks.

#### Changes from Prior Frameworks

#### 1 Larger Portion of Performance-linked Remuneration

Under the new remuneration system, performance-linked remuneration will represent approximately 50% of the total remuneration of an individual should they meet their performance targets.

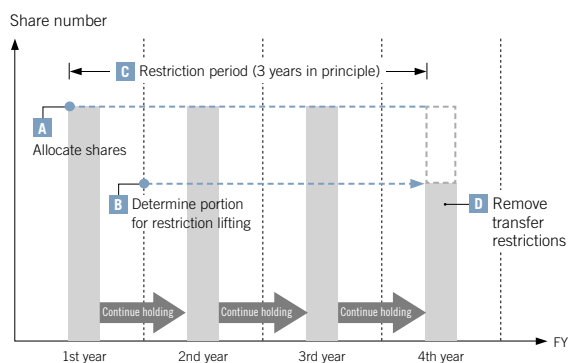
- **Yearly Bonus:** A yearly bonus will be linked to consolidated operating income. If the target for consolidated operating income is met, 100% of the planned bonus amount will be paid. Moreover, the new system provides for a greater range of fluctuation in the bonus amount paid, between 0% and 200% of the planned amount, should actual performance fall below or exceed the target, allowing for fine-tuned remuneration amounts.
- **Restricted Stock Compensation:** The restricted stock compensation system (performance-based) will use ROE before amortization of goodwill, etc., and normalized EPS, both of which have quantitative targets set in the 2016 MTBP, as its indicators in order to provide strong motivation to accomplish the targets of this plan.



#### 2 Introduction of Restricted Stock Compensation System (Performance-based)

Under this system, Kirin Holdings allocates the Company's stock with temporary transfer restrictions to directors and executive officers. The aim of this system is to encourage officers to remain vigilant in their management efforts and to provide motivation to increase the Company's stock price.

- A** Shares with transfer restrictions will be issued each fiscal year, in principle.
- B** The portion of shares for which restrictions will be lifted, between 33% and 100% of all applicable shares, is determined based on first-year performance.
- C** Directors and executives continue to hold shares issued through this system while transfer restrictions are in place, encouraging vigilance in management efforts and providing motivation to increase the Company's stock price.
- D** When the restriction period (three years in principle) ends, transfer restrictions are lifted for the portion of shares determined in **B** above, and shares for which transfer restrictions are not lifted are acquired without payment by the Company.



## Corporate Governance

### Directors and Audit & Supervisory Board Members (As of April 1, 2017)



**Akihiro Ito**  
Director of the Board,  
Senior Executive Officer & CFO

**Katsunori Nagayasu**  
Outside Director

**Toshiya Miyoshi**  
Director of the Board,  
Senior Executive Officer

**Masahito Suzuki**  
Standing Audit & Supervisory  
Board Member

**Kimie Iwata**  
Outside Director

**Toshio Arima**  
Outside Director

**Yoshinori Isozaki**  
President & CEO





**Futaka Hashimoto**

Outside Audit & Supervisory  
Board Member

**Chieko Matsuda**

Outside Audit & Supervisory  
Board Member

**Masakatsu Mori**

Outside Audit & Supervisory  
Board Member

**Motoyasu Ishihara**

Standing Audit & Supervisory  
Board Member

**Keisuke Nishimura**

Representative Director of the Board,  
Vice President

**Shoshi Arakawa**

Outside Director

**Yasuyuki Ishii**

Director of the Board,  
Senior Executive Officer



## Corporate Governance

## Directors, Audit &amp; Supervisory Board Members, and Executive Officers

(As of April 1, 2017)

## Directors

☐ = Area of Responsibility

**Yoshinori Isozaki**

President &amp; 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, Vice President

Investment Strategy, Overseas Business

1980 Joined the Company  
 2017 Representative Director of the Board,  
 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 of Myanmar Brewery Limited

**Akihiro Ito**Director of the Board,  
Senior Executive Officer & CFO

Chief Financial Officer, IR, IT

1983 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 Kirin Business System Company, Limited  
 Director of Brasil Kirin Holding S.A.

**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

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)**

<http://www.kirinholdings.co.jp/english/company/board/>

**Criteria regarding the Independence of Outside Officers**

[http://www.kirinholdings.co.jp/english/ir/policy/pdf/governance20160215e\\_02.pdf](http://www.kirinholdings.co.jp/english/ir/policy/pdf/governance20160215e_02.pdf)

**Outside Directors\*<sup>1</sup>** \*1 Outside Director as described in Article 2-15 of the Companies Act of Japan**Toshio Arima**Outside Director of the Board\*<sup>2</sup>

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\*<sup>2</sup>

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\*<sup>2</sup>

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)  
 Outside Director of the Company (current position)

\*<sup>2</sup> 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****Masahito Suzuki**

Standing Audit &amp; Supervisory Board Member

1980 Joined the Company  
 2014 Standing Audit & Supervisory Board Member of the Company (current position), Audit & Supervisory Board Member of Kirin Company, Limited (current position)

**Motoyasu Ishihara**

Standing Audit &amp; 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)

**Fukutaka Hashimoto**Outside Audit & Supervisory Board Member\*<sup>3</sup>

1979 Registered attorney-at-law at Tokyo Hatchobori Law Office (current position)  
 2014 Outside Audit & Supervisory Board Member of the Company (current position)

**Masakatsu Mori**Outside Audit & Supervisory Board Member\*<sup>3</sup>

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\*<sup>3</sup>

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)

\*<sup>3</sup> 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, LimitedPublic Relations,  
Risk Management, Legal**Ryosuke Mizouchi**Senior Executive Officer  
Director of the Board, Senior Executive Officer of Kirin Company, LimitedCSV,  
Overseas Business – Brasil Kirin**Takeshi Minakata**Senior Executive Officer  
President and Representative Director of Myanmar Brewery LimitedOverseas Business  
– Myanmar Brewery**Noriaki Kobayashi**Senior Executive Officer  
Director of the Board, Senior Executive Officer of Kirin Company, Limited

R&amp;D, Quality Assurance

**Noriya Yokota**Senior Executive Officer  
Director of the Board, Senior Executive Officer of Kirin Company, Limited

Group Corporate Strategies

# Kirin's History of Progress

The history of the Kirin Group dates back to 1907, when the Kirin Brewery Company was founded and took over the business of the Japan Brewery Co., Ltd., which had been established in Yamate, Yokohama. Since that time, the Group has made sustained progress with a focus on offering products with higher added value, implementing business diversification and globalization, and enhancing management.

Moving forward, the Group will continue to value the pursuit of innovation, a customer orientation, and a focus on quality, which have been a part of the Group's corporate DNA since its founding. Kirin's resilience enables the Group to respond to evolving markets and consumer needs and is a key strength in Kirin's endeavors to increase corporate value.

**Adding Higher Value to Products**

**Business Diversification and Globalization**

Details regarding Kirin's history of progress can be found on Kirin Holdings' corporate website.



**Corporate History**

<http://www.kirinholdings.co.jp/english/company/history/>

**1888**

**Launch of Kirin Beer**

To ensure a full-fledged German-style beer, ingredients and equipment were imported from Germany and a German technician was hired. This product was launched by Japan Brewery, the forerunner to Kirin Brewery Company.



**1928**

**Launch of Kirin Lemon**

*Kirin Lemon*, a non-alcoholic beverage, does not use any artificial coloring agents in consideration for the safety and security of customers.



**1986**

**Launch of Kirin Gogo-no-Kocha**

This was Japan's first black tea beverage in a PET bottle. *Kirin Gogo-no-Kocha* created a new consumption scenario, enabling black tea to be casually enjoyed anywhere, and it instantly dominated the market.



1888

1980s

**Transformation from Japan Brewery Co., Ltd. to Kirin Brewery Company**

**Kirin Beer achieves 60% market share as top domestic brand**

**Diversification of management; support for fulfilling lifestyles incorporating beer**

**1907**

**Establishment of Kirin Brewery Company**

Kirin Brewery Company, which took over the business of the Japan Brewery Co., Ltd., was founded by parties related to the Iwasaki family, Mitsubishi, and MEIDI-YA.



1970s

**1970s**

**The first phase of diversification**

In addition to nurturing and strengthening the non-alcoholic beverages and spirits businesses, the Group also advanced into the food business. Koiwai Dairy Products Company, Limited, which was established in 1976, commenced nationwide sales of cheese, butter, and other dairy products.

**1980s**

**The second phase of diversification**

The Group included the promotion of diversification in the "Long-Range Management Plan." Business development moved ahead in five areas other than beer—non-alcoholic beverages, food, life sciences, services, and overseas business.



The launch of *ESPO*, a treatment agent for renal anemia, marked the full-scale entry into the pharmaceuticals business.

2001

**Launch of Kirin Chu-hi Hyoketsu® (currently, Kirin Hyoketsu®)**

Kirin Hyoketsu®, which was developed as Kirin Brewery's first product under its comprehensive alcoholic beverage strategy, established a strong position as a major brand in the canned *chu-hi* market.



2009

**Launch of Kirin FREE**

Kirin FREE, the world's first 0.00%, completely alcohol-free beer-flavored beverage, was created from a desire to eliminate drunk driving.



2016

**Launch of 47 Todofuken no Ichiban Shibori**

This special *Ichiban Shibori* series was created together with customers living across Japan to discover the distinctive appeal of the country's local regions.



2000

**Launch of Kirin Nama-cha**

This product was created with the utmost care directed toward bringing out the flavor of green tea, utilizing raw tea leaf extracts rich with green tea flavor as well as fresh ideas and new manufacturing methods to truly accentuate this flavor.



2002

**Launch of Tanrei Green Label**

This *happo-shu* (low-malt beer), which realizes a 70% reduction in carbohydrate, offers refreshment for the body and mind.



*Tanrei Green Label* established the health-related category.

2012

**Launch of Grand Kirin**

This product proposes new ways of enjoying beer through craft beer.



1990

**Launch of Kirin Ichiban Shibori**

Aiming for a true, genuine beer that could only be made by Kirin, the Company developed this beer only using the first strain of malt liquid.



2012

**Launch of Kirin Mets COLA**

Kirin Mets COLA was the first cola beverage approved as a food for specified health uses. It includes indigestible dextrin, which suppresses the absorption of fat from meals.



1990s

2016

Launch of unprecedented hit, Kirin Ichiban Shibori

Globalization and establishment of Kyowa Hakko Kirin

Creation of new beverage cultures

2000s

1998

**Capital participation in Lion Nathan Limited (currently, Lion)**

The Group implemented a capital participation in Lion Nathan Limited, a beer company operating in the Oceania market. Active business development initiatives also got under way in China.



2006

**Capital participation in Mercian**

The Company commenced capital participation in Mercian Corporation, a manufacturer and seller of wine, *shochu*, whiskey, and spirits. This company has formed the core of the Kirin Group's wine business since 2007.

2008

**Establishment of Kyowa Hakko Kirin**

Kyowa Hakko Kirin was created through the merger of Kyowa Hakko Co., Ltd., in which Kirin had implemented a capital participation, and Kirin Pharma Company, Limited. Kyowa Hakko Kirin aims to be a global specialty pharmaceutical company.

2011

**Schincariol Participações e Representações S.A. (currently, Brasil Kirin) was made a 100% subsidiary**

2015

**Acquisition of Myanmar Brewery**

The Company acquired 55% of the outstanding shares of Myanmar Brewery Limited, which boasted a market share in Myanmar of about 80%.



## At a Glance

In the business domains of “food and well-being,” the Kirin Group conducts business activities on a global basis, centered on alcoholic beverages, non-alcoholic beverages, and pharmaceuticals and bio-chemicals. In this way, the Group is taking on the challenge of “creating new value.”

### Japan Integrated Beverages

Fiscal 2016 results

Sales

¥1,153.2 billion

Composition of sales

56%

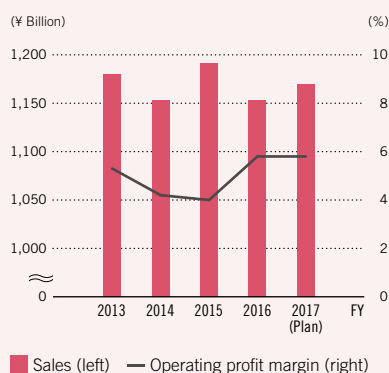
Operating income

¥67.2 billion

Assets

¥821.6 billion

#### Results for the Last Five Years



#### Principal Companies

- Kirin Company
- Kirin Brewery
- Kirin Beverage
- Mercian

### Overseas Integrated Beverages

Fiscal 2016 results

Sales

¥561.4 billion

Composition of sales

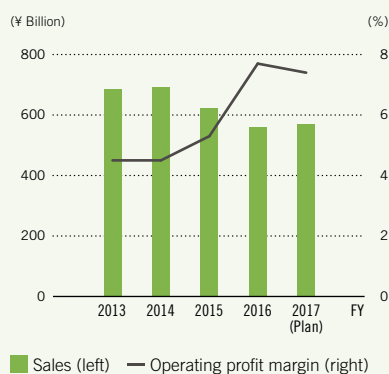
27%

Operating income

¥43.3 billion

Assets

¥932.7 billion



- Lion
- Brasil Kirin
- Myanmar Brewery\*

\* Profit and loss has been consolidated from fiscal 2016.

### Pharmaceuticals and Bio-chemicals

Fiscal 2016 results

Sales

¥335.7 billion

Composition of sales

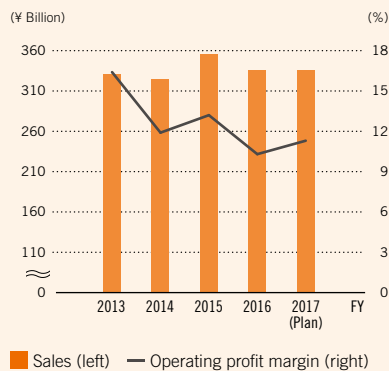
16%

Operating income

¥34.7 billion

Assets

¥720.7 billion



- Kyowa Hakko Kirin
- Kyowa Hakko Bio



### Description of Business

The Japan Integrated Beverages Business conducts manufacturing and sales of alcoholic beverages and non-alcoholic beverages in Japan, centered on Kirin Brewery, Kirin Beverage, and Mercian. Kirin Company, the regional headquarters, works to strengthen the core brands through the allocation of management resources in a manner that transcends the alcoholic and non-alcoholic beverage framework. Moreover, Kirin Company strives to create value that leads to surprise and inspiration by offering exceptional quality and taste while addressing societal issues from the perspective of the customer's well-being and link to society, based on the brand message "Quality with Surprise."

The Japan Integrated Beverages Business also works to expand sales of Kirin brand products in Asia, Europe, the United States, and other regions.

### Major Products



Leveraging the companies acquired through aggressive internationalization measures as its operating foundation, the Kirin Group manufactures and sells alcoholic and non-alcoholic beverages on a global basis. The operating companies implement management in an autonomous manner for the most part, but at the same time the holding company, Kirin Holdings, actively works together with the operating companies to develop and implement strategies, and to resolve issues in order to maximize the operating companies' growth potential.

In addition, with New KV2021 as a shared vision and strategic framework, the overseas operating companies draw on each other's strengths as well as the technical expertise cultivated in Japan, thereby supporting the growth of the Group as a whole.



Kyowa Hakko Kirin, which is responsible for the current Pharmaceuticals and Bio-chemicals Businesses, was created through the merger in 2008 of Kyowa Hakko Kogyo and Kirin Pharma, which handled the Kirin Group's pharmaceutical operations.

In the pharmaceuticals business, Kyowa Hakko Kirin conducts development, manufacturing, and sales of ethical drugs based on leading-edge biotechnology. In the bio-chemicals business, the company leverages innovative fermentation and synthesis technologies to provide high-value functional materials that meet a variety of needs in the pharmaceutical, medical, and healthcare fields.



## Japan Integrated Beverages Business

### Kirin Brewery

➔ Main pillar of the Group's operations  
Engaged in the manufacturing and sale  
of beer, RTD products, whiskey and spirits,  
and other products

➔ No. 2 share in the beer market (32.4%<sup>\*1</sup>)

➔ No. 2 share in the RTD product market<sup>\*2</sup>

<sup>\*1</sup> Based on taxed shipment volumes (fiscal 2016)  
<sup>\*2</sup> Kirin estimate (fiscal 2016)



### 2016 MTBP Basic Strategy

Kirin Brewery generates substantial management resources for the Group overall, and strengthening Kirin Brewery's profit base is the Group's highest priority.

#### Targeting a V-shaped recovery, with growth in sales and profits

##### 2018 Guidance

➔ **Operating profit margin: More than 17% (Fiscal 2015: 15.1%)**  
(excluding liquor taxes/before deduction of management fees)

##### Measures to Improve Profitability

##### ➔ Enhancing the appeal of the beer category

- Grow sales volume in the traditional beer category through sustained support for *Ichiban Shibori*
- Foster and grow craft beer brands

##### ➔ Strengthening the functional products category

- Lead market growth with a diverse lineup that leverages Kirin's technical expertise

##### ➔ Strengthening the business foundation and sustaining brand investment

- Roll out high-value RTD and whiskey products
- Efficiently utilize advertising and sales promotion expenses
- Achieve high productivity over the entire supply chain

### Fiscal 2016 Business Report

Kirin Brewery maintained its focus on revitalizing the beer market by strengthening the flagship *Kirin Ichiban Shibori* brand and developing the craft beer category. In addition, Kirin Brewery achieved substantial cost reductions (¥7.2 billion) by strengthening the profit base through reductions in raw materials procurement costs and increases in manufacturing productivity.

However, in the *happo-shu* and new genre categories, the sales volume of *Kirin Nodogoshi Nama* and other products was sluggish, and the overall beer product sales volume decreased year on year. The RTD category and the whiskey and spirits, etc., category recorded favorable results.

#### Progress Made in Fiscal 2016

##### ➔ Enhanced appeal of the beer category

- Sales volume of the *Ichiban Shibori* brand increased for the third consecutive year
- Concluded a capital and business partnership with the U.S. craft brewer Brooklyn Brewery
- Brewing and sales of the Brooklyn brand in Japan started in 2017

##### ➔ Strengthened functional categories

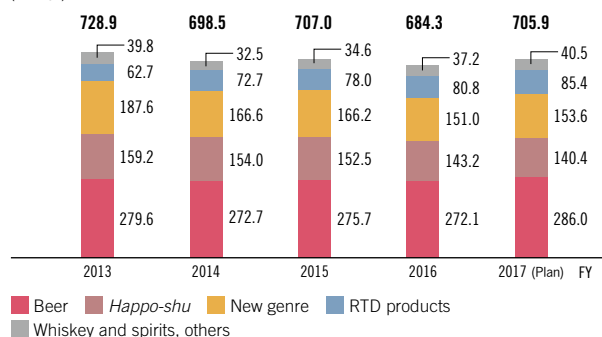
- Maintained at least a 40% share (Kirin estimate) in the functional category, Sales volume of *Tanrei Platinum Double* increased for the second consecutive year

##### ➔ Strengthened business base; sustained brand investment

- Sales volume of RTDs and whiskies increased
- Cut costs by ¥7.2 billion by cutting raw material costs and increasing productivity at the plants

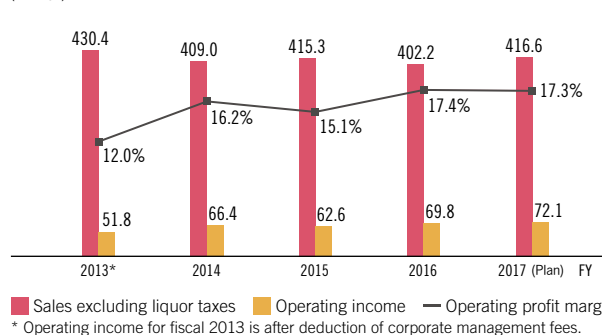
#### Sales by Category (including liquor taxes)

(¥ Billion)



#### Sales and Operating Income

(¥ Billion)



\* Operating income for fiscal 2013 is after deduction of corporate management fees.

## Fiscal 2017 Business Plan

In line with the liquor tax revision that was finalized in fiscal 2016, Kirin Brewery will work to enhance the appeal of the beer category and to revitalize the *happo-shu* and new genre categories, where conditions are challenging. Kirin Brewery will take steps to strengthen its business base, such as through continued supply chain management cost reductions. In addition, we will take the lead in transforming the market structure to avoid falling into excessive price competition.

Sales  
(excluding liquor taxes) **+¥14.4 billion +3.6%**

- ◆ Increase beer sales volume
- ◆ Improve the mix by increasing the component ratio of beer
- ◆ Increase RTD sales volume

Operating income **+¥2.2 billion +3.2%**

- ◆ Increase gross profits by increasing the sales volume of non-alcohol products
- ◆ Continue to improve productivity at plants by working to cut raw material costs and by not replacing workers who retire
- ◆ Regarding selling expenses, in order to strengthen brand power and contribute to increasing sales volume while effectively utilizing such expenses, aim for an overall level comparable to fiscal 2016

## Fiscal 2017 Sales Plan

Category	Percentage change		Market expectation 2017
	2016	2017	
Beer products, total	-5.5%	1.9%	Approx. -1%
Beer	-1.8%	4.8%	Approx. -1%
<i>Happo-shu</i>	-6.2%	-1.9%	Approx. -2%
New genre	-8.7%	1.7%	Approx. ±0%
RTD products	3.7%	6.2%	Approx. +6%
Non-alcohol beverages	-9.0%	33.4%	Approx. ±0%
Whiskey and spirits, etc. (sales amount)	14.0%	2.7%	Approx. +3%

## Target Sales Volumes for Main Brands NEW



## Basic Strategy

### Enhancing the Appeal of the Beer Category

Kirin Brewery will provide new value through beer and work to make beer even more attractive for consumers. We will take steps to revitalize the beer market, such as contributing to regional revitalization by continuing to sell *47 Todofuken no Ichiban Shibori* products and providing increased opportunities for consumers to experience craft beer through such initiatives as “Tap Marché.”

### Revitalizing the *Happo-shu* and New Genre Categories

Based on the future liquor tax revision and the category composition at Kirin Brewery, achieving a recovery in sales volumes in the *happo-shu* and new genre categories is an urgent challenge. To strengthen its main brands, Kirin Brewery will develop new products with enhanced taste and function and will renew existing products. Stepped up initiatives will include the launch of *Nodogoshi Special Time*, a full-year extension of *Nodogoshi*, which is the No. 1 brand in the new genre category.

### Strengthening the Business Base by Sustaining Brand Investment

To advance the basic strategies in the beer, *happo-shu*, and new genre categories, sustained brand investment will be essential. In order to generate the funds for that investment, Kirin Brewery will continue to reform the cost structure throughout the value chain and will take steps to efficiently utilize selling expenses. In these ways, we will work to reform the profit structure.

## Japan Integrated Beverages Business

## Kirin Beverage

- ➔ No. 4 share in the domestic non-alcoholic beverages market\*
- ➔ Overwhelming position in the black tea category with the *Kirin Gogo-no-Kocha* brand
- ➔ Nurturing such brands as *Kirin Nama-cha*, *Kirin FIRE*, and *Kirin Mets*

\* Kirin estimate (fiscal 2016)



## 2016 MTBP Basic Strategy

To realize profitable growth, Kirin Beverage will build a robust brand framework and reform its profit structure.

## Achieve profitable growth through structural reform

## 2018 Guidance

- ➔ **Operating profit margin: More than 3% (Fiscal 2015: 1.5%)**  
(before deduction of management fees)
- ➔ **Building a robust brand portfolio**
  - Focus on the three major categories
- ➔ **Reforming the profit structure**
  - Switch to sales force evaluation based on brand profitability; focus on beverages in cans and small PET bottles
  - Reform supply chain cost structure
  - Raise labor productivity
- ➔ **Using alliances to solve structural issues**

## Fiscal 2016 Business Report

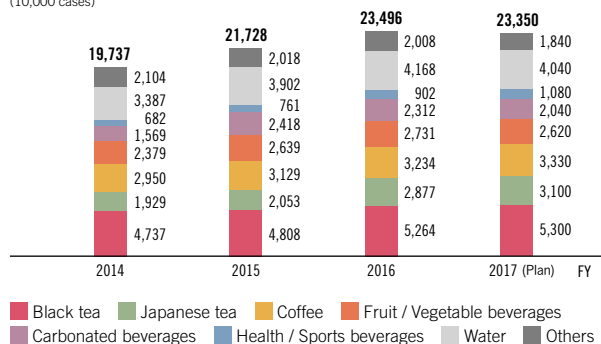
The sales volume of *Kirin Gogo-no-Kocha* exceeded 50 million cases for the first time. *Kirin Nama-cha*, which underwent a complete product renewal, recorded sales of 26.2 million cases, more than 1.5 times the original sales volume target. The overall sales volume of non-alcoholic beverages achieved growth of 8.1%, significantly higher than market growth. In addition, Kirin Beverage also made steady progress in the thorough reform of its profit structure, and profit increased substantially due to the higher sales volume and to cost reductions (¥6.1 billion).

## Progress Made in Fiscal 2016

- ➔ **Built a robust brand portfolio**
  - In the sugar-free tea category, the *Nama-cha* brand was revitalized, and the sales volume rose 44% year on year
  - In the coffee category, *FIRE* was renewed and progress was made in fostering and strengthening the brand
- ➔ **Reformed the profit structure**
  - Sales volume of cans and small PET bottles increased 8%  
Strengthened the management of sales promotion expenses for large PET bottle campaigns
  - By focusing on the main brands, the sales volumes of *Gogo-no-Kocha* and *Nama-cha* significantly increased, and in addition to increased operating rates and productivity at plants, losses due to waste were lowered and costs were reduced by ¥6.1 billion
- ➔ **Used alliances to solve structural issues**  
Alliance with Dydo Drinco contributed to increased vending machine sales

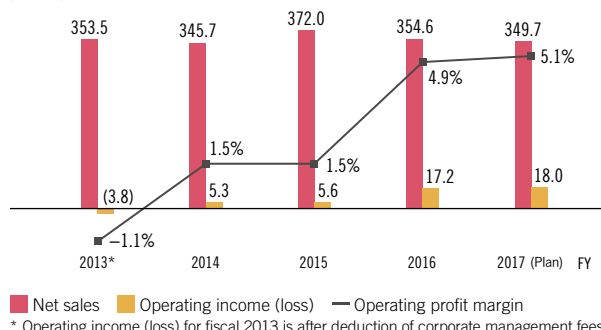
## Sales Volume by Category

(10,000 cases)



## Sales and Operating Income (Loss)

(\$ Billion)



## Fiscal 2017 Business Plan

To achieve profitable growth, Kirin Beverage will work to strengthen main brands and to create new value in the “health and well-being” category. We will also continue the shift toward a highly profitable business structure.

Sales **-¥4.9 billion** **-1.4%**

- ▶ Soft drink sales volume on par with fiscal 2016
- ▶ Improve the price/mix by increasing sales of cans and small PET bottles
- ▶ Impact of part of the selling expenses being deducted from sales (1Q only)

Operating income **+¥0.7 billion** **+4.1%**

- ▶ Reduce processing expenses by cutting raw material costs, and reduce waste by focusing on the main brands and reducing SKU
- ▶ Increase selling expenses (fixed sales promotion expenses and advertising expenses) aimed at strengthening the brand power

### Target Sales Volumes for Main Brands



## Basic Strategy

### Building a Robust Brand Portfolio

With *Gogo-no-Kocha*, *Nama-cha*, and *FIRE* as the main brands, Kirin Beverage will work to create value with a focus on health and well-being, and will work to enhance existing products and develop new ones. In these ways, Kirin Beverage will move forward with the establishment of a sustainable, robust brand portfolio. In addition, working together with LINE Corporation, we will roll out new sales promotion activities through Tappiness, Kirin's unique vending machine service.

### Shifting to a Highly Profitable Business Structure

Kirin Beverage will continue to advance profit management by implementing initiatives such as sales target control focused on

cans and small PET bottles. We will also continue working to reduce SCM costs through improvements in plant manufacturing efficiency and other measures. Furthermore, Kirin Beverage will take steps to further increase operational efficiency and to improve low-profit segments, such as the water category. Moreover, we will consider alliances with other companies and search for areas in which we can establish win-win relationships.

## Mercian

- ▶ Wine group with three functions: winemaking, import/sales, and wineries
- ▶ Leading share in domestic wine market\*

\* Kirin estimate (fiscal 2016)



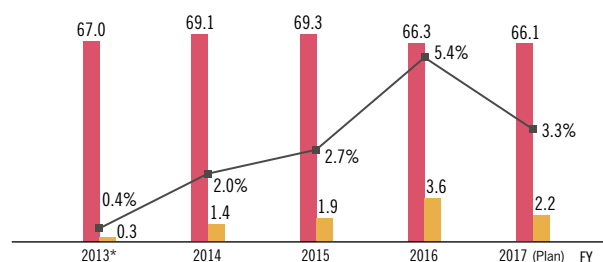
## Fiscal 2016 Business Report and Fiscal 2017 Business Plan

In fiscal 2016, *Chateau Mercian* was highly evaluated at a number of wine competitions in Japan and overseas, and the imported wine *Casillero del Diablo* recorded substantial growth. Overall, Mercian's wine sales volume increased significantly year on year. Sales declined, due in part to the deduction of certain selling expenses from sales, but profit increased due largely to the appreciation of the yen.

In fiscal 2017, aiming for sustained growth of the overall wine market, Mercian will streamline its offerings to focus on brands in each category, expand the range of scenarios in which consumers enjoy wine, and make proposals targeting expansion among its main consumer base.

### Sales and Operating Income

(¥ Billion)



■ Net sales ■ Operating income — Operating profit margin

\* Operating income for fiscal 2013 is after deduction of corporate management fees.



## Overseas Integrated Beverages Business

# Lion (Oceania)

- ➔ A food company in Oceania with a Beer, Spirits, and Wine Business as well as a Dairy and Drinks Business
- ➔ No. 1 shares of the beer markets in both Australia and New Zealand\*
- ➔ Leading national brands in multiple categories in the Dairy and Drinks Business

\* Kirin estimate (as of the end of September 2016)



### 2016 MTBP Basic Strategy

In the Beer, Spirits, and Wine Business, a key new challenge for fiscal 2017 and thereafter will be the recovery of profits following the loss of a sales license for ABI\* brand products. In the Dairy and Drinks Business, Lion will increase profitability by implementing ongoing cost reductions while focusing on sales in high-profit categories.

\* Anheuser-Busch InBev

### Lion Beer, Spirits, and Wine Business

#### Revitalize and grow the Australian beer market

#### 2018 Guidance

- ➔ **Maintain market position**
- ➔ **Maintain high operating profit margin (2015: 27.0%)**

#### Measures to Improve Profitability

- ➔ **Revitalize the market**
  - Beer the Beautiful Truth campaign to revitalize the market
- ➔ **Strengthen growth categories**
  - Further strengthen our growing craft beer business
  - Develop growing cider category
- ➔ **Reduce indirect costs**
  - Reduced costs, gained operational efficiencies, other cost reduction initiatives undertaken in fiscal 2015 to be realized in fiscal 2016

### Lion Dairy and Drinks Business

#### Implement the Turnaround Plan to grow profits

#### 2018 Guidance

- ➔ **Operating profit margin of 5% or more (2015: 2.3%)**  
Operating income before amortization of goodwill, etc.

#### Measures to Improve Profitability

- ➔ **Prioritize resource allocation to focus categories and brands**
  - Focus sales efforts on milk-based beverages and other higher profit products
- ➔ **Deliver value based on Health and Nutrition**
  - Strengthen brands through The Goodness Project
- ➔ **Reform cost structure of the entire supply chain**
  - Supply chain cost reductions in line with the Turnaround Plan

### Fiscal 2016 Business Report

In the Beer, Spirits, and Wine Business, the purchase price of imported beer increased due to the depreciation of the Australian dollar. As a result, the operating profit margin was down 1.2%. However, on a local basis, Lion achieved the planned levels of sales and operating income. In the Dairy and Drinks Business, Lion advanced cost reductions through a reevaluation of the entire supply chain management, and achieved an increase in profits despite a decline in sales volume.

### Lion Beer, Spirits, and Wine Business—Progress during Fiscal 2016

#### ➔ Revitalized the market

- Beer market in Australia grew slightly. During the campaign period, market growth was evident, it is believed that the Beer the Beautiful Truth campaign contributed to this growth

#### ➔ Strengthened growth categories

- Volumes of the craft beers *James Squire* and *Little Creatures* increased. Completed the acquisition of craft breweries in Australia and New Zealand (Australia: Panhead; New Zealand: Byron Bay)
- Started overseas rollout of *Little Creatures*

#### ➔ Reduced cost base

- Cost reductions through increased efficiency (implemented in fiscal 2015)

### Lion Dairy and Drinks Business—Progress during Fiscal 2016

#### ➔ Prioritized resource allocation to focus categories and brands

- Positioned milk-based beverages as “Full Force” category, and increased the sales volume of the main brand *Dare*

#### ➔ Delivered value based on Health and Nutrition

- Rolled out The Goodness Project

#### ➔ Reformed cost structure of the entire supply chain

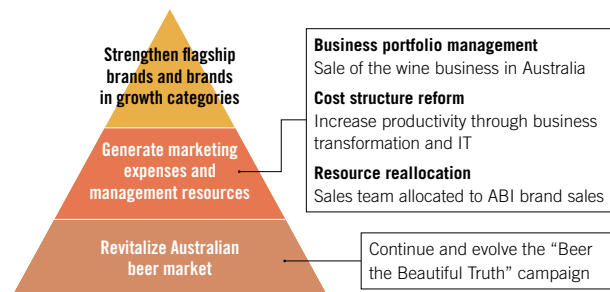
- The cost reductions through the Turnaround Plan enabled profits to increase despite the sales volume decrease of 10.4%

### Fiscal 2017 Business Plan

In the Beer, Spirits, and Wine Business, Lion will work to build

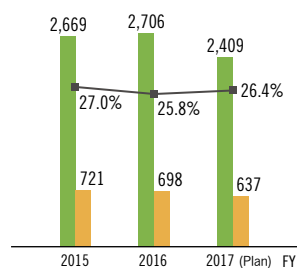
a new brand portfolio and achieve a recovery in profit. In the Dairy and Drinks Business, Lion will further strengthen its sales capabilities in the milk-based beverages category and will continue to implement cost reduction measures through a review of the overall supply chain management. In these ways, we will aim to increase sales and profits.

### Grow Earnings from Lion & Kirin Brands Post-ABI in Australia



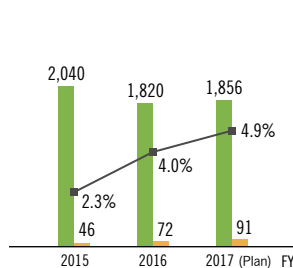
### Sales and Operating Income

**Lion Beer, Spirits, and Wine Business**  
(Million A\$)



■ Sales ■ Operating income (before amortization of goodwill, etc.)  
— Operating income ratio before amortization of goodwill, etc.

**Lion Dairy and Drinks Business**  
(Million A\$)



### Lion Beer, Spirits, and Wine Business

Sales **-A\$296 MM -11.0%**

- Decrease in sales volume due to ABI brand loss
- Decrease in sales due to the sale of the Australian wine business
- Increase the craft beer sales volume and improve the unit price and mix by continuing the pricing policy

Operating income\* **-A\$60 MM -8.7%**  
Yen base: -¥5.1 billion

- The weak Australian dollar will have a lower impact on the purchase expenses for imported beer
- Although sales expenses will decrease by the amount spent on ABI brands, marketing investments will increase for own brands and Kirin brands

\* Operating income before amortization of goodwill, etc.

### Lion Dairy and Drinks Business

Sales **+A\$36 MM +2.0%**

- Increase in the sales volume of milk-based beverages, yogurt, specialty cheeses, etc.
- Increase in sales volume by rebuilding the sales network and reinforcing sales capabilities
- Decrease in the sales volume of white milk

Operating income\* **+A\$19 MM +26.2%**  
Yen base: +¥1.5 billion

- Increase profitability by driving improved portfolio mix with high margin categories
- Continue to cut costs through the supply chain

\* Operating income before amortization of goodwill, etc.

## Brasil Kirin

- Operates beer and soft drink businesses throughout Brazil
- Strong presence in northern and northeastern Brazil
- Nurturing premium and craft beers in southern and southeastern Brazil



### Sale of Brasil Kirin Shares

In fiscal 2016, in a market with negative growth, Brasil Kirin achieved gains in the sales volume of both beer and soft drinks. Results were seen with measures to increase efficiency, such as the sale of a plant, and Brasil Kirin was able to set a target date of fiscal 2019 for a return to profitability at the operating income level. However, we believed that there were certain limitations in transforming Brasil Kirin into a sustainable and high-profit business on its own. To find the best option for increasing shareholder value, we considered a wide range of actions, including a business alliance and the sale of shares.

As a result, in February 2017 we concluded a stock purchase agreement with Bavaria S.A. (a wholly owned Brazilian subsidiary of Heineken International B.V.) whereby all shares in Brasil Kirin are to be transferred to Bavaria. Moving forward, steady, sustained plan implementation will be a key issue in achieving a smooth business transfer.

## Overseas Integrated Beverages Business



# Myanmar Brewery

- ➔ Manufacturing and sales of beer in Myanmar
- ➔ No. 1 share of beer market in Myanmar (approximately 80%)\*
- ➔ Strengths include dominant brand equity and a strong distribution network

\* Kirin estimate (as of the end of September 2016)



### 2016 MTBP Basic Strategy

By increasing production capacity and expanding the brand portfolio, Myanmar Brewery will steadily capture market growth and maintain and strengthen its dominant position as market leader.

#### Invest to strengthen position as market leader

##### 2018 Guidance

- ➔ Maintain market position
- ➔ Capture share of market growth

##### Measures to Improve Profitability

- ➔ Expand brand portfolio
  - Explore launch of premium brand in Myanmar
- ➔ Strengthen business platform
  - Expand production facilities
  - Strengthen and expand sales channels

### Fiscal 2016 Business Report

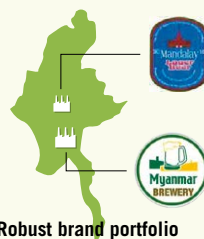
Rapid progress was made with the process of integration following the acquisition, and the sales volume of core product *Myanmar Beer* recorded favorable growth. In this setting, Myanmar Brewery took steps to strengthen its brand portfolio. In addition, the Kirin Group provided technical support to expand and increase the efficiency of Myanmar Brewery's production facilities.

### Progress Made in Fiscal 2016

- ➔ **Expanded brand portfolio**
  - Developed and launched *KIRIN ICHIBAN* as a foreign premium brand and *Myanmar Premium* as a domestic premium brand, and established a gap-free brand portfolio
- ➔ **Strengthened business platform**
  - In addition to the new packaging line, completed preparations for increasing brewing capacity, which will enable the company to respond to peak demand in 2017
  - Made progress in increasing production efficiency through technological support from Kirin Brewery
  - Expanded sales in the supermarket channel in the household market

### Fiscal 2017 Business Plan

Myanmar Brewery will implement appropriate marketing strategies by product category and advance human resources development to enhance organizational capabilities. Furthermore, the company will utilize Kirin's technologies and know-how to expand production facilities. Kirin has decided to acquire 51% of Mandalay Brewery in northern Myanmar. Moving forward, Myanmar Brewery will steadily work to capture market growth by acquiring new production and shipping facilities in northern Myanmar.



#### Acquire Mandalay Brewery

- Acquire the Mandalay brand
- Further expand production facilities
- Acquire production and shipping facilities in northern Myanmar

#### Robust brand portfolio

Foreign premium	
Domestic premium	
Mainstream beer	
Economy beer	

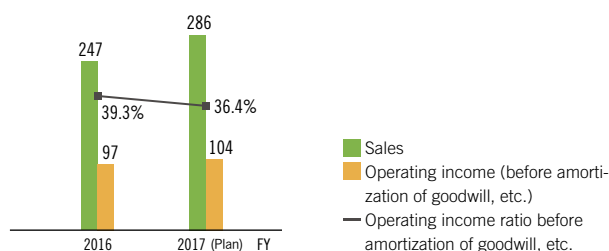
#### Expand production facilities

- Improve facility efficiency and increase production through technological support from the Kirin Group
- Expand can lines
- Expand bottle lines



### Sales and Operating Income (before amortization of goodwill, etc.)

(Billion kyat)



## Pharmaceuticals and Bio-chemicals Businesses

### Kyowa Hakkō Kirin

#### Pharmaceuticals Business

- ➔ Strengths in therapeutic antibodies that leverage its leading-edge, unique biotechnologies
- ➔ Integrated range of capabilities extending from R&D to manufacturing and sales



#### Bio-chemicals Business

- ➔ Providing customers around the world with substances related to amino acids and nucleic acids in the fields of pharmaceuticals, medicine, and healthcare



### 2016 MTBP Basic Strategy

Aiming to make a leap forward to become a global specialty pharmaceutical company, Kyowa Hakkō Kirin plans to achieve core operating income\* of ¥100 billion or more in 2020. To that end, Kyowa Hakkō Kirin will launch global strategic products in Europe and the United States. Accordingly, Kyowa Hakkō Kirin will continue to invest in R&D for new product development and will move forward with the development of an overseas sales system.

\* Core operating income (pre-consolidation) = Operating income + Amortization of goodwill + Equity in earnings of affiliated companies

#### Realize solid growth as a global specialty pharmaceutical company

##### 2020 Guidance

- ➔ Core operating income\* of ¥100 billion or more (pre-consolidation)

##### Invest to Achieve Outstanding Growth

- ➔ Improve global competitiveness
  - Launch global products in Europe and the United States
  - Build a global sales framework and organization

### Fiscal 2016 Business Report and Fiscal 2017 Business Plan

In the Pharmaceuticals Business, sales decreased year on year due to the market penetration of generic drugs as well as the impact of the domestic drug price revisions enacted in April. In Japan, however, favorable sales were recorded by core drug NESP® as well as by new drugs. In research and development, KRN23, a key product under development that will lead to exceptional growth for Kyowa Hakkō Kirin, quickly received

approval and progress is being made toward its launch. With a continued focus on global strategic drugs, Kyowa Hakkō Kirin will advance initiatives to rapidly launch products and to maximize their value.

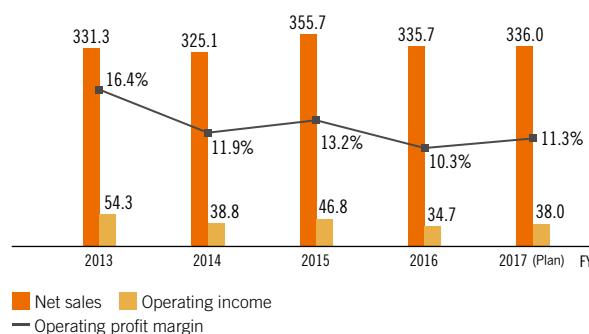
#### Progress Made in Fiscal 2016

##### ➔ Improved global competitiveness

- Kyowa Hakkō Kirin has been working with Ultragenyx to jointly develop KRN23. In June, KRN23 received breakthrough therapy designation from the U.S. Food and Drug Administration (FDA), while at the end of the year the European Medicines Agency (EMA) accepted the application for approval for this drug.

#### Sales and Operating Income

(¥ Billion)



Sales **+¥0.2 billion +0.1%**

- ➔ Growth in new products in the domestic and overseas Pharmaceuticals Business
- ➔ Drop in the sales of patent-expired products due to the increased market penetration of generics
- ➔ Increased licensing revenue from overseas

Operating income **+¥3.2 billion +9.4%**

- ➔ Increase gross profit through increased licensing revenue
- ➔ Lower R&D expenses following the completion of the trials for pharmaceuticals in late-stage development in Japan
- ➔ In the Bio-chemicals Business, increase sales in highly profitable businesses (online sales, overseas, etc.) year on year

#### Three Global Strategic Products for Which Approval is Expected by 2020

Development Code	Indication / Target Disease
KW-6002	Parkinson's disease
KRN23	X-linked hypophosphatemia
KW-0761	Adult T-cell leukemia/lymphoma (ATL), Cutaneous T-cell lymphoma (CTCL)

## Main Financial Data over the Past 11 Years

Fiscal Year	2006	2007	2008	2009	2010
Sales	¥1,665,946	¥1,801,164	¥2,303,569	¥2,278,473	¥2,177,802
Less: Japanese liquor taxes	402,321	400,555	380,691	359,743	342,527
Net sales	1,263,625	1,400,608	1,922,877	1,918,730	1,835,274
Japan Integrated Beverages Business	—	—	—	—	934,765
Overseas Integrated Beverages Business	—	—	—	—	403,977
Pharmaceuticals and Bio-chemicals Businesses	—	—	—	—	404,714
Other businesses	—	—	—	—	91,818
Operating income	116,358	120,608	145,977	128,435	151,612
Operating income (before amortization of goodwill, etc.)	—	—	—	157,769	193,600
EBITDA* <sup>1</sup>	191,161	213,129	264,620	212,838	269,392
Normalized EBITDA* <sup>2</sup>	—	—	—	—	—
Ordinary income	120,865	123,389	103,065	144,614	140,969
Net income (loss)	53,512	66,713	80,182	49,172	11,394
Normalized net income* <sup>3</sup>	—	—	—	—	—
Cash flows from operating activities	123,685	114,585	131,281	189,907	218,025
Cash flows from investing activities	(153,239)	(269,621)	(169,330)	(321,654)	(140,917)
Cash flows from financing activities	(50,012)	121,555	26,684	174,208	(140,197)

### Fiscal year-end

Total assets	¥1,963,586	¥2,469,667	¥2,619,623	¥2,861,194	¥2,649,197
Interest-bearing debt	302,762	673,872	723,703	963,209	859,376
Shareholders' equity* <sup>4</sup>	993,989	1,054,811	927,812	981,322	962,476

### Per share data

Net income (loss) per share (EPS) (Yen)	¥ 55.98	¥ 69.86	¥ 84.01	¥ 51.54	¥ 11.95
Normalized EPS (Yen)* <sup>5</sup>	—	—	—	—	—
EPS (before amortization of goodwill, etc.) (Yen)	66.18	79.72	34.72	81.92	94.31
Dividends per share (Yen)	17.00	21.00	23.00	23.00	25.00

### Financial indicators

ROE (%)* <sup>6</sup>	5.4	6.5	8.1	8.3	8.8
Operating income (before amortization of goodwill, etc.) / Net sales (%)	—	—	—	—	10.5
Net debt / Normalized EBITDA (Times)	—	—	—	—	—
Consolidated dividend payout ratio (%)* <sup>7</sup>	30.4	30.1	27.4	44.6	26.5

Note: Figures are rounded down to the nearest million yen.

\*1 For fiscal 2007 and before:

EBITDA = Income before income taxes and minority interests + Interest expense – Interest income – Dividend income + Depreciation + Amortization of goodwill, etc.

For fiscal 2008 and thereafter:

EBITDA = Operating income + Equity in earnings or losses of affiliates + Depreciation + Amortization of goodwill, etc. ± Special income and expenses

(Losses on impairment regarding goodwill, etc., are excluded.)

\*2 Normalized EBITDA = Operating income + Depreciation + Amortization of goodwill, etc. + Dividends received from entities accounted for by the equity method

\*3 Normalized net income = Net income + Amortization of goodwill, etc. ± Special income or expenses after income taxes and minority interests

\*4 Shareholders' equity = Total net assets – Non-controlling assets – Subscription rights to shares (as recorded on the balance sheet)

\*5 Normalized EPS = Normalized net income / Average number of shares outstanding during period



						¥ Million	Change (%)
2011	2012	2013	2014	2015	2016	2016 / 2015	
¥2,071,774	¥2,186,177	¥2,254,585	¥2,195,795	¥2,196,925	¥2,075,070	-5.5	
323,375	315,549	310,798	301,365	305,697	296,028	-3.2	
1,748,398	1,870,627	1,943,786	1,894,429	1,891,227	1,779,041	-5.9	
859,672	871,842	869,377	851,591	885,856	857,225	-3.2	
454,216	579,391	685,254	693,175	624,169	561,439	-10.1	
332,843	322,976	331,377	325,149	355,777	335,733	-5.6	
101,665	96,417	57,778	24,513	25,424	24,642	-3.1	
142,864	153,022	142,818	114,549	124,751	141,889	13.7	
189,812	202,675	198,086	171,542	158,537	169,915	7.2	
247,602	297,185	—	—	—	—	—	
—	307,339	301,486	273,183	258,922	253,006	-2.3	
136,818	138,452	132,134	94,211	128,199	140,676	9.7	
7,407	56,198	85,656	32,392	(47,329)	118,158	—	
—	112,868	115,426	108,779	107,063	113,880	6.4	
196,792	212,061	205,517	155,247	171,011	226,468	32.4	
(361,658)	(48,379)	85,526	(139,397)	(70,659)	(77,520)	—	
193,214	(160,008)	(272,357)	(80,701)	(78,221)	(145,184)	—	
¥2,854,254	¥2,951,061	¥2,896,456	¥2,965,868	¥2,443,773	¥2,348,166	-3.9	
1,144,786	1,037,188	858,911	873,003	821,478	711,762	-13.4	
852,922	948,943	1,075,861	1,101,833	663,842	680,662	2.5	
¥ 7.70	¥ 58.44	¥ 90.76	¥ 35.27	¥ (51.87)	¥ 129.49	—	
—	117	122	118	117	125	6.8	
70.58	124.87	159.92	108.57	(2.83)	172.00	—	
27.00	29.00	36.00	38.00	38.00	39.00	2.6	
6.9	12.4	14.0	8.6	(0.3)	21.9		
10.9	10.8	10.2	9.1	8.4	9.6		
—	2.86	2.25	2.76	2.67	2.33		
38.3	24.8	29.5	32.2	32.5	31.2		

\*6 ROE = Net income / Average shareholders' equity

For fiscal 2009 and thereafter: ROE calculated before amortization of goodwill, etc., and these figures exclude losses with no effect on cash outflow

\*7 For fiscal 2010 and 2011: Figures for consolidated dividend payout ratio use EPS (before amortization of goodwill, etc.), and these figures exclude losses with no effect on cash outflow  
For fiscal 2012 and thereafter: Figures for dividend payout ratio use normalized EPS

## Management's Discussion and Analysis

Note: Unless otherwise stated, all comparisons are with the previous fiscal year (fiscal 2015). Under the pure holding company structure adopted in July 2007, consolidated financial disclosures by Kirin Holdings Company, Limited ("the Company"), relate to the worldwide operations of the group of companies operating under this organizational structure ("the Kirin Group," or "the Group") and are in accordance with Japanese GAAP. As of December 31, 2016, the Kirin Group comprised 188 consolidated subsidiaries and 18 equity-method affiliates.

### Overview of Operations and Business Environment

In the fiscal year under review, looking at the global economy, a modest recovery was seen in China and other emerging Asian countries as well as in resource-producing countries. However, a sense of uncertainty persisted in the global economy due to fluctuations in international financial and capital markets coupled with changes in the political environment and concerns regarding geopolitical risks in several countries.

The Japanese economy experienced a modest recovery trend overall. Consumer spending was generally stable against a back-drop of steady improvement in the job market and wages, although sluggish consumption was seen in certain sectors.

In this environment, we positioned raising Group profitability as our top priority in our quest to restructure and revitalize Kirin on a Groupwide basis. We thus proceeded to reinforce business competitiveness through clearly prioritized investments. Looking at key initiatives of the medium-term business plan, efforts to "restructure and revitalize low-profit businesses" progressed better than planned, largely due to the recovery of performance at Kirin Beverage and Brasil Kirin. Also, progress was in line with plans regarding efforts to "invest to achieve outstanding growth in the Pharmaceuticals and Bio-chemicals Businesses." Attempts to "invest, strengthen, and grow the profit base in beer businesses," meanwhile, were stifled by a year-on-year decline in overall beer sales volumes at Kirin Brewery.

### Consolidated Statements of Income

#### ◆ Consolidated sales and gross profit

Consolidated sales (including liquor taxes) decreased 5.5% year on year, to ¥2,075.0 billion. This decrease can be attributed in part to lower beer sales volumes at Kirin Brewery and the impacts of deducting sales promotion expenses from second-quarter sales at Kirin Beverage in the Japan Integrated Beverages Business. Other factors leading to this decrease included the influence of foreign exchange rates on the Overseas Integrated Beverages Business.

Excluding liquor taxes, consolidated net sales declined 5.9%, to ¥1,779.0 billion.

The cost of sales (excluding liquor taxes) was down 6.7%, to ¥861.6 billion, while gross profit declined 5.2%, to ¥917.3 billion. The gross profit margin (excluding liquor taxes) increased by 0.4 percentage point, from 51.2% to 51.6%.

#### ◆ SG&A expenses and operating income

Selling, general and administrative (SG&A) expenses declined 8.0% year on year, to ¥775.4 billion. Although R&D expenses rose in the Pharmaceuticals and Bio-chemicals Businesses, this increase was offset by a decrease in sales expenses at Kirin Brewery and a decrease in SG&A expenses at Brasil Kirin. The ratio of SG&A expenses to net sales (excluding liquor taxes) decreased by 1.0 percentage point, to 43.6%.

R&D expenses included in SG&A expenses rose 2.7%, to ¥62.8 billion (¥62.9 billion including R&D expenses that are

included in manufacturing expenses), and accounted for 3.5% of consolidated net sales (excluding liquor taxes). Of these expenses, the R&D expenses for Kyowa Hakko Kirin, which handles the Pharmaceuticals and Bio-chemicals Businesses, were ¥53.5 billion, accounting for 84.7% of consolidated R&D expenses.

Consolidated operating income (after amortization of goodwill, etc.) increased 13.7%, to ¥141.8 billion, following progress in measures to improve profitability, which resulted in a significant improvement in income at Kirin Beverage as well as a ¥25.0 billion decrease in costs at Group companies. Accordingly, the ratio of operating income before amortization of goodwill, etc., to net sales (excluding liquor taxes), increased by 1.2 percentage points, to 9.6%, and the ratio of operating income after amortization of goodwill, etc., increased by 1.4 percentage points, to 8.0%.

#### ◆ Non-operating income and expenses, ordinary income

Overall, non-operating income and expenses resulted in a net non-operating loss of ¥1.2 billion. Factors behind this net loss included a ¥4.3 billion decrease in equity in earnings of affiliates as well as lower gains on investment in subsidiaries primarily associated with the Pharmaceuticals and Bio-chemicals Businesses. These factors offset the strong performance of San Miguel Brewery Inc. Ordinary income, the sum of operating income and net non-operating gain or loss, was up 9.7% year on year, to ¥140.6 billion.

#### ◆ Special income and expenses

Major items included in special income were a ¥24.6 billion cancellation fee from the termination of the beer distribution license with Anheuser-Busch InBev N.V. in Australia and a ¥15.4 billion gain on sales accompanying the conclusion of an agreement to transfer shares of a subsidiary of Brasil Kirin (the Macacu Plant). Special expenses amounted to ¥27.2 billion and primarily included the business restructuring expense recorded by Lion. However, this amount was significantly lower than the massive amount of special expenses posted in the previous fiscal year. As a result, net special gain of ¥40.0 billion was recorded, an increase of ¥150.8 billion from the previous fiscal year.

#### ◆ Net income attributable to owners of the parent

Following the increase in operating income and the recording of a substantial special gain, net income attributable to owners of the parent reached a record high of ¥118.1 billion, a significant increase of ¥165.4 billion from the previous fiscal year. Earnings per share (EPS) were ¥129.49, and EPS before amortization of goodwill, etc., was ¥172. Normalized EPS\* increased ¥8 from the previous fiscal year, to ¥125. ROE before amortization of goodwill, etc., was 21.9%.

\* Normalized EPS = Normalized net income/Average number of shares outstanding during period

Normalized net income = Net income + Amortization of goodwill, etc. ± Special income or Expenses after income taxes and minority interests

## Summary of Consolidated Statements of Income

¥ Billion

	Fiscal 2015	Fiscal 2016	Change (%)
Sales	2,196.9	2,075.0	-5.5%
Less: Japanese liquor taxes	305.6	296.0	-3.2%
Net sales	1,891.2	1,779.0	-5.9%
Cost of sales	923.1	861.6	-6.7%
Gross profit	968.0	917.3	-5.2%
Selling, general and administrative expenses	843.3	775.4	-8.0%
Operating income	124.7	141.8	13.7%
Operating income (before amortization of goodwill, etc.)	158.5	169.9	7.2%
Non-operating income	29.8	20.8	-30.0%
Non-operating expenses	26.4	22.1	-16.3%
Ordinary income	128.1	140.6	9.7%
Special income	29.1	67.3	130.6%
Special expenses	139.9	27.2	-80.5%
Income before income taxes and minority interests	17.4	180.7	938.5%
Income taxes	45.9	47.0	2.6%
Net income attributable to non-controlling interests	18.8	15.5	-17.7%
Net income (loss) attributable to owners of the parent	(47.3)	118.1	—

## Financial Indicators

	Fiscal 2015	Fiscal 2016	Change (%)
Net income (loss) per share (EPS) (Yen)	(51.87)	129.49	—
EPS (before amortization of goodwill, etc.) (Yen)	(2.83)	172.00	—
Normalized EPS (Yen)	117	125	6.8%
Normalized net income (Billions of yen)	107.0	113.8	6.4%
ROE (before amortization of goodwill, etc.) (%)	(0.3)	21.9	—

## Analysis of Change in Consolidated Sales

¥ Billion

	Year-on-year change
Japan Integrated Beverages Business	-38.3
Decrease in sales at Kirin Brewery	-22.6
Decrease in sales at Kirin Beverage	-17.4
Decrease in sales at Mercian	-3.0
Overseas Integrated Beverages Business	-62.7
Decrease in sales at Lion	-66.0 <sup>*1</sup>
Decrease in sales at Brasil Kirin	-16.3 <sup>*2</sup>
New consolidation of Myanmar Brewery	22.4 <sup>*3</sup>
Pharmaceuticals and Bio-chemicals Businesses	-20.0
Decrease in sales at Kyowa Hakko Kirin	-21.2
Other	-0.7
Total	-121.8

\*1 Fiscal 2016 exchange rate: 1 Australian dollar = ¥82.33 (Fiscal 2015: ¥93.16)

\*2 Fiscal 2016 exchange rate: 1 Brazilian real = ¥31.83 (Fiscal 2015: ¥36.30)

\*3 Fiscal 2016 exchange rate: 1,000 Burmese kyat = ¥90.62

## Analysis of Change in Consolidated Operating Income

¥ Billion

	Year-on-year change
Japan Integrated Beverages Business	19.2
Increase in profits at Kirin Brewery	7.2
Increase in profits at Kirin Beverage	11.6
Increase in profits at Mercian	1.6
Overseas Integrated Beverages Business <sup>*4</sup>	10.0
Decrease in profits at Lion	-7.2 <sup>*1</sup>
Increase in profits at Brasil Kirin	3.3 <sup>*2</sup>
New consolidation of Myanmar Brewery	8.8 <sup>*3</sup>
Pharmaceuticals and Bio-chemicals Businesses	-12.0
Decrease in profits at Kyowa Hakko Kirin	-12.0
Other	-0.5
Total	17.1

\*4 Change in operating income (before amortization of goodwill, etc.)

## Management's Discussion and Analysis

### Consolidated Balance Sheets

#### Assets

Total assets as of December 31, 2016, were ¥2,348.1 billion, a decrease of ¥95.6 billion, or 3.9%, compared with the previous fiscal year-end. Current assets were down ¥33.7 billion, to ¥748.1 billion. Non-current assets declined ¥61.8 billion, to ¥1,600.0 billion, following the amortization of intangible assets and a reduction in assets stemming from the influence of foreign exchange rates on overseas subsidiaries.

#### Liabilities

Total liabilities as of December 31, 2016, amounted to ¥1,402.0 billion, a year-on-year decrease of ¥103.6 billion, or 6.9%. Current liabilities fell ¥15.5 billion, to ¥650.3 billion. Non-current liabilities declined ¥88.0 billion, to ¥751.7 billion, as a result of lower interest-bearing debt.

#### Net assets

Net assets as of December 31, 2016, stood at ¥946.0 billion, up ¥8.0 billion, or 0.9%, compared with the previous fiscal year-end.

As a result, the shareholders' equity ratio was 29.0% at the end of the fiscal year, compared with 27.2% at the end of the previous fiscal year, and net assets per share were up ¥18.44 from the end of the previous fiscal year, to ¥745.92.

### Summary of Consolidated Balance Sheets

¥ Billion

	End of Fiscal 2015	End of Fiscal 2016	Change
Current assets	781.9	748.1	-33.7
Cash and time deposits	66.4	58.9	-7.4
Notes and accounts receivable, trade	397.6	393.5	-4.1
Inventory	227.7	207.6	-20.1
Other	90.0	88.0	-2.0
Non-current assets	1,661.8	1,600.0	-61.8
Property, plant and equipment	711.7	705.2	-6.5
Intangible assets	458.5	401.9	-56.6
Goodwill	269.2	228.9	-40.2
Other	189.3	172.9	-16.4
Investment and other assets	491.5	492.9	1.3
Total assets	2,443.7	2,348.1	-95.6
Current liabilities	665.9	650.3	-15.5
Notes and accounts payable, trade	142.0	135.8	-6.2
Interest-bearing debt	158.1	134.9	-23.2
Other	365.7	379.6	13.9
Non-current liabilities	839.7	751.7	-88.0
Interest-bearing debt	598.9	513.7	-85.2
Other	240.8	237.9	-2.8
Total liabilities	1,505.6	1,402.0	-103.6
Shareholders' equity	645.6	728.9	83.2
Total accumulated other comprehensive income	18.1	(48.2)	-66.4
Share options	0.4	0.5	0.1
Non-controlling interests	273.8	264.8	-8.9
Total net assets	938.0	946.0	8.0
Total liabilities and net assets	2,443.7	2,348.1	-95.6

## Consolidated Statements of Cash Flows

The balance of consolidated cash and cash equivalents as of December 31, 2016, was down ¥2.6 billion from the previous fiscal year-end, to ¥57.7 billion.

### ▶ Cash flows from operating activities

Net cash provided by operating activities was ¥226.4 billion, an increase of ¥55.4 billion compared with the previous fiscal year. Cash-decreasing factors included a ¥15.4 billion increase in gain on sale of shares of subsidiaries and affiliates and a ¥122.9 billion decrease in loss on impairment. However, these factors were outweighed by cash-increasing factors including a ¥163.3 billion increase in income before income taxes and minority interests and a ¥29.6 billion decrease in working capital outflows resulting from changes in such items as trade notes and accounts receivable, inventories, trade notes and accounts payable, liquor taxes payable, and consumption taxes payable.

### ▶ Cash flows from investing activities

Net cash used in investing activities increased ¥6.8 billion, to ¥77.5 billion. Major cash outflows included payment for purchases of property, plant and equipment and intangible assets of ¥95.0 billion (up ¥17.9 billion from the previous fiscal year) and payment for acquisition of marketable securities and investment securities of ¥20.7 billion. These outflows exceeded major cash inflows including proceeds from sale of property, plant and equipment and intangible assets of ¥20.1 billion and proceeds from sale and redemption of marketable securities and investment securities of ¥16.1 billion.

### ▶ Cash flows from financing activities

Net cash used in financing activities increased ¥66.9 billion, to ¥145.1 billion. Proceeds from long-term debt of ¥38.3 billion and increase in commercial paper of ¥45.0 billion were outweighed by repayment of long-term debt of ¥129.2 billion, payment for redemption of bonds of ¥30.0 billion, and ¥43.1 billion in cash dividends paid.

As a result, the cash flow-related indicators were as follows:

	Fiscal 2015	Fiscal 2016
Equity ratio (%)	27.2	29.0
Equity ratio based on market capitalization (%)	61.5	73.9
Debt service coverage ratio (%)	480.4	314.3
Interest coverage ratio (Times)	13.0	22.9

Notes:

- Equity ratio = Equity/Total assets
- Equity ratio based on market capitalization = Market capitalization\*/Total assets
- Market capitalization equals market price on last trading day of period × Total shares outstanding at end of period (excluding treasury stock).
- Debt service coverage ratio = Interest-bearing liabilities\*/Operating cash flow
- Interest-bearing liabilities refers to all liabilities with interest payable recorded in the liabilities section of the Consolidated Balance Sheets.
- Interest coverage ratio = Operating cash flow/Interest expense\*
- Interest expense refers to the amount of interest paid recorded in the Consolidated Statements of Cash Flows.

## Summary of Consolidated Statements of Cash Flows

¥ Billion

	Fiscal 2015	Fiscal 2016	Change
Cash flows from operating activities	171.0	226.4	55.4
Income before income taxes and minority interests	17.4	180.7	163.3
Depreciation and amortization	94.6	77.4	-17.1
Amortization of goodwill	27.3	22.3	-5.0
Other	31.6	(54.0)	-85.6
Cash flows from investing activities	(70.6)	(77.5)	-6.8
Acquisition of non-current assets	(77.1)	(95.0)	-17.9
Other	6.4	17.5	11.0
Cash flows from financing activities	(78.2)	(145.1)	-66.9
Increase (decrease) in interest-bearing debt	(33.9)	(99.6)	-65.6
Cash dividends paid	(41.1)	(43.1)	-2.0
Other	(3.1)	(2.4)	0.7
Translation adjustments	(2.3)	(6.3)	-4.0
Net increase (decrease) in cash and cash equivalents	19.8	(2.6)	-22.4



## Group Companies (As of December 31, 2016)

The Kirin Group is headed by Kirin Holdings Company, Limited, a pure holding company, which has 188 consolidated subsidiaries and 18 affiliated companies accounted for using the equity method.

Company Name	Location	Description of Business	Percentage of Holding
<b>Japan Integrated Beverages</b>			
Kirin Company, Limited	Tokyo, Japan	Management and provision of specialized services for Japan Integrated Beverages Business	100.0
Kirin Brewery Company, Limited	Tokyo, Japan	Manufacturing and sales of beer and other alcoholic beverages, etc.	100.0
Kirin Beer Marketing Company, Ltd.	Tokyo, Japan	Marketing and sales promotion for beer and other alcoholic beverages	100.0
Mercian Corporation	Tokyo, Japan	Import, manufacturing, and sales of wine and other alcoholic beverages	100.0
Kirin Beverage Company, Ltd.	Tokyo, Japan	Manufacturing and sales of non-alcoholic beverages	100.0
Kirin Beverage Value Vendor Company, Limited	Tokyo, Japan	Planning and sales of non-alcoholic beverages and food products to sell via vending machines	100.0
Kirin Distillery Co., Ltd.	Shizuoka, Japan	Manufacturing of domestically produced whiskey and spirits, etc., at the Fuji-Gotemba Distillery	100.0
SPRING VALLEY BREWERY COMPANY	Tokyo, Japan	Development of <i>SPRING VALLEY BREWERY</i> brand craft beer products, and planning, operation, and management of restaurants attached to microbreweries	100.0
YO-HO BREWING COMPANY*	Nagano, Japan	Manufacturing and sales of craft beer	33.3
<b>1</b> Kirin (China) Investment Co., Ltd.	Shanghai, China	Administration of alcoholic beverages business in China, identification of new investment opportunities and other business development activities in China, sales of Kirin brand products in the Yangtze River Delta Economic Zone	100.0
Kirin Brewery (Zhuhai) Co., Ltd.	Guangdong, China	Manufacturing and sales of beer	100.0
<b>2</b> Taiwan Kirin Co., Ltd.	Taipei, Taiwan	Import and sales of Kirin brand products in Taiwan	100.0
<b>3</b> Kirin Europe GmbH	Dusseldorf, Germany	Administration of local manufacturing and sales of Kirin brand products in Europe	100.0
<b>4</b> Kirin Brewery of America, LLC	California, U.S.A.	Marketing of Kirin brand products in the United States, exports to North and South America	100.0
<b>5</b> Four Roses Distillery, LLC	Kentucky, U.S.A.	Manufacturing and sales of bourbon whiskey	100.0
<b>Oceania Integrated Beverages</b>			
<b>6</b> Lion Pty Ltd	New South Wales, Australia	Ownership and management administration of operating companies in Oceania (alcoholic beverages, dairy products, juice beverages businesses)	100.0
Lion-Beer, Spirits & Wine Pty Limited	New South Wales, Australia	Manufacturing and sales of beer and other alcoholic beverages in Australia	100.0
Lion-Dairy & Drinks Pty Ltd	Victoria, Australia	Manufacturing of dairy products and drinks, etc., in Australia	100.0
Lion-Beer, Spirits & Wine (NZ) Limited	Auckland, New Zealand	Manufacturing and sales of beer and other alcoholic beverages in New Zealand	100.0
<b>Other Overseas Integrated Beverages</b>			
<b>7</b> Brasil Kirin Holding S.A.	São Paulo, Brazil	Manufacturing and sales of beer and non-alcoholic beverages in Brazil	100.0
<b>8</b> Kirin Holdings Singapore Pte. Ltd.	Singapore	Formulation and implementation of integrated beverage business strategies in Southeast Asia	100.0
<b>9</b> Myanmar Brewery Limited	Yangon, Myanmar	Manufacturing and sales of beer in Myanmar	55.0
<b>10</b> Interfood Shareholding Company	Dong Nai, Vietnam	Manufacturing and sales of non-alcoholic beverages and food products in Vietnam	95.7
<b>11</b> San Miguel Brewery Inc.*	Metro Manila, Philippines	Manufacturing and sales of beer in the Philippines	48.6
<b>12</b> China Resources Kirin Beverages (Greater China) Company, Limited*	British Virgin Islands	Manufacturing and sales of non-alcoholic beverages	40.0
<b>13</b> The Coca-Cola Bottling Company of Northern New England, Inc.	New Hampshire, U.S.A.	Manufacturing and sales of Coca-Cola products and other non-alcoholic beverages in seven states in the northeastern region of the United States	100.0
AZUMA KIRIN Indústria e Comércio de Bebidas e Alimentos Ltda.	São Paulo, Brazil	Manufacturing and sales of sake and food products in Brazil	100.0

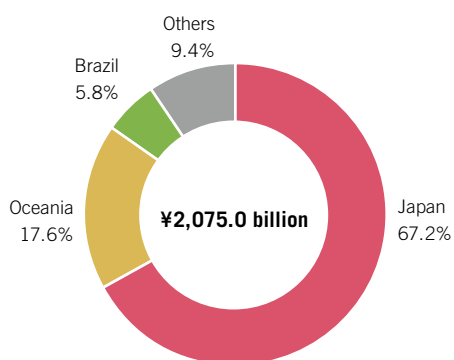
Company Name	Location	Description of Business	Percentage of Holding
<b>Pharmaceuticals and Bio-chemicals</b>			
Kyowa Hakko Kirin Co., Ltd.	Tokyo, Japan	Manufacturing and sales of ethical pharmaceuticals	52.8
14 Kyowa Kirin International plc	Scotland, U.K.	Administration and management of subsidiaries conducting development and sales of ethical pharmaceuticals	100.0
Kyowa Hakko Bio Co., Ltd.	Tokyo, Japan	Manufacturing and sales of pharmaceutical and industrial raw materials, healthcare products, etc.	100.0
Kirin-Amgen, Inc.*	California, U.S.A.	Research, development, and licensing of pharmaceuticals	50.0
<b>Others</b>			
Koiwai Dairy Products Company, Limited	Tokyo, Japan	Manufacturing and sales of milk, butter, cheese, fermented milk, and other dairy products and of margarine, jam, honey, and other food products	99.9

\* Equity-method affiliates

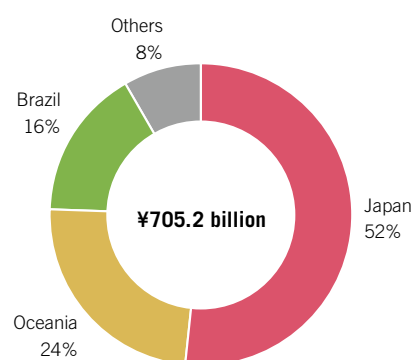


### Information by Region

#### Composition of Sales\*



#### Composition of Property, Plant and Equipment



\* Sales are classified into countries and regions based on the location of the customer.

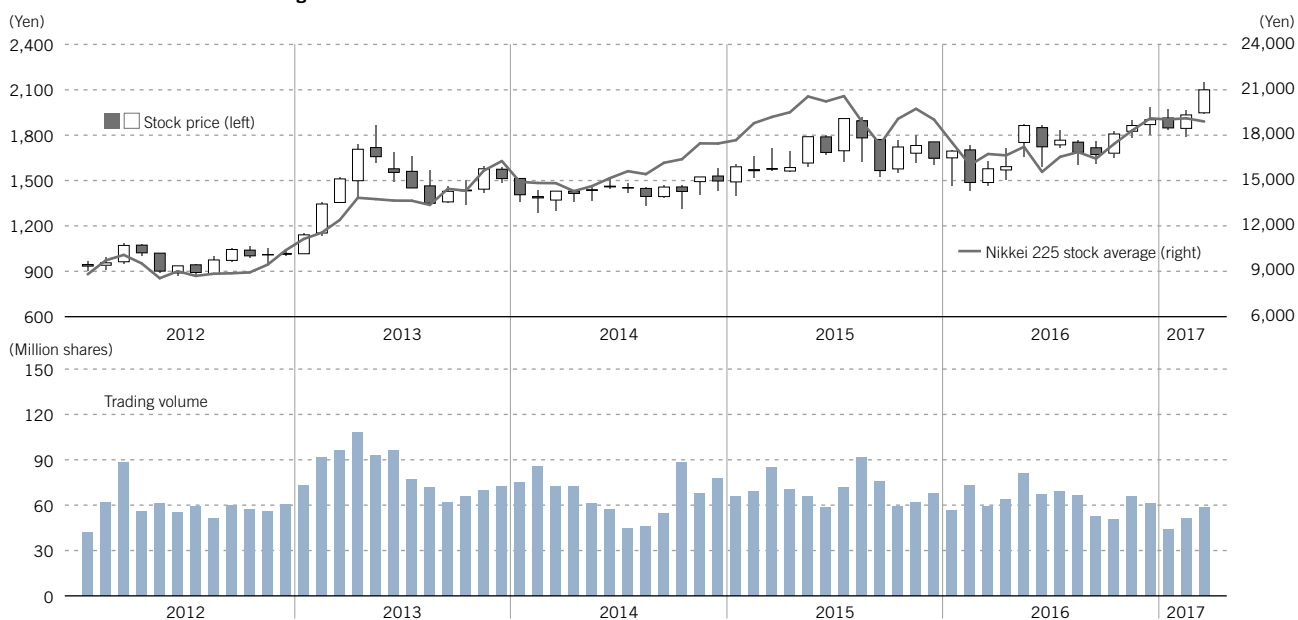
# Investor Information (As of December 31, 2016)

## Information Related to Total Shareholders' Return

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

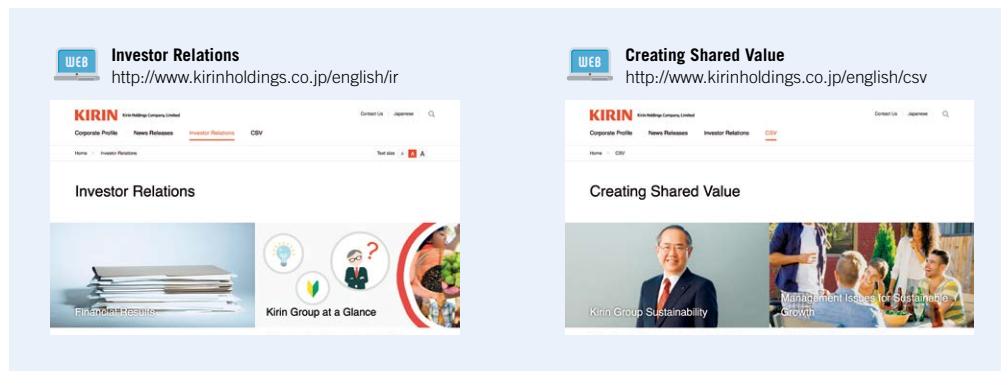
\* Total shareholders' return per share is calculated at fiscal year-ends, starting in fiscal 2013, as if the investment was made at the closing stock price at the end of fiscal 2012.

## Trends in Stock Price and Trading Volume



## Corporate Website

More detailed activity information and data can be found on Kirin Holdings' corporate website.



**Trade Name**

Kirin Holdings Company, Limited

**Head Office**NAKANO CENTRAL PARK SOUTH, 10-2, Nakano 4-chome,  
Nakano-ku, Tokyo 164-0001, Japan**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.**Paid-In Capital**

¥102,045,793,357

**Number of Authorized Shares**

1,732,026,000

**Number of Outstanding Shares**

914,000,000

**Number of Shareholders**

169,600

**Number of Employees (Consolidated)**

39,733

**General Meeting of Shareholders**

March 30, 2017

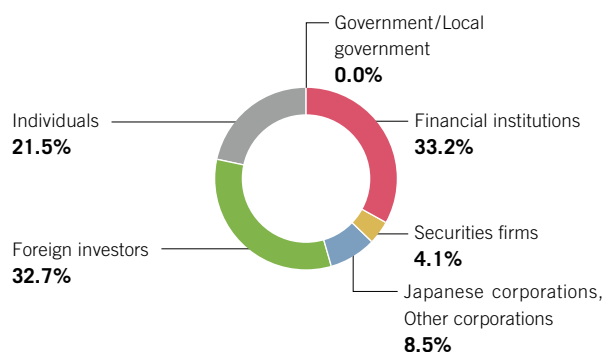
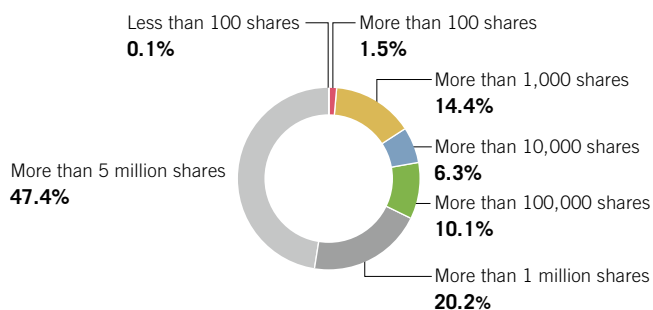
**Stock Listings**

Tokyo, Nagoya, Fukuoka, Sapporo

**Transfer Agent**Mitsubishi UFJ Trust and Banking Corporation,  
Corporate Agency Division,  
10-11, Higashi-suna 7-chome, Koto-ku, Tokyo 137-8081, Japan  
Tel: +81-3-6701-5000 (business days from 9:00 to 17:00)**Depository**JPMorgan Chase Bank, N.A.  
JPMorgan Service Center  
P.O. Box 64504 St. Paul, MN 55164-0504, U.S.A.  
Tel: +1-800-990-1135 (toll-free)  
Tel: +1-651-453-2128 (outside U.S.A.)**Major Shareholders**

Name of Shareholder	Number of Shares Held (Thousand shares)	Percentage of Total Shares Outstanding
The Master Trust Bank of Japan, Ltd. (Trust account)	53,885	5.9
Japan Trustee Services Bank, Ltd. (Trust account)	41,901	4.6
Meiji Yasuda Life Insurance Company	32,996	3.6
Japan Trustee Services Bank, Ltd. (Trust account 4)	17,463	1.9
STATE STREET BANK AND TRUST COMPANY 505225	17,058	1.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	14,501	1.6
STATE STREET BANK WEST CLIENT-TREATY 505234	12,644	1.4
Japan Trustee Services Bank, Ltd. (Trust account 7)	12,523	1.4
THE BANK OF NEW YORK MELLON 140044	11,179	1.2
THE BANK OF NEW YORK MELLON SA/NV 10	11,107	1.2

Note: Calculations for the percentages of total shares outstanding above exclude the 1,484,000 shares of treasury stock held by the Company.

**Shareholder Composition****Composition by Number of Shares Held**

# KIRIN

