Disclosed Information on the Internet at the Time of Notifying Convocation of the 180th Ordinary General Meeting of Shareholders

All matters above are provided to shareholders of the Company on the website of the Company on the Internet (https://www.kirinholdings.co.jp/english/ir/) in accordance with all laws and Article 15 of the Articles of Incorporation of the Company.

Kirin Holdings Company, Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(From January 1, 2018 to December 31, 2018)

(¥ millions)

	Equity attributable to owners of the Company					
					Reserves	
	Share capital	Share premium	Retained earnings	Treasury shares	Net change in equity instruments measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at January 1, 2018	102,046	2,208	811,454	(2,020)	73,523	-
Profit			164,202			
Other comprehensive income					(3,551)	(473)
Comprehensive income	-	-	164,202	-	(3,551)	(473)
Dividends from surplus			(44,823)			
Acquisition of treasury shares				(100,041)		
Disposal of treasury shares		0		1		
Share-based payments		11		155		
Changes in the ownership interest of a subsidiary without a loss of control		19			(0)	
Transfer from reserves to retained earnings			12,635		(13,108)	473
Other						
Total transactions with owners of the Company	-	29	(32,188)	(99,884)	(13,109)	473
Balance at December 31, 2018	102,046	2,238	943,468	(101,904)	56,863	-

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Reserves					
	Foreign currency translation differences on foreign operations	Cash flow hedges	Total	Total		
Balance at January 1, 2018	(27,352)	(2,031)	44,140	957,828	271,311	1,229,139
Profit				164,202	31,009	195,211
Other comprehensive income	(58,016)	768	(61,273)	(61,273)	(6,286)	(67,559)
Comprehensive income	(58,016)	768	(61,273)	102,929	24,723	127,652
Dividends from surplus				(44,823)	(11,374)	(56,197)
Acquisition of treasury shares				(100,041)		(100,041)
Disposal of treasury shares				2		2
Share-based payments				166	89	254
Changes in the ownership interest of a subsidiary without a loss of control	2		1	20	116	136
Transfer from reserves to retained earnings			(12,635)	-		-
Other					(25)	(25)
Total transactions with owners of the Company	2	-	(12,634)	(144,677)	(11,194)	(155,871)
Balance at December 31, 2018	(85,366)	(1,263)	(29,767)	916,080	284,840	1,200,920

*Amounts are rounded to the nearest ¥1 million.

Notes to Consolidated Financial Statements

Significant Accounting Policies

1. Accounting standards of consolidated financial statements

The consolidated financial statements of the Company and its consolidated subsidiaries (the "Group") are prepared in accordance with International Financial Reporting Standards ("IFRS"), pursuant to Article 120, Paragraph 1 of the Rules of Corporate Accounting. Certain disclosure items required by IFRS are omitted pursuant to the latter part of that paragraph.

2. Consolidation

Consolidated subsidiaries: 171 companies

Major consolidated subsidiaries: Kirin Company, Limited, Kirin Brewery Company, Limited, Mercian Corporation, Kirin Beverage Company, Limited, Lion Pty Limited, The Coca-Cola Bottling Company of Northern New England, Inc., Kyowa Hakko Kirin Company, Limited.

3. Equity method

Companies accounted for by the equity method: 29 companies

Major associate companies: San Miguel Brewery Inc., China Resources Kirin Beverages (Greater China) Company, Limited

4. Accounting policies

(1) Measurement of financial assets

① Non-derivative financial assets

1) Initial recognition and measurement

Financial assets are classified into financial assets measured at fair value through profit or loss, at fair value through other comprehensive income, and at amortized cost. The Group determines the classification at initial recognition of the financial assets. A regular way purchase or sale of financial assets is recognized or derecognized at the transaction date.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

・The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Of financial assets measured at fair value, each equity instrument is designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income. Such designations are applied on an ongoing basis.

All financial assets, except for those classified into the category as measured at fair value through profit or loss, are measured at fair value plus transaction costs that are directly attributable to the financial assets.

2) Subsequent measurement

After initial recognition, financial assets are measured based on classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

Financial assets other than those measured at amortized cost are measured at fair value. Changes in their fair value are recognized in profit or loss or in other comprehensive income based on the classification of the financial assets. Dividends on equity instruments designated as measured at fair value through other comprehensive income are recognized in profit or loss. When the decline in the fair value of the financial assets is significant or when they are derecognized, the cumulative gain recognized as capital through other comprehensive income is transferred to retained earnings.

3) Derecognition

Financial assets are derecognized when the rights to receive benefits from them expire or are transferred, or when substantially all the risks and rewards of ownership are transferred.

4) Impairment of financial assets

Allowance for doubtful accounts is recognized for expected credit losses on financial assets measured at amortized cost.

Expected credit losses are measured as the present value of the difference between contractual cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Changes in credit quality after the recognition of financial assets are recorded in profit or loss as changes in estimates.

After initial recognition, at the reporting date, expected credit losses are measured based on the following classification into three stages of financial instruments:

	Explanation	Measurement method of expected credit losses
Stage 1	Financial instruments for which credit risk has not increased significantly since initial recognition	12-month expected credit loss
Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition	Lifetime expected credit loss
Stage 3	Financial instruments for which there is evidence of credit impairment	Lifetime expected credit loss

However, regardless of the above, for certain financial assets such as trade receivables without a significant financing component, allowance for doubtful accounts is measured at an amount equal to lifetime credit expected losses (the simplified approach).

Expected credit losses are measured using reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group, in principle, determines that the credit risk on a financial asset has increased significantly since initial recognition if it is more than 30 days past due on the contract, and that a financial asset is in default if it is more than 90 days past due. When a financial asset is in default or when there is evidence of impairment including significant financial difficulty of the issuer or borrower, the Group determines that the financial asset is credit-impaired.

If the Group reasonably considers that there are no prospects of the full or partial recovery of financial assets, the carrying amount of the financial assets is written off.

② Derivatives and hedge accounting

The Group utilizes derivatives, including forward foreign exchange contracts, currency swaps, interest rate swaps and commodity swaps, to hedge foreign exchange risk, interest rate risk and commodity price risk. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized in the consolidated statement of profit or loss. However, the effective portion of cash flow hedges and hedges of net investment in foreign operations are recognized as other comprehensive income.

At the inception of the hedge, the Group formally designates and documents the hedging relationship to which hedge accounting is applied and the objectives and strategies of risk management for undertaking the hedge. The documentation includes specific hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the effectiveness of changes in the fair value of hedging instruments is assessed in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risks. Even though these hedges are expected to be highly effective in offsetting changes in cash flows, they are assessed on an ongoing basis to determine whether they have actually been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9:

1) Cash flow hedge

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income, while the ineffective portion is recognized immediately in the consolidated statement of profit or loss.

The amounts of hedging instruments recorded in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. In cases where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, the amounts that have been recognized in equity through other comprehensive income continue to be recorded in equity until the forecast transactions or firm commitments occur.

2) Hedge of net investment in foreign operations

Exchange differences resulting from net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income, while the ineffective portion is recognized in the consolidated statement of profit or loss. At the time of the disposal of the foreign operations, any related cumulative gain or loss that has been recognized in equity through other comprehensive income is reclassified to profit or loss.

(2) Measurement of Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of inventories is determined primarily based on the periodic average method and includes costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(3) Measurement and depreciation or amortization of Property, plant and equipment and intangible assets

① Property, plant and equipment

Property, plant, and equipment is measured using the cost model after initial recognition and is stated at cost less accumulated depreciation and accumulated impairment losses.

The cost includes any costs directly attributable to the acquisition of the asset and the initial estimate of the costs of dismantling, removal and restoration.

The depreciation of assets other than land and construction in progress is recorded using the straight-line method over their estimated useful lives.

The estimated useful lives of major assets by category are as follows:

Buildings and structures:	2-65 years
Machinery, equipment and vehicles:	2-30 years
Tools, fixtures and fittings:	2-30 years

Depreciation methods, useful lives and residual values are reviewed at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

② Goodwill

Goodwill arising from a business combination is stated at cost less accumulated impairment losses.

Goodwill is not amortized. It is allocated to cash-generating units or groups of cash-generating units and is tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in profit or loss and no subsequent reversal is made.

When the units for internal management purposes are altered, goodwill is reallocated to each cash-generating unit or group of cash-generating unit based on the altered units for internal management purposes.

③ Intangible assets

Intangible assets are measured using the cost model after initial recognition and are stated at cost less any accumulated amortization and accumulated impairment losses. The cost includes costs directly attributable to the acquisition of the asset, employee benefit expenses incurred and costs related to services consumed in internally generating the intangible asset.

1) Intangible assets acquired separately

Intangible assets acquired separately are measured at cost at initial recognition.

2) Intangible assets acquired through business combinations

Intangible assets acquired through business combinations are measured at fair value at the date of acquisition.

3) Internally generated intangible assets (development costs)

Research and development expenses generated in the Group are expensed when incurred, except for expenditures on development activities for which the Group can demonstrate all of the following requirements for capitalization:

・The technical feasibility of completing the intangible asset so that it will be available for use or sale.
・Its intention to complete the intangible asset and use or sell it.
・Its ability to use or sell the intangible asset.
・How the intangible asset will generate probable future economic benefits.
・The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
・Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Major intangible assets of the Group are as follows:

1) Brands

Brands are initially recognized at cost. In principle, as intangible assets with indefinite useful lives, they are not amortized because it is not possible to foresee the period over which their net cash inflows are expected to continue, and are tested for impairment annually or whenever there is any indication of impairment.

2) Marketing rights

Marketing rights are initially recognized at cost. They are amortized using the straight-line method over their estimated useful lives (5-20 years), and are tested for impairment whenever there is any indication of impairment.

3) Other

Other intangible assets are initially recognized at cost. Those with finite useful lives are amortized using the straight-line method over their estimated useful lives, and are tested for impairment whenever there is any indication of impairment. Those with indefinite useful lives are not amortized and are tested for impairment annually or whenever there is any indication of impairment.

Amortization methods, useful lives and residual values are reviewed at each year-end, and if any changes are required, such changes are applied prospectively as changes in accounting estimates.

④ Leases

Leases as a lessee are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the Group. Leases other than finance leases are classified as operating leases.

Finance leases as a lessee are initially recognized at the lease commencement date as assets and liabilities in the consolidated statement of financial position at the lower of the fair value of the leased property and the present value of the minimum lease payments, both of which are determined at the inception of the lease. After initial recognition, the leased assets are depreciated over their estimated useful lives when it is reasonably certain that the ownership is transferred by the end of the lease term and over the shorter of the lease term and their estimated useful lives when it is not reasonably certain. The lease payments are apportioned between the finance costs and the repayment of lease obligations based on an interest method.

Lease payments under operating leases are expensed on the straight-line method over the lease terms unless another systematic basis is properly representative of the time pattern of the benefits.

⑤ Impairment of non-financial assets

The Group tests goodwill and intangible assets with indefinite useful lives for impairment at least annually, as well as whenever there is any indication of impairment.

At the reporting date, the Group determines whether there is any indication of impairment for non-financial assets other than inventories, deferred tax assets and defined benefit asset. Since goodwill that forms part of the carrying amount of equity-accounted investees is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of equity-accounted investees is assessed for any indication of impairment and is tested for impairment as a single asset.

If there is any indication that an asset may be impaired, or in cases where an impairment test is required to be performed annually, the recoverable amount of the asset is determined. In cases where the recoverable amount cannot be estimated for an individual asset, it is estimated for the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is measured at the higher of its fair value less costs of disposal and its value in use. Value in use is determined by discounting estimated future cash flows to their present value using a discount rate that reflects the time value of money and the risks specific to the asset.

Only if the recoverable amount of an asset or cash-generating unit falls below its carrying amount, the carrying amount is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

The Group assesses at the reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount, the impairment loss is reversed up to the lower of the recoverable amount determined and the carrying amount (net of accumulated depreciation or accumulated amortization) that would have been determined if no impairment loss had been recognized in prior years. The reversal of the impairment loss is immediately recognized in profit or loss.

(4) Income taxes

Income taxes are the sum of current taxes and deferred taxes.

Current taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. In determining the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.

Deferred taxes are determined based on the temporary differences between the tax base for assets and liabilities and their carrying amount for accounting purposes at the reporting date. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences. However, deferred tax assets or liabilities are not recorded for:

・temporary differences arising from the initial recognition of goodwill;

・temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of transaction, affects neither accounting profit nor taxable profit (tax loss);

・deductible temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that future taxable profits will be available against which the temporary differences can be utilized; and

・taxable temporary differences related to investments in subsidiaries and associates, and interests in joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The deferred taxes are recognized in profit or loss, except for taxes arising from items that are recognized directly in other comprehensive income or in equity and taxes arising from business combinations.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

Regarding uncertain tax treatment, the Company recognizes reasonable amounts as assets or liabilities, when it is probable that the tax authority will not accept our tax treatment based under interpretation of tax law.

Consolidated taxation regime is applied by the Company and certain subsidiaries.

(5) Provisions

Provisions are recognized when present legal or constructive obligations exist as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligations.

Explanation of the major provisions is as follows:

・Allowance for loss on plants reorganization

In connection with plants reorganization aimed at the efficiency of manufacturing sites in Japan and overseas, as plans including the removal of property, plant and equipment at some of the sites are determined and announced, a reasonable estimated amount of the removal costs is recorded as a provision.

The timing of the payment is subject to circumstances such as future business plans.

(6) Employee benefits

① Post-employment benefits

The Group has defined benefit-type and defined contribution-type pension plans and provides lump-sum severance payment plans, defined benefit corporate pension plans and employees' pension fund plans as defined benefit-type plans.

For each defined benefit plan, the Group determines the present value of its defined benefit obligations and the related current service cost and past service cost using the projected unit credit method. The discount rate applied is determined by reference to market yields on high-quality corporate bonds at the year-end. The net defined benefit liability (asset) is determined by deducting the fair value of any plan assets from the present value of the defined benefit obligations. Remeasurements of the net defined benefit asset or liability are recognized collectively in other comprehensive income and reclassified to retained earnings for the period during which they have occurred.

Retirement benefit costs for defined contribution-type plans are expensed for the period during which employees render services.

② Termination benefits

The Group provides termination benefits when the Group terminates an employee's employment before the normal retirement date or an employee voluntarily retires in exchange for the benefits. Termination benefits are expensed when the Group commits to terminating the employment; provided that the Group has detailed official plans related to the termination of the employee's employment and can no longer withdraw the offer of the benefits.

③ Short-term employee benefits

Short-term employee benefits are expensed on an undiscounted basis when the related service is provided. Bonuses are recorded as liabilities for the amount estimated to be paid in accordance with the applicable plans when the Group has present legal or constructive obligations to pay as a result of past labor rendered by employees, and the obligations can be reliably estimated.

(7) Revenue from contracts with customers

Revenue is recognized based on the following five-step approach:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(8) Foreign currency translation

① Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rates at the dates of the transactions or an approximation of the rate.

At the reporting date, monetary items denominated in foreign currencies are retranslated into the functional currency at the exchange rate at the reporting date, and non-monetary items denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate when the fair value was determined.

Exchange differences arising from the translation and settlement are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

② Foreign operations

The assets and liabilities in the statement of financial position of foreign operations are translated using the exchange rates at the dates of the statement of financial position. Income and expenses in the statements of profit or loss and other comprehensive income are translated using the average exchange rates, except for cases of significant exchange rate movements.

Exchange differences arising from the translation are recognized in other comprehensive income. In cases where a foreign operation is disposed of, the cumulative amount of exchange differences related to the foreign operation is transferred to profit or loss in the period of disposal.

(9) Consumption taxes

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

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Notes to the Consolidated Statement of Financial Position

1. Accumulated depreciation of property, plant and equipment	¥1,163,130 million
2. Pledged assets	
Equity Instruments	¥965 million
3. Allowance for doubtful accounts directly deducted from assets	
Other financial assets	¥5,139 million
Trade and other receivables	¥1,371 million
4. Guarantee obligations	
Guarantees for loan obligations of associates and other companies	¥795 million
Guarantees for loan obligations of employees	¥466 million
Total	¥1,261 million

Notes to the Consolidated Statement of Changes in Equity

1. Type and number of shares outstanding and treasury shares

(1) Shares outstanding

Type of shares outstanding	common stock
Number of shares at January 1, 2018	914,000,000 shares
Increase in number of shares during the year ended December 31, 2018	-
Decrease in number of shares during the year ended December 31, 2018	-
Number of shares at December 31, 2018	914,000,000 shares

(2) Treasury shares

Type of treasury shares	common stock
Number of shares at January 1, 2018	1,394,366 shares
Increase in number of shares during the year ended December 31, 2018 (Note 1)	34,683,450 shares
Decrease in number of shares during the year ended December 31, 2018 (Note 2)	76,695 shares
Number of shares at December 31, 2018	36,001,121 shares

Notes:
1. Increase in the number of shares was due to purchases of 14,450 less-than-one-unit shares and acquisition of 34,669,000 treasury shares.
2. Decrease in the number of shares was due to sales of 536 less-than-one-unit shares and disposal of 76,159 treasury shares for restricted stock compensation.

2. Matters related to dividends

(1) Dividend payments

Approvals by Ordinary General Meeting of Shareholders held on March 29, 2018 were as follows:

Dividend on Common Stock

a. Total amount of dividend ¥23,271 million
b. Dividend per share ¥25.50
c. Record date December 31, 2017
d. Effective date March 30, 2018

Approvals by the Board of Directors' Meeting held on August 7, 2018 were as follows:

Dividend on Common Stock

a. Total amount of dividend ¥21,552 million
b. Dividend per share ¥24.00
c. Record date June 30, 2018
d. Effective date September 5, 2018

(2) Dividends whose record date is attributable to, but to be effective after, the year ended December 31, 2018.

Proposals at the Ordinary General Meeting of Shareholders to be held on March 28, 2019 will be as follows:

Dividend on Common Stock

a. Total amount of dividend ¥23,706 million
b. Source of dividends Retained earnings
c. Dividend per share ¥27.00
d. Record date December 31, 2018
e. Effective date March 29, 2019

3. Other

The Coca-Cola Bottling Company of Northern New England, Inc. acquired a business from Coca-Cola Refreshments USA, Inc. during the fiscal year ended December 31, 2017. This acquisition was accounted for based on the provisional amounts at December 31, 2017, as the purchase price allocation had not been completed. During the fiscal year ended December 31, 2018, the Coca-Cola Bottling Company of Northern New England has received the reimbursement, adjusted the acquisition cost, and the valuation of acquired assets and transferred liabilities has been completed. Based on the completed valuation, the provisional amounts recognized for property, plant and equipment, goodwill, intangible assets and other items at the date of the acquisition have been revised retroactively. As a result, retained earnings and foreign currency translation differences on foreign operations at January 1, 2018 have been revised.

Notes for Financial Instruments

1. Overview of financial instruments

(1) Capital management

The Group's basic policy for capital management is to maintain optimum capital structure with a focus on providing shareholders with returns and securing a sound, flexible financial footing towards the objective of maximizing corporate value. Aiming to improve profitability and efficiency, the Group utilizes cash flows which are provided by activities such as generating Group synergies, promoting lean management and reducing assets, in order to conduct business investments and capital investments, provide shareholder returns, and repay interest-bearing liabilities.

(2) Matters related to risk management

The Group is exposed to financial risks, including credit risk, liquidity risk and market risk, in its business activities. To reduce such risks, the Group practices risk management based on established policies and procedures.

The Group limits the use of derivatives to that for the purpose of hedging financial risks, and does not use derivatives for speculative purposes.

(a) Credit risk

In accordance with the internal policies for managing credit risk arising from trade receivables, in each sales division, the Company and some of its subsidiaries monitor credit worthiness of their main customers and counterparties on a periodical basis and manage due dates and outstanding balances by individual customer. In addition, efforts are made to quickly identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group believes that the credit risk of derivatives is insignificant as it enters into derivatives only with financial institutions which have a high credit rating.

(b) Liquidity risk

In accordance with the internal policies for managing financial risks, the Group formulates fund procurement plans based on the business plan for each year to counter liquidity risk. The Group also manages such risk by, for example, entering into commitment lines with several financial institutions and achieving an appropriate balance between direct and indirect fund procurement as well as short-term and long-term fund procurement.

(c) Market risk

1) Foreign exchange risk management

The Group operates businesses globally and, therefore, is exposed to the risk that Group's equity is influenced by foreign exchange fluctuations as a result of transactions undertaken in currencies other than the functional currency and when financial statements of foreign operations are translated into Japanese yen and consolidated. To manage foreign exchange risk, the Group hedges such risk mainly using foreign exchange contracts and currency swaps.

2) Interest rate risk

Interest-bearing liabilities with floating interest rates are exposed to interest rate risk. For those with long-term maturities, the Group uses interest rate swaps to avoid interest rate fluctuation risk by converting floating interest into fixed interest.

3) Price fluctuation risk

The Group is exposed to share price fluctuation risk arising from equity instruments (shares). For the equity instruments, the Group regularly assesses the fair values, the financial conditions of the issuers and other relevant factors, and continuously reviews the holding status of such instruments by taking into account the relationship with the issuer when the issuer is a customer of the Group.

2. Fair values of financial instruments

The following table shows the amounts of financial instruments recorded in the consolidated statement of financial position at December 31, 2018 and their fair value. The fair value of financial instruments measured at fair value on a recurring basis is equal to their carrying amount, and the fair value of short-term financial assets and liabilities measured at amortized cost is approximately equal to their carrying amount. Therefore, they are not included in the table.

(¥ millions)

	Amount recorded in the consolidated statement of financial position	Fair value
Bonds (Notes 1 and 3)	149,747	152,529
Long-term borrowings (Notes 2 and 3)	261,257	270,726

Notes: 1. The fair value of bonds is determined as the present value calculated by discounting the combined total of principal and interest with an interest rate that reflects the current maturity and credit risk.

2. The fair value of long-term borrowings is determined as the present value calculated by discounting the combined total of principal and interest with an assumed interest rate for similar new borrowings.

3. The balance due within one year is included.

Notes for Per Share Information

1. Equity per share attributable to owners of the Company: ¥1,043.37
2. Basic earnings per share: ¥183.57

STATEMENT OF CHANGES IN NET ASSETS

(¥ millions)

(From January 1, 2018 to December 31, 2018)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Common stock	Additional paid-in capital	Other capital surplus	Total capital surplus	Legal reserve	Reserve for deferred gain on sale of property	General reserve	Retained earnings carried forward	Total retained earnings
Balance at January 1, 2018	102,046	81,412	77	81,489	25,511	521	506,368	202,777	735,178
Changes of items during the period									
Transfer to reserve for deferred gain on sale of property						(348)		348	-
Dividends from surplus								(23,271)	(23,271)
Dividends from surplus (interim dividends)								(21,552)	(21,552)
Net income								190,876	190,876
Acquisition of treasury shares									
Disposal of treasury shares			15	15					
Net changes of items other than shareholders' equity									
Total changes of items during the period	-	-	15	15	-	(348)	-	146,401	146,053
Balance at December 31, 2018	102,046	81,412	91	81,504	25,511	173	506,368	349,178	881,230

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Net unrealized gains on securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at January 1, 2018	(2,020)	916,693	33,761	(82)	33,679	950,372
Changes of items during the period						
Transfer to reserve for deferred gain on sale of property		-				-
Dividends from surplus		(23,271)				(23,271)
Dividends from surplus (interim dividends)		(21,552)				(21,552)
Net income		190,876				190,876
Acquisition of treasury shares	(100,041)	(100,041)				(100,041)
Disposal of treasury shares	217	232				232
Net changes of items other than shareholders' equity			(15,205)	82	(15,123)	(15,123)
Total changes of items during the period	(99,824)	46,244	(15,205)	82	(15,123)	31,120
Balance at December 31, 2018	(101,843)	962,937	18,556	-	18,556	981,492

*Amounts are rounded to the nearest ¥1 million.

Notes to Financial Statements

Significant Accounting Policies

1. Measurement of assets

(1) Measurement of securities

(a) Shares of subsidiaries and affiliates are stated at cost determined by the moving-average method.

(b) Available-for-sale securities

1) Available-for-sale securities with fair market value are stated at fair market value as of the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using the moving-average method.

2) Available-for-sale securities without fair market value are stated at the moving-average cost.

(2) Derivative financial instruments

Derivative financial instruments are stated at fair value.

2. Property, plant and equipment and intangible assets

(1) Property, plant and equipment are stated at cost net of accumulated depreciation and accumulated loss from impairment. Depreciation of property, plant and equipment is calculated using the straight-line method.

(2) Amortization of intangible assets is calculated using the straight-line method.

3. Allowances and reserves

(1) Allowance for doubtful accounts

The Company provides allowance for doubtful accounts in an amount sufficient to cover probable losses on collection. The allowance for doubtful accounts consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historic percentage of collection losses.

(2) Allowance for employees' bonuses

The Company provides allowance for employees' bonuses based on the estimated amounts payable.

(3) Allowance for bonuses for directors and corporate auditors

The Company provides allowance for bonuses for directors and corporate auditors based on the estimated amounts payable.

(4) Employees' pension and retirement benefits

The Company provides allowance for employees' pension and retirement benefits at the balance sheet date based on the estimated amounts of projected retirement benefit obligations at the end of the fiscal year. In calculating retirement benefit obligation, the benefit formula basis is used for attributing expected retirement benefits for the period up to the end of the current fiscal year. Past service costs are amortized by the straight-line method over a certain number of years (13 years) within the average of the remaining years of service to be performed by the employees at the time incurred. Actuarial gains and losses are amortized by the straight-line method over a certain number of years (13 years) within the average of the estimated remaining years of service to be performed by the employees at the time incurred, beginning from the following fiscal year.

4. Other significant matters serving as the basis for the preparation of financial statements

(1) Hedge accounting

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains and losses resulting from changes in fair value of derivative financial instruments as “Deferred gains or losses on hedges” in valuation and translation adjustments in the balance sheet until the related losses and gains on the hedged items are recognized.

If forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

(a) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable:
1) the difference, if any, between the amount in Japanese yen of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(b) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(2) Consumption taxes

Consumption taxes are excluded from the revenue and expense accounts which are subject to such taxes.

(3) Application of the consolidated taxation regime

The Company and certain subsidiaries apply the consolidated taxation regime.

Notes to the Balance Sheet

1. Monetary debts due from and to subsidiaries and affiliates

Short-term monetary debts due from subsidiaries and affiliates	¥138,813 million
Long-term monetary debts due from subsidiaries and affiliates	¥840 million
Short-term monetary debts due to subsidiaries and affiliates	¥302,897 million
Long-term monetary debts due to subsidiaries and affiliates	¥1,400 million

2. Accumulated depreciation of property, plant and equipment ¥5,131 million

3. Contingent liabilities

Guarantees for loans from banks and others of subsidiaries and affiliates	¥16,564 million
Guarantees for employee loans from banks and others	¥463 million
Total	¥17,028 million

Notes to the Statement of Income

1. Transactions with subsidiaries and affiliates (excluding those separately presented)

Operating revenue	¥1,141 million
Operating expenses	¥1,133 million
Transactions other than operating transactions	¥1,751 million

2. Gain on sale of shares of subsidiaries and affiliates

Gain on sale of shares of subsidiaries and affiliates comprises ¥86,583 million of gain on sale of shares of Kirin-Amgen, Inc. and others.

Notes to the Statement of Changes in Net Assets

Type of treasury shares	common stock
Number of shares at January 1, 2018	1,394,366 shares
Increase in number of shares during the year ended December 31, 2018 (Note 1)	34,683,450 shares
Decrease in number of shares during the year ended December 31, 2018 (Note 2)	76,695 shares
Number of shares at December 31, 2018	36,001,121 shares

Notes:
1. Increase in the number of shares was due to purchases of 14,450 less-than-one-unit shares and acquisition of 34,669,000 treasury shares.
2. Decrease in the number of shares was due to sales of 536 less-than-one-unit shares and disposal of 76,159 treasury shares for restricted stock compensation.

Notes for Deferred Income Taxes

1. Significant components of deferred tax assets

Investments in shares and other equity interests of subsidiaries and affiliates	¥41,131 million
Unused tax losses	¥40,804 million
Other	¥2,974 million
Subtotal	¥84,908 million
Less valuation allowance	¥(55,135) million
Total deferred tax assets	¥29,774 million

2. Significant components of deferred tax liabilities

Net unrealized gains on securities	¥(8,186) million
Other	¥(463) million
Total deferred tax liabilities	¥(8,649) million

Notes for Transactions with Related Parties

Type	Company name	Ratio of voting rights held by the Company [Indirect ownership]	Relationship with the Company	
			Directors and corporate auditors	Business relationship
Subsidiary	Kirin Company, Limited	100%	Concurrent 3	Consignment of management guidance service Lending and borrowing of funds Consignment of indirect business
Subsidiary	Kirin Brewery Company, Limited	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	Kirin Beverage Company, Limited	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	Mercian Corporation	Indirect 100%	-	Lending and borrowing of funds
Subsidiary	The Coca-Cola Bottling Company of Northern New England, Inc.	100%	Concurrent 1	Consignment of management guidance service Financial support
Subsidiary	Kirin Holdings Singapore Pte, Limited	100%	-	Consignment of management guidance service
Subsidiary	Kyowa Hakko Kirin Company, Limited	53%	Concurrent 2	Lending and borrowing of funds

Type	Company name	Transaction details	Transaction amount (¥ millions)	Item	Balance at end of year (¥ millions)
Subsidiary	Kirin Company, Limited	Borrowing of funds (Notes 1 and 3)	58,583	Short-term loans payable	62,332
Subsidiary	Kirin Brewery Company, Limited	Lending of loans (Notes 1 and 2)	36,661	Short-term loans receivable	59,530
Subsidiary	Kirin Beverage Company, Limited	Borrowing of funds (Notes 1 and 3)	27,220	Short-term loans payable	19,197
Subsidiary	Mercian Corporation	Lending of loans (Notes 1 and 2)	20,178	Short-term loans receivable	19,940
Subsidiary	The Coca-Cola Bottling Company of Northern New England, Inc.	Lending of loans (Note 2)	24,420	Short-term loans receivable	24,420
		Interest income (Note 2)	681	Accrued interest receivable	210
Subsidiary	Kirin Holdings Singapore Pte, Limited	In-kind capital contribution (Note 4)	275,358	-	-
Subsidiary	Kyowa Hakko Kirin Company, Limited	Borrowing of funds (Notes 1 and 3)	172,575	Short-term loans payable	181,343

Conditions of transactions and policy regarding determination of conditions of transactions

Notes:

1. Recurrent transaction amounts of lending and borrowing of funds show average outstanding balances during this fiscal year.
2. Interest rates of loans receivable are determined based on market interest rates.
3. Interest rates of loans payable are determined based on market interest rates.
4. The Company has contributed in kind its preference shares of Lion Pty Limited to Kirin Holdings Singapore Pte, Limited.
5. Transaction amounts above do not include foreign currency translation gain or loss. Transaction amounts do not include consumption taxes.

Notes for Per Share Information

1. Net assets per share: ¥1,117.87
2. Net income per share: ¥213.39

Notes for Subsequent Events

(Absorption-type merger of a consolidated subsidiary)

The Company resolved at the Board of Directors' Meeting held on January 28, 2019 to conduct an absorption-type merger of its consolidated subsidiary Kirin Company, Limited, and concluded a merger agreement on the same date.

1. Transaction overview

(1) Overview of the companies involved in the business combination

(As of December 31, 2018)

Surviving company in the absorption-type merger

Name	Kirin Holdings Company, Limited
Business	Developing group-wide management strategies and overseeing their implementation

Company to be dissolved as a result of the absorption-type merger

Name	Kirin Company, Limited
Business	Strategic management and oversight of the domestic beverage business, and provision of specialized services
Operating income	¥101,303 million
Net income	¥56,511 million
Net assets	¥181,430 million
Total assets	¥218,019 million

(2) Date of the business combination

July 1, 2019

(3) Legal form of the business combination

An absorption-type merger in which the Company is the surviving company and Kirin Company, Limited will be the disappearing company.

(4) Company name after the business combination

Kirin Holdings Company, Limited

(5) Other matters related to transaction overview

As a result of studying the organizational structure appropriate for realizing the future business strategy from a medium to long-term perspective, the Company has decided to conduct an absorption-type merger of Kirin Company, Limited, with the aim of further promoting integrated management of the Group and establishing a flexible organizational structure.

2. Overview of accounting procedures to be applied

The transaction will be accounted for as a transaction under common control in accordance with the Accounting Standard for Business Combinations and the Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures. The Company will recognize gain on extinguishment of tie-in shares as special income during the fiscal year ending December 31, 2019.

(Acquisition of a consolidated subsidiary)

The Company resolved at the Board of Directors' Meeting held on February 5, 2019 to acquire 95% of all outstanding shares in Kyowa Hakko Bio Company, Limited ("Kyowa Hakko Bio") from Kyowa Hakko Kirin Company, Limited ("Kyowa Hakko Kirin") and concluded a share transfer agreement with Kyowa Hakko Kirin on the same date.

1. Purpose of the share acquisition

To create the future firm profit base of core businesses in the Kirin Group Vision 2027 (KV2027), the Company positions the development of a new domain bridging Pharmaceuticals and Food & Beverages as one of the major areas to be committed to action, and expects new value creation by addressing "Health and Well-being" issues through its businesses to be one of the potential growth drivers of the Kirin Group.

The Company and the Kyowa Hakko Kirin Group have been facilitating collaboration with each other. For example, in 2017, "iMuse" was launched as a group-wide brand to commercialize the "Lactococcus lactis strain plasma," which was the product of joint development between the three companies of Kirin Company, Limited, Koiwai Dairy Products Company, Limited, and Kyowa Hakko Bio. Considering this backdrop and discussing the possibility for further collaboration in the business domain of "Health and Well-being" on which the Company is focusing as a future growth driver, the Company and Kyowa Hakko Kirin came to the decision that by making Kyowa Hakko Bio a direct subsidiary of the Company, it would be possible to more effectively use each other's strengths and management resources, as well as raise the speed of business development, beginning with the "Health and Well-being" domain, and so open the way to maximizing group synergies and the corporate value of Kyowa Hakko Bio. In addition, the acquisition would allow Kyowa Hakko Kirin to concentrate management resources on the Pharmaceuticals business, primarily new drug development, and to further accelerate the pace of growth, leading in turn to the maximization of corporate value of the Kirin Group. Accordingly, it was decided that part of the Kyowa Hakko Bio shareholding would be sold to the Company.

2. Counterparty of the share acquisition

Kyowa Hakko Kirin Company, Limited

3. Overview of the consolidated subsidiary

Company name	Kyowa Hakko Bio Company, Limited
Business description	Research, development, manufacture and sale of raw materials for pharmaceutical and industrial use, healthcare products and others

4. Expected date of share transfer

April 24, 2019 (planned)

5. Number of shares to be acquired, acquisition price and percentage of shareholding before and after the acquisition

Shares owned before change	0 shares (Number of voting rights: 0) (Voting rights ownership percentage: 0%)
Number of shares to be acquired	95 shares (Number of voting rights: 95)
Acquisition price	Approximately ¥128.0 billion

Shares owned after change	95 shares (Number of voting rights: 95) (Voting rights ownership percentage: 95%)

(Note 1) The number of shares issued by the target company as of the time of this release (February 5, 2019) is 10 shares, but the target company intends to conduct a 1:10 stock split before the Share Acquisition takes place, so that at the time of the Share Acquisition, the number of shares issued will be 100 shares. The number of shares and the number of voting rights in the above table use figures from after the stock split.

(Note 2) The acquisition price will be adjusted in accordance with the dividends of surplus paid in cash to Kyowa Hakko Kirin by Kyowa Hakko Bio up to the date on which the Share Acquisition is executed, and in accordance with Kyowa Hakko Bio's net assets as of the last day of the month prior to which the Share Acquisition will be executed.

(Note 3) Kyowa Hakko Kirin retains a put option to sell the remaining 5 percent of Kyowa Hakko Bio's shares to the Company after 3 years from the date on which the Share Acquisition is executed (or on a date that the Company and Kyowa Hakko Kirin separately agree on).