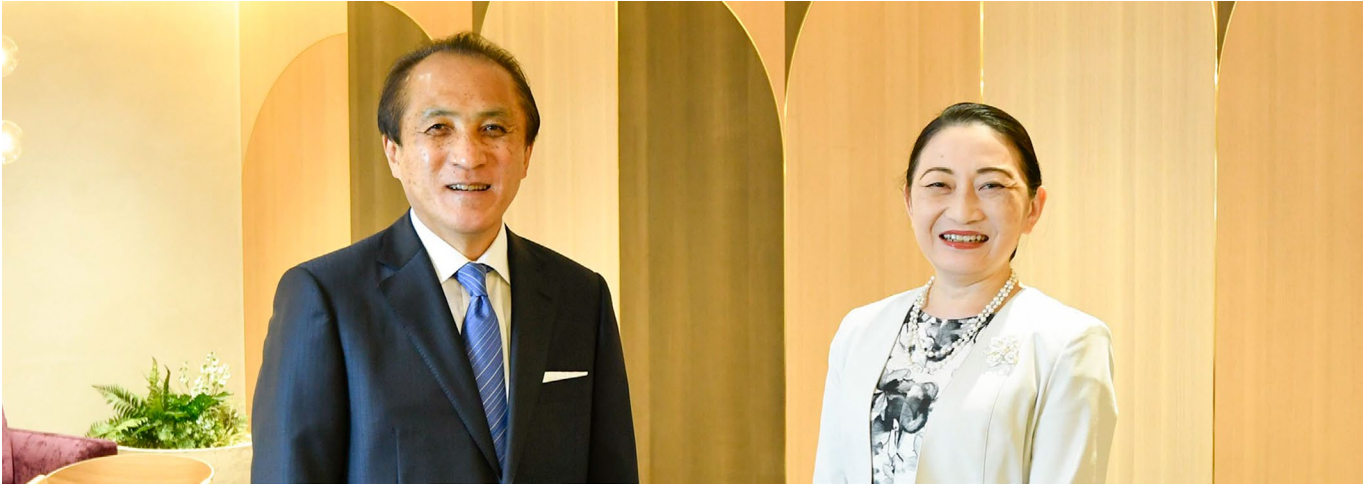


## Interview with Independent Non-executive Directors



### Interview with Independent Non-executive Directors

#### Aiming to be a Global Leader in CSV through Effective and Proactive Governance

Independent Non-executive Director (Member of the Nomination and Remuneration Advisory Committee)  
Hiroyuki Yanagi (On left)

Joined Yamaha Motor Co., Ltd. in 1978. At Yamaha Motor, he was appointed Executive Officer and General Manager of Production Division in 2007; President, Chief Executive Officer and Representative Director in 2010, Chairman and Representative Director in 2018; and Advisor in 2022. Mr. Yanagi became a Non-executive Director of Kirin Holdings in 2019.

Independent Non-executive Director (Chairperson of the Nomination and Remuneration Advisory Committee)  
Chieko Matsuda (On right)

Ms. Matsuda joined The Long-Term Credit Bank of Japan, Ltd., in 1987, after which she worked at Moody's Japan, Ltd. Corporation, Corporate Directions, Inc., and Booz & Co., Inc. Ms. Matsuda is currently a professor on the faculty of the Economics and Business Administration and the Graduate School of Management of Tokyo Metropolitan University. Ms. Matsuda was appointed as a member of the Audit & Supervisory Board of Kirin Holdings in 2016 and a Non-executive Director of Kirin Holdings in 2020.

## Optimizing the business portfolio and strengthening horizontal collaboration to create a solid foundation for growth

— The Medium-Term Business Plan (MTBP) was launched in 2022. What discussions did the Board of Directors have regarding the results of the 2019 MTBP and the development of the 2022 MTBP?

**Yanagi:** In my opinion, there were two major achievements in the 2019 MTBP. The first is the proactive reshuffling of the business portfolio. Kirin Group was able to solidify the basic framework for the next MTBP in parallel with the decisions to sell the Australian non-alcoholic beverage business and to dissolve the partnership of the joint venture in Myanmar. This included a policy to strengthen the craft beer business and expand the Health Science business, including investment in FANCL.

The second is an initiative to make horizontal linkages across the entire Kirin Group with regard to quality, SCM, marketing, R&D, ICT, and HR. This is expected to enhance the organizational strength and further increase future competitiveness. Through this initiative, the relationship between the vertical axis (businesses) and the horizontal axis (functions) has been organized, and the overall view has become clearer.

**Matsuda:** I agree with the discussion of vertical and horizontal axes that Mr. Yanagi mentioned is very important. Regarding the formulation of the 2022 MTBP, in addition to the business portfolio, the Board was able to deepen the discussion on strengthening the organizational strength of the entire Group. While the boards of many companies only talk about their operations, I feel that we were able to have discussions that are befitting a holding company. I would also like to reiterate that the series of discussions were fruitful due to the active exchange of opinions among the board members, including the non-executive directors.

— How would you evaluate the Kirin Group's portfolio management?

**Matsuda:** The business portfolio is one of the most important agenda items for the Kirin Group's Board of Directors, and heated discussions about it are held at every meeting. The Health Science business is constantly under consideration in this context. Given the current business environment and the compatibility of the Kirin Group's resources, we recognize it as a business with potential and one in which the Group can leverage its strengths. On the other hand, there is a limit to taking a go-it-alone approach when seeking to grow the business at a rapid clip. I believe that joining forces with FANCL, which has technology that the Kirin Group did not possess and with which it has a strong affinity, will have a positive impact on both parties.

Although the Board had expected a positive reaction from investors to these initiatives, the actual response was muted, and Kirin Holdings' share price temporarily dropped in value. I believe this is because Kirin has not been able to present a strong enough growth story for its Health Science business to convince investors.

**Yanagi:** What will be important in the future is the business model built with FANCL. How can the Kirin Group share product technologies and original marketing techniques that are not available in the Kirin Group and how can it tailor a competitive business model as a Group? The Kirin Group's mettle will be put to the test.

**Matsuda:** The Health Science business comprises multiple group companies, including Kirin Holdings' Health Science Business Division, Kyowa Hakko Bio, and FANCL, which makes it more challenging organizationally. However, the initiatives being implemented in a fairly full-scale fashion so is vital for the Kirin Group to produce tangible results to see if it can coordinate these organizations and sustain their growth.



On the other hand, as management resources are finite, it is necessary to consider and decide whether low-priority businesses should be handed over to other owners who can expect better development.

**Yanagi:** We must not forget that the globalization of the Food & Beverages domain is a work in progress now due to a combination of withdrawals from Overseas Business as a result of this trend. I believe that the Kirin Group needs to actively take on challenges in the Food & Beverages domain as well.

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## Turning the withdrawal from the Myanmar business into a learning experience and accelerating the development of growth businesses

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—What discussions were held regarding the withdrawal of business from Myanmar?



**Yanagi:** Considering the situation at the time, the decision to expand into Myanmar was a rational and appropriate one, and there were no issues with the series of decisions, responses, and speed of the withdrawal process. What is important, then, is the perspective of what can be learned from this experience and what lessons can be passed on. Anything can happen in today's world of ever-increasing geopolitical risks. I feel it is important to continue to manage businesses in a balanced manner on a daily basis and to create a system that can respond quickly to unexpected issues.

**Matsuda:** One of the lessons learned this time may be that even though Kirin Group is a private-sector company, it needs to take a new look at the forces at work in the nation as well as the forces of the market. By taking this into consideration, I believe that Kirin Group will be able to have a different frame of mind in future M&A and JV formation.

In fact, the Board had been discussing possible scenarios even before the coup in Myanmar. Emergency Board meetings were also held at critical junctures after the coup to ensure timely information sharing and decision-making. I believe it was this kind of preparedness that enabled Kirin Group to respond appropriately to unprecedented situations such as this one. Some commented that it may have taken a long time, but considering the complexity of the situation, my honest impression is that the Board moved quickly to a conclusion.

This event was a very difficult problem to find a balance between business value and social value. Under such circumstances, I believe that the Kirin Group has made appropriate decisions that will lead to the future based on its CSV strategy. However, it is imperative that the Group nurtures new growth businesses to replace the Myanmar business in the future.

## Along with basic digitalization, promote talent development that takes advantage of the rich growth environment

—What are your views on about the Group's organizational strengths and digitalization?

**Yanagi:** The Kirin Group is also promoting structuring in the sales area, which generally tends to be reliant on specific individuals. Kirin Brewery, for example, has achieved significant results from such initiatives, such as increasing its market share of beer products by clearly depicting the scenes in which the brand interacts with consumers and organizing its approach methods.

Cross-group efforts are also underway in the marketing area. Three things are important for further achieve concrete results: sharing values about marketing, setting goals, and sharing results. In advancing these initiatives, it will be important to create a platform for Group-wide sharing of experience and knowledge from Japan and overseas.

**Matsuda:** In general, manufacturers are split into those that are good at making products and those that are good at selling products. Looking at the Kirin Group, I get the strong impression that it belongs to the former camp. There is a scene in a *Honkirin* TV commercial where the celebrity mentions the many taste evaluation tests is truly "Kirin-like". Seeing this, I felt that this is a strength that only Kirin, with its high level of technology and research capabilities, can offer.

This does not mean that its selling power is weak, but the seriousness of the Kirin Group as a whole comes to the fore, which can give the impression of being a bit stiff. However, I feel there are steady improvements through the results of transformations achieved through ongoing dialogue between management and front-line staff at each Group company, as well as through the planning of marketing activities that it plans to implement in the future.

Regarding digitalization, the Group is commendable in that it is not abstracting the issue by lumping it under the term "DX," but is steadily promoting digitalization by incorporating it into specific ICT initiatives. I look forward to further improvements, starting with the go-live of the new enterprise resource planning system in 2022.

**Yanagi:** Nevertheless, my impression is that digitization is still at the "dot" level and has not yet reached the "plane" level. I believe that all of the executive officers are on the same page regarding this and will take on this challenge in the future. I expect new value can be created by connecting dots into planes. I would like to see the Health Science business and other businesses find new ways to connect customers with society.

On the other hand, there have been four technology exchange meetings between the Kirin Group members and Yamaha Motor on topics such as DX and SCM. Through such exchanges, I came to feel that the Kirin Group is very advanced in lean management. "Respect for Life" is Kirin Group's fundamental brewing philosophy, and "a steady focus on quality in manufacturing that makes full use of the five senses" is its underlying philosophy. To me this is in line with Yamaha Motor's underlying "Technologies and Sensibilities" philosophy. It is very important to carry on the fundamental and underlying philosophies and continue to refine technologies.

In addition, SCM has already been established as a global platform, including overseas sites, to consolidate and share knowledge. Similar efforts will be underway for marketing and other functions.



—Please discuss talent development in the Group

**Yanagi:** We visited the plants and laboratories of each Group company and were able to see their passion for their technologies and products at the respective sites. I saw a passion for more efficient and higher quality products on the manufacturing floor, and a passion for finding something tastier and more pleasing on the research front lines. As long as the Group supports these passions to keep them alive, its talent will naturally grow.

I believe there are four important evaluation axes for talent development. They are whether or not: (1) training is structured, (2) evaluations are based on a mixture of subjective and objective criteria, (3) innovative HR management is possible, and (4) Kirin-like HR management is being conducted. I would like to look at this in more detail in the future, but in particular, I think the Kirin Group is an organization that can practice (3) innovative HR management.

While Presidents of Group companies have been gradually making progress in such initiatives as developing programs for young talent, it will be necessary to devise ways to foster global talent as a future challenge.

**Matsuda:** As Mr. Yanagi mentioned, the Group has become much more focused on management training. On the other hand, I feel that there is now more talent that is willing to raise issues and take positive action, such as through ambitious proposals to executives and initiatives by younger employees on their own.

Even though Kirin Group employees are very fortunate in terms of their environment, I feel that in some respects they are not aware of this. Going forward, I hope that the Kirin Group will firmly promote the fact that it is indeed an attractive place to be. And the same time, it should verify the results of the measures taken to date and embark on more bold transformation of the HR system so that it can further promote the activities of the generations that will lead the future.

## Highly effective governance structure to encourage innovation on the front lines



—Finally, please tell us about the Group's governance structure.

**Matsuda:** When evaluating governance, attention tends to focus on the design aspect, but effectiveness is what is important. Kirin Holdings' structure is such that the majority of directors are non-executive director and the chairperson of the Board and the chairperson of the Nomination and Remuneration Advisory Committees is also a non-executive director. I feel diversity is also taken into consideration, demonstrating the commitment to governance of the management members.

For the Kirin Group, I believe that by stimulating each other, non-executive and inside executive directors are able to build good relationships and ensure a high level of effectiveness.

**Yanagi:** I have the same assessment as Ms. Matsuda. I feel that the opinions of non-executive directors are actively listened to and often lead to realization.

Generally speaking, governance tends to be defensive. I recognize that the future role of non-executive directors is to provide strong support for decisive decision-making and to support the activation of innovation on the front lines in order for the Kirin Group to engage in proactive governance.



The Kirin Group has multiple business domains, and how it shares the strengths and knowledge of each company will greatly determine its future growth. At this juncture, momentum is building for the creation of a platform that will create synergies across the Group, and I expect these efforts to accelerate in the future.

—Thank you very much for speaking with us today about your expectations and the issues facing the Kirin Group. We will use this discussion to promote initiatives for further growth.