

## **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\*2—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.

\*2 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.

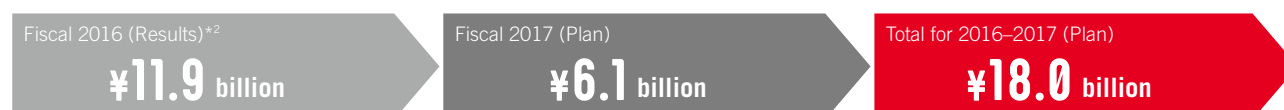
#### ► Brasil Kirin

##### 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>.

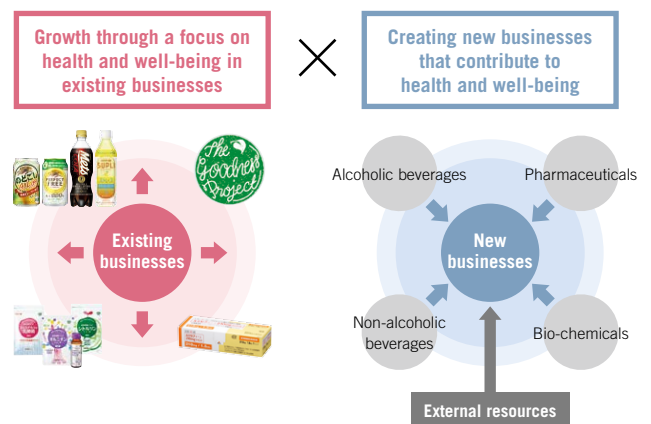
While enhancing the growth potential of existing businesses, we will also aggressively search for opportunities to expand the scope of our business activities and resolutely take on the challenge of promising business opportunities. In addition, we will also take a flexible approach to investment in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

