Management Analysis of Financial Position, Operating Results, and Cash Flows

1. Operating Results

(1) Overall business conditions

In fiscal 2018, the final year of the Kirin Group 2016-2018 Medium-Term Business Plan (2016 MTBP), the Kirin Group aimed to "revitalize the Kirin Group through restructuring" by prioritizing strengthening the profit base of Kirin Brewery while reinvigorating the maturing domestic alcoholic beverages market. Following the Kirin Group CSV Commitment to achieve the long-term New Kirin Group Vision 2021, we also stepped up activities to create shared value. We prioritized fulfilling our CSV commitments in the alcoholic beverages and non-alcoholic beverages and pharmaceuticals and bio-chemicals businesses, including in the areas of health and well-being, community engagement, the environment, and a responsible alcohol producer.

	Fiscal 2018	Fiscal 2017*	Increase (decrease)	Increase (decrease)
Consolidated revenue	1,930.5 billion yen	1,863.7 billion yen	66.8 billion yen	3.6%
Consolidated normalized operating profit	199.3 billion yen	194.6 billion yen	4.7 billion yen	2.4%
Consolidated operating profit	198.3 billion yen	211.0 billion yen	(12.7 billion yen)	(6.0%)
Consolidated profit before tax	246.9 billion yen	233.7 billion yen	13.1 billion yen	5.6%
Consolidated profit attributable to owners of the Company	164.2 billion yen	242.0 billion yen	(77.8 billion yen)	(32.1%)

* Fiscal 2017 figures have been revised retroactively in accordance with the settlement of the provisional accounting treatment related to the acquisition of a business that year.

Fiscal 2018 overall revenue grew as expanded sales volume at Kirin Brewery boosted revenue in the Japan Integrated Beverages Business and increased sales volume at CCNNE generated strong growth in revenue in the Other Overseas Integrated Beverages Business. Normalized operating profit reached a record high as strong results at Kirin Brewery supported a substantial profit increase for the Japan Integrated Beverages Business that more than overcame decreased profits in the Oceania Integrated Beverages Business due to foreign exchange rate fluctuations and in the Pharmaceuticals and Bio-chemicals Businesses from removing Kyowa Medex from the consolidated accounts. Operating profit declined from the previous fiscal year level, which was elevated by gains on sales of fixed assets. Profit before tax attained a record high on contributions from the share of profit of equity-accounted investees from higher year-on-year sales volume at San Miguel Brewery and the booking of a gain on sale of equity-accounted investees from the transfer of all shares of Kirin Amgen. Profit attributable to owners of the Company decreased from last year when the Company booked a gain on the transfer of all shares of Brasil Kirin. However, profitability remained steady, considering that the level was essentially the same as last year when factoring out the impact of the transfer.

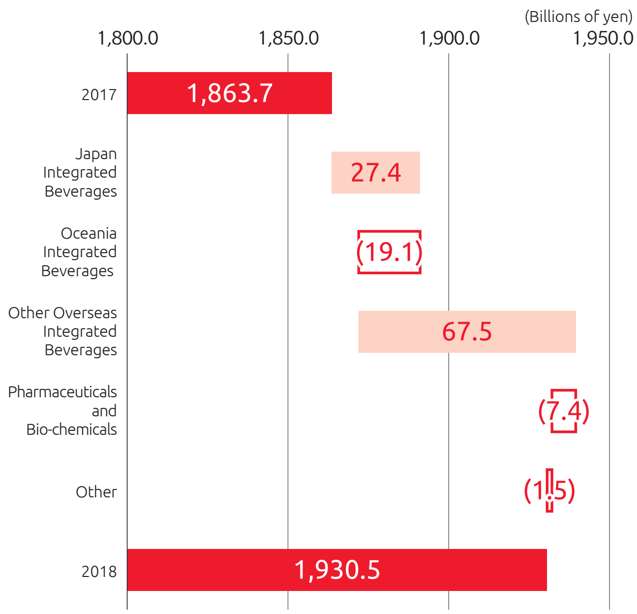
(2) Performance by reportable segments

Results by segment are as follows.

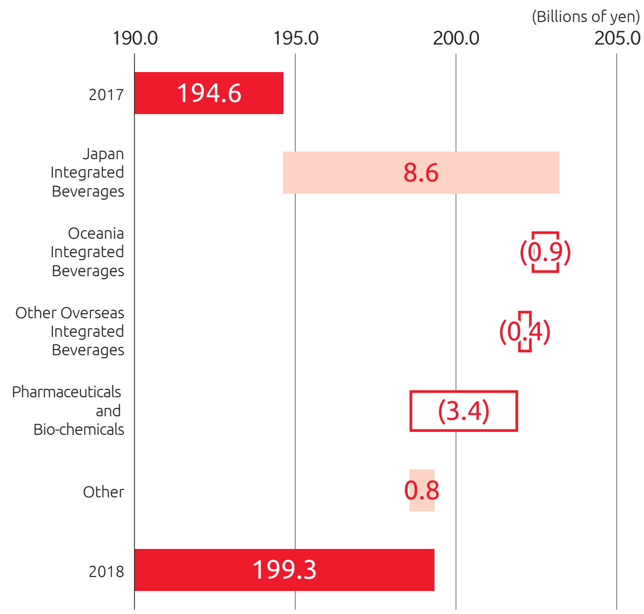
	Fiscal 2018	Fiscal 2017*	Increase (decrease)	Increase (decrease)
Consolidated revenue	1,930.5 billion yen	1,863.7 billion yen	66.8 billion yen	3.6%
Japan Integrated Beverages	1,078.3 billion yen	1,051.0 billion yen	27.4 billion yen	2.6%
Oceania Integrated Beverages	329.5 billion yen	348.6 billion yen	(19.1 billion yen)	(5.5%)
Other Overseas Integrated Beverages	167.4 billion yen	99.9 billion yen	67.5 billion yen	67.5%
Pharmaceuticals and Bio-chemicals	339.3 billion yen	346.7 billion yen	(7.4 billion yen)	(2.1%)
Other	16.0 billion yen	17.5 billion yen	(1.5 billion yen)	(8.4%)
Consolidated normalized operating profit	199.3 billion yen	194.6 billion yen	4.7 billion yen	2.4%
Japan Integrated Beverages	81.2 billion yen	72.5 billion yen	8.6 billion yen	11.9%
Oceania Integrated Beverages	51.7 billion yen	52.6 billion yen	(0.9 billion yen)	(1.7%)
Other Overseas Integrated Beverages	13.4 billion yen	13.7 billion yen	(0.4 billion yen)	(2.6%)
Pharmaceuticals and Bio-chemicals	58.8 billion yen	62.2 billion yen	(3.4 billion yen)	(5.5%)
Other	(5.7 billion yen)	(6.5 billion yen)	0.8 billion yen	-

* Fiscal 2017 figures have been revised retroactively in accordance with the settlement of the provisional accounting treatment related to the acquisition of a business that year.

Consolidated revenue



Consolidated normalized operating profit



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• Japan Integrated Beverages Business

Kirin Brewery focused on enhancing the appeal of its beer products and on cost-efficient marketing for select brands. The increased sales volume worked to increase marginal profit and decrease selling costs. In the beer category, year-on-year growth in the sales volume of the flagship *Kirin Ichiban* brand exceeded the industry average. Installations of the Tap Marché beer dispenser unit reached near 7,000 stores nationwide during the year. Tap Marché, which is strategically aimed at expanding and invigorating the craft beer market, offered 19 brands from seven breweries during the year. Substantial contributions from the increased sales volume of *Honkirin* launched in March in the new genre category and the revamped *Nodogoshi Nama* released in May fueled year-on-year growth of 5.2% in sales volume for Kirin beer products amid an overall contraction in the domestic beer market. RTD category sales volume rose 13.1% year on year on solid sales of the core *Hyoketsu* and very brisk sales of *Honshibori*™ Chu-hi and *KIRIN The STRONG*, which launched in April.

Revenue rose by 21.1 billion yen, or 3.3%, year on year and normalized operating profit grew 9.3 billion yen, or 13.0%, year on year, helping to lift normalized operating profit ratio (versus sales revenue excluding liquor taxes) to 20.8% year on year, compared with 19.3% in the previous fiscal year.

Kirin Beverage strengthened its business base and built a more robust brand portfolio. Sales volume of the flagship brand *Gogo-no-Kocha* declined overall, largely due to heavy rains in Western Japan temporarily suspending shipments of large PET-bottle products while sales volume of smaller PET-bottle products increased. Sales grew for a third straight year for *Nama-cha*, which was boosted by a brand makeover in March. Helped by a revamp in April, sales of *Kirin Lemon* more than doubled from last year, providing a strong contribution to the overall growth in sales volume. At the same time, sales volume stagnated for *FIRE* in the coffee category amid an overall contraction in the canned coffee market. The end result was an increase in sales volume but a deteriorated composition ratio of products and containers, which led to a 0.9 billion yen, or 0.3%, year-on-year decline in revenue. Management measures to cut costs, including controlling raw material procurement and reducing waste, as well as to lower sales costs enabled normalized operating profit to rise 1.6 billion yen, or 7.5%, year on year and the normalized operating profit ratio to expand from 7.6% a year ago to 8.2%.

• Oceania Integrated Beverages Business

In the Beer, Spirits and Wine Business, Lion Pty Limited continued strengthening its brands in growth categories following its brand portfolio strategy to reestablish profit growth in the medium-to-long term. The Container Deposit Scheme introduced in December 2017 in New South Wales, Australia, impacted the sales result, but sales were strong for the *Iron Jack* and *James Squire* brands and for the *Furphy* brand the company is rolling out nationwide in Australia as part of an active effort to accelerate the development of craft beer markets overseas. Lion's sales volume ultimately remained essentially unchanged at -0.1% year on year. The company's success lowering supply chain-related costs, notably in the procurement activities, helped lift the normalized operating profit ratio on a local currency basis from 27.9% a year ago to 28.8%. In the Dairy and Drinks Business, Lion continued to strengthen its brands in key categories. Sales volume rose year on year for the leading brand *Dare* in the dairy beverage category and for the *Farmers Union* brand in the yogurt category. Smaller sales volume of ambient and chilled juice in large containers led to overall sales volume in the Dairy and Drinks Business decreasing 3.9% year on year while a better product mix from higher unit prices held the decline in revenue to just 1.3%. Cost cutting measures helped lift the normalized operating profit ratio on a local currency basis to 3.6%, up from 3.5% a year earlier. Lion's profits rose 3.7% year on year on a local-currency basis, and its overall contribution to consolidated earnings was also impacted by the foreign exchange rates (-16.8 billion yen in revenues and -2.9 billion yen in normalized operating profit). As a result, the Oceania Integrated Beverages Business recorded a revenue decline of 19.1 billion yen, or 5.5%, year on year and a normalized operating profit decline of 0.9 billion yen, or 1.7%, year on year.

In October 2018, Kirin and Lion announced the decision to seek a third-party buyer for the Lion Dairy and Drinks Business. The structurally reformed business is steadily becoming more profitable, and the companies rigorously examined all strategic options for taking the operation to the next stage of growth. After careful consideration, it was decided that selling the Dairy and Drinks Business was the most viable course of action. In the accounting books, Lion's Dairy and Drinks Business has not been designated as a discontinued operation and is included in continuing operations.

• **Other Overseas Integrated Beverages Business**

Myanmar Brewery's promotional campaigns and product revamp generated strong sales for its flagship *Myanmar Beer*, particularly the canned beer offering, as the brand continued to command high market share in an expanding market. Sales volume for *Andaman Gold* in the economy category rose sharply year on year after the company expanded its production capacity and stabilized supply. Increased sales volume and reduced costs offset the negative impacts from an increased ratio of economy category sales and increased import material costs due to local currency weakness, and the company posted growth in sales of 9.4% and profits of 9.4% on a local currency basis. Despite the foreign exchange impact (-1.9 billion yen in revenues and -0.7 billion yen in normalized operating profit), revenues grew 0.6 billion yen, or 2.2%, year on year and normalized operating profit increased 0.2 billion yen, or 2.1% year on year.

The Coca-Cola Bottling Company of Northern New England (CCNNE) recorded sharp growth in sales volume from the September 2017 expansion of its marketing area in North America.

• **Pharmaceuticals and Bio-chemicals Business**

In the Pharmaceuticals Business, Kyowa Hakko Kirin continued its drive to make the leap to a "Global Specialty Pharmaceutical Company" by maximizing the value of global strategic products, infusing new products into its existing product lines to increase market penetration, strengthening customer relationships in each region, and filling out its new product development pipelines. Domestic sales declined year on year. Sales were solid for *G-Lasta**, an agent for decreasing the incidence of febrile neutropenia; *NOURIAST*, a treatment for Parkinson's disease; and *Onglyza*, a treatment for type 2 diabetes. However, sales were impacted by Kyowa Medex being removed from the scope of consolidation, the April revision to drug prices in Japan's national health insurance system, the increasing presence of generics as part of government efforts to reduce medical costs, and competitor products. Overseas sales increased on steady market penetration of *Crysvita*, a treatment for X-linked hypophosphatemia launched in 2018, and *Poteligeo*, a treatment for skin T-cell lymphoma. Pharmaceuticals business revenue increased when factoring out the impact from removing Kyowa Medex from consolidated accounts. Normalized operating profit declined 4.6 billion yen, or 8.4%, year on year, owing mainly to increased selling, general and administrative expenses as the company sought to establish global strategic products overseas.

In the Bio-chemicals Business, sales declined 2.6 billion yen, or 3.2%, year on year due mainly to the impact of the previous year's sale of the plant growth regulator business and the intensifying competition for some products overseas. At the same time, improved costs from full-scale operations of the overseas plant and a revised product mix helped increase normalized operating profit by 0.9 billion yen, or 13.1%.

* *G-Lasta* is a treatment to increase the number of neutrophil white blood cells.

(3) Progress toward achieving management indices

The Kirin Group 2016-2018 Medium-Term Business Plan (2016 MTBP) to "revitalize the Kirin Group through restructuring" set raising ROE to 15% or higher and lifting the CAGR in normalized EPS to 6% or higher as key performance indicators. We achieved both targets by steadily raising profitability and diligently reducing costs throughout the Group.

Performance indicator	2015	2016	2017	2018	CAGR
ROE	(6.3%)	17.6%	29.1%	17.5%	-
Normalized EPS	117 yen	125 yen	151 yen	167 yen	12.6%

2. Financial Status

(1) General overview

Total assets at the end of the current consolidated fiscal year amounted to 2,303.6 billion yen, a decrease of 94.9 billion yen from the end of the previous consolidated fiscal year. The decline was mainly due to decreases in property, plant and equipment, goodwill and other intangible fixed assets, financial assets (non-current), and non-current assets held for sale. The decline in property, plant and equipment was caused by the yen appreciation versus the same period last year, which caused the value of subsidiary assets overseas to decline when converted to Japanese yen. The decline in other non-current asset was due to decreased market value for shareholdings. Other financial assets (non-current) declined by 30.8 billion yen due to reduced value of equity holdings and the sale of strategically held shares. However, strong earnings at San Miguel Brewery helped boost share of profit of equity-accounted investees, supporting a 29.8 billion yen increase in investments booked under the equity method. The sale of the Company's stake in Kirin Amgen reduced non-current assets held for sale by 76.3 billion yen.

While retained earnings increased, equity decreased by 28.2 billion yen from the end of the previous consolidated fiscal year to 1,200.9 billion yen. This is primarily due to a 73.9 billion yen decrease in reserves and an increase of treasury stocks through a 100 billion yen of share buyback executed to further increase of shareholder returns. The decline in reserves was due to a foreign exchange gain (loss) associated with overseas operators due to reduced income owing to a stronger yen versus the Australian dollar and Myanmar kyat along with reduced income arising from a net change in equity instruments measured at fair value through other comprehensive income.

Liabilities decreased 66.7 billion yen from the end of the previous consolidated fiscal year to 1,102.7 billion yen mainly due to debt repayment. Non-current liabilities decreased 43.7 billion yen to 512.8 billion yen. In March 2018, the Company paid down roughly 70 billion yen in bonds coming due. In November 2018, the Company paid down other long-term borrowings and also issued 25.0 billion yen in straight bonds with a redemption date in December 2023. In current liabilities, accrued corporate income taxes increased by 7.5 billion yen while bonds and long-term borrowings redeemable within one year declined by 26.8 billion yen as the Company continued to pay off and pay down liabilities. Total current liabilities decreased 23.0 billion yen to 589.9 billion yen.

As a result of the above, the ratio of consolidated profit attributable to owners of the Company was 39.8% and the gross debt-to-equity ratio was 0.45.

(2) Financial status of each reportable segment

• Japan Integrated Beverages Business
Segment assets amounted to 819.1 billion yen at the end of fiscal 2018, an increase of 23.5 billion yen from the end of the previous fiscal year. The increase was mainly due to systems investment to install enterprise resource planning (ERP) beginning in 2017 to support future business growth.

• Oceania Integrated Beverages Business
Segment assets amounted to 489.6 billion yen at the end of fiscal 2018, a decrease of 30.8 billion yen from the end of the previous fiscal year. The decrease was mainly due to declines in property, plant and equipment and goodwill due to the strong yen rate versus the Australian dollar used in the conversion of Lion Pty Limited assets.

• Other Overseas Integrated Beverages Business
Segment assets amounted to 674.6 billion yen at the end of fiscal 2018, an increase of 272.2 billion yen from the end of the previous fiscal year. The increase was mainly due to a rise in other non-current assets due to intersegment loans.

• Pharmaceuticals and Bio-chemicals Business
Segment assets amounted to 706.3 billion yen at the end of fiscal 2018, a decrease of 28.2 billion yen from the end of the previous fiscal year. The decrease was mainly due to a decline in non-current assets held for sale associated with Kyowa Hakko Kirin divesting of a portion of its shareholdings in Kyowa Medex.

3. Cash Flow

(1) Cash flow and liquidity status
The balance of cash and cash equivalents (hereinafter "net cash") at the end of the current consolidated fiscal year was 173.1 billion yen, an increase of 11.1 billion yen from the end of the previous consolidated fiscal year. Consolidated cash flows were as follows.

Cash flows from operating activities
Net cash provided by operating activities decreased 23.7 billion yen year on year to 198.1 billion yen. Profit before tax increased 13.1 billion yen. Corporate tax payments declined 21.2 billion yen, primarily due to the 5% tax rate on the 19.8 billion yen in gain on the sale of shares of Kirin Amgen, which is booked as dividends for tax accounting purposes. However, the decline in interest payments due to the reduction of corporate bonds and borrowings led to a 21.5 billion yen increase in outflow of working capital.

Cash flows from investing activities
Net cash provided by investing activities decreased 15.8 billion yen year on year to 47.4 billion yen. Outflow for acquisition of property, plant and equipment and intangible value decreased 0.9 billion yen to 87.9 billion yen. Inflows included 85.1 billion yen from the sale of equity-accounted investments (shares of Kirin Amgen), 30.4 billion yen from the sale of strategic holdings and other investments, 18.7 billion yen from the sale of property, plant and equipment and intangible value; and 9.1 billion yen from the sale of shares of a subsidiary (Kyowa Medex) as the Company continued its plan to divest non-core assets.

Cash flows from financing activities
Net cash used in financing activities increased 44.5 billion yen

year on year to 226.7 billion yen. Proceeds included 30.6 billion yen from long-term borrowings and 25.0 billion yen from the issuance of bonds. Outflow included 100.1 billion yen for payment for acquisition of treasury shares, 70.0 billion yen for payment for redemption of bonds, 55.7 billion yen for dividends paid, and 54.9 billion yen for repayment of long-term borrowings.

We ultimately met all of the quantitative targets in the 2016 MTBP and, through extensive restructuring, vastly improved the cash-generating abilities of existing businesses such that we were able to provide greater shareholder returns and pay down more interest-bearing debt than was initially targeted in the plan. The gross debt-to-equity ratio was 0.45x at the end of 2018, as we were able to bring it to an optimal level while preserving our financial flexibility and soundness.

In fiscal 2019, we are seeking to generate 190 billion yen in cash flows from operating activities and plan to earmark 120 billion yen of cash from investing activities for capital investment. In line with our financial strategy, the first priority for the use of the free cash flow generated during the year will be to invest in growth for the alcoholic and non-alcoholic beverage business and other existing core businesses. We will also use funds to establish and foster new businesses bridging the pharmaceuticals and food & beverages businesses while also flexibly allocating funds for additional shareholder returns. Regarding shareholder return, in fiscal 2019, we raised our benchmark for the consolidated dividend payout ratio of normalized EPS from 30% or higher to 40% or higher. We intend to provide shareholder returns valued at approximately 60 billion yen in fiscal 2019. While building profit and enhancing our ability to generate cash flow, we will maintain a sensible capital structure that is well-balanced with capital costs and financing.

(2) Basic capital policy

Based on the fiscal policy set forth in the Kirin Group 2019-2021 Medium-Term Business Plan (2019 MTBP), Kirin Holdings will allocate resources to its businesses and distribute profits to its shareholders as set out below.

Resource allocation to businesses will prioritize investing to improve asset efficiency and to improve the attractiveness of our plants as well as investing in equipment and business to fortify and grow existing businesses.

Kirin Holdings will also steadily and consistently allocate resources to intangible value such as brands, research and development, information and communication technology, and human resources expected to support future growth of cash flow as well as to establish and foster new businesses bridging pharmaceuticals and food & beverages. The Company will take a disciplined approach to investment to maintain and improve the capital efficiency of the Kirin Group while controlling capital costs.

Kirin Holdings considers it a management priority to appropriately distribute profits to shareholders. The Company raised the consolidated target payout ratio in the 2019 MTBP and plans to continue providing dividends based on a consolidated dividend payout ratio on normalized EPS of 40% or higher. While comprehensively taking into account factors including optimum capital structure, market conditions and reserve funds after investments, Kirin Holdings will also flexibly consider share buybacks as a way to provide additional shareholder returns when the Company receives an inflow of additional funds, such as from gains on the sale of assets.

When management deems it necessary to raise funds, the Company's primary financing source is loans. Funds are procured to ensure the Company is prepared for sudden fluctuations in the economic environment, and in such a manner as to maintain the resiliency of the Company's high credit rating to financial conditions. The Board of Directors examines and verifies all fund procurement proposals that would affect the controlling stake in the Company or cause significant stock dilution. Proposals are scrutinized in terms of the targets in the long-term management vision "Kirin Group Vision 2027" and the 2019 MTBP plans and with full consideration of the impact on stakeholders. The Board of Directors has the responsibility to provide full accountability for its decisions.

Through the above initiatives, the Company seeks to achieve the 2019 MTBP to raise ROIC to 10% or higher and CAGR in normalized EPS of 5% or higher.