**Risk Management**

## Approach to risk management

The Kirin Group defines risk as uncertainty with the potential to seriously impede the accomplishment of business targets or impact business continuity. A "crisis" refers to a situation in which a risk is actualized at a certain point and therefore needs to be addressed on an urgent basis.

The Kirin Group's basic risk management policy is to seek to prevent risk from being actualized, to effectively maintain compliance, and to continue earning the trust of customers, employees, shareholders, and society over the long term.
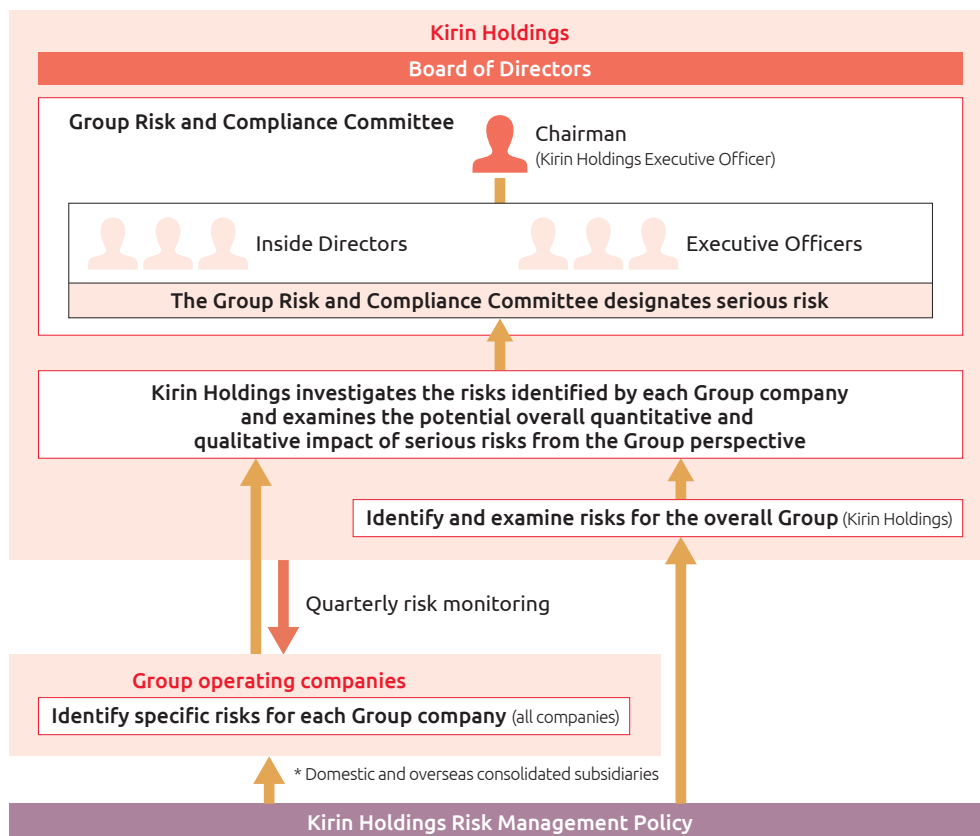
## Risk management structure and process for determining serious risk

The Kirin Group Risk and Compliance Committee oversees the risk management activities of the Kirin Group. Kirin Holdings inside directors and executive officers serve on the committee, and an executive officer serves as the committee chair. Each Kirin Group company also has a committee dedicated to risk management. The risk management committees of Kirin Holdings and the Kirin Group companies meet quarterly to conduct risk monitoring.

The process of determining serious risk is for the Kirin Group companies, in conformance with the Group risk management policy, to identify and examine the quantitative and qualitative risk associated with their business activities. The Group Risk and Compliance Committee Administrative Office (Kirin Holdings Corporate Strategy Department) surveys and investigates all risks. The committee defines serious risk to the Group as risk considered to have a potentially strong impact, a high likelihood of occurring, or widespread ramifications.

**Risk management structure and process for determining serious risk**

# Business risk impact and countermeasures

The Kirin Group has various risk management systems to reduce and effectively manage risk. Risk management is designed to appropriately manage and control risk affecting the execution of strategies and businesses, prevent to the extent possible a risk from turning into crisis, and minimize the impact if a crisis does develop.

**Risk related to the execution of strategies, business, and other**

| Business field | Serious risk | Risk content and main potential impacts | Main countermeasures and page in this report with information |
|---|---|---|---|
| **1. Serious risks in each business domain** | | | |
| Food & Beverages | Risk from responding to changes in the business environment such as in demographics, markets, competition, and taste preferences | • Potential shortfall to sales plan due to delays responding to environmental changes or competitor developments<br>• Potential for business development to not advance as anticipated | 📖 Pages 29–30 (Enhancing Kirin Beverage's marketing capabilities)<br>📖 Pages 48–50 (Segment and Business Overview) |
| | Risk of impact from law amendments (liquor tax) | | |
| Pharmaceuticals | Risk to pharmaceutical R&D and product quality and of side effects | • Potential halting of R&D due to uncertainty about drug safety or efficacy, potential of identifying an unexpected side effect after marketing<br>• Potential suspension of product production or a product recall | 📖 Pages 43–44 (CSV Stories)<br>📖 Page 51 (Segment and Business Overview) |
| | Risk related to overseas business development and supply stability | • Potential hindrance to global structure development plan, potential for increased demand or other factors to impact product supply stability | |
| Health Science | Risk of not being able to provide differentiated products and services related to social issues | • Potential delay in R&D of new materials, potential of becoming unable to provide effective products and services<br>• Potential inability to construct a superior business model or appropriate organizational or governance systems | 📖 Pages 15–20 (Special Feature: Growth Strategies for the Health Science Domain) |
| | Risk of inability to increase added value due to insufficient organizational capability in new fields | | |
| **2. Common risks in each business domain** | | | |
| Securing and training of human resources | Risk of inability to adequately secure and train human resources to advance Group management and with the expertise necessary for business activities | • Potential inability to develop an organizational capability with a competitive advantage | • Focus the organizational culture on value creation, develop an HR management system, promote diversity<br>📖 Pages 31–34 (Development of our Human Resources) |
| Information technology | Risk related to delays installing enterprise resource planning (ERP) software and higher development costs | • Potential impacts on operating efficiency and the management base restructuring or upgrades | • Invest the necessary management resources to avoid delay installing ERP and monitor the development of information systems |
| Product safety | Risk of unexpected quality issues beyond the scope of quality assurance measures | • Potential high costs or constricted business activity due to product discontinuation, recall, or compensation claims | • Set up, operate, and audit the effectiveness of a quality assurance system<br>• Foster an organizational culture prioritizing safe and reliable products and services |
| Compliance | Risk of actions that violate laws, regulations, or the expectations of society, such as bribery | • Potential of legal punishment, litigation, social sanctions, and loss of customer trust | • Promote compliance by establishing internal regulations and providing employee training |
| Disasters, accidents, and supply chain events | Risk of major natural disasters, such as an earthquake, unseasonable weather, cold summer, drought, typhoon, torrential rain, or forest fire; pandemic disease; or other type of disaster or accident | • Potential need to close business sites or reduce or suspend business activities | • Review the business continuity plan (BCP), conduct training, enable teleworking or working from home |
| Environmental issues | Risk of issues concerning plastic containers, such as PET bottles, risk from greenhouse gas emissions and global warming | • Potential for a slow response or an inability to respond to social concerns or rising expectations for the Company<br>• Potential higher cost to respond to environmental issues | • Activities to achieve higher goals based on the revised Long-Term Environmental Vision<br>📖 Pages 39–42 (CSV Stories) |
| Human rights | Risk of human rights issues associated with the Kirin Group, its partners, or its procurement operations | • Potential substantial impact on business activities in the country or globally | • Measures to ensure human rights based on the Kirin Group Human Rights Policy |
| Alcohol | Risk of future restrictions worldwide on alcohol sales | • Potential decline in alcohol consumption, potential decrease in corporate brand value | • Self-regulate advertising and promotional activities and measures to eliminate harmful consumption of alcohol<br>📖 Pages 45–46 (CSV Stories)<br>📖 Page 66 (Risk Management) |
| Finances and taxes | Fund procurement risk, foreign exchange risk, tax risk | • Potential increase in funding costs, fluctuation in yen conversion value due to exchange rates, and additional tax burden | • Secure appropriate financing, comply with tax laws in all countries |

The risks presented above do not represent all potential risks to the Kirin Group.
Potential future circumstances presented in the table are based on the judgment made by the Company as of December 31, 2019. For additional information, please see the Kirin Holdings securities report.

WEB Consolidated Financial Statements
https://pdf.irpocket.com/C2503/T4TO/qDNq/ZGTL.pdf

## Information security

Information security is a top priority for the Kirin Group. The Group is implementing various measures, beginning with the fundamental measures of improving and enhancing internal rules and training employees about the handling of information. The Group is also systematically enhancing its information security measures with a focus on strengthening governance within the Group and implementing technological countermeasures.

The Group has established strict data protection rules and is actively engaged in data management. The rules are reviewed and augmented in accordance with changing conditions inside and outside the Group, and the security level is high at all times. The Group also uses e-learning and hands-on training to raise employee awareness of information security issues so they can effectively carry out information security.

The compliance status of information security measures at each Group company are confirmed on a regular basis. Kirin Business System, a functional company in the information system field, checks the compliance status of domestic Group companies and ensure companies promptly improve any items requiring attention. Kirin Holdings supervises information security at Group companies overseas.

Technology-based security measures are used to fortify protection against the increasingly serious cyber attacks, and Kirin Holdings, Kirin Brewery, and the other core Group companies are installing the latest security systems with machine learning technology. The Kirin Group further augments its system security with a dedicated computer security incident response team, the KIRIN-CSIRT, based at Kirin Business System. The Group has a robust system for responding to security incidents to identify the incident, mitigate any repercussions, analyze the source of the incident, and implement countermeasures.

Kirin Holdings reports its activities related to information security in its Information Security Report.



Information Security Report

## Response to stricter alcoholic beverage regulations

The Ministry of Health, Labour and Welfare in Japan and the World Health Organization (WHO) worldwide are warning about the increase of health damage caused by the excessive consumption of alcohol. Europe and the United States already strictly regulate advertising related to alcoholic products, and Japan and other countries are expected to strengthen measures aimed at controlling consumption. If problems related to the consumption of alcohol worsen, extremely strict regulations such as those placed on tobacco could be enforced.

The Kirin Group is responding to the risk this presents to the production and sale of alcohol products by advocating responsible consumption of alcohol and seeking to eliminate harmful consumption of alcohol. The Group considers promoting responsible drinking to be part of its social responsibility. The CSV Commitment (📖 see page 25 for details) stipulates the setting of specific targets for activities promoting responsible drinking, and the Group is actively engaging in measures to achieve the targets.

One such activity is the promotion of Slow Drink® encourages people enjoying alcoholic beverages to reduce alcohol intake by drinking slowly while talking or eating with friends. In 2019, the Group produced a video advertisement to raise awareness of proper drinking manners and distributed it on video sharing sites and social media. To date, the video has garnered over 1,000,000 views.

The Group also conducts seminars at companies and universities promoting the designated driver method for preventing alcohol-related driving accidents. We are also actively involved in the Stop! Under 20 Drinking project and other industry-wide programs in Japan and other countries.

Strengthening our complying with our voluntary standards for advertising phrasing and display appropriateness for alcoholic beverages is another point of focus. The Kirin Group has set its own criteria for ethical advertising that are stricter than the voluntary standards in the industry. Product packaging must clearly indicate that the product contains alcohol and the Group's web pages with alcohol-related information contain a gateway page for the visitor to confirm they are aged 20 or older.



Savor the moment with good conversation

SLOW DRINK

Kirin encourages Slow drinking