

(3) KIRIN GROUP MAJOR RISKS

Below is a list of key matters presenting risk to the Kirin Group strategies, businesses, and other activities, which could significantly impact investor assessment of the Group. These major risks are listed in categories of “Risks in each business domain” and “Risks common to each business domain.” Please note that matters determined to present potential risk in the future are based on the judgment of the Company as of the end of this fiscal year unless otherwise stated.

1) Risks in each business domain

Business area	Assumed risks	Major impacts in the event of risk occurrence
Food & Beverages	<ul style="list-style-type: none"> • Risks related to responses to business environment changes • Risks related to hikes in raw materials and fuel prices • Risks related to failure of new businesses 	<ul style="list-style-type: none"> • Sales targets fall short due to changes in the market environment and preferences, fluctuations in product prices, actions of competitors or other factors. • An increase in procurement costs due to hikes in raw materials and fuel prices affects manufacturing costs. • New businesses fail to penetrate the market, resulting in a downturn in sales and profits and a delay in business plans.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>The Food & Beverages domain, as Kirin Group’s main business domain, is expected to be seriously affected by a risk, if it is actualized. For existing businesses in the Food & Beverages domain, we have implemented measures against risks based on the knowledge we have amassed on changes in business environments. Further, while, in new businesses, we are working to reduce risk by assuming the possibility of facing new risks that differ from those we have faced in the past and implementing countermeasures. Moreover, we consider the potential direct impact of hikes in raw materials and fuel prices attributable to geopolitical risks on our revenue and the impact of the success or failure of the expansion of high value-added products on our medium- to long-term business plans as the Group’s major risks. We will continue to closely monitor the situation and take appropriate risk control measures. (Specific countermeasures are stated in “MANAGEMENT POLICY, BUSINESS ENVIRONMENT, AND FUTURE CHALLENGES.”)</p>	

Business area	Assumed risks	Major impacts in the event of risk occurrence
Pharmaceuticals	<ul style="list-style-type: none"> • Risk associated with maximizing the value of global strategic products • Risk related to product quality and stable supply • Risk related to research and development • Risk related to government measures to reduce medical costs 	<ul style="list-style-type: none"> • The market penetration is not successful because of the expansion of the business area being slowed by delays in launch preparation and other factors, or difficulty in connecting with potential patients. • Stable product supply is impeded by a sharp increase in demand or a tight supply and demand balance that raises concerns about product safety or quality. • Growth potential and profitability in the future decline due to delayed enhancement of the pipeline • Product prices are reduced due to pressure to lower medical costs in Japan and overseas and the ongoing shift to generic drugs is accelerated.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>In the Pharmaceuticals domain, to maximize the value of global strategic products, we are implementing initiatives to spur market uptake and expanding business reach, centered on the United States and Europe. We believe it is also important that we strengthen our foundations such as a product quality assurance system and a stable production and supply system. More specifically, we have worked to secure product quality through monitoring by the Global Quality Assurance Committee and implementing products quality audits by an independent team specialized in audit within the Group and contractors. Also, we are expanding its network of contractors, investing in Group plants, visualizing a demand and supply plan, rolling out digital technology to enhance manufacturing operational efficiency. Japan and other countries are under growing pressure to curb medical costs. We closely monitor healthcare policy trends in each country and are strategically exploring ways to evaluate the value of pharmaceutical products from various perspectives to ensure that we deliver life-changing pharmaceutical products to patients. We are also assessing how the pricing of products put on the market impacts our business to earn reasonable revenues and continue to create innovative pharmaceutical products in compliance with rules and regulations in each country. (Further details are stated in the Annual Securities Report of Kyowa Kirin Co., Ltd.)</p>	

Business area	Assumed risks	Major impacts in the event of risk occurrence
Health Science	<ul style="list-style-type: none"> • Risk of not being able to provide differentiated products and services related to social issues • Risk of delayed response to changes in the external environment, such as the competitive landscape • Risk of lack of human resources and organizational capabilities to conduct business • Risks associated with product quality assurance, safety, or stockouts 	<ul style="list-style-type: none"> • The sales plan falls short due to the inability to formulate an effective business model. • A value-creating and highly profitable business model cannot be established due to inability to develop synergies within the Group. • Product shortages occur due to production not proceeding according to the production plan. • Brands and reputations are damaged by quality problems, insufficient evidences, inappropriate information dissemination, and other factors.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>In the Health Science domain, we are working to build a business foundation for the future by placing the highest priority on the growth of Blackmores, a newly acquired company, and the creation of synergies within the Group. Particularly in the immunology domain that involves Foods with Function Claims (FFCs), we are working to early produce positive outcomes and establish a business model by establishing immune care habits in the daily lives of our customers, expanding their recognition of LC-Plasma, raising their awareness of its function, and revitalizing the market including licensing out. In promoting business in domains other than the existing domains, we will enhance our organizational capability and strengthen governance from a risk management viewpoint to ensure prompt and bold decision-making and also to enable timely and appropriate risk control. (Specific countermeasures are stated in “MANAGEMENT POLICY, BUSINESS ENVIRONMENT, AND FUTURE CHALLENGES.”)</p>	

2) Risks common to each business domain

Item	Assumed risks	Major impacts in the event of risk occurrence
Securing and training of human resources	<ul style="list-style-type: none"> • Risk of inability to adequately secure human resources to advance Group management and with a high level of expertise necessary for business activities • Risk of inability to obtain understanding of the human resources management system from employees 	<ul style="list-style-type: none"> • Organizational capabilities with competitive advantage are not achieved and management strategies are not promoted. • Stagnant transition to an assumed system results in a decline in organizational capabilities, causing adverse effect in accomplishing management strategies.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>The Kirin Group sees human resources as a source of value creation. To acquire and nurture the human resources required for executing our management strategies, we will strive to build a human resources management system that places greater emphasis on professional expertise centered on function. In addition, we aim to nurture a corporate culture that attracts human resources with diverse values and expertise, embraces diversity, and transforms differences into strengths. Based on the recognition that diverse human resources and a corporate culture that encourages employees to take on new challenges constitute the foundation for companies, we will strengthen the linkage between our management strategies and human resources strategies from a medium- to long-term perspective and will strive to achieve the Group’s sustainable growth and improve its corporate value.</p>	

Item	Assumed risks	Major impacts in the event of risk occurrence
Information technology	<ul style="list-style-type: none"> • Risk that the Group will be inferior to competitors due to lack of progress in digital transformation (DX) initiatives • Risk of falling behind in acquiring and training of DX experts 	<ul style="list-style-type: none"> • Increased costs prevent the development and offering of products that meet customer needs, resulting in limited sales and profits. • A shortage of employees required to promote DX results in a failure to increase organizational capability, delaying the achievement of positive outcomes of efficiency improvement and value creation.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>With the promotion of DX, the Kirin Group has been working to create new value by transforming business processes through the use of digital technology and data, improving the efficiency of existing operations, and promoting the use of the technology even in the processes for ensuring customer understanding and product and service development. We will strive to enhance our organizational structure and strengthen organizational capabilities to realize autonomous DX promotion in each Group company and division, by promoting internal human resource development through our unique programs and by securing specialized human resources necessary for DX promotion from outside. We will continue to utilize and promote digital technology in all domains throughout the Group, leading to the creation of innovation.</p>	

Item	Assumed risks	Major impacts in the event of risk occurrence
Quality	<ul style="list-style-type: none"> Risk of unexpected quality issues beyond the scope of quality assurance measures Risk of receiving orders for improvement or administrative guidance from authorities concerned as a consequence of the use of inappropriate statements 	<ul style="list-style-type: none"> Product discontinuation, recall, or compensation claims lead to incurrence of high costs or restriction on business activities. A loss of trust of customers erodes our brand value.
	Main countermeasures, awareness of risk situation, and other considerations	
	Based on a “customer-first and quality-focused” approach, which forms the starting point of our business, we have declared in the Kirin Group’s Quality Policy and Standards of Conduct that providing safe and reliable products and services to our customers is our top priority. In December 2023, the Principles of the Kirin Group’s Global Quality Management were revised in line with the expansion of the Group’s business domains. By reflecting them in the quality management system retained by each Group company in the Food & Beverages, Health Science, and Pharmaceuticals domains, we are continuously improving our quality assurance systems and operations to provide products and services of reliable quality. In terms of labeling and advertisements, we have established the Guidelines of Product Labeling, a more concrete version of the Marketing Communication Policy established in 2022, to create them according to high ethical standards while paying due consideration to changes in social conditions. We will continue our efforts to foster an organizational culture that values “customer-first and quality-focused” across the Group.	

Item	Assumed risks	Major impacts in the event of risk occurrence
Human rights	<ul style="list-style-type: none"> Risk of the Kirin Group’s businesses, including those in each process of its value chain and those engaged by its business partners, adversely affecting human rights either directly or indirectly 	<ul style="list-style-type: none"> Our corporate brand image is undermined or we are forced to scale down or withdraw from business. We may have to pay fines or face litigation in cases we have violated laws and regulations, or we are subject to other economic penalties.
	Main countermeasures, awareness of risk situation, and other considerations	
	Based on the recognition that respect for human rights is the foundation of all business activities, the Kirin Group formulated the Kirin Group Human Rights Policy in 2018, which complies with the United Nations Guiding Principles on Business and Human Rights. In 2023, the Group revised the policy in line with international human rights norms. In addition to prohibiting slave labor, forced labor, and child labor, including human trafficking, as well as all forms of discrimination based on race, color, ethnicity, nationality, social status, family origin, gender, disability status, health status, religion, ideology and creed, sexual orientation and gender identity, and differences in job type and employment status as before, the revised version is more specific, including a clear statement of the key human rights issues assumed for each type of stakeholder. We are committed to respecting human rights and making a positive impact on society by seeking understanding of this policy from all employees of Group companies in Japan and overseas as well as from various business partners involved in the value chain.	

Item	Assumed risks	Major impacts in the event of risk occurrence
Environment	<ul style="list-style-type: none"> Physical risks of climate change Transition risks to a decarbonized society Risks of a delay in the development of technologies, etc., which could impede or delay the solution of environmental issues 	<ul style="list-style-type: none"> Procurement costs increase due to decreased yields of agricultural raw materials caused by global warming, droughts and floods, or operations are suspended due to droughts and floods. Fuel costs and agricultural product costs increase due to carbon taxes. Inability to adequately respond to society’s expectations results in a decline in corporate value.
	Main countermeasures, awareness of risk situation, and other considerations	
	The Kirin Group has formulated the Kirin Group’s Environmental Vision 2050, a long-term strategy for comprehensively addressing various environmental issues, and is working to achieve its goal. For physical risks such as decreased yields of agricultural raw materials, transition risks such as carbon pricing, and impacts on assets resulting from climate change, we assess financial impacts and resilience of our strategies through scenario analysis based on the TCFD recommendations to make necessary revisions to our policies and strategies and deepen our efforts. As for the issue of plastic containers, we have initiated a joint project with outside partners to study and achieve the practical use of technologies for recycling PET materials through chemical recycling, aiming to increase the recycled plastic ratio in Japan to 50% by 2027 (Kirin Group Plastic Policy). The Kirin Group will solve interrelated environmental issues on biological resources, water resources, containers and packaging, and climate change in an integrated manner, so we can pass a sustainable global environment on to the next generation. (Specific countermeasures are stated in “APPROACHES TO AND INITIATIVES FOR SUSTAINABILITY.”)	

Item	Assumed risks	Major impacts in the event of risk occurrence
Adverse effect of alcohol consumption	<ul style="list-style-type: none"> Risk of globally strengthening restrictions on sales and advertisements of alcoholic beverages 	<ul style="list-style-type: none"> Alcohol consumption reduces. Corporate brand value declines.
	Main countermeasures, awareness of risk situation, and other considerations	
	Regarding the adverse effect of harmful alcohol consumption, the WHO is discussing future global regulations on the sale and marketing of alcohol. In order to fulfill its social responsibility as an alcoholic beverage producer and vendor, the Kirin Group is making progress in its efforts to eradicate harmful alcohol consumption in all countries where the Group operates its alcoholic beverages business. In developing the alcoholic beverages business, we comply with laws and regulations, the Kirin Group Global Marketing Code for Responsible Drinking and strict voluntary standards, and promote activities in cooperation with IARD and other industry groups in Japan and overseas. We have also developed non-alcoholic and low-alcoholic beverages and have worked to spread knowledge and raise awareness of appropriate ways of drinking alcoholic beverages. We will continue to make steady progress in our efforts to eradicate harmful alcohol consumption in line with changes in social conditions.	

Item	Assumed risks	Major impacts in the event of risk occurrence
Supply chain	<ul style="list-style-type: none"> Risk of supply chain disruption caused by large-scale natural disasters such as earthquakes and typhoons, infectious diseases, or impacts of geopolitical risks 	<ul style="list-style-type: none"> Business sites are closed or business activities are reduced or suspended. Delays in distribution or stockouts occur due to procurement, production, and logistics capabilities being unable to meet demand due to regional conflicts or terrorism, or a sharp rise in sales volume during peak periods.
	Main countermeasures, awareness of risk situation, and other considerations	
	In the supply chain, in addition to the effects of disasters and accidents, there are concerns about the emergence of the 2024 logistics problem and future driver shortages in Japan, and the disruption of supply chains due to terrorism or political unrest overseas. In each business, we are working to reduce risks by improving the accuracy of supply and demand forecasts, strengthening logistics capacity, and considering alternative strategies. To respond to disasters and accidents, the Kirin Group has formulated a business continuity plan (BCP) with an all-hazard approach that focuses on management resources as the starting point to develop countermeasures. We have provided a BCP drill to multiple Group companies to check whether logistics operations function properly. Through these ongoing efforts, we will continue to strengthen our ability to respond to critical events and improve our resilience.	

Item	Assumed risks	Major impacts in the event of risk occurrence
Procurement	<ul style="list-style-type: none"> Market and exchange rate fluctuation risks Geopolitical and disaster risks Human rights and environmental risks in the supply chain 	<ul style="list-style-type: none"> Greater than expected procurement costs suppress profits from business operations. Inability to secure raw materials required or delay in their delivery affects our manufacturing plans, leading to supply and demand adjustment and its prolongation. We face difficulty in procuring raw materials, leading to negative consequences such as a decline in corporate image and consumer boycott.
	Main countermeasures, awareness of risk situation, and other considerations	
	To address market and exchange rate fluctuation risks, we are reducing and stabilizing costs through long-term contracts and currency hedging. To address geopolitical and disaster risks, we are diversifying suppliers and raising raw material inventory levels. In addition, recognizing responses to risks associated with human rights and the environment in our supply chain as one of our key management issues, we have been making efforts to establish a robust corporate structure and strengthen our organizational capabilities so that we can live up to growing expectations. To this end, we revised the Kirin Group Sustainable Supplier Code and implemented due diligence in 2023. We have provided suppliers with an explanation of the Kirin Group Sustainable Supplier Code, requesting them to submit written consent to the code, and regularly confirming their status of compliance. Moreover, with a hotline and grievance mechanism for suppliers to report issues in place, we have been promoting sustainable procurement, by building close ties with suppliers.	

Item	Assumed risks	Major impacts in the event of risk occurrence
Information security	<ul style="list-style-type: none"> Risk of a cyber-attack, information security incident, or information leak 	<ul style="list-style-type: none"> A leak of personal information or important trade secrets results in a loss of customer trust and incurrence of claims for damage compensation. A cyber-attack causes business operations to be suspended or to be delayed due to the extended time required for recovery.
	Main countermeasures, awareness of risk situation, and other considerations	
	The Kirin Group has established the KIRIN-CSIRT (Computer Security Incident Response Team) to respond to the threat of cyber-attacks that are becoming more serious and is working on information security measures, which is one of the Group's major risks. We are working to strengthen countermeasures against cyber-attack threats such as virus infection and unauthorized access from the outside by establishing a security response system within the Group and implementing human, physical, and technical measures. We are also taking measures including risk transfer, for example, by taking out cyber insurance on a global basis to reduce the economic impact of cyber-attacks. We believe that these measures have reduced the risk to below a certain level. We will also continue to take measures against unknown cyber threats while gathering a wide range of information. (The details of our initiatives are described in the Information Security Report.)	

Item	Assumed risks	Major impacts in the event of risk occurrence
Compliance	<ul style="list-style-type: none"> Risk of behavior that is illegal or counter to social norms 	<ul style="list-style-type: none"> Legal punishment, litigation, or social sanctions lead to a loss of customer trust.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>The Kirin Group defines compliance as “fulfilling both legal and ethical responsibilities that society expects from us, not to mention adhering to laws, internal and external regulations and rules.” We regularly hold training on compliance related matters, such as human rights, prevention of harassment and acts of corruption (including bribery), and responsible drinking, thereby facilitating the understanding and raising awareness of related rules. We also conduct an employee compliance awareness survey each year, which helps identify potential risks. Depending on the feedback from respondents, we verify the feedback and implement necessary measures, seeking to reduce risks. We also have put in place a whistleblowing system so that we can early detect potential risk events. This system includes a reporting desk in each Group company, direct lines to officers in charge of compliance or Audit & Supervisory Board Members, and global hotlines available to employees of overseas Group companies. We will continue to raise employees’ awareness of compliance so that we can nurture a strong sense of ethics as expected by society, as well as complying with relevant laws and regulations.</p>	

Item	Assumed risks	Major impacts in the event of risk occurrence
Finance and taxes	<ul style="list-style-type: none"> Risk of fluctuations of value in Japanese yen due to exchange rate volatility Risk of inability to raise necessary funds due to changes in financial markets/rating, or risk of fluctuations in financing cost Risk of greater than expected tax expenses due to changes in taxation system in each jurisdiction or a disagreement with tax authorities in filing tax returns 	<ul style="list-style-type: none"> Exchange rate fluctuations cause a change in the yen-translated value of financial statements denominated in local currencies and in the cost of procuring raw materials through foreign currency denominated transactions. Restrictions on fund procurement lead to a shortage of working capital and borrowings at high interest rates increase finance costs. Additional tax burdens will worsen business performance and social credibility.
	Main countermeasures, awareness of risk situation, and other considerations	
	<p>Although the impact of changing market environments and exchange rates cannot be fully eliminated, the Kirin Group has managed to lower the probability that such changes significantly impact its operating results and financial position by using derivatives and other hedging instruments. Specifically, we have reduced the potential impact of these changes on risks associated with funds by diversifying the sources of funding and improving capital efficiency by centrally controlling the Group’s cash position. We have also lowered the probability of significant tax risks by thoroughly fulfilling our tax payment obligations in compliance with the applicable taxation system.</p>	

We are exposed to a variety of risks other than the above, including reputational risks, geopolitical risks, risks associated with business investments, and risks associated with a revision to laws and regulations. By recognizing these risks, we will strive to prevent and promptly address them.

