Advancing Asahi Group Enterprise Risk Management to Realize Discontinuous Global Growth

With the aim of realizing sustainable growth and enhancing corporate value over the medium to long term, the Asahi Group has revamped its risk management and is working to put in place a structure for promoting appropriate risk-taking while controlling overall risk Group-wide. As the first step in that process, we introduced enterprise risk management (ERM) in January 2019 in order to control overall risk effectively and efficiently. In addition, in 2020 we established the Asahi Group Risk Appetite Statement, which clearly specifies risks to be accepted or to be minimized. Combining ERM and the Statement, we will boldly pursue challenges such as M&As and innovations that support discontinuous growth.

Overview of Enterprise Risk Management (ERM)

- Scale of business increased and business operations diversified due to our further globalization following the acquisition of the Europe business. Accordingly, opportunities for further growth increased, as did the level of uncertainty.
- With the various changes occurring in the business environment in recent years, we needed to appropriately control uncertainty regarding our businesses in order to realize stable growth.

- Introduction of enterprise risk management (ERM), a system for managing risks as an organization, in 2019 in order to achieve business targets
- Control of overall risk volume by putting the Asahi Group Philosophy (AGP) into action and managing major risks that could impede the advancement of our Medium-Term Management Policy
- Implementation of ERM centered on Risk Management Committee and confirmation of its effectiveness through monitoring by the Board of Directors

Asahi Group Enterprise Risk Management

Asahi Group ERM Structure

* Definition: The effect of uncertainty on the ability of the Asahi Group to achieve the strategic objectives defined in the Medium-Term Management Policy based on “The Asahi Group Philosophy”

Note: Asahi Group ERM is based on the ISO 31000 international standard for risk management and the COSO ERM integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission.
The Asahi Group Risk Appetite Statement

The Asahi Group Medium-Term Management Policy seeks to promote “Glocal Value Creation Management” based on the Asahi Group Philosophy in order to sustainably increase its corporate value.

In order to achieve the strategic objectives defined in the Policy:

• the Asahi Group achieves organic growth by building high-value-added brands, and with regard to inorganic growth achieved by M&A activities and innovations, is willing to take commercial risks in a controlled manner that balance the need for a robust financial position while creating value growth for shareholders;

• the Asahi Group delivers excellent quality products and ensures a safe work environment for everyone at the Asahi Group, both of which are critical priorities at the heart of Asahi’s success;

• the Asahi Group pursues initiatives to protect the environment and is willing to innovate to create greater environmental value in society; and

• the Asahi Group accepts as little risk of non-compliance with the Asahi Group Code of Conduct and the Asahi Group Human Rights Principles as possible.

Formulation of the Asahi Group Risk Appetite Statement

- Clarifies risks to be accepted or to be minimized in order to achieve the objectives of the Medium-Term Management Policy
- Serves as both implementation guidelines for ERM and decision-making guidelines for taking risks
- Examined in reflection of Group strategies, status of risks, risk-taking culture, and stakeholder expectations and determined by the Board of Directors
- Monitoring of the Statement’s Group-wide application and implementation status performed by the Risk Management Committee and reported to the Board of Directors
- Promotes appropriate risk-taking on a Group-wide basis

Asahi Group Risk Appetite Framework
Advancing Asahi Group Enterprise Risk Management to Realize Discontinuous Global Growth

### Risks of Primary Concern under Asahi Group ERM

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Details</th>
<th>Projected Impact on the Asahi Group</th>
<th>The Asahi Group’s Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Emergence of New Business Models via Technological Innovation</td>
<td>• Creation of added value for manufacturing and sales processes through IoT • Streamlining of supply chain through utilization of AI • Emergence of alcohol-alternative products • Possibility of new business models through technological innovation</td>
<td>• Reduction of industry presence and competitiveness • Establishment of market dominance through the Asahi Group’s leadership and creation of new markets</td>
<td>• Reform of corporate culture to realize innovations and disruptions • Investment in intangible assets (including R&amp;D and human resource development) • Implementation of structural reforms leveraging digital transformation and advancement of business model • Active utilization of open innovation and new technology, including AI • Establishment of Asahi Quality and Innovations, Ltd., a Group base for innovation</td>
</tr>
<tr>
<td>2 Expansion of Business Operations</td>
<td>• 2009: Acquisition of Schweppes Australia • 2012: Acquisiton of Calpis Co., Ltd. • 2016: Acquisition of SABMiller plc’s beer business in Western Europe • 2017: Acquisition of SABMiller plc’s beer business in Central and Eastern Europe</td>
<td>• Realization of discontinuous growth • Impairment loss resulting from market contraction, sharp rise in interest rates, and change in operating and competitive environment, etc.</td>
<td>• Active pursuit of external management resources, including European beer businesses • Completed acquisition of Australia-based CUB business in June 2020 • Minimizing of the Group’s risks through implementation of Asahi Group ERM and ERM in respective businesses • Further improvements to ensure effectiveness of Group governance</td>
</tr>
<tr>
<td>3 Information Security</td>
<td>• Disruption to business activities as a result of power outages, disasters, and cyberattacks; loss of confidential information; leakage of personal information; fraud; and violation of regulations in various countries</td>
<td>• Interruption of business • Cash outflow due to compensation and claims for damages, etc. • Imposition of fines due to General Data Protection Regulation (GDPR) violations • Decline in operating results, financial condition, and corporate brand value</td>
<td>• Monitoring of cyber security incidents through ASAHI-CSIRT and other IT systems • Development of system for timely and optimal prevention and protection against recurring incidents • Security measures associated with software and devices • Training and development of employees</td>
</tr>
<tr>
<td>4 Social Values Pertaining to Alcohol Consumption</td>
<td>• Examinations regarding possible implementation of global alcohol sales regulations • Decline in alcohol consumption stemming from increased focus on alternatives and health worldwide</td>
<td>• Deterioration in operating results of Asahi’s core Alcohol Beverages Business • Expenses associated with regulatory compliance • Impairment of reputation</td>
<td>• Collaboration with alcohol industry and industry groups such as IARD • Annunciation of joint declaration formed by the CEOs of participating companies in IARD to promote initiatives on the prevention of underage drinking • Promotion of responsible drinking awareness campaigns and health-conscious products • Establishment of sales and marketing-related voluntary standards</td>
</tr>
<tr>
<td>5 Domestic Operating Environment</td>
<td>• Impact of domestic economic trends and demographics on consumption of alcohol beverages, soft drinks, and food • Continuously severe competition within defined regulatory environment</td>
<td>• Decline of Group profitability • Decrease in customer retention • Consolidation of other non-core businesses</td>
<td>• Enhancement of core brand value and creation of new markets • Continuous engagement in earnings structure reforms • Reinforcement of product lineup for all alcohol beverages other than beer-type beverages • Expansion of Soft Drinks and Food businesses</td>
</tr>
<tr>
<td>6 Widening Supply-Demand Gap in Domestic Logistics</td>
<td>• Widening supply-demand gap of truck drivers as a result of declining working population associated with the declining birthrate and aging population, greater transportation volume due to expansion of e-commerce, and reduction in load factor • Further expansion of supply-demand gap due to delays in such efforts as enhancing productivity and reducing long work hours in logistics industry</td>
<td>• Increase in transportation costs • Stagnant supply of products</td>
<td>• Endorsement of White Logistics Movement, an initiative launched by the Japanese government • Group-wide implementation of local production-for-local-consumption logistics model • Reduction of logistics-related labor and load through introduction of logistics devices and systems • Installation of new hybrid production line for beer and soft drinks • Active promotion of modal shift • Establishment of new trunk transport scheme to enhance logistics efficiency and realize labor savings</td>
</tr>
<tr>
<td>7 Securing of Diverse Talented Personnel</td>
<td>• Decrease in domestic working population as a result of declining birthrate and aging population • Greater demand for personnel and changes in necessary skill set stemming from expansion of global business</td>
<td>• Further strengthening of business competitiveness • Lack of capability to achieve medium- to long-term targets in light of inadequate and unstable workforce</td>
<td>• Promotion of global talent management • Establishment of system for cultivating candidates for future management positions and formulation of succession plan • Global promotion of optimal placement of personnel • Revitalization of interaction between personnel across all regions • Hiring of diverse personnel regardless of gender or nationality</td>
</tr>
<tr>
<td>8 Quality</td>
<td>• Uncertainty regarding safety and occurrence of quality-related accidents despite consistent dedication to providing customers with the highest level of quality</td>
<td>• Loss of customer confidence • Hindrance to development of high-value-added brands • Impairment of corporate brand value</td>
<td>• Promotion of efforts to identify, examine, and address matters requiring special attention and tasks that may impact quality throughout each process, from product design to sales • Advancement of quality assurance technology through introduction of AI and other leading technologies • Adoption of international approaches to quality and food safety management systems tailored to product characteristics and the environments of production plants</td>
</tr>
</tbody>
</table>
### Risk Type

#### Large-Scale Natural Disasters
- Rising number of risks related to earthquakes, tsunamis, typhoons, floods, and other natural disasters in Japan and overseas
  - Interruption and halt to business activities
  - Difficulty in procuring raw materials and resources
  - Halt to product deliveries
  - Incurrence of significant costs for facility repairs
  - Decline in consumer sentiment
  - Formulation of BCP by reflecting on past performance and experience in large-scale disasters
  - Prevention of secondary disasters by reinforcing production plants with earthquake-resistant construction, ensuring safety of equipment, etc.
  - Establishment of backup facility at data center
  - Strengthening of emergency communications system through deployment of safety confirmation system, satellite mobile phones, etc.

#### Use of Plastics
- Strict social views on products made from large amounts of plastic in light of plastic waste contribution to marine pollution
  - Loss of product value and demand for the Group’s products using large amounts of plastic materials in containers and packaging
  - Impairment of Asahi’s reputation and corporate brand value due to loss of stakeholder trust on high ethical standards on sales
  - Make all packaging with 100% recyclable materials by 2025 (Asahi Breweries, Ltd., Asahi Soft Drinks Co., Ltd., and Asahi Holdings (Australia) Pty Ltd)
  - Initiation of examinations for achieving a 100% conversion to eco-friendly materials for plastic containers by 2030
  - Make the ratio of eco-friendly materials in plastic containers 60% by 2030 at Asahi Soft Drinks
  - Make the ratio of eco-friendly materials in plastic containers 100% by 2030 at Asahi Holdings (Australia)
  - Development of new eco-friendly materials and discussions on the adoption of sales methods that do not involve the use of plastic containers and packaging

#### Risks Related to Climate Change
- Rising cost of key raw materials
  - High product prices and operating costs reflecting implementation of carbon tax
  - Impact of water use regulations on business continuity
  - Incurrence of losses from product waste, opportunity loss, and damaged equipment and facilities due to the intensification of abnormal weather
  - Loss of opportunities and incurrence of plant relocation costs as a result of inability to secure water resources
  - Negative impact on earnings due to rise in raw material costs stemming from reduction in harvest of main agricultural crops
  - Higher operating costs associated with tightening supply and demand for water and increased water costs caused by severe droughts
  - Impact of higher ethical standards on sales
  - Reduce CO2 emissions by 30% by 2030 in Scope 1, 2 and 3 by 2030 (compared with 2015)
  - Reduce CO2 emissions to zero by 2050 in Scope 1, 2 and 3 and become carbon neutral
  - Make basic water consumption to 3.2 m³/kℓ by 2030 through strain on water usage and expansion of recycling system
  - Endorse TCFD recommendations, proactive efforts to analyze and respond to risks and opportunities presented by climate change, and enhancement of disclosure of such details

#### Country Risks Associated with Global Business Development
- Political uncertainty, economic crisis, retaliatory tariffs, threats of boycott over treatment of refugees, racial discrimination, tightening of regulations, tax reform, natural disasters, and other factors associated with foreign-owned companies
  - Reduced cost competitiveness due to unfavorable conditions for foreign-capital companies
  - Sales decline and profit loss arising from boycott movements
  - Threats to business continuity and business closures attributable to political, military, and social pressures
  - Safety concerns among overseas-dispatched employees and local employees overseas
  - Failure to achieve management targets and recording of medium- to long-term losses
  - Business withdrawals
  - Collection of information at Group companies
  - Prevention and avoidance through appointment of external consultants, etc.

#### Compliance with Laws and Regulations and Soft Law
- Alcohol-related tax laws such as the Liquor Tax Act, Food Sanitation Act, Product Liability Act, labor standards act, anti-bribery act, unfair competition prevention act, environmental laws, and various other legal restrictions
  - Disciplinary measures and filing of legal action due to violation of laws and regulations
  - Social sanctions
  - Impairment of Asahi’s reputation and corporate brand value due to loss of stakeholder trust
  - Promotion and supervision of Group-wide corporate ethics and compliance by the Compliance Committee
  - Implementation of training to ensure strict adherence to and raise awareness of Asahi Group Code of Conduct among employees
  - Formulation of Asahi Group Human Rights Principles in accordance with the United Nations Guiding Principles on Business and Human Rights
  - Monitoring of human rights risks throughout supply chain
  - Further sophistication of human rights management structure

#### Other Risks
- Impact from the spread of COVID-19
  - Decrease in overall consumption volume of alcoholic beverages, soft drinks, and food, higher prices of raw materials, and difficulty in acquiring raw materials due to deterioration of global economy stemming from further spread of COVID-19 and prolonging of current difficult circumstances as well as cancellations and postponement of various events
  - Enforcement of strict measures to prevent further spread of COVID-19
  - Revised product and sales channel strategies in accordance with changes in consumer behavior
  - Securing of adequate amounts of key raw materials
  - Examination business strategies in anticipation of the “new normal” era

- Financial risk: exchange rate risk, interest rate risk, rating risk, asset price fluctuation risk
- Tax risk
- Regulatory risk
- Litigation risk
  - Increased costs, increasingly severe competition, restrictions to business activities, and impact on operating results and financial condition
  - Utilization of various risk-hedging strategies