

# Risk management

## Risk management system

### ■ Risk Management Committee

We have established a Risk Management Committee, comprised of Executive Directors and chaired by a Senior Managing Executive Officer and Director, that heads cross-organizational risk auditing and response throughout the Group to prevent risk occurrence.

The management level takes control of risk identification, discusses the various risks as necessary at each meeting (with important matters brought to the Board of Directors and the Management Policy Council, formed of Directors and Auditors) and deals with them accordingly. We then disclose information to shareholders and other stakeholders in our annual securities report.

### ■ Risk identification

From fiscal 2021, we have identified 18 risks related to not only weather, climate change and disasters, but also brand defamation, intellectual property rights, lawsuits, compliance, mergers and acquisitions, financial exchange, information systems, management strategy impact, infectious disease outbreak, ocean plastic, reliance on *Yakult* series and the competitive environment, among other issues.

### ■ Scope of risks

The scope of risk evaluation goes beyond direct operation of Yakult to include raw materials, suppliers and consumers that form both our upstream and downstream value chain. Cross-organizational risk auditing and Group response is handled mainly by the General Affairs Department, while each department handles risk management related to its own operations.

## Risk Management Rules

Our top priority is to ensure safety and respect for human life, and we have established Risk Management Rules accordingly. We have also created individual risk management manuals in case of events such as an earthquake, virus outbreak or product recall. These manuals are updated as necessary to reflect changes or expansions in business, or office moves.

### ■ Safety confirmation system

We have introduced a safety confirmation system to efficiently check the safety of our employees when a disaster occurs. Drills are held annually for all employees to master the system's operation and improve awareness.

### ■ Response during major earthquakes

In preparation for a major earthquake, all employees receive personal disaster supplies, and three days' worth of emergency food rations and drinking water are available. At Yakult Honsha dairy product plants and bottling companies, we have set up an earthquake early warning system\* enabling employees to prepare and respond quickly in case of an earthquake.

\* Compared to unspecified warnings sent to large numbers of people (via TV, radio, mobile phones, etc.), this system receives forecast information issued for a specific area, providing information more quickly and accurately

## Business Continuity Plan (BCP)

### ■ Preserving probiotic strains

At the Yakult Central Institute, while our top priority in case of emergency is the lives and safety of our workers, we have also constructed emergency power systems and distributed storage schemes inside Japan and around the world to ensure the preservation of the probiotic strains which are key to our dairy products.

### ■ Procurement

We have developed a Raw Material Procurement Risk Management Manual that details appropriate immediate actions to take during emergencies to secure the raw materials for our dairy products.

Based on this manual, we regularly review and update our emergency call tree of clients and suppliers, the register of suppliers' factories and material transport route maps, and have prepared risk management action plans for disasters caused by storms/floods and earthquakes.

We respond to major incidents as appropriate based on this manual. To disperse material procurement risks and ensure stable supplies, we have moved our material warehouses located in tsunami-risk areas to flood-safe areas, and established new third-party warehouse capacities.

### ■ Production

Our Production Division has established and follows its own BCP. In accordance with the Cabinet Office's Business Continuity Guidelines, it sets forth policies, precautions, and emergency coordination and response to continue production of our core dairy products in the case of a natural disaster or critical event that would have a direct and sudden adverse effect on our business operations, as well as our policies on support for communities in an emergency.

In fiscal 2021, our Fukushima Plant suffered the effects of an earthquake in March 2022 with its center off the coast of Fukushima, and some production equipment and buildings were damaged. However, by following the BCP, we were able to rapidly return the plant to production while maintaining product supply via smooth coordination between plants.

### ■ Stable pharmaceutical supply

For our pharmaceutical business, in addition to securing at least two months' stock of our products, we have two pharmaceutical distribution centers, one in Eastern Japan and one in Western Japan, to provide a stable supply and diversify risk.

### ■ Risk management for logistics management data

In terms of logistics management, we have transferred some of our information assets such as order (received/placed), inventory and shipment data to cloud data centers.

This reduces the risk of system downtime in case of a disaster and minimizes the time required to rectify hardware failures.

### ■ Information security

To protect information assets from cyberattacks and other threats, we have established Information Security Rules that define our policy on security measures, specify those responsible for information security, and allow the relevant departments to discuss and quickly implement response measures if our information assets are breached. Specific measures we have taken include installing security software and equipment and using a full arsenal of technologies to prevent unauthorized access, leaks, falsification, loss and damage.

We are striving to improve system availability and reduce risks by keeping our servers and data at data centers housed in seismically isolated buildings, moving forward with migration to the cloud, and performing regular backups and storing the backups at external locations.

For employees using IT equipment while working from home, we provide a security-focused operating environment and have made all employees aware of the rules.

## Initiatives in each country and region

### ■ Use of backup services outside Japan

In Guangzhou, we use a third-party contractor to provide backup services for our core systems (office automation, human resources and sales) as a risk management measure to ensure uninterrupted operations if a disaster should strike. Currently some backup servers are located at Plant 1 and Plant 2, but given the potential risk of a disaster hitting the same region, we are considering moving the server to the cloud, and hope to perform the migration within fiscal 2022.

In the Middle East, to prevent information leaks and ensure data is kept appropriately, we have added firewall functions to protect our systems against access from outside. We have also installed a backup server to maintain internal server operations, and an inverter in case of unforeseen disruptions such as blackouts.

In Indonesia and the Yakult Group in Europe, we use external cloud backup services to ensure the continuation of business in the event of a disaster or other emergency.

### ■ Preparing a BCP: Yakult Taiwan Co., Ltd.

Yakult Taiwan Co., Ltd. prepared a BCP in 2021 in response to the COVID-19 pandemic. As well as adopting remote backup for IT equipment, the company ensured that it was able to confirm employees' contact details and safety in case of an emergency. Additionally, as a measure against infection, the company established a health management system ensuring that employees regularly disinfected, checked their temperature, and took other preventive steps.

### ■ Response to administrative discipline: Yakult China Group

In August 2021, Shanghai Yakult Co., Ltd. received administrative discipline relating to its sales promotion activities. In response to this, the Yakult China Group examined the operational risks for each department and introduced a system for having its legal department examine these risks. Additionally, to prevent any recurrence of the issue, staff responsible for advertising and related matters were given external training in the relevant laws and regulations, and the system for confirming sales materials within the company was strengthened.