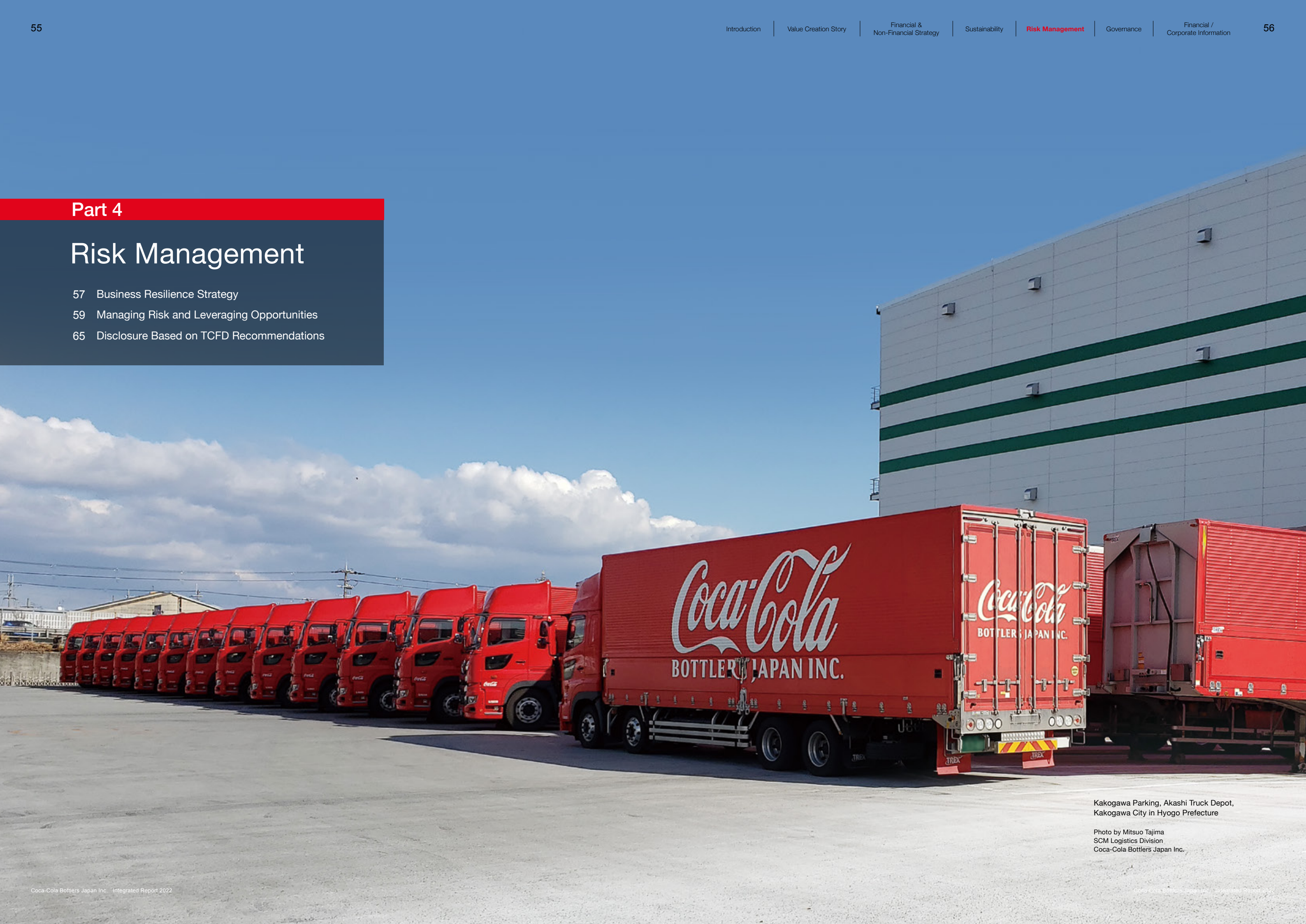


Part 4

Risk Management

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Kakogawa Parking, Akashi Truck Depot,
Kakogawa City in Hyogo Prefecture

Photo by Mitsuo Tajima
SCM Logistics Division
Coca-Cola Bottlers Japan Inc.

Business Resilience Strategy

Taking smart risks for business resilience

Gerold Knight

Head of the Risk Management Senior Group
Coca-Cola Bottlers Japan Inc.



Creating growth opportunities through risk management

Resilience is a leadership orientation that forward-thinking companies like ours have embraced in response to a disruptive and volatile business environment. Our resilience orientation has moved us away from a narrow crisis-response reflex to agility and innovation, where we identify and respond to risks, absorb shocks, and pivot to respond to new growth opportunities. We are focused on identifying both current and over the horizon risks with a focus on climate change; implementing

appropriate countermeasures and risk transfer strategies; maintaining agility to leverage opportunities, while having strong crisis response capabilities. To enhance our response, we have brought together several specialist resilience streams that enable us to leverage synergies to drive growth while protecting the business. Ultimately being business resilient is a competitive advantage.

Adopting a “smart risk” approach according to the business environment

In business, risk management helps us to manage uncertainties and we are all risk managers. These uncertainties can have either positive or negative consequences and by making the most of the opportunities, while managing the downside, we become a resilient business. We know the speed at which new risks emerge in our dynamic environment, so they and their potential impacts need to be discovered and responded to fast. At the same time, we take smart risks to grow as by being forward looking, aligning risk to strategy, and taking the right type of risk we set ourselves apart from our competitors.

Actively pursuing opportunities by empowering leaders

The world is changing at a lightning pace, creating complexities that carry uncertainty and opportunity, and to grow we need to be agile and innovative, creating an environment that encourages our people to take informed risks. Our growth mindset and empowerment of our leaders to take smart risks,

enables us to actively chase opportunities. When we take smart risks, we need to accept that things may not always work out as planned, and when this happens, we need to embrace failure and learn an important lesson: how to grow without repeating the error.

Aligning risk to strategy to enable rapid response in times of crisis

In a business world subject to constant disruption, superior risk management, embedded across our business, creates a competitive advantage. Our Risk Management Group has created a holistic resilience framework, embraced by our people, focused on anticipating changes in our business environment and with identifying emerging threats. Our ongoing focus on traditional Coca-Cola system risks, such as product quality, combined with a focus on newer topics such as climate change, TCFD reporting, ESG, cyber, and geopolitical changes create potential first-mover

advantages for us. Of priority is identifying and responding to climate change risks, both physical and transitional, to ensure that we understand and disclose mitigation plans, proposed investments and the metrics and targets used to assess and manage these climate-related risks and opportunities. By aligning risk to strategy, we can exploit valuable business insights. Supporting this are our strong response processes in crisis management and business continuity, which enable us in times of crisis, to find agile ways to make key moves early and then accelerate into the new realities.

Fostering a culture in which we learn how to grow from failure

Most importantly, with smart risk taking we acknowledge that we might fail, and this is okay if we learn from it. A smart risk is based on sound risk evaluation, an understanding of market sensitivities, and transparency. Transparency is a key pillar and involves stakeholder engagement, continuous communication, and seeking endorsement when required. A smart risk always

has a backup plan so we can quickly recover and learn from a failure. Poor risk is the opposite and can be unlawful and as integrity is a core value at CCBJI we will not take risks that are either unlawful or could be seen as unlawful. Together we are working together in an agile and innovative way to imbed resilience into our business.

Managing Risk and Leveraging Opportunities

Creating a resilient business

At CCBJH we have implemented an overarching business resilience program that integrates the ways in which we manage risk and opportunity to enable profitable growth; protect our people and assets; enhance our capabilities to respond in a crisis; and the way we transfer risk through insurance.

Our Board of Directors has overall responsibility for risk management and sets the risk appetite of the business. They are closely involved in overseeing risks and the strategic response to them, and monitoring management actions to achieve its strategic objectives.

In support, risk management is being firmly embedded within our everyday business activities and culture. Our Enterprise Risk Management (hereafter ERM) PDCA framework is based on COSO^{*1} and ISO 31000 and provides a framework to drive profitable growth by leveraging opportunities and promoting appropriate risk-based decision-making, as well as strong capabilities in the identification and response to foreseeable risks. Our business resilience programs are led by our Head of the Risk Management Senior Group (HRM), who as a member of the ELT^{*2} works in close collaboration with the function heads and risk owners across our business on the response to specific business risks. The HRM is tasked with maintaining a wide-angled view of all business streams for emergent risks and opportunities and through regular reporting ensures that risk visibility is provided to the ELT and our Board.

*1 An abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. An organization that issues global frameworks for internal control.
*2 An abbreviation for Executive Leadership Team. Management organization in CCBJI Group including CEO and function heads.

Business resilience program



Enterprise risk management (ERM) systems and program

The ERM program incorporates a variety of elements that enable us to ensure alignment to our business strategies, objectives, and principles; drive integration in our strategic direction, ethics and values; link into the business planning cycle; continually monitor our internal and external environment for factors that may change our risk profile and create opportunities; and an annual evaluation of the type and amount of insurance we should purchase. In a hardening insurance market, our approach to insurance risk transfer is influenced by the availability of insurance cover and cost, measured against the probability and magnitude of the relevant risks.

Our risks and the associated mitigation and response



initiatives are constantly evaluated. The Audit and Supervisory Committee are provided quarterly updates on the full program with the Board of Directors receiving biannual updates. The program is annually audited by our Internal Audit team and external auditors against global best practice.

During 2022, we continued our focus on strengthening the integration of ERM and Smart Risk program into our corporate culture through the creation and delivery of training and awareness courses. We have maintained the visibility of risks and opportunities through monthly ELT dialogue and senior manager participation in facilitated functional risk identification and review sessions.

A robust crisis management program with associated business continuity plans provides us with the capability to effectively respond to a crisis. These programs are subject to annual review with crisis training provided to our leadership teams who are tested through interactive crisis simulations.



Managing Risk and Leveraging Opportunities

Reportable risks

The cyclic review of our key risks involves an assessment of the likelihood of their occurrence and their potential consequences to confirm our level of exposure and evaluate the strategies to manage them. The list does not include all risks that can ultimately affect our Company as there are risks that are not yet known to us, and risks currently evaluated to be immaterial that could ultimately have an impact on our business or financial

performance. By leveraging our robust risk management program, which is integrated into business routines and evaluates risks against our business and strategic priorities, we remain vigilant to the uncertainty in our operating environment and can react with agility. The program enables us to proactively identify new risks and opportunities which enable us to understand threats to our business viability.

High risks		
Risk category	Description and potential impacts	Key mitigations
Commodity pricing	<div>Risk of procurement costs increasing due to fluctuations in exchange rates, raw material shortages, and commodity prices.</div> <ul style="list-style-type: none">Increased cost baseReduced product supplyLimitations to product portfolio	<ul style="list-style-type: none">Mitigate the impact of exchange rate and product price fluctuations through the uses of derivative transactionsProcure raw materials at lower costs through collective multi system company purchases leveraging Coca-Cola system
Macroeconomic	<div>Risk of volatile and challenging macro-economic conditions caused by key global events including conflict, inflation, and foreign currency fluctuations.</div> <ul style="list-style-type: none">Deterioration of financial conditionsReduced consumption spendingChanges in consumer spending patterns	<ul style="list-style-type: none">Enhanced strategic and operational risk identification enabling the group to grasp the changes in macroeconomic landscape more quickly and prepare better for the future by improving the ability to predict the future demand and trends more accuratelyMonitoring and responding to changes in status to customers' business operationsStrong crisis response practices that focus on employee, customer and consumer safety
Cyber security and system availability	<div>Risk of business activities being suspended, and confidential information leaking caused by system failures or cyber incidents</div> <ul style="list-style-type: none">Losing trust from consumers and customersDeterioration of financial conditions	<ul style="list-style-type: none">Prepare the response plans to mitigate the damages caused by system failures (such as, by setting up backup sites overseas)Improving and strengthening system security by proactive threat identification and conducting simulation tests of cyberattacksComplying with laws and regulations on information managementEstablishing internal regulations related to information security supported by related employee training programsDevelop and maintain a system workforce with the ability to respond to cyber incidents
Changing consumer mindset	<div>Risk of changes in consumer preferences caused by COVID-19, growing concerns over sugar consumption and increased health awareness</div> <ul style="list-style-type: none">Acquisition or loss of consumer baseWinning or losing trust from consumerDiscriminatory taxation	<ul style="list-style-type: none">Focus on product innovation and portfolio expansionStrengthen range of low and no calorie beverages.Diversification in pack sizesPromote active lifestyles through consumer engagement program

High risks		
Risk category	Description and potential impacts	Key mitigations
People (attraction and retention)	<div>Risk of not being able to secure, retain and develop enough human resources and build constructive relationships with labor unions due to poor business performance and a competitive employment environment.</div> <ul style="list-style-type: none">Slowdown or suspension of business activitiesSlowdown or suspension of supply chain operationsInability to achieve growth plans	<ul style="list-style-type: none">Implement strategic people development plans and develop a new salary payment structureRecruit diverse talent and commitment to people development (including overseas)Implement unmanned plant operations, online transactions, and outsourcing of shipping operationsEnhance the workplace environment to improve employee satisfactionStrengthen communication between top management and employees
Natural disasters	<div>Risk of death and injury of employees and damage to business facilities for production, logistics and sales operations caused by severe natural disasters, such as earthquakes and floods</div> <ul style="list-style-type: none">Slowdown or suspension of business activitiesSlowdown or suspension of supply chain operationsReduced sales opportunitiesAdditional costs required for recovery	<ul style="list-style-type: none">Strong Business Continuity Plan (BCP) and crisis response capabilities enabling structured and streamlined responsesRegular crisis and disaster response training and simulationsIdentified alternative shipping locations and secure transportation capacity in preparation for a disaster that damages the logistics centersSecure earthquake coverageRedesign of Disaster Control Headquarter (DCHQ) model to enable enhanced regional response and speed of response
Evolving commercial and competitive landscape	<div>Risk of changes in the retail market environment led by a surge in online ordering and a change in spending behavior driven by the external macro environment.</div> <ul style="list-style-type: none">Acquisition or loss of consumer baseWinning or losing trust from consumersReduced sales profitReduced portfolio availability	<ul style="list-style-type: none">Enhancing the product portfolio and accelerated productivity further to deliver products that meet the needs of the retailersEnhancing Right Execution Daily (RED) to drive operational excellenceExpanding the online channels to respond to the surge in Internet mail orders
Growth strategies	<div>Risk of failing to implement measures to improve our competitive advantage and grow the business (through business integration, capital investments, product development, etc.).</div> <ul style="list-style-type: none">Deterioration of financial conditions caused by loss due to impairmentLosing trust from shareholders	<ul style="list-style-type: none">Building a robust system that enables the group to respond readily and flexibly to various circumstancesFormulate business integration strategies that take multiple scenarios into considerationSupervision by Board of Directors and Executive Officers
Financial risks	<div>Risk of deterioration in financial conditions cause by an increase in funding costs and retirement benefit obligations.</div> <ul style="list-style-type: none">Increased cost baseLoss of stakeholder trust	<ul style="list-style-type: none">Promote growth of cash flow through sales activities to maintain and improve creditworthinessEstablish Pension Governance Committee to strengthen the monitoring function of retirement benefit obligations

Managing Risk and Leveraging Opportunities

Medium risks		
Risk category	Description and potential impacts	Key mitigations
Sustainability	<p>Risk of increased stakeholder concerns caused by caused by negative consumer sentiment over the use of plastics and the toughening of government regulations on plastics.</p> <ul style="list-style-type: none">Acquisition or loss of consumer baseWinning or losing trust from shareholdersIncrease of costs for responding to environmental and social issuesDiscriminatory Taxation	<ul style="list-style-type: none">Achieving CSV goals contributing to the development of a sustainable society“World Without Waste” initiatives including, increasing the use rate of recycled PET resin, developing more light-weighted packages and collecting used PET bottles more effectivelyProactive response in line with ESG and TCFD reporting requirements
Quality and food safety	<p>The risk of product-related quality and food safety incidents.</p> <ul style="list-style-type: none">Losing trust from consumersDecline in earnings due to product recall or mass disposal of defective productsLoss of opportunities due to customer penalties	<ul style="list-style-type: none">Supplier quality audits and quality certificationsEmployee awareness of quality control in all processes from manufacturing to salesEnhance the quality control and reporting system so that consumer/customer complaints receive a timely responseRobust identification and response programs that enable us to quickly and efficiently deal with quality/food safety issues
Regulatory compliance and ethics	<p>Risk of violations of laws, internal regulations, and our code of ethical conduct.</p> <ul style="list-style-type: none">Loss of customer and consumer trustDamage to brand and corporate reputationRegulatory penaltiesEconomic loss through fraud	<ul style="list-style-type: none">Strong Tone from the Top and continued internal communication on corporate behaviorsEthics & Compliance Committee meetings held regularlyMinimizing employee fraud opportunities by rebuilding the business processes, organizational structure and IT systems
Manufacturing, logistics & infrastructure	<p>Risk of the stable supply of goods being impeded due to issues in production and logistics operations, or changes in weather and consumer behaviors</p> <ul style="list-style-type: none">Drop in sales volume and revenueLosing trust from customers	<ul style="list-style-type: none">Building a flexible supply system to respond to changes in the market environmentInvestment in infrastructure (production lines, etc.) that will enable the group to respond to the increase in demand during the peak seasons more readilySystems enhancements to enable timely sharing of inventory statusStrengthen supplier management and supervision

Medium risks		
Risk category	Description and potential impacts	Key mitigations
Climate change	<p>Risk of raw material shortages including water and agricultural products or operational impacts due to adverse weather associated with climate change.</p> <ul style="list-style-type: none">Reduced commodity availability and product supplyIncrease of production costsLimitations to product portfolio Impact to operations (e.g. damage to facilities)Discriminatory taxation	<ul style="list-style-type: none">Focus on sustainable procurementEngagement with stakeholdersSourcing alternative suppliers, and strengthening the selection of suppliers and their management by utilizing the performance dataAdjust the amount of raw materials that are difficult to procure, and shift to other raw materials when necessaryCrisis response and business continuity planningRisk engineering in support of insurance coverage
Health and safety	<p>The risk of serious work-related health and safety incidents (i.e. serious injury or death) including transportation accidents.</p> <ul style="list-style-type: none">Death or serious InjuryReputation damageProsecution and fines	<ul style="list-style-type: none">Continue ISO 45001 (Occupational Health and Safety) Certification/Internal Audit (Occupational Health and Safety) strategiesContinue implementing mental health survey
Franchise relationships	<p>Risk related to our high dependency on, or changes to our relationship with The Coca-Cola Company and Coca-Cola Japan as trademark owners in respect to contract / relationship terms and renewals, concentrate pricing, support for product promotions.</p> <ul style="list-style-type: none">Decrease in sales from any suspension in the use of TM rights and/or decline in product development capabilities and brand power.Increased COGS due to concentrate price.Increased sales promotion expenses in event of any decrease in sales support.	<ul style="list-style-type: none">Maintaining and improving cooperative relationships with The Coca-Cola Company and Coca-Cola Japan

Disclosure Based on TCFD Recommendations

The CCBJH Group considers Mitigation of and Adaptation to Climate Change as a material issue and is carrying out initiatives based on the TCFD recommendations with reference to updated TCFD guidance released in October 2021.

TCFD initiatives

In 2021, we published greenhouse gas (GHG) reduction targets in alignment with the Paris Agreement and scientific evidence. Our targets involve reducing Scope 1 and 2 emissions by 50% and Scope 3 emissions by 30% by 2030 (compared to 2015), while striving for carbon neutrality by 2050. In February 2022, we endorsed the Task Force on Climate-related Financial

Disclosures (TCFD) recommendations. Furthermore, we joined the TCFD Consortium and Climate Change Initiative, and implemented these measures to cut GHG emissions. We will continue to advance our initiatives and disclosure for climate change mitigation and adaptation through studies in line with the TCFD framework.

Governance	Our new Sustainability Committee, comprised of ELT* members discusses and formulates strategies on sustainability issues, including climate change. The final decisions on strategies are made after approval by the Board of Directors.	Details on page 39 Sustainability Strategy
Strategy	We explore actions to address risks and opportunities revealed by scenario analysis.	Details on this page TCFD Disclosure
Risk Management	The ELT meets weekly to discuss risks that arise in the course of business. Risks and opportunities are not only analyzed at the ELT's weekly discussions, but also at quarterly Risk Management Forums, where they are analyzed in detail with feedback provided back to the ELT and Audit and Supervisory Committee.	Details on page 59 Managing Risk and Leveraging Opportunities
Metrics & Targets	We have set our own medium- to long-term targets called CSV Goals, to reduce GHG emissions across the entire supply chain by 2030 and achieve net zero emissions by 2050. We take concrete actions toward achieving these targets while monitoring progress rates.	Details on page 41 Initiatives Based on CSV Goals

* An abbreviation for Executive Leadership Team. Management organization in CCBJI Group including CEO and function heads

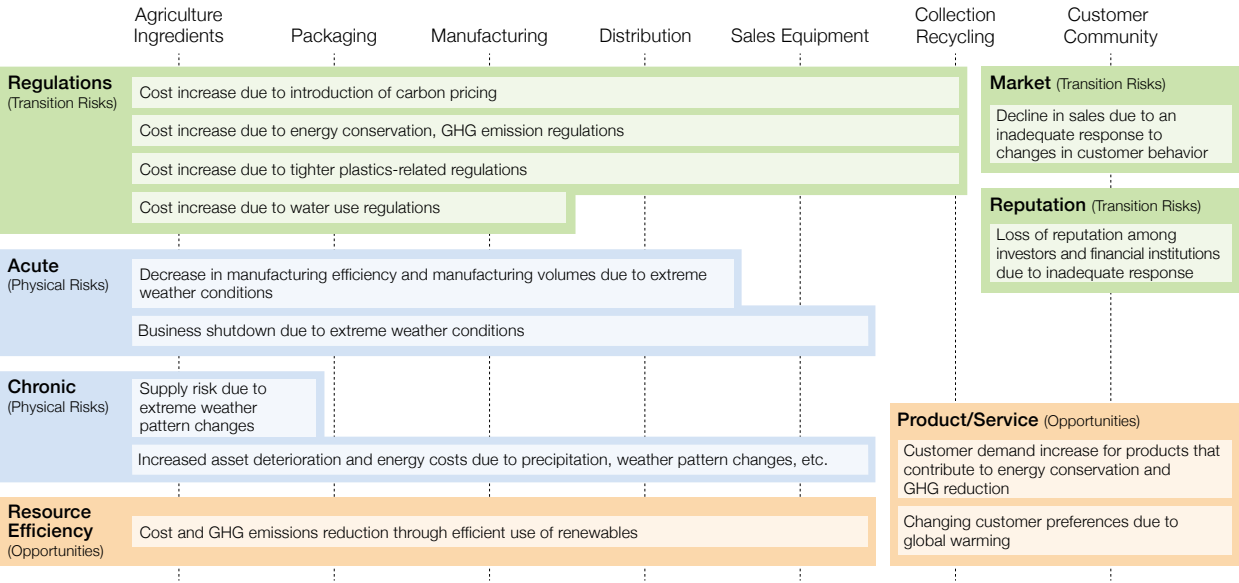
Addressing climate change-related risks and opportunities

In 2021, our TCFD Working Group, collaborated with the Board of Directors and each division to conduct a scenario analysis for the year 2030, covering all regions. We considered both a 1.5°C/2°C and 4°C rise in global temperatures, respectively, and studied actions to address the risks and opportunities revealed by the analysis.

Our analysis considered that the 1.5/2°C scenario assumes a society where climate change response progresses,

intensifying transition risks including regulatory risks, and where social changes associated with the transition to a decarbonized society are likely to affect business. In contrast, the 4°C scenario assumes a society where climate change response is delayed, natural disasters and other physical risks intensify, and where rising temperatures and other climate changes are likely to significantly impact business.

Key risks and opportunities



Climate change-related risks and opportunities and major actions

Transition Risks		
Transition risks of high importance	Details	Main mitigation plans
Cost increase due to introduction of carbon pricing	• Cost increase due to introduction of carbon tax and strengthening of emissions trading system, etc. • Increased costs due to price shifting of carbon tax at suppliers	• Active adoption of recycled materials, promotion of weight reduction • Reduction of raw material consumption through lighter containers/packages, etc.
Cost increase due to energy conservation and GHG emission regulations	• Cost increase due to capital investment for energy conservation and renewable energy, etc. • Increased procurement costs due to increased production costs at suppliers	• Reduce dependence on external power supply by introducing renewable energy • Shift to use of alternative raw materials (in collaboration with Coca-Cola Japan)
Cost increase due to tighter plastics-related regulations	• Increase in procurement costs for recycled PET resin, etc.	• Shift to use of alternative materials active use of recycled materials • Promote lighter containers
Cost increase due to water use regulations	• Increase in procurement costs due to introduction of groundwater tax	• Reduce water usage • Strengthening cooperation with local governments
Decline in sales due to an inadequate response to changes in customer behavior	• Decrease in sales due to shelf drop and customer defection from retailers, etc.	• Expansion of products in accordance with sustainable procurement • Promote environmentally friendly products (e.g., 100% recycled PET/labelless)
Loss of reputation among investors and financial institutions due to inadequate response	• Decrease in stock price and increase in financing costs in case of inadequate response	• SBT certification and participation in RE100 (TBC) • Proactive and continuous disclosure and dissemination of information based on TCFD-related and other factors

Physical Risks		
Physical risks of high importance	Details	Main mitigation plans
Decrease in manufacturing efficiency and manufacturing volumes due to extreme weather conditions	• Increased procurement costs of raw materials • Increased response costs due to increased risk of infectious diseases	• Diversification of procurement sources • Strengthening of BCP response
Business shutdown due to extreme weather conditions	• Impact of restoration cost and lost sales due to shutdown of factories and other company-owned facilities due to hazardous weather conditions	• Identify and prioritize wind and flood risks in manufacturing sites, sales/distribution sites, and supply chain, and enhance mitigation plans
Supply risk due to extreme weather pattern changes	• Increased procurement costs of raw materials	• Diversification of procurement sources • Collaboration with suppliers (e.g., development of agricultural methods, TBC)
Increased asset deterioration and energy costs due to extreme weather pattern changes occurring over time, etc.	• Increase in utility and other costs due to rising temperatures	• Reduce dependence on external power supply by introducing renewable energy

Opportunities		
Opportunities of high importance	Details	Main mitigation plans
Customer demand increase for products that contribute to energy conservation and GHG reduction	• Increase in sales due to environmentally friendly raw materials and packaging	• Develop and expand environmentally friendly products (e.g., 100% recycled PET bottle, labelless, reusable, package-less)
Changing customer preferences due to global warming	• Increase in sales of heat stroke prevention and healthy beverages	• Develop and promote heat stroke prevention and healthy beverage products
Cost and GHG emissions reduction through efficient use of renewables	• Reduction of electricity costs and GHG emissions by introducing renewable energy and energy-saving equipment (facilities, logistics, etc.) • Cost reduction through enhanced water efficiency	• Installation of manufacturing equipment equipped with the latest technology, Continuous improvement of manufacturing processes and plant equipment through monitoring • Further promotion of water source replenishment capacity improvement

