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Materiality

Supply chain management

Our approach

In all of our business activities we must fulfill our social responsibilities as a corporate citizen by complying with laws, respecting human rights, considering the global environment and managing information securely.

To support the stable production and sale of products beneficial for health and activities toward a sustainable society, we have also made sustainable procurement a key theme within our CSR activities.

As sustainable procurement requires collective action with our business partners, we will communicate proactively and work together with partners, mitigating risks and considering social and environmental impact throughout the supply chain and improving the sustainability of society.

Risks and opportunities

Risks	Opportunities
<ul style="list-style-type: none"> ● Human rights violations (e.g., forced labor, child labor) at business partners (suppliers) could lead to less trust in the Group ● Unfair discrimination against business partners or corruption with business partners could lead to less trust in the Group ● Inadequate BCP could cause an interruption in business during emergencies ● Stricter environmental regulations, depletion of water resources, and destruction of biodiversity could cause an interruption in business 	<ul style="list-style-type: none"> ● Promotion of sustainable procurement could lead to improved trust in the Group ● Cooperation with business partners (suppliers) could lead to stable supply and improved productivity ● Safe and pleasant working environments could lead to increased productivity ● Saving energy, using water more efficiently and reducing waste could lead to improved cost competitiveness

Policies/Guidelines/Targets

- Yakult Ethical Principles and Code of Conduct (2. Compliance with Social Norms)
- CSR Procurement Policy
- Supplier CSR Guidelines
- Yakult Basic Policy on Green Procurement

Targets and achievements

Target	Achievements
<ul style="list-style-type: none"> ● Implement CSR procurement 	<ul style="list-style-type: none"> ▶ Formulated the Supplier CSR Guidelines ▶ Conducted a CSR procurement survey of our suppliers ▶ Held two sustainable procurement workshops for Group personnel working in procurement ▶ Held a sustainable procurement workshop for personnel in overseas offices and departments in charge of overseas offices ▶ Held a briefing for suppliers on CSR Procurement Policy

Challenges and solutions

Companies are increasingly being called upon in recent years to fulfill their social responsibilities throughout their supply chains to address environmental, social, and other global issues relating to climate change, water, biodiversity and human rights.

The Yakult Group sees supply chain management as a material issue and is promoting sustainable procurement, in addition to establishing a Human Rights Policy and advancing human rights due diligence initiatives. However, in order to meet the demands of society, it is necessary to enhance understanding among Group workers and accelerate the speed of our efforts. We are committed to fulfilling our responsibilities by strengthening our sustainable procurement promotion system as well as raising awareness and educating Group workers.



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Message from the chief officer

**Akifumi Doi**

Director and Senior Managing Executive Officer
Divisional General Manager of Production Division

Keeping an eye on global trends and responding to change

At the 26th UN Climate Change Conference of the Parties (COP26) held in Glasgow, UK, in November 2021, the Glasgow Climate Pact and the Glasgow Leaders' Declaration on Forests and Land Use were formulated, which called on companies to take action to reduce greenhouse gas emissions in their supply chains and conserve forests in order to combat climate change and protect biodiversity.

Meanwhile, problems related to procurement have been increasing due to the rising price of raw materials resulting from international turbulence and a sharp decline in the yen's value. The realization of the social impact that supply chains have, as well as the attention they garner, and the expectations for them have never been greater.

We at the Yakult Group will re-examine our supply chain management and strive to make our supply chain and the Yakult business more resilient by fundamentally enhancing environmental and social sustainability.

Enhancing sustainability across the supply chain

As one example of the efforts made to realize the Yakult Group Environmental Vision, which details plans for a value chain with zero environmental impact, we converted all the energy purchased for our domestic dairy and pharmaceutical production sites to renewable energy in April 2022. Our cosmetics plant also switched to renewable energy in July of the same year, completing the switchover at all domestic plants. This will lead to an annual reduction of around 34,800 tons of greenhouse gas emissions.

We will continue to consider and implement actions to reduce our environmental impact, but we cannot achieve our Group's goal of net zero GHG emissions without collaborating with our suppliers. In addition, human rights issues such as forced labor, child labor, discrimination and inhumane treatment in the supply chain are also important themes to be resolved. In order to address these issues, we believe it is very important use the CSR procurement survey and Supplier CSR Guidelines in communication with suppliers.

In October 2021, we held a briefing on our CSR Procurement Policy for our suppliers, with around 400 participants from 158 companies. This was a very meaningful opportunity to explain once again our CSR Procurement Policy and guidelines, share our awareness of issues with our suppliers, and confirm our efforts to solve them.

Further promoting supply chain management

We will continue to improve the level of our own initiatives for sustainable procurement, while implementing various approaches to enhance sustainability together with our suppliers. Specifically, we will consider and implement specific actions that include developing CSR procurement surveys for suppliers in Japan and overseas, utilizing international platforms, and establishing targets for raw material procurement. On the basis of these efforts, we will respond to the demands of society to build a sustainable supply chain, as a corporate group with global operations.

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Sound relationships with business partners

Promoting sound organizational management and fair business practices is extremely important in order to make our corporate philosophy a lasting reality throughout the Group.

To achieve this, premised on the Yakult Group's compliance with national and local laws, guidelines and regulations related to anti-corruption, we have established an anti-corruption policy based on the Yakult Ethical Principals and Code of Conduct, which serves as the standard for compliance within the Group.

The Yakult Ethical Principles and Code of Conduct stipulates our ban on gifts and entertainment. It prohibits receiving gifts and entertainment from business partners and stakeholders, as well as giving gifts and providing entertainment to business partners, stakeholders and customers that go beyond the scope of common practice or social norms, directly or indirectly, in and out of Japan. At overseas business sites, we established anti-bribery guidelines and regulations, and comply with them in the course of our business operations.

We are determined to avoid illegal actions and the use of improper methods to pursue profits as well as placing an undue burden on suppliers. We are also committed to ensuring fair, transparent and free competition and conducting appropriate transactions.

■ Mutual prosperity with marketing companies

The Yakult Group has 101 marketing companies,* and they play a key role as our point of contact with customers. After confirming and mutually agreeing on the roles and responsibilities to be fulfilled by Yakult Honsha and the marketing companies, we execute business activities based on a contract.

We at the Yakult Group work together toward realizing both a healthy society and mutual prosperity: Yakult Honsha provides highly functional products for health improvement and handles public relations and advertising, while marketing companies engage in activities that are useful in resolving the health issues of customers and local communities, as well as sell Yakult products.

* As of March 2022

■ Compliance with the Subcontract Act

Aiming for even stricter compliance with the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontract Act), we created a Subcontract Act Compliance Manual in 1997 for operational personnel in departments that deal with subcontractors (revised in 2016). We hold training sessions as appropriate.

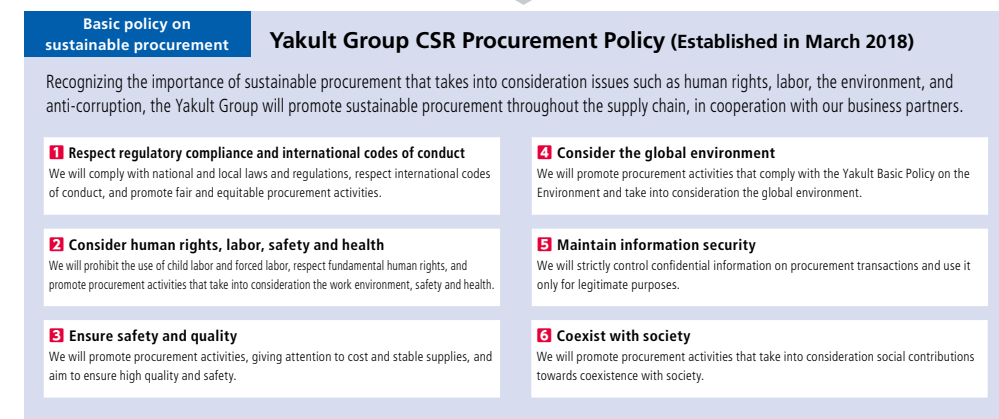
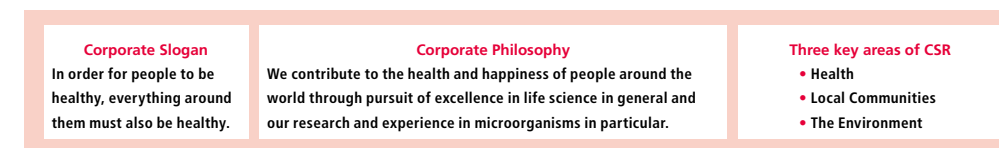
Related information ▶ [p. 90 Compliance ▶ Anti-corruption ▶▶▶](#)

Promoting sustainable procurement

■ CSR Procurement Policy

The Yakult Group recognizes the importance of sustainable procurement that takes into consideration issues such as human rights, labor, the environment and anti-corruption, and promotes sustainable procurement throughout the supply chain in collaboration with our business partners according to the Yakult Group CSR Procurement Policy. We have also identified supply chain management as a material theme, and designated promoting sustainable procurement as a key theme of the Yakult CSR Action Plan, with the aim of contributing to the responsible production and sale of products that improve health and the creation of a sustainable society.

Yakult Group's vision for sustainable procurement



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■ Supplier CSR Guidelines

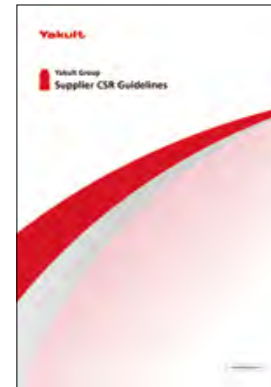
Based on the CSR Procurement Policy, the Yakult Group Supplier CSR Guidelines were formulated in July 2020 in order to effectively promote sustainable procurement within the Group and help create a sustainable society. The guidelines are a collection of requirements regarding responsible procurement activities for all our business partners in Japan and overseas, including new business partners.

For each requirement in the guidelines, we check the status of our efforts through surveys and audits, and if any problems are found, we take appropriate measures for improvement.

Together with using these guidelines, the entire Yakult Group will continue striving to promote sustainable procurement.

WEB [Yakult Group Supplier CSR Guidelines >>>](https://www.yakult.co.jp/english/csr/policy/pdf/supplier_csr_guidelines.pdf)

https://www.yakult.co.jp/english/csr/policy/pdf/supplier_csr_guidelines.pdf



Requests to our business partners (summary)

1. Comply with national and local laws and regulations, respect international codes of conduct, and promote fair and equitable procurement activities. Establish systems for this purpose.
2. Uphold international human rights principles, including the Universal Declaration of Human Rights, and establish fair and appropriate working environments that consider safety and health.
3. Build a framework to ensure high quality and safety.
4. Build a management framework to reduce environmental impacts, take action on climate change, preserve biodiversity, prevent pollution, appropriately manage waste and effectively use resources.
5. Strictly manage confidential information.
6. Promote activities to coexist with society and to create a sustainable society.

■ Evaluation of business partners and collaboration

Based on our CSR Procurement Policy, we carry out supplier risk assessments through an annual CSR procurement survey in order to identify high-risk suppliers on issues such as the environment, human rights, occupational health and safety and anti-corruption. The fiscal 2021 survey was carried out in June for 124 business partners accounting for the top 90% of our total procurement cost related to manufacturing.

Conducting this survey enabled us to assess the status of our suppliers' sustainable procurement initiatives and to ask our business partners for their understanding and cooperation on the Yakult Group CSR Procurement Policy and Supplier CSR Guidelines.

Supplier selection criteria for implementation of CSR procurement survey

Procurement cost criteria	Business partners in the top 90% of Yakult Honsha's manufacturing procurement costs (incl. all partners meeting this criteria the previous year)
Other qualitative selection criteria (suppliers whose risks need to be identified via a survey, while consulting the criteria listed on the right)	<ul style="list-style-type: none"> • Suppliers of key raw materials (dairy products, sugar) and high-risk raw materials (palm oil, soybeans, paper and pulp) • Suppliers that are considered to have high CSR risks in the supply chain • Suppliers expected to be used for ongoing transactions • Suppliers for items for which there are no alternative suppliers (suppliers on which we are highly dependent)

We sent feedback about the survey results to the companies that responded to raise awareness of CSR and encourage improvements in their sustainable procurement initiatives.

For high-risk suppliers identified by this survey, we provide materials explaining our sustainable procurement initiatives, and engage in support activities with the aim of capacity building for these suppliers, including providing information on supply chain management and raising awareness about the need for sustainability initiatives.

Furthermore, for companies with confirmed issues such as violations of laws and regulations, we created a supplier management log and verified their response through individual hearings. We then made requests for improvement and have been receiving reports of their corrective actions.

Going forward, we will continue working to improve sustainability across the entire supply chain by carrying out risk assessments of the supply chain, and are also considering such measures as conducting supplier audits through field visits.

• Asking suppliers to comply with code of conduct: Yakult China Group

The three plants of the Yakult China Group (Shanghai Plant, Wuxi Plant and Tianjin Plant) requested all of their suppliers to sign a pledge in order to prevent bribery and other illegal activities, in accordance with Yakult China Group regulations. All of the suppliers complied with this request, and efforts will continue to be made to prevent corruption in the future.

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CSR procurement survey results (July 2021)

Target: In principle, primary business partners of Yakult Honsha's dairy products, soft drinks, cosmetics and pharmaceutical divisions/Number of responses: 122 companies (98% response rate)

Item	Number of questions	Main questions (examples)	Average score (%)*	Percentage of responses (%)			
				Level 3: Responded with "action being taken"	Level 2: Responded with "action being planned"	Level 1: Responded with "no action being taken"	N/A
1. Corporate governance related to CSR	6	Have you established a vision, long-term goals, key areas, etc. for CSR in general?	91.8	80.8	14.5	4.7	0.0
2. Human rights	4	Have you had any human rights issues in the last year, such as harassment, discrimination, or labor issues on foreign technical trainees?	94.9	87.4	10.0	2.6	0.0
3. Labor practices	11	Are you taking action for fair application of working hours, holidays, paid leave, etc.?	97.8	95.0	3.5	1.6	0.0
4. Environment	11	Are you taking action to reduce CO ₂ and other greenhouse gas emissions, or to use energy efficiently?	91.0	82.0	8.6	8.9	0.6
5. Fair business	11	Are there regulations or initiatives to build proper relationships with local authorities and government officials in Japan and overseas in carrying out business activities (e.g., prohibition of bribery)?	95.1	87.1	6.8	3.5	2.6
6. Quality and safety	6	Do you have your own company policy and implementation system in line with our policies and guidelines on quality and safety of products and services?	97.5	86.0	1.5	2.8	9.6
7. Information security	6	Do you have a mechanism or initiatives related to personal data and privacy protection?	97.2	93.6	4.6	1.8	0.0
8. Supply chain	4	Are you taking action to promote CSR activities in the supply chain, such as by conducting field surveys of business partners?	92.3	82.9	11.6	5.5	0.0
9. Coexisting with the local community	2	Are you taking action to reduce the social and environmental burden of the production process or products and services?	94.7	89.0	6.5	4.5	0.0
Total	61		94.7	87.3	7.1	4.1	1.5

Supplier communication (holding a presentation for business partners)

We recognize that our sustainable procurement initiative contributes significantly to the business activities of our business partners. Through active communication and collaboration with suppliers, the Yakult Group aims to improve the sustainability of wider society by taking the impacts on the environment and society into consideration and reducing risks throughout the entire supply chain.

For our major business partners, such as raw material suppliers and manufacturing subcontractors, we explained the Yakult Group CSR Procurement Policy and conducted a survey in order to promote understanding and implement the policy. In March 2019, we held a general

briefing session on the policy for all our production subcontractors (19 companies) to ask for their understanding and cooperation. We share social issues and specific cases related to human rights, labor, the environment and anti-corruption. We also share our ongoing efforts to promote sustainable procurement that increases social sustainability throughout the supply chain, in order to consider the impact on society and the environment and reduce risks.

In October 2021, the first CSR Procurement Policy briefing was held to promote understanding of our CSR Procurement Policy and related activities. The online event was attended by approximately 400 people from 158 companies, including suppliers and sellers of raw materials to Yakult. In addition, around 110 people from related departments within Yakult participated.

Number of business partners by average score

Average score	Number of companies
90% or higher	97
80% - below 90%	17
70% - below 80%	6
Below 70%	0
Incomplete response	4
Total	124

* Score for each item calculated based on a score of 3 points for Level 3, 2 points for Level 2, and 1 point for Level 1
Note: Additional questions also asked to confirm details, depending on the content of the response.

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Following an opening address by Yakult's chief officer in charge, Mr. Hiro Motoki, President and Representative Director of E-Square Inc., who is an expert on sustainable procurement, gave a lecture on environmental and social issues, risks and opportunities, and other topics related to sustainable procurement. This was followed by a presentation by the General Manager of the CSR Promotion Section on the topic of the Yakult Group's various CSR-related policies and sustainable procurement activities. The speaker informed them of three new specific requests, namely, long-term targets for reducing GHG emissions to realize a zero-carbon society, policies and guidelines that take deforestation issues into consideration, and the implementation of animal welfare-related mechanisms and initiatives. Finally, a question-and-answer session was held to encourage interaction between the participants.

Many participants commented that they were able to gain a deeper understanding of Yakult's policies and initiatives and its CSR procurement activities and that the presentations were useful for their future efforts. The briefing sessions were recorded and made available for viewing for a certain time.

Yakult aims to work together with suppliers through such briefing sessions to promote effective sustainable procurement activities by arriving at a shared understanding of issues related to sustainable procurement.

■ Raising sustainable procurement awareness

We provide information and training to employees involved in raw material procurement and manufacturing consignment regarding the objectives of the CSR Procurement Policy and responsible procurement activities for creating a sustainable society.

In fiscal 2021, training on sustainable procurement was provided to a total of 72 persons responsible for or involved with sustainable procurement promotion at the Yakult Group's overseas offices, as well as officers and employees of the department in charge of overseas offices at Yakult Honsha.

From fiscal 2022, we will promote sustainable procurement activities in the Yakult Group by conducting CSR procurement surveys at overseas offices as well as risk identification using Sedex, an international data sharing platform aimed at responsible procurement.



Sustainable procurement promotion meeting

Awareness-raising activities regarding sustainable procurement

Fiscal year	Activity and participants	Details
2018	Study sessions promoting sustainable procurement (held 7 times) Participants: Heads of procurement-related departments and managers in charge (35 persons in total)	Inviting external lecturers to raise awareness regarding sustainable procurement and supply chain management
2019	Sustainable procurement promotion meeting Participants: Heads of procurement-related departments and managers in charge	Planning and implementation of various measures to achieve sustainable supply chain management
2020	Sustainable procurement workshops (held 2 times) Participants: Personnel involved in development and procurement	Sessions and group discussions led by outside experts to introduce and share case studies on social issues related to human rights, labor, the environment, and anti-corruption; presentations on risks and opportunities related to our sustainable procurement, as well as on the need for international traceability and certification systems related to raw materials, etc.
2021	Sustainable procurement workshop Participants: Overseas business offices and directors and employees of departments in charge of overseas offices at Yakult Honsha	Share basic knowledge on sustainability and specific methods of sustainable procurement

■ Green procurement

The Yakult Basic Policy on Green Procurement covers raw materials, packaging materials and equipment, facilities and indirect materials related to our business. All business sites carry out procurement activities in a manner that promotes the protection of the global environment, the reduction of environmental impact, the creation of a circular economy and other environmental objectives in cooperation with business partners based on this Basic Policy.

Fiscal 2021
Green procurement ratio:
65.0%
(head office, research institute, Honsha plants)

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Yakult Basic Policy on Green Procurement

With respect to items used at all of Yakult Honsha's business sites and in all of the Company's business activities, we will strive to procure environment-friendly products that promote the protection of the global environment, the reduction of environmental impact, the creation of a circular economy and other environmental objectives. In accordance with these goals, we have established the basic policies as described below:

Scope of policies All manufacturing, marketing, office and R&D facilities.

Basic policies

1. Avoid procuring items with a potential for harming the environment or human health.
2. Procure items that give due consideration to resource conservation and energy conservation.
3. Procure crating and packaging materials that incorporate a high proportion of recycled materials.
4. Procure crating and packaging materials designed to be reused as many times as possible.
5. Procure crating and packaging materials with minimal portions that must be disposed of as waste and for which disposition processing is easy.
6. Procure items that are manufactured, marketed and shipped by companies proactively addressing environmental protection objectives by such means as building environmental management systems, disclosing environmental information and cooperating with Yakult's environmental protection activities.

Established: March 5, 2001

Please refer to the following URL for the full text of the Yakult Basic Policy on Green Procurement:

WEB https://www.yakult.co.jp/english/csr/download/pdf/2022_green_policy.pdf

Related information p. 42 Use of internationally certified paper in products (participating in biodiversity-related certification programs) >>>

Stable procurement of raw materials

Stable procurement for food products (dairy products, soft drinks)

To ensure the stable procurement of raw materials used in our dairy products, we distribute risk by purchasing primary materials from multiple companies, and maintain appropriate reserve stores of each by considering factors such as sales trends and material procurement lead times for each product. We also contract with business partners to secure an annual volume of some raw materials.

Using these methods ensures that we can stably procure raw materials even in times of disaster.

Stable procurement for pharmaceuticals

To ensure a stable supply of final products, we aim to mitigate risk by using a number of plants for active pharmaceutical ingredients according to the circumstances of each formulation, along with managing stock based on appropriate estimate of demand. We also enter into product quality agreements with the manufacturers of active ingredients based on pertinent laws such as the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices, striving for stable supply of ingredients with the required quality. In addition, we comply with the good manufacturing practices of the countries to which we export some pharmaceutical raw materials.

Stable procurement for cosmetics

In procuring both raw materials specific to certain cosmetics and those used in multiple types of products, we diversify our sources and seek alternate routes to be prepared for unforeseen circumstances, as well as keep a fixed reserve volume of products. We also always strive for smooth communication with business partners, engage in honest procurement and build relationships of trust to preemptively prevent problems and eliminate supply insecurities.

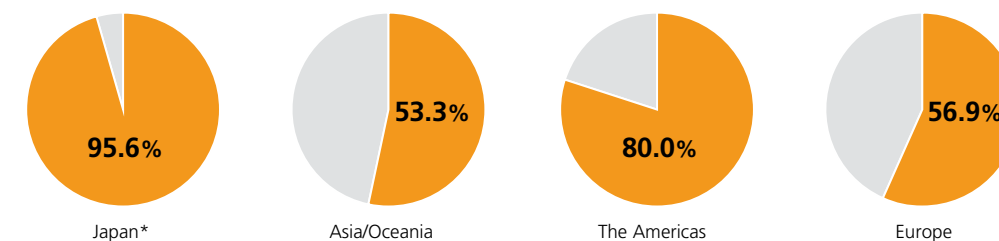
Our commitment to local employment and sourcing

To contribute to the sustainable development of the countries and regions where we operate, Yakult agrees with the importance of local employment and local sourcing, as endorsed by ISO 26000, and is developing its global business with a local focus, based on local production and local sales. For raw ingredients, we select suppliers that have cleared our quality and safety standards, and that can provide a stable supply.

Yakult currently operates in 40 countries and regions including Japan with 29 overseas companies. We have established sales offices and production plants with deep ties to local communities, and actively hire local employees. Going forward, we will continue to undertake business with a local focus, working to benefit the local economy and local communities, with the aim of contributing to the healthy lives of local people and communities.

Related information p. 83 Local hiring for senior management positions: Yakult Europe B.V. >>>

Locally procured raw materials (Fiscal 2021)



* Results for dairy product raw materials

Note: Raw materials imported and undergo final processing in Japan are calculated as local Japanese materials.