

Governance Report

We devote thorough efforts to steady business development centered on core business operations, and promote highly transparent management functions. We undertake management that emphasizes enhanced internal control functions beginning with the optimization of management organizations and decision-making, in order to put our corporate philosophy into practice.

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Fiscal 2021 legal compliance

In fiscal 2021, there were no violations of laws, regulations or voluntary rules relating to anti-monopoly, unfair competition or bribery. There were also no cases of corruption coming to light nor any cases incurring fines or penalties. Furthermore, there were no major violations of laws, regulations or voluntary rules concerning governance.

Policies/Guidelines/Targets

- Yakult Ethical Principles and Code of Conduct (2. Compliance with Social Norms, 3. Transparent Management, 5. Resolute Stand against Antisocial Forces)
- Anti-Corruption Policy
- Tax Policy
- Risk Management Rules
- Production Division Business Continuity Plan
- Raw Material Procurement Risk Management Manual
- Information Security Rules

Corporate governance

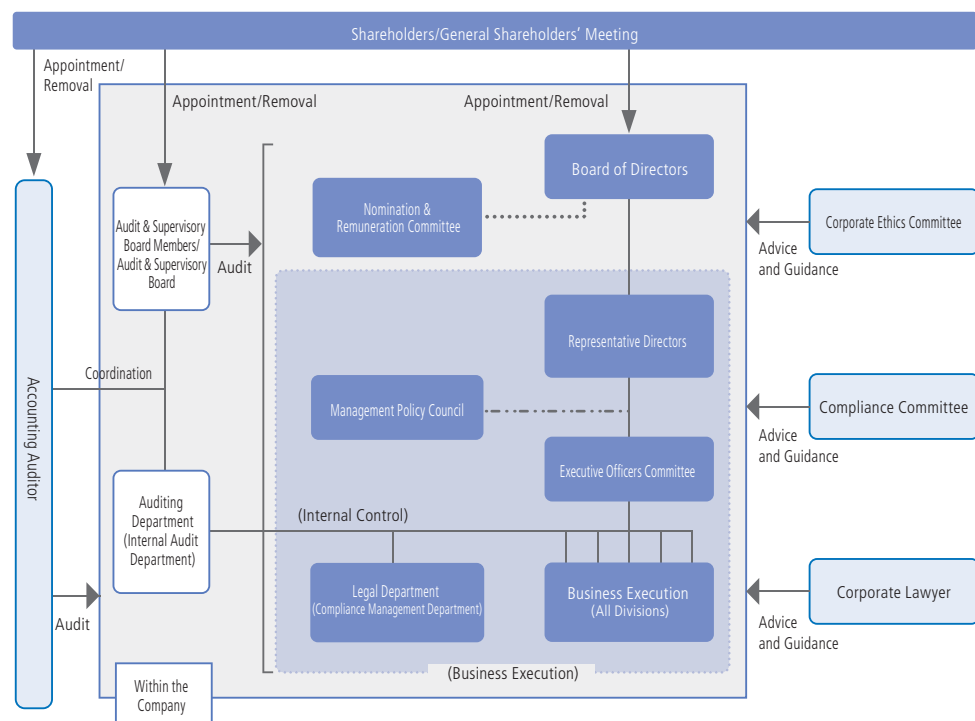
Efforts to enhance corporate governance

In 2007, the Company reduced the term of office for directors to one year in order to clarify their management responsibilities. In 2011, we introduced an executive officer system as a way to further invigorate the role directors play within the Company. We have also reduced the overall number of directors. In addition to these efforts, we are accelerating decision-making through the establishment of various committee structures, including the Management Policy Council and the Executive Officers Committee. Matters concerning director nomination and compensation are addressed by the Board of Directors in consultation with the Nomination & Remuneration Committee. More than half of the members of this advisory committee are independent Outside Directors whose involvement and advice is obtained prior to any decision by the Board of Directors.

Governance structure

Since its introduction on June 22, 2011, our executive officer system aims to strengthen the Board of Directors' decision-making functions and supervisory functions as well as clarify responsibilities, and it is increasing the efficiency of both kinds of functions. In addition, to promote effective management activities and accelerate decision-making, we have established the Management Policy Council, which includes Representative Directors, Divisional General Managers and Audit & Supervisory Board Members, and the Executive Officers Committee, which includes executive officers and Audit & Supervisory Board Members.

Corporate governance framework



Note: Board of Directors were held 8 times by 15 directors (including 13 male and 2 female/15 Japanese/5 independent Outside Directors).

Board of Directors

The Board of Directors is composed of 15 directors (including five Outside Directors, two of whom are women), and the Audit & Supervisory Board is composed of five members (including three Outside Auditors, one of whom is a woman).*

The Board of Directors makes decisions or receives reports on matters set out in laws and regulations as well as our own Rules of the Board of Directors; it also oversees the conduct of the directors and executive officers in the performance of their duties. We have also put systems into place allowing active and full discussions within the Board of Directors by providing information on specific topics and opportunities for discussion, particularly for Outside Directors.

* As of June 2022

Audit & Supervisory Board

Audit & Supervisory Board Member audits

Based on the audit policies and audit plans of the Audit & Supervisory Board, the five Audit & Supervisory Board Members audit the operational execution situation of directors and executive officers by attending meetings of the Board of Directors and other important meetings and examining documents related to decision-making and other matters. At the same time, they monitor and verify that appropriate auditing is performed by the accounting auditor. We have also secured a system for supporting Audit & Supervisory Board Member audits by deploying two full-time auditors possessing thorough knowledge of company operations and who can appropriately assist the work of the auditors.

Internal audits

We have set up the Auditing Department as an organization reporting directly to the President to perform accounting audits, operational audits and internal control system audits that also cover affiliated companies in and outside Japan. Under the department general manager, a 12-person staff uses the COSO framework and other references to perform risk-based internal audits covering the entire operations of each internal department and each affiliated company, and provides specific advice and recommendations for improving operations.

Regarding Group companies outside Japan, every fiscal year we select companies and perform on-site internal audits as in Japan. For internal control system audits, we also perform paper audits to appropriately evaluate the effectiveness of internal control systems for financial reporting.

External audits

We have appointed Deloitte Touche Tohmatsu to serve as the auditor for accounting and other audits as required by law.

Reasoning behind director appointments

Our baseline requirements for a potential director are position-appropriate ability, personality and insight along with abundant knowledge and experience and a thorough knowledge of Group management. We also seek a Board of Directors of diverse structure conducive to open-minded discussion. To this end, we promote not only from within the Company, but also from among top-level managers of Yakult Group marketing companies and experts in various fields, always seeking to place the right person in the right role.

Matters concerning director nomination and compensation are addressed by the Board of Directors in consultation with the Nomination & Remuneration Committee. More than half of the members in this advisory committee are independent Outside Directors whose involvement and advice is obtained prior to any decision by the Board.

Skill matrix

	Director expertise and experience							
	Corporate management/ Business operations	ESG/ Sustainability	Financial accounting	Legal/ Compliance	Marketing/ Sales	Overseas business	Research & development/ Quality assurance	Management of other companies or organizations
Hiroshi Narita	●	●	●			●		
Hiroshi Wakabayashi	●	●	●	●				
Fumiyasu Ishikawa	●	●					●	
Akifumi Doi	●	●					●	
Tetsuya Hayashida	●	●			●			
Susumu Hirano	●				●	●		
Masao Imada	●	●	●	●				
Masanori Ito	●				●	●	●	
Koichi Hirano	●				●		●	
Ryuji Yasuda			●			●		●
Naoko Tobe		●		●				
Katsuyoshi Shinbo		●		●				
Yumiko Nagasawa			●					●
Satoshi Akutsu			●		●	●		
Manabu Naito					●			●

Outside Director and Audit & Supervisory Board Member support

(1) Outside Director support system

The General Affairs Department functions as the secretariat for the Board of Directors, and serves as an information contact point for all directors, including Outside Directors. Board meeting materials are also distributed in advance to Outside Directors to facilitate communication with other directors.

(2) Outside Auditor support system

Two full-time staff members function as the secretariat for the Audit & Supervisory Board. The Audit & Supervisory Board convenes prior to meetings by the Board of Directors and other important assemblies, and relevant department heads share information at these meetings by providing materials and explanations. The system for communicating information to each Outside Auditor involves Audit & Supervisory Board Members making business reports as appropriate, while also providing important materials related to decision-making and auditing along with other audit-related materials.

Management Policy Council

The Management Policy Council was established to expedite decision making. As a general rule, the council meets once per week, and its members consist of the Representative Director, seven Divisional General Managers and one Audit & Supervisory Board Member. In addition to receiving reports, the Management Policy Council deliberates on management policies and action items, along with operations-related business matters.

Evaluating the effectiveness of the Board of Directors

The Board of Directors conducted an analysis and evaluation of the effectiveness of the entire Board through questionnaires to directors and Audit & Supervisory Board Members. This evaluation concluded that the Board functions properly and is generally effective. We have also engaged in initiatives to further enhance the effectiveness of the Board of Directors. This includes providing Outside Directors with a forum for discussion and information-sharing on specific themes, and implementing systems that enable Board members to engage in lively discussion and thorough deliberation.

Remuneration of officers

Shirota-ism is the foundation of our business, and we realize its principles by contributing to the health and happiness of people around the world through each bottle of *Yakult*. Our remuneration system adopts both fixed- and performance-based remuneration in order to put more responsibility for business results and realization of Shirota-ism into the hands of management. (Non-monetary compensation is not provided.)

Our policy for determining individual remuneration amounts for directors as well as remuneration calculation methods is “within applicable monetary limits, to comprehensively consider internal and external environmental factors such as director responsibilities, business performance during the relevant year, standard worker salary and social conditions.” Performance-based remuneration as it relates to business performance evaluation is outlined below.

(1) Eligible recipients

Officers who are still in the director role at the end of the relevant fiscal year and time of payment (excluding Outside and Part-Time Directors)

(2) Calculation methods

Alongside consolidated operating income, the most suitable indicator of business performance for the purposes of performance-based remuneration, performance-based remuneration calculations use the consolidated number of dairy product bottles sold as a barometer for the degree of Shirota-ism realized, which is the foundation of our business. Total remuneration is divided into an 80/20

standard ratio between fixed- and performance-based remuneration respectively, with the performance component set to fluctuate between 0 to 150%. Furthermore, performance-based remuneration is not paid if consolidated operating income has fallen below 70% of the previous year's total.

(3) Remuneration payment method

Fixed remuneration is paid monthly, but performance-based remuneration is calculated and paid after the end of the fiscal year as a lump sum. (Total remuneration may not exceed the set monetary limit, which was set at one billion yen per year at the 56th Ordinary General Meeting of Shareholders held on June 25, 2008.)

These policies and remuneration calculation methods shall be deliberated by the Nomination & Remuneration Committee composed of a majority of independent Outside Directors, after which the final decision shall be made by the Board of Directors. Additionally, the Nomination & Remuneration Committee is charged by the Board of Directors with determining specific remuneration amounts for each individual in order to increase transparency and objectivity.

Remuneration (Amount)

Fiscal year	2017* ¹	2018* ²	2019* ³	2020* ⁴	2021* ⁵
Remuneration of directors	654 million yen to 17 directors (Including 33 million yen to 4 Outside Directors)	654 million yen to 17 directors (Including 41 million yen to 6 Outside Directors)	614 million yen to 17 directors (Including 50 million yen to 5 Outside Directors)	603 million yen to 15 directors (Including 55 million yen to 5 Outside Directors)	642 million yen to 18 directors (Including 66 million yen to 7 Outside Directors)
Remuneration of auditors	118 million yen to 7 auditors (Including 36 million yen to 5 Outside Auditors)	118 million yen to 7 auditors (Including 36 million yen to 5 Outside Auditors)	118 million yen to 7 auditors (Including 36 million yen to 5 Outside Auditors)	105 million yen to 9 auditors (Including 33 million yen to 6 Outside Auditors)	107 million yen to 5 auditors (Including 35 million yen to 3 Outside Auditors)

*1 Amount of remuneration of directors and auditors in the 66th business report

*2 Amount of remuneration of directors and auditors in the 67th business report

*3 Amount of remuneration of directors and auditors in the 68th business report

*4 Amount of remuneration of directors and auditors in the 69th business report

*5 Amount of remuneration of directors and auditors in the 70th business report

Strategic shareholding

The Company's strategic shareholding policy seeks to strengthen the cooperative relationship between current and future business partners and allies in order to benefit from and expand the synergy between our business and the operations of these companies. We comprehensively consider the potential of future business partners and allies in order to verify the appropriateness of any shareholdings, and reduce strategic shareholdings which are not profitable to the Company. In addition, the Board of Directors verifies the appropriateness of each strategic shareholding based on whether or not it makes sense given capital costs and shareholding purpose. The Company exercises voting rights arising from strategic shareholding through a

decision-making process after considering whether voting yea or nay will contribute to improving corporate value.

Group governance initiatives

In principle, we dispatch our executives and employees to subsidiary companies to serve as officers and ensure that business operations are carried out in a proper, efficient manner. Our Affiliated Company Management Rules and Overseas Office Management Rules stipulate matters such as requests for advanced approval and reporting from subsidiary and affiliated companies. These companies are also audited by the Company's Internal Audit Department (Auditing Department). Our medium-term management plan secures appropriate operations across the entire Group by setting out Group-wide targets and management strategies, creating a support system through the establishment of a subsidiary management department within the Company, and implementing training courses for subsidiary companies. In addition to these measures, our Risk Management Rules stipulate how the entire Group should respond to a sudden crisis.

Sustainability governance

CSR Promotion Committee

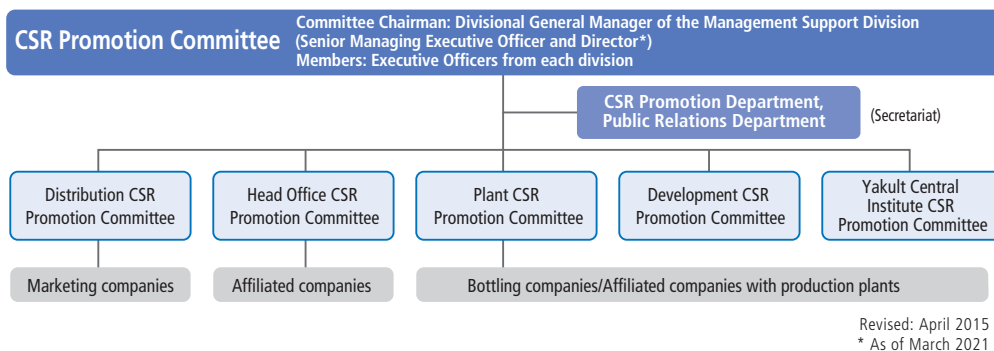
The CSR Promotion Committee considers a wide range of management issues from the perspectives of the Yakult Group's corporate social responsibility and sustainability. The Committee is chaired by the Divisional General Manager of the Management Support Division (a Senior Managing Executive Officer and Director), and is made up of executive officers from each relevant department.

The CSR Promotion Committee focuses discussion on policies and action plans that address environmental and social issues, and promotes efforts to resolve them. Meeting results are reported to the President for appropriate guidance. Among the deliberated topics, committee procedure stipulates that the Management Policy Council, which includes directors and Audit & Supervisory Board Members, as well as the Executive Officers Committee and the Board of Directors, must be consulted regarding important CSR matters relating to management policy. Considerations are presented to the Executive Officers Committee as necessary.

The CSR Promotion Committee holds meetings approximately three times per year to discuss CSR promotion measures and policies, including climate change issues, and to manage progress. In fiscal 2021 the committee examined our long-term environmental vision for fiscal 2022 and beyond, as well as our medium- and short-term goals. The committee also discussed subjects such as the progress and results of the CSR Action Plan, the promotion of human rights due diligence, and future supply chain management initiatives.

We have also established five specialized committees as subordinate organizations to carry out specific activities within each department as a way to promote sustainability/CSR initiatives throughout the Group.

CSR Promotion organization



CSR Promotion Committee agenda items

Event	Agenda item
June 2 (1st mtg.)	(1) Yakult CSR Report 2021 contents <ol style="list-style-type: none"> 1. Yakult CSR Report 2. Fiscal 2020 CSR Action Plan results 3. Results of Phase 7 of the Yakult Environmental Action Plan (2) Human rights due diligence (DD) review meetings (3) Fiscal 2021 sustainable procurement initiatives
Nov. 15 (2nd mtg.)	(1) Specific initiatives related to Environmental Actions (2021–2024) <ol style="list-style-type: none"> 1. CO₂ reduction proposals 2. SBT and RE100 3. Understanding Yakult Group greenhouse gas (GHG) emissions (including consolidated subsidiaries in and outside Japan) (2) Changes to the CSR Action Plan classification method (3) Responding to TCFD recommendations - Other reporting items <ol style="list-style-type: none"> (1) The Company's ESG evaluation (FTSE, MSCI) (2) Sustainable procurement activities
Feb. 3 (3rd mtg.)	(1) Yakult CSR Report 2022 contents <ol style="list-style-type: none"> 1. Fiscal 2021 CSR Action Plan predicted achievements report 2. Fiscal 2022 CSR Action Plan target proposal 3, 4. Environmental Actions (2021–2024) Fiscal 2021 progress report, fiscal 2022–24 strategy proposal (2) Fiscal 2021 human rights due diligence review status (action plan proposals determined by each department) (3) Fiscal 2022 sustainable procurement promotion

Sustainability training for management

We have run CSR management seminars for directors, executive officers and other managers since fiscal 2002. Seminar attendees obtain the latest ESG information from outside experts, which brings an informed sustainability perspective to the management level.

In fiscal 2021 we invited Keiichi Ushijima of Ernst & Young ShinNihon LLC. to give a lecture regarding business and human rights. This talk was attended by 84 people, including executives and department heads. Mr. Ushijima's discussions of international trends and corporate responsibility concerning human rights, along with his advice for the Group, provided an invaluable learning opportunity at a time when we are expanding our corporate initiatives globally.

Topics of CSR management seminars

Fiscal year	Topic
2016	CSR trends in Asia and important points for Japanese companies
2017	CSR, from the basics to the newest trends
2018	Latest trends in ESG (especially climate change)
2019	ESG and corporate management strategies
2020	Corporate ESG strategy from the viewpoint of responsible investment
2021	Business and human rights