Creating Further Value in the Markets of Asia and Oceania

ANNUAL REPORT 2017

Year ended March 31, 2017

Growing from

Contents

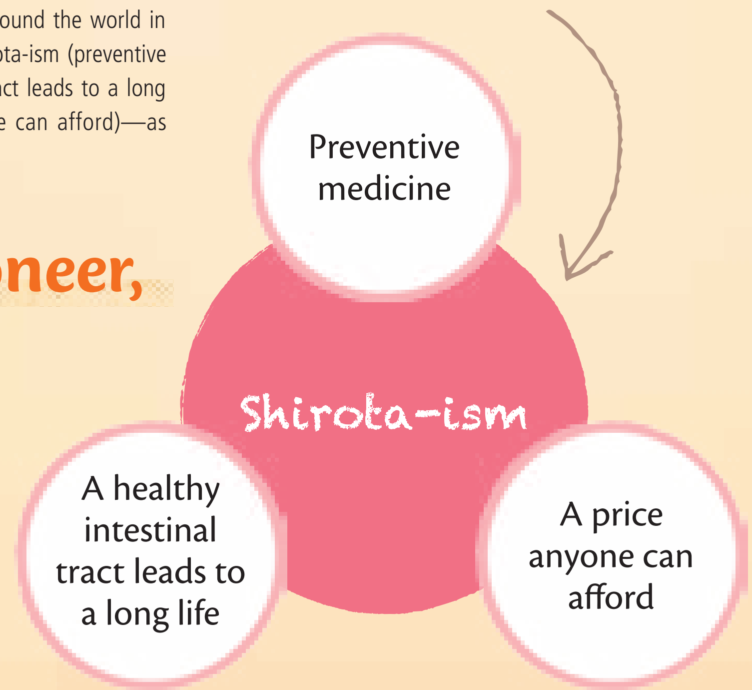
Forward-Looking Statements
Statements contained in the Annual Report 2017 regarding business results for fiscal 2017 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

Our founder,

Dr. Minoru Shirota, successfully strengthened and cultivated *Lactobacillus casei* strain Shirota while at Kyoto Imperial University School of Medicine (now Kyoto University). In 1935, he began sales of a fermented milk drink under the brand name *Yakult*.

In the more than 80 years since then,

Yakult has conducted its business activities around the world in ways based on Dr. Shirota's philosophy—Shirota-ism (preventive medicine, the idea that a healthy intestinal tract leads to a long life, and offering products at a price anyone can afford)—as explained on the next page.



As a Probiotics* pioneer,

we help to protect people's health in 38 countries and regions, including Japan, as of March 31, 2017. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceuticals business, in which we handle anticancer drugs, as well as a cosmetics business.

* Probiotics: Live microorganisms that provide health benefits by improving the balance of intestinal flora.

Our Roots

The Sources of Yakult's Strength

Yakult has three unique sources of strength:

Products Power:

The Yakult Lady System:

Dynamic R&D:

Products Power:

More than 80 Years as a Probiotics Pioneer

Since its founding more than 80 years ago, Yakult has been a pioneer in the field of Probiotics, providing products that contribute to good health. Today, Yakult has expanded beyond food and beverages to play an active part in the pharmaceuticals and cosmetics businesses as well.

The Yakult Lady System:

Everywhere Is Local

Yakult's products are offered through two channels, direct sales and home delivery sales. Our Yakult Ladies are an essential part of our home delivery sales. The strength of Yakult Ladies lies in their ability to communicate directly with customers, which allows them to convey the value and appeal of our proprietary living *Lactobacillus casei* strain Shirota and recommend continued consumption of one bottle of *Yakult* per day. Our unique Yakult Lady home-delivery system has been highly successful in many countries and regions in the world, including Japan.

Dynamic R&D:

The Wellspring of Future Competitiveness

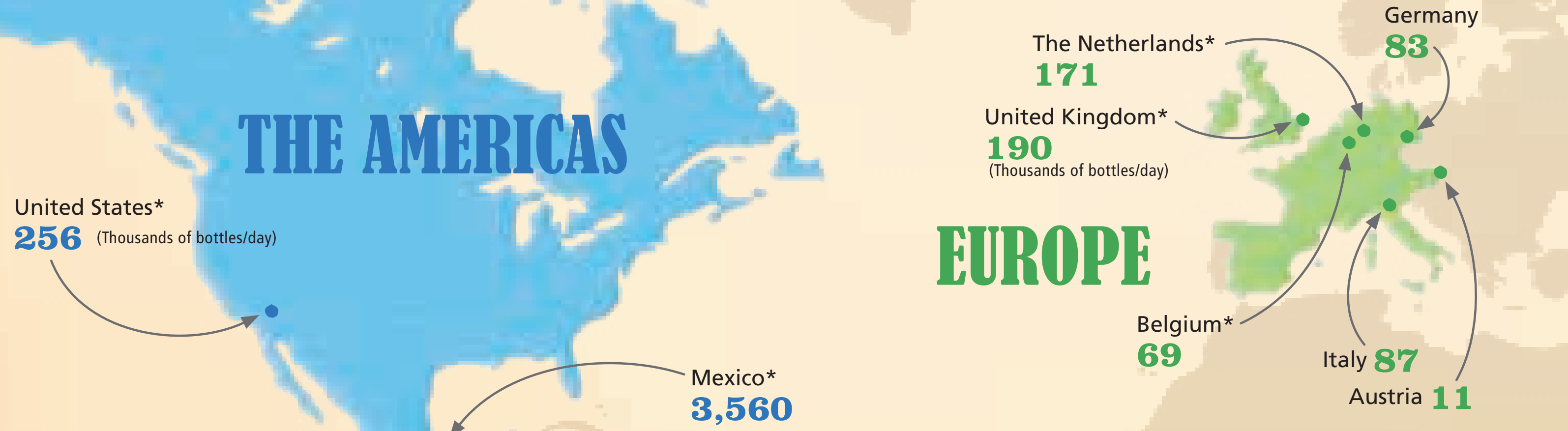
For Yakult, R&D activities vitally underpin its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.

Electron micrograph of *Lactobacillus casei* strain Shirota

Electron micrograph of *Bifidobacterium breve* strain Yakult

Yakult Consumption around the World

Taking Good Health Global



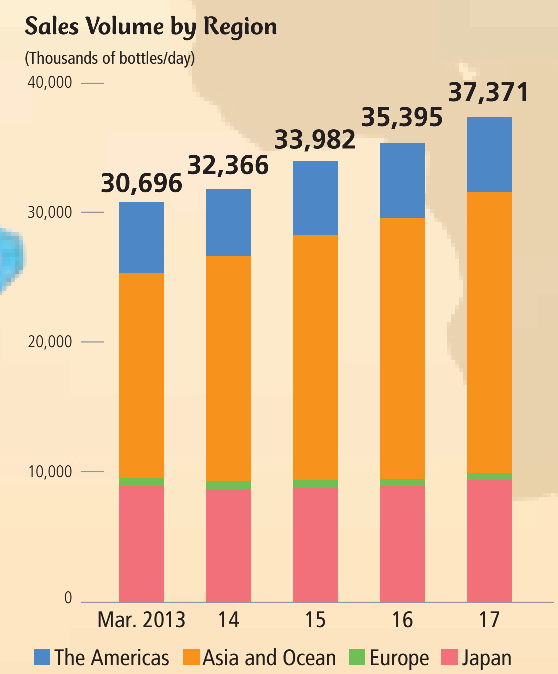
Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries March 31, 2017, 2016, 2015, 2014 and 2013

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2013	2014	2015	2016	**2017**	**2017**
For the year:						
Net sales	¥319,193	¥350,322	¥367,980	¥390,412	**¥378,308**	**$3,377,747**
Operating income	23,068	32,026	34,898	40,057	**37,282**	**332,871**
Net income attributable to owners of the parent	16,379	22,544	25,056	28,843	**30,155**	**269,238**
At the year-end:						
Total assets	¥438,176	¥519,571	¥579,345	¥577,535	**¥585,741**	**$5,229,832**
Total liabilities	151,077	211,538	217,132	212,070	**208,860**	**1,864,827**
Total equity	287,099	308,033	362,213	365,465	**376,881**	**3,365,005**
Financial ratio:						
Return on equity (ROE) (%)	6.7	8.4	8.4	8.8	**8.9**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 95.03	¥ 134.44	¥ 151.58	¥ 174.54	**¥ 182.39**	**$ 1.63**
Total equity (Note 3)	1,517.88	1,662.37	1,966.13	2,007.73	**2,077.29**	**18.55**
Cash dividends applicable to the year	23.00	24.00	25.00	50.00	**32.00**	**0.29**

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112 to U.S.$1, the approximate rate of exchange at March 31, 2017.
3. Minority interests are not included in equity on process of calculation.

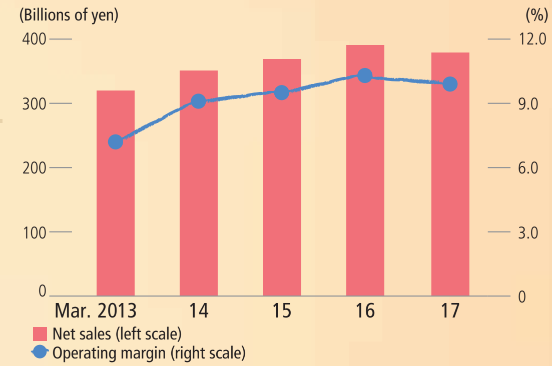
Sales Volume by Region



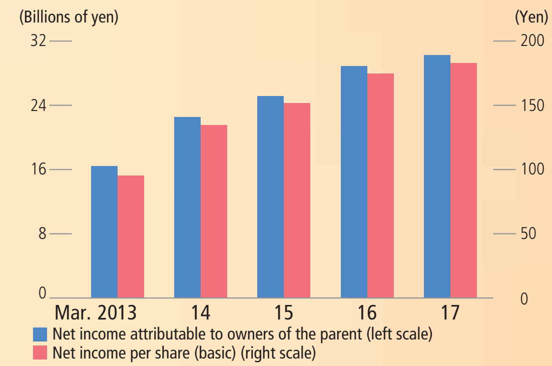
ASIA AND OCEANIA

* Countries where test and other sales are conducted: Luxembourg, France, Spain, Brunei, Uruguay, Canada, Belize, Malta and Switzerland

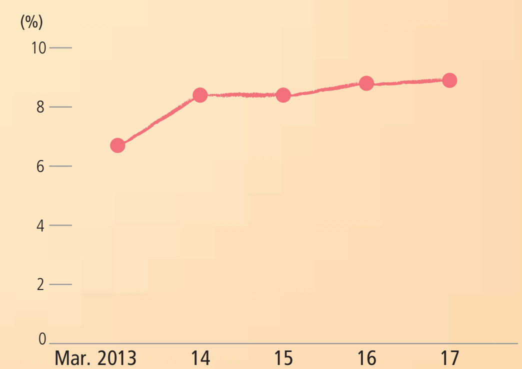
Net Sales and Operating Margin



Net Income Attributable to Owners of the Parent and Net Income per Share (Basic)



ROE



Our Long-Term Vision "Yakult Vision 2020," Phase III, Has Begun. We Aim to Accelerate Innovation in Each Business for Continuous Growth.

Since becoming President and Representative Director, I have focused strongly on compliance-oriented management, expansion of the domestic businesses and aggressive global development. I have also worked to accelerate innovation in each field and further enhance corporate value.

As part of this effort, the Company launched phase III of its long-term vision "Yakult Vision 2020" in April 2017. Our performance in Phase II, which was positioned as a period of dramatic growth, improved significantly compared with the results of Phase I, which concluded in the fiscal year ended March 31, 2014. The Company has set Phase III as a "transformation period for enabling continuous growth" so that it can continue to grow in the fiscal year ending March 31, 2021 and beyond. Our efforts are based on the following three principles.

The first is "Realization of our corporate philosophy." With the completion of the new and improved Yakult Central Institute, we will work to realize our corporate philosophy of "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." We will do this by responding even more carefully to customer expectations through such means as enhancing our research, development, and technological capabilities; creating products that are safe, offer peace of mind, and contribute to people's health; and offering high-quality service.

The second principle is "Realization of improved corporate value." Through our business and social contribution activities, we will aim to be a company that is needed by stakeholders as well as raise our corporate value by working to bring solutions to social issues, such as by contributing to the realization of a healthy society and the creation of job opportunities for women.

The third principle is "Realization of continuous growth." As a probiotics pioneer, we will achieve continuous growth by promoting scientific evidence for beneficial bacteria throughout the world and working as one Yakult Group to offer products and services that only Yakult can provide.

In Phase III, under this basic policy, we will do our utmost to implement strategies and initiatives for each business, achieve performance targets, and meet the expectations of our stakeholders, including investors.

We hope that we can continue to count on our shareholders and investors for their understanding and support.

August 2017

Takashige Negishi

Takashige Negishi
President and Representative Director

Q1 Please explain the positioning of Phase III of the long-term vision “Yakult Vision 2020,” and its numerical targets.

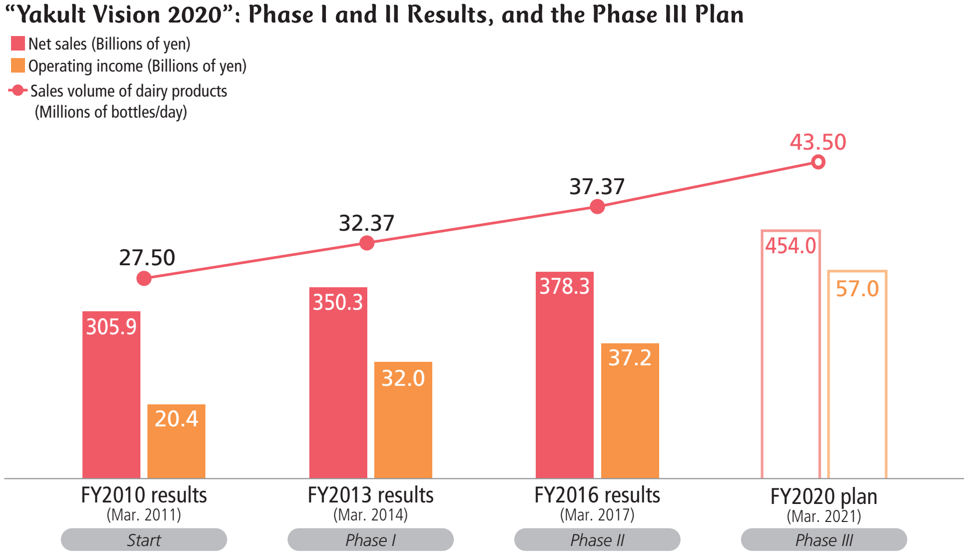
A1 We conceived it a “transformation period for enabling continuous growth” and set high numerical targets.

In Phase II, which was positioned as a period of dramatic growth, compared with Phase I results, the number of bottles of dairy products sold worldwide per day rose by five million to 37.37 million. Consolidated net sales grew by ¥28 billion to ¥378.3 billion, and consolidated operating income expanded by ¥5.2 billion to ¥37.2 billion. All of these results were significant increases.

In Phase III, which was initially positioned as a “long-term vision realization period,” we have reset it as a “transformation period for enabling continuous growth,” with the aim of achieving continuous growth in the fiscal year ending March 31, 2021 and beyond.

The number of bottles of dairy products sold worldwide is expected to reach 43.5 million bottles per day, up 6.13 million bottles compared with the Phase II results, with overseas performance—due to favorable business conditions in Asia in particular—expected to be stronger than the initial plan. Consolidated net sales are expected to reach ¥454 billion, up ¥75.7 billion from Phase II, due to continuous expansion of the overseas business and introduction of high-value-added products in the domestic market. The operating margin is expected to rise significantly due to improvement in the profitability of domestic food and beverages, as well as an increase in the sales composition ratio of the highly profitable overseas sales, and consolidated operating income is expected to reach ¥57 billion, up ¥19.8 billion from Phase II.

“Yakult Vision 2020”: Phase I and II Results, and the Phase III Plan



		FY2010 results	FY2013 results	FY2016 results	FY2020 plan
Operating margin	(%)	6.7	9.1	9.9	12.6
ROE	(%)	5.9	8.4	8.9	9.8
ROA	(%)	6.6	8.3	8.5	9.7
Equity ratio	(%)	57.5	52.9	58.6	64.2
Sales volume of dairy products	(Millions of bottles/day)	27.50	32.37	37.37	43.50
Japan		8.77	8.96	9.37	10.50
Overseas		18.73	23.41	28.00	33.00
Marketing population	(Billions of people)	1.45	1.70	1.92	2.42
Sales results/marketing population:					
Japan	(%)	6.9	7.0	7.3	8.2
Overseas	(%)	1.4	1.5	1.6	1.4

Strategy and initiatives for the fiscal year ending March 31, 2018

Q2 Business Strategy 1 **Domestic Food and Beverages**

In the domestic food and beverage business, which has shown robust performance led by dairy products, what is your plan to further develop the business?

A2 We will focus on enhancing the value of the Yakult brand by continuing large-scale marketing investments and expanding sales of dairy products, which is projected as a growing market.

In the fiscal year ended March 31, 2017, as a result of a group-wide initiative and large-scale marketing investments, the number of bottles sold of dairy products, mainly *Yakult* products, significantly exceeded that of the prior fiscal year.

We will continue large-scale marketing investments in the growing dairy market under the theme of "creating a brand that is the first choice of customers" and work to expand sales of dairy products.

In advertising, continuing from last year we will make efforts to enhance the value of the Yakult brand this year too. In TV commercials, we will use our core message to convey the merits of our products and brand and their advantages over competitors in a more easily understandable manner.

With regard to Joie, we will continue our tie-up with The Walt Disney Company (Japan) Ltd., as well as proceed with introducing limited-time products.

To deepen communication with our customers, we intend to hold sampling events nationwide on a larger scale than last year.

As for activities on the sales front, we will push ahead with implementing area value dissemination to enhance the value of the Yakult brand. Regarding area value dissemination, the Group has in place an organization for directly communicating with consumers—the Yakult Lady system—a business asset that our competitors do not have. Dissemination activities refer to community-based dissemination and awareness-raising activities carried out mainly by sales companies throughout Japan that possess this business asset. The purpose is to have local business partners and consumers understand our corporate philosophy and the value of our products and services, so that they become Yakult customers.

Specifically, we will hold local community exchange events that use home delivery centers, as well as health events and health classes at stores, hospitals, schools, offices, and other facilities, to actively increase the number of Yakult customers.

Q3 Business Strategy 2 **Pharmaceuticals**

The pharmaceutical business has been facing tough market conditions. What do you plan to do under such conditions?

A3 Leveraging our advantage of Yakult's capability to provide information, we will secure a strong presence in the field of oncology.

In the fiscal year under review, both sales and operating income declined drastically from the prior fiscal year, due to the revision of the NHI drug price for our core product, *Elplat*, and the replacement of *Elplat* with generic drugs.

More than two years have passed since the launch of the generic version of our mainstay product, *Elplat*, in December

2014, but the replacement rate leveled off at 33.5% at the end of March 2017. We believe that this is attributable to the high evaluation of our capability to provide information and the latest treatment proposals, among other things. Partly due to strengthened government measures to promote the use of generic drugs, replacement by generic drugs is unavoidable. However, we intend to pursue detailed proposal-based marketing and sales through lectures, seminars and briefings unique to a manufacturer involved in drug discovery, as well as patient-focused activities to provide the latest treatment information through thorough dialogue with physicians, pharmacists, and others based on an understanding of cases.

As for generic drugs handled by the Company, we will continue to aim to attain the No. 1 market share for generic products. Although there has been intense price competition in the generic drugs market, competition is expected to lessen in the future as a result of reform of the drug price system. Amid the shift from price competition to information provision in the market, we will seek to further expand market share by continuing and reinforcing activities to provide information, for which Yakult is highly recognized.

With respect to co-promotion of Sanofi K.K.'s anti-cancer agent Zaltrap®, we will aim to expand market share as soon as possible after its launch. Zaltrap® is a product for which we can demonstrate a relationship of trust, built up by the Company in the colorectal cancer field through the provision of *Campto* and *Elplat*. Furthermore, we hope that the success of this co-promotion model will lead to the creation of a platform for business development opportunities.

Business Strategy 3 Overseas Food and Beverages

Q4 In the overseas food and beverage business that drives the growth of Yakult, how do you plan to develop the business?

A4 We will accelerate expansion and deep cultivation of overseas markets with large growth potential, especially in Asia.

During the fiscal year under review, due to the negative impact of foreign currency fluctuation, both sales and operating income decreased. However, the number of bottles sold worldwide per day expanded from the previous year by 1.52 million to 28 million, and we continue to steadily increase our number of customers. In addition, we started sales in five countries in the Middle East from March 2017 as a new sales area for *Yakult*. As a result, *Yakult* products are now sold in 37 countries and regions, excluding Japan.

Asia and Oceania: There is a Special Feature on this region on pages 8 to 11, so we will only summarize a few points here. In Indonesia, we will continue to aim for continuous high growth and, in line with an increase in the number of bottles sold, it is important to strengthen the production and sales organization to support that growth. In terms of production, we are now expanding production lines at the plant in Mojokerto (on the outskirts of Surabaya), our second plant in Indonesia. As for sales, we will focus on human resource training for each level and job category of the organization, mainly in the sales education department, to maintain and enhance our high-level sales organization.

In the massive Chinese market, to satisfy the consumer need for low-sugar products, we launched *Yakult Light* in October 2015 in addition to *Yakult*; it was received quite favorably as customers could enjoy the advantage of *Lactobacillus casei* Shirota strain by choosing one of two *Yakult* products. We are also steadily promoting the sales network, and in 2017 we have already opened five branches, bringing our total to 40. As there are still many regions where Yakult is not sold in stores, we are striving to expand the sales territory, and raise the penetration ratio in existing markets where the ratio is still lower than other regions, to achieve continuous high growth.

The Americas: In Mexico, we will further increase the Yakult Ladies and retail outlets to which our products are delivered, along with efforts focused on the penetration of the

Note: The full-year forecasts for the overseas food and beverages business are calculated using average exchange rates from January to March 2017 based on profit/loss forecasts in each country.

Yakult brand in the aim for continuous growth, although we must keep close watch on the impact of the economic policy of the Trump Administration. In Brazil, where there is high growth potential for our business, we are aiming to develop the business from a long-term perspective, including the fostering of human resources, promotion of product policy, strengthening of our sales foundation, and enhancement of our organization and structure. In the United States, we will promote further cultivation of the market in six states, including California and Texas, where we already have footprints. In addition, we will focus on the creation of the sales foundation in newly entered areas to boost sales volume.

Europe: No probiotic product has been approved to make a health claim. We will continue our efforts to obtain approval for a health claim, while proceeding with the consideration of improvements of products and introduction of new products that meet market needs in the aim to enhance the position of the Yakult brand.

Q5 Strengthening Core Competence — *Lactobacillus casei* strain Shirota

Please explain future prospects for *Lactobacillus casei* strain Shirota, a source of Yakult's competitive advantage.

A5 It is being used in the world's first probiotics experiment in space, which gives us great potential and confidence.

Lactobacillus casei strain Shirota has been verified to have the ability to reach the intestines alive, promote intestinal health, and maintain and enhance immune functions, with proven results for more than 80 years since its launch. In the United States, it has obtained the Generally Recognized As Safe (GRAS) designation, an assessment system for food safety established by the U.S. Food and Drug Administration (FDA), and has a mass of scientific evidence on its safety and efficacy.

Collaborating with the Japan Aerospace Exploration Agency (JAXA), we will launch the world's first probiotics experiment in space from the fiscal year ending March 31, 2018. This is a scientific study of the effects of the continuous consumption of probiotics (*Lactobacillus casei* strain Shirota) on the immune system and intestinal microbiota of astronauts staying on the International Space Station (ISS) for long periods of time. The experiment is being conducted not only for utilization of probiotics in functional space food but also with a view to contribute to aerospace medicine, known as the "ultimate preventive medicine," which is expected to be applied on the ground.

We wish to disseminate the value and great potential of *Lactobacillus casei* strain Shirota to as many people in the world as possible. By spreading the value of our products (knowledge value), mainly led by Yakult Ladies, we will work to achieve our commitment to people's health in local communities (resolution of social issues) and growth as a global company (economic value), and aim to become a company truly sought after by all stakeholders.

Yakult aims to achieve a further leap forward to meet expectations.

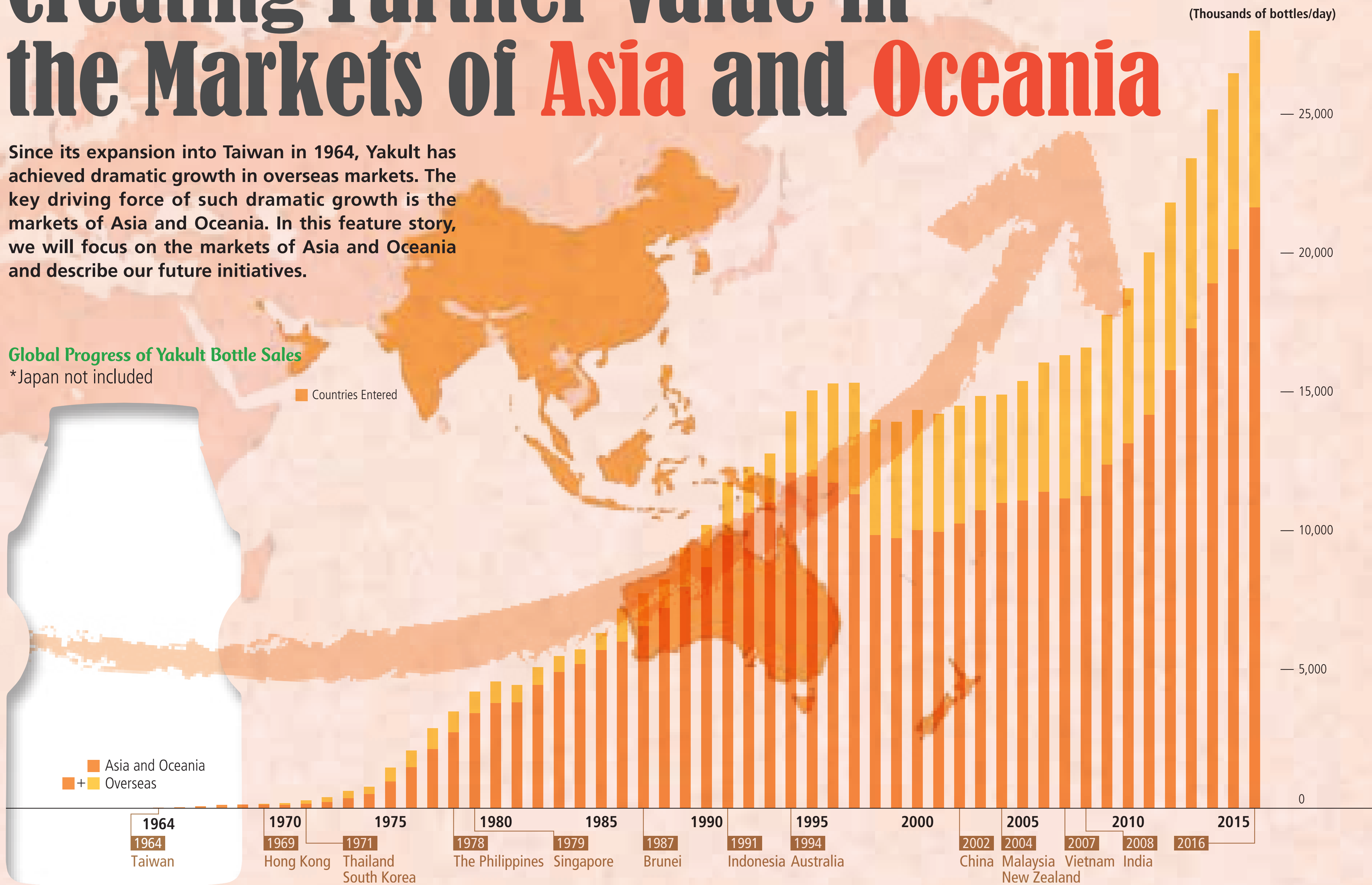
Special Feature:

Creating Further Value in the Markets of Asia and Oceania

Since its expansion into Taiwan in 1964, Yakult has achieved dramatic growth in overseas markets. The key driving force of such dramatic growth is the markets of Asia and Oceania. In this feature story, we will focus on the markets of Asia and Oceania and describe our future initiatives.

Global Progress of Yakult Bottle Sales

*Japan not included



Strong Growth in the Markets of Asia and Oceania

Establishing a Competitive Market Position

Because of founder Minoru Shirota's desire to protect the health of people throughout the world, it was only natural for Yakult to expand overseas. In 1964, Yakult Taiwan Co., Ltd. began operations as the first step in expanding our network to Asia, Oceania, the Americas, and Europe. Our aim is to create business operations that are integrated into, and fully accepted by, local communities by providing health information appropriate for the daily lifestyle and dietary practices, respecting local traditions and cultures, and taking other actions tailored to individual countries or regions.

The business development in Asia and Oceania has been outstandingly successful, and as of the end of December 2016 Yakult had operations in 14 countries and regions, excluding Japan, and the average number of bottles sold per day had reached approximately 21.64 million. Yakult has established a competitive market position as one of the leading players in the markets of Asia and Oceania.

Growth Potential in the Markets of Asia and Oceania

Yakult's business results clearly show its rapid progress in the markets of Asia and Oceania. Looking at the long-term business trend over the past 10 years, net sales have increased approximately five times to ¥93.4 billion and operating income has grown approximately 8.2 times to ¥25.3 billion, with Asia and Oceania's contribution to consolidated operating income rising to 47.1%. Recognizing further growth potential in the markets of Asia and Oceania, we intend to continue this trend.

According to a United Nations survey, as of June 2016 there were 4.47 billion people, approximately 60% of the world's population of 7.43 billion, living in the Asia-Oceania region. The population in the Asia-Oceania region is expected to grow further, mainly in China and India, and reach 5.3 billion by 2050. As shown in the table below, Yakult's marketing population in this area is currently just 1.2 billion. Looking at our 2016 penetration ratios for the region's economies (sales results as a percentage of marketing population), the largest figure was 7.0% in South Korea, and the ratios in many other countries still have room to rise. Adopting its approach to each country's circumstances and drawing on the advantage of having two channels (retail store and home delivery), Yakult is striving to further expand and cultivate its markets.

Yakult's Presence in Asia and Oceania

	Entry of Yakult into this market	Consolidation classification	Marketing population* (Thousands of people)	Sales results Jan. to Dec. 2016 (Bottles per day)	YoY change (%)	Sales results/ marketing population (%)
Taiwan	Mar. 1964	Equity method	22,688	800,627	−1.7	3.53
Hong Kong	Jun. 1969	Consolidated	7,940	549,303	−9.2	6.92
Thailand	Jun. 1971	Equity method	65,120	2,182,867	+2.6	3.35
South Korea	Aug. 1971	Equity method	51,500	3,603,974	−2.8	7.00
The Philippines	Oct. 1978	Equity method	81,510	2,449,470	+14.5	3.01
Singapore	Jul. 1979	Consolidated	3,900	242,222	−3.2	6.21
Indonesia	Jan. 1991	Consolidated	160,000	5,050,776	+16.5	3.16
Australia	Feb. 1994	Consolidated	23,000	237,207	+2.1	1.03
Malaysia	Feb. 2004	Consolidated	22,000	328,930	+8.1	1.50
Vietnam	Sep. 2007	Consolidated	54,200	215,349	+10.7	0.40
India	Jan. 2008	Consolidated	97,050	156,739	+8.6	0.16
Guangzhou	Jun. 2002	Consolidated	88,290	2,306,688	+5.8	2.61
Shanghai	May. 2005	Consolidated	24,250	582,029	+6.8	2.40
Beijing	Jun. 2006	Consolidated	30,180	341,808	+8.5	1.13
Other areas of China	Apr. 2007	Consolidated	516,320	2,594,227	+15.5	0.50
China total	—	Consolidated	659,040	5,824,752	+10.2	0.88
Asia and Oceania total	—	—	1,247,948	21,642,216	+7.5	1.73

*Figures as of December 31, 2016.

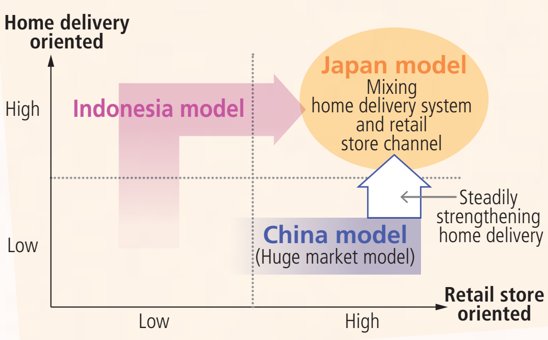
Markets in Indonesia and China Are Driving Rapid Growth

A Market Strategy Tailored to Regional Characteristics

Since its founding, research and development of lactic acid bacteria has consistently been the foundation of Yakult's business. With a focus on thoroughly disseminating the value of our proprietary living *Lactobacillus casei* strain Shirota, for which we have vast amounts of scientific evidence on safety and efficacy, we are setting ourselves apart from competitors with a business model of delivering health to customers through our two channels of retail stores and home delivery.

As a market strategy to accelerate growth, we use two growth models, focusing on the retail store channel and the home delivery channel, to suit regional characteristics. The home-delivery-oriented model is a growth model that has been very successful in Indonesia, and it is a model in which the effect on sales from strengthening the home delivery system expand to retail store sales. The retail-store-oriented model is suited to a huge market such as that in China. In both business models, we aim to achieve a blend of the home delivery system and the retail store channel like in Japan.

Growth Model



Home-delivery-oriented model: Indonesia

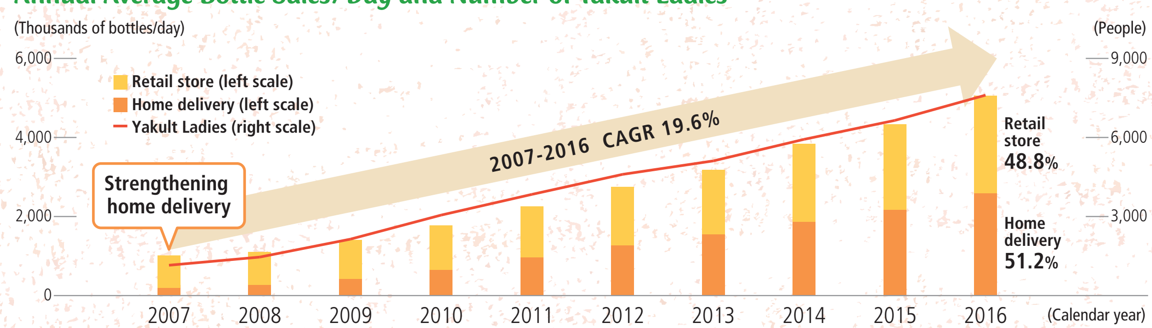
The Strengthening and Success of the Home Delivery Channel Spread to Retail Store Sales

In Indonesia, the home delivery system has become a key driver of business growth. In 2007, Yakult embarked on strengthening home delivery sales in the country, and the ratio of home delivery sales to total sales rose to 51.2% in 2016, from 19.4% in 2007. The average number of bottles sold per day through the home delivery channel has increased to 2.59 million, 13.3 times that in 2007. The strengthening of the home delivery system has created synergy effects with retail store sales, and the average number of bottles sold per day when totaling home delivery and retail store channels is 5.05 million, with a compound annual growth rate (CAGR) of 19.6% from 2007, demonstrating rapid growth.

The key to strengthening the home delivery system is to increase the number of Yakult Ladies and thoroughly develop them. The number of Yakult Ladies in Indonesia rose to 7,606 at the end of 2016, from 1,151 in 2007. In the future, we will aim to expand the number of Yakult Ladies to the 10,000 level to cover the Indonesian market, which had a population of 160 million at the end of 2016. As for the development of Yakult Ladies, a specific trainer provides one-on-one and on-the-job training for each new Yakult Lady for one month. We also make opportunities to share research results and other latest information with Yakult Ladies that have completed their training, in the aim to foster a working environment that promotes invigoration of value dissemination activities.

In addition, we offer incentives to boost each Yakult Lady's level of motivation, such as an award system for Yakult Ladies who perform well. Such efforts to improve our unique Yakult Lady home delivery system have translated into higher performance of the retail store channel as a synergy effect, resulting in unmatched competitive advantages in the market.

Annual Average Bottle Sales/Day and Number of Yakult Ladies



Retail-store-oriented model: Chinese market, continued double-digit growth

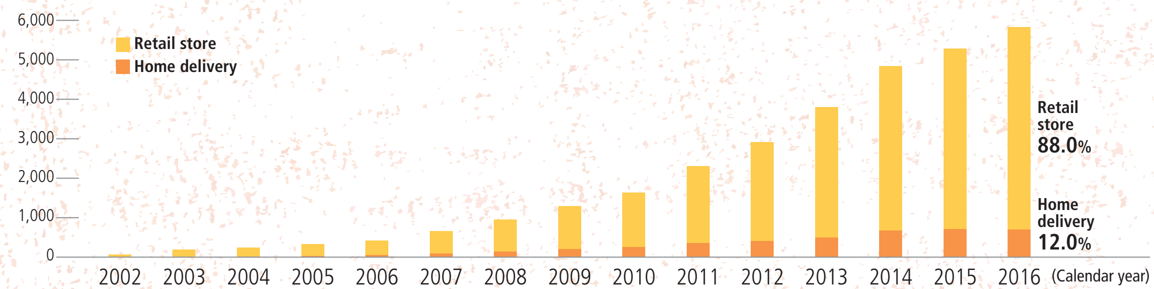
The Retail-Store-Oriented Model Corresponding to the Enormous Market Scale

China is a huge market with a vast land area and a total population of approximately 1.3 billion. In such a massive market, the marketing population that Yakult currently covers is just 659 million. It is still an emerging market, and our main goals are to expand the number of sales bases and to enhance the product supply areas covered by these sales bases. Accordingly, in the current phase, we have focused on the retail store channel, which can expand sales areas in an efficient manner, and will later promote a deep cultivation of the market in both the retail store and home delivery channels.

The huge Chinese market is divided into four areas: Guangzhou, Shanghai, Beijing, and "other areas of China." Among these four areas, the last is the driving force of growth. Here our marketing population has grown as a result of the expansion of product supply areas covered by our sales bases, developing into a massive market of more than 500 million people. In this area, nearly 2.6 million bottles are currently sold per day, but the penetration ratio is just 0.5%, still a low level compared to the other three areas of China. Using as benchmarks the penetration rates of other forerunning areas (2.61% in Guangzhou and 2.40% in Shanghai), we will promote further expansion of our sales volume.

Annual Average Bottle Sales/Day

(Thousands of bottles/day)



Entry into the Middle East and Myanmar Markets

Yakult 5 bottle package sold in the Middle East.

In the Middle East, we began sales of *Yakult* in five countries the United Arab Emirates, Oman, Bahrain, Qatar, and Kuwait in March 2017, and are aiming to establish the sales foundation and promote penetration of the *Yakult* brand.

In seven of the 10 Association of Southeast Asian Nations (ASEAN) countries, we currently produce and distribute primarily the fermented milk drink *Yakult*. Myanmar has the largest population with about 53.9 million among the three ASEAN countries where the Company does not have a presence, and is a promising market with prospects for economic growth. We aim to start production and distribution there in the spring of 2018.

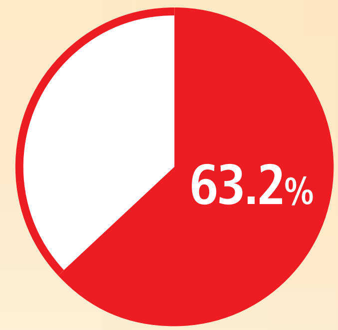
Review of Operations

Note: Sales by business segment and percentage of net sales by region include intersegment transactions.

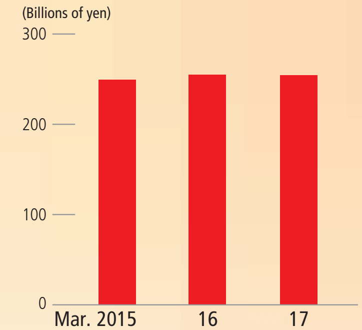
JAPAN

Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on Probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing Yakult into a pharmaceuticals specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our “Others” business segment. For the fiscal year ended March 31, 2017, net sales in Japan came to ¥251.9 billion.

Percentage of Net Sales by Region (%)



Net Sales



Food and Beverages

New Yakult | Yakult 400 | Joie | Mil-Mil | Sofuhl

In probiotic products, Yakult focused on broadening the recognition of the science behind, and the value of, its proprietary living *Lactobacillus casei* strain Shirota and other strains, and vigorously expanded value dissemination activities that utilize scientific evidence.

Through our home delivery channel, we strived to encourage our current customers to keep drinking our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*, which were the subject of both a price revision and package update at the end of May 2016, and we made efforts to create new customers. We also worked to bolster our home delivery organization by enhancing the working environment of Yakult Ladies while continuously supporting Yakult Lady hiring activities in an aggressive way. Through our retail store channel, we expanded value dissemination activities carried out by promotion staff geared toward our customers, centered on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, which were updated in May 2016. In addition, we carried out the “Thank you for cheering for the Tokyo Yakult Swallows campaign” in October 2016 and the “Keep drinking to realize the power of *Lactobacillus casei* strain Shirota campaign” in January and February 2017 for these products with the aim of revitalizing the brand. We expanded the sales area for the fermented milk drink *Mainichi Nomu Yakult*, which had been sold only at Seven-Eleven locations in limited areas, taking it nationwide in May 2016. We also launched the product at Seven

& i Group supermarkets such as Ito-Yokado in November 2016, and aimed to expand sales.

By product, we expanded packages featuring Disney characters for the drinkable yogurt *Joie* series under a license agreement with Walt Disney Company (Japan) Ltd. In addition, we launched limited-time items such as *Joie Peach* and *Joie Premium Orange* so as to revitalize the brand.

We also made strong efforts to support our field activities through active use of TV commercials featuring our strengths of the *Yakult 400* series and the Yakult Lady system as well as research, development and technical capabilities.

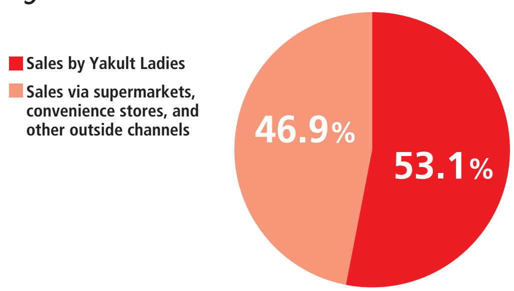
As a result of our efforts to bolster sales of our products centered on such initiatives, overall sales of dairy products surpassed those of the previous fiscal year.

In juices and other beverages, we updated the lactic drink *Milouge* series in May 2016. Also in June 2016, we introduced Tokyo Yakult Swallows label designs for the nutritional drinks *Toughman* and *Toughman V* and strived to increase their sales through active use of advertisements including TV commercials in July.

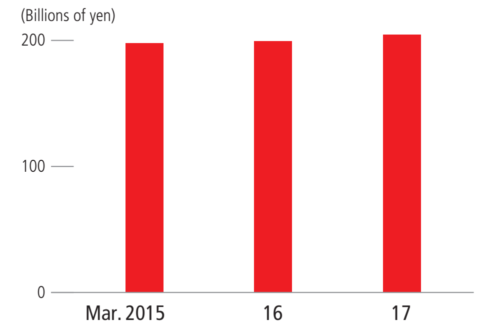
Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

Net sales in the Food and Beverages business increased to ¥204.1 billion, up 2.6%, from the prior fiscal year.

Breakdown of Probiotic Products Sales by Channel (%)



Net Sales of Food and Beverages



Pharmaceuticals

Campto 40mg for I.V. Infusion

Elplat I.V. Infusion Solution 100mg

Gemcitabine for I.V. Infusion 200mg Yakult

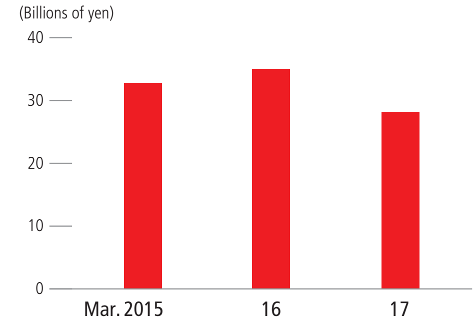
We focused on promoting dissemination of and activities recommending the proper use of our products with a focus on oncology and related fields. As for our mainstay, the antineoplastic drug *Elplat,* for which an additional indication of gastric cancer was approved in 2015, we redoubled efforts to hold lectures and medical office briefings targeting medical professionals to raise the penetration of *Elplat* in the gastric cancer field and expand market share. As a switch to generic drug versions of *Elplat* by medical institutions has been increasing since generic drugs were launched, we boosted activities to keep customers choosing *Elplat* by leveraging our information provision capabilities, a Company strength since we developed the original drug. In addition, we sought higher sales following efforts to intensify sales channel development for antineoplastic antimetabolite *Gemcitabine Yakult*, bone resorption inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug, which was launched in June 2015.

Despite these efforts we were faced with a struggle, due to a large reduction in our drug prices reflecting the revision of NHI drug price in April 2016.

In R&D, we expedited the development pipeline of oral HDAC inhibitor *Resminostat* by 4SC AG, PI3K/Akt inhibitor *Perifosine* by Aterna Zentaris Inc., and novel platelet-increasing agent YHI-1501, whose joint development we are promoting with Nissan Chemical Industries, Ltd. Through these efforts, we aim to further strengthen our position in the cancer and related fields.

As a result, net sales in the Pharmaceuticals segment fell 20.0%, to ¥27.8 billion.

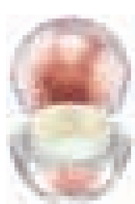
Net Sales of Pharmaceuticals



Others

This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to expand sales activities for basic skin care products such as our core brands *Parabio*, *Revecy* and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since the Company's foundation.



Parabio AC Cream Sai

Tokyo's Jingu Stadium filled with Tokyo Yakult Swallows fans

Specifically, we worked to attract new customers by thoroughly implementing sales measures for which themes and key products were set each quarter.

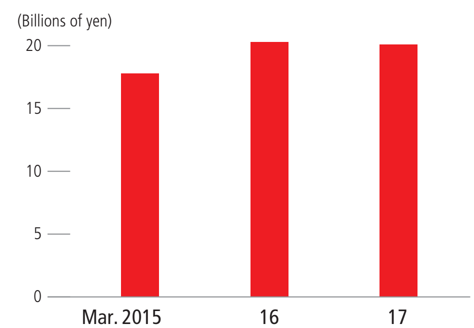
For the *Parabio* series, we strived to improve customer satisfaction and drive sales growth by updating the brand, rolling out *Parabio Base Makeup* in June and *Parabio AC Cream Sai* in November 2016, following an update to the entire *Parabio* skin care series in 2015.

Accordingly, overall sales and profit in our cosmetics operations were virtually unchanged from the prior fiscal year.

In our professional baseball team operations, attendance at Tokyo's Jingu Stadium rose from the previous fiscal year, bolstered by proactive fan services such as a variety of fan appreciation events and active information dissemination.

As a result, net sales in the Others segment fell 1.8%, to ¥20.0 billion.

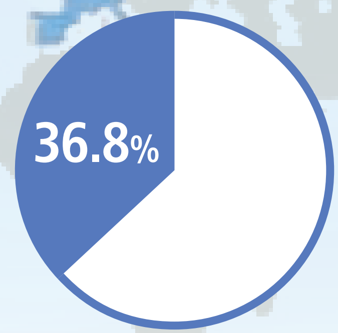
Net Sales of Others



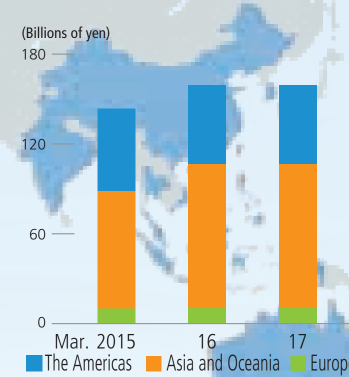
INTERNATIONAL BUSINESS

Overseas, we are developing the Company's Probiotics operations in three regions—the Americas, Asia and Oceania, and Europe—with the goal of establishing *Yakult* as a truly global brand. As of March 31, 2017, *Yakult* Probiotic drinks and other products are sold in 37 countries and regions, excluding Japan, with an average of 28.00 million bottles sold per day during the year under review. For the fiscal year ended March 31, 2017, the International Business recorded net sales of ¥146.4 billion.

Percentage of Net Sales by Region (%)



Net Sales



The Americas

Brazil, Mexico, Uruguay, the United States, Canada, Belize

Brazil

Mexico

United States

Mexico

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico and the United States.

In Brazil, to meet the growing demand for low-calorie products accompanying consumers' rising health awareness, we launched the fermented milk drink *Yakult 40 Light* in July 2016.

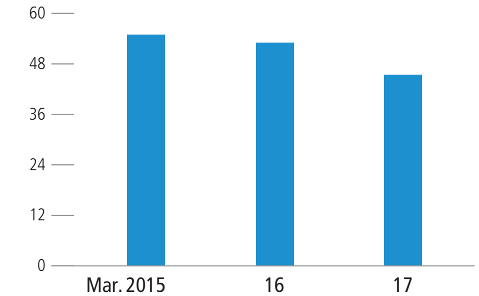
In the United States, sales of *Yakult* started at locations of a major retail chain centered on the Midwest in July 2016.

Review of Operations

Net sales in the Americas decreased to ¥45.3 billion, down 14.2%, from the prior fiscal year.


Brazil

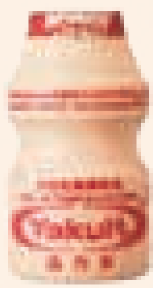
Net Sales in the Americas

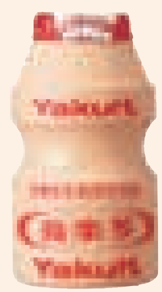


Asia and Oceania

Taiwan, Hong Kong, Thailand, South Korea, the Philippines, Singapore, Brunei, Indonesia, Australia, China, Malaysia, New Zealand, Vietnam, India, the United Arab Emirates, Oman, Bahrain, Qatar, Kuwait


Indonesia


Hong Kong


China


Australia

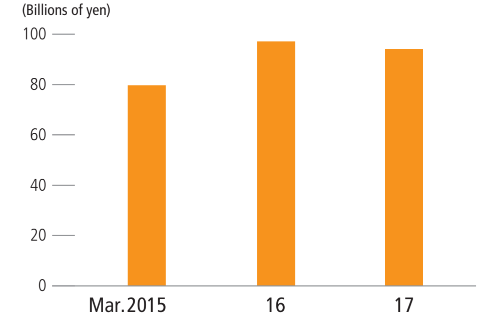

Malaysia


India

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, we started sales of *Yakult* in Kunming in Yunnan province and Nanning in the Guangxi Zhuang Autonomous Region in June 2016. In addition, we established new sales bases this year in Taiyuan, Harbin and Jiaxing, followed by Wuxi then Qingyuan, and started sales of *Yakult* and *Yakult Light*. Through these measures, the number of our sales bases in China has reached 40, and we continue to strive to further strengthen our sales structure.

Net Sales in Asia and Oceania



In the Gulf countries of the Middle East, we began import and sales of *Yakult* in the United Arab Emirates, Oman, Bahrain, Qatar, and Kuwait in March 2017, which has extended our overseas sales network to 37 countries and regions.

In Myanmar, we proceeded with preparations for the production and sales of *Yakult* in 2018.

Net sales in Asia and Oceania fell to ¥93.4 billion, down 3.9%.

Vietnam

Europe

The Netherlands, Belgium, France, the United Kingdom, Germany, Luxembourg, Spain, Ireland, Austria, Italy, Malta, Switzerland

The Netherlands

Belgium

United Kingdom

Germany

Italy

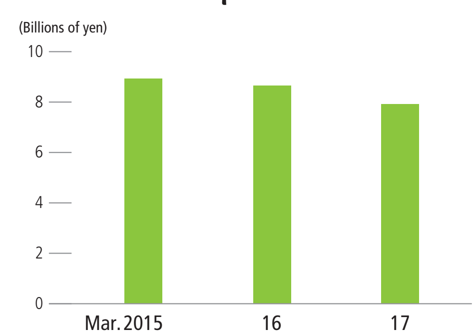
Ireland

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

In the European Probiotics market, which remains affected by the challenging economic environment, we have continued to face competition from other companies.

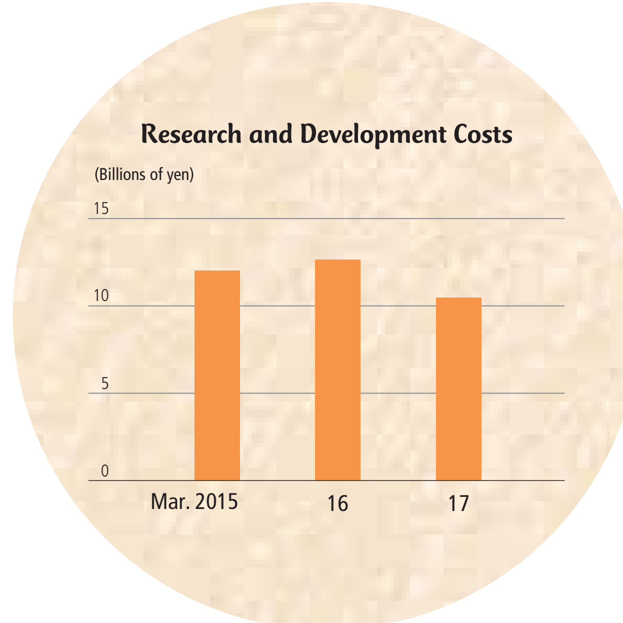
Net sales in Europe decreased to ¥7.8 billion, down 9.5%, from the prior fiscal year.

Net Sales in Europe



Research and Development

Since the Company's foundation, its R&D activities have vitally underpinned its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.



The Yakult Central Institute and the Yakult Honsha European Research Center

The Yakult Central Institute is a cutting-edge research facility in the Probiotics field that pursues life science to benefit human health. The study of useful microorganisms, particularly intestinal microbiota, is the guiding theme of research, and the institute has recorded numerous achievements, including the discovery and use of lactic acid bacteria with high levels of functionality.

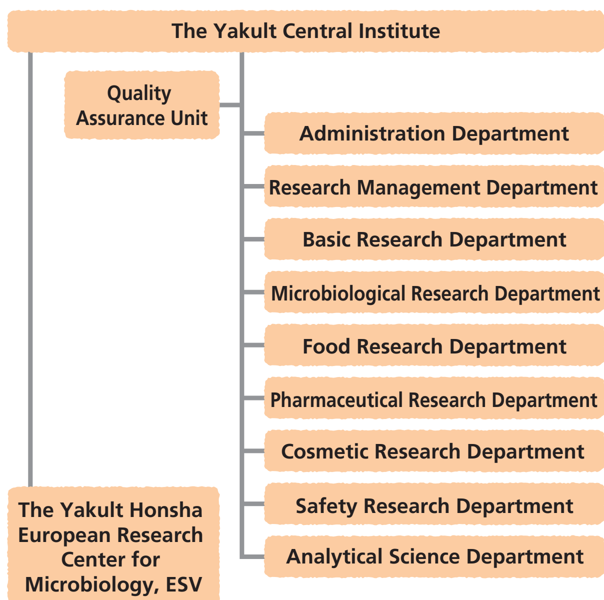
The Yakult Central Institute consists of seven functional research departments that are housed with state-of-the-art research equipment, an Administration Department that is responsible for managing the Institute, and a Research Management Department that is in charge of planning research strategies, promoting domestic and overseas research activities, and controlling and communicating information. In addition, the Quality Assurance Unit was set up as a specialized department in charge of securing and ensuring the reliability of a range of studies, research operations, and research data at the Institute. Outside Japan, the Yakult Honsha European Research Center for Microbiology, ESV (YHER) was established in Ghent, Belgium. The YHER gathers scientific evidence on the benefits of drinking our Probiotics products. By establishing a research base in Europe, an advanced region for the study of microorganisms, our goal is to support global business expansion encompassing not only Europe but also the Americas and Asia.

Steps in R&D Activities

A number of steps need to be taken before a product is created. The Yakult Central Institute is responsible for developing functional substances, which proceeds in three steps: (1) basic research, (2) development research on materials, and (3) research on commercialization. Candidate materials undergo full-scale product development conducted by the product development department under each business division.

At the stage of research on commercialization, each segment focuses on its own themes. The Institute conducts research and development proprietary to Yakult in individual segments, such as ingredients with functions to maintain and promote health in the food segment, high-cancer specificity ingredients that are potential anti-cancer drugs in the pharmaceuticals segment, and safe and effective dermatology-based ingredients in the cosmetics segment.

Organization of the Yakult Central Institute



Recent R&D Activities

Habitual intake of fermented milk products containing *Lactobacillus casei* strain Shirota reduces the risk of hypertension in older people:

Joint study with the Tokyo Metropolitan Institute of Gerontology

We investigated the relationship between the frequency of intake of fermented milk products containing *Lactobacillus casei* strain Shirota and the risk of hypertension in older people in a joint study with the Tokyo Metropolitan Institute of Gerontology. The results of the study suggest that habitual intake (intake of three times or more a week) of fermented milk products containing *Lactobacillus casei* strain Shirota reduces the risk of developing hypertension. In conjunction with the expansion of the elderly population, hypertension is on an increasing trend, and there are growing needs for lactic acid bacteria that offer antihypertensive effects and food products that contain these lactic acid bacteria. It is expected that fermented milk products containing *Lactobacillus casei* strain Shirota can contribute to maintaining good health and improving health conditions by responding to such needs. The study results have been published in *Beneficial Microbes*, an academic journal.

New clue for infant gut health:

Expectations for preventive medicine and development of probiotics for infants

Recent studies have demonstrated that gut microbiota development influences infants' health and subsequent host physiology. Bifidobacteria are known to be the predominant bacteria in infant gut microbiota; however, the factors shaping the development of the bifidobacteria-dominant microbiota remain poorly understood, and their molecular mechanisms have not been extensively investigated. In this study, we analyzed gut microbiota development during the first month of life. We found that infant bifidobacteria utilize oligosaccharides in breast milk; although we observed considerable differences in fucosyllactose (FL)-utilization among these infant bifidobacteria. Genome analysis of infants' bifidobacteria revealed an ABC transporter as a key genetic factor for FL utilization. Colonization of fucosyllactose (FL)-utilizing bifidobacteria is associated with altered acetate concentration and decreased Enterobacteriaceae abundance, which have been previously shown to affect infant health. Thus, the ability of bifidobacteria to utilize FL and the presence of FL in breast milk are key factors mediating the symbiotic relationship between gut microbiota in infants, and might ultimately have therapeutic implications. The study was done in collaboration with the Tokyo Institute of Technology and Teikyo University School of Medicine, and was published in *Nature Communications*.

CSR Activities

As a Probiotics pioneer, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy, which states, "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." This is accomplished through the principles of Shirota-ism, which we have followed since the Company's foundation. During the fiscal year ended March 31, 2017 (fiscal 2016), we formulated key themes for our CSR Action Plan in accordance with the core objectives of ISO 26000.

The Environment

For Realizing a Sustainable Environment The Yakult Basic Policy on the Environment

Yakult Honsha established an organization for environmental measures in 1991, and enacted the Yakult Basic Policy on the Environment for the entire Yakult Group in 1997. We have also set forth our environmental philosophy, which reads, "Yakult understands that protecting the earth's environment is one of the most important aspects of coexistence with society, and it is committed to considering the need to protect the environment in all of its corporate activities." We have specified an environmental action agenda made up of seven provisions, including "We shall promote the reduction of environmental burdens considering not only the environment but also biodiversity, for all business activities."

In accordance with the Basic Policy on the Environment, we have drafted new versions of the Yakult Environmental Action Plan at three-year intervals since the fiscal year ended March 31, 2002, and all of the Yakult Group's business units have been moving ahead with measures to reduce the Group's environmental impact.

Yakult Sustainable Ecology 2020

Yakult has framed its image for the environment it aims to achieve over the long term in the form of Yakult Sustainable Ecology 2020. This describes the future vision of Yakult with three elements, including the realization of a low-carbon society, efficient use of resources, and efforts to preserve biodiversity, and emphasizes coexistence with stakeholders and the development of a sustainable society.

In the fiscal year ended March 31, 2017, Yakult carried on its initiatives from the previous year, continuing to utilize renewable energy with solar power generation and other forms, implementing greenhouse gas reduction efforts at dairy product plants and in logistics operations, striving to achieve zero waste emissions, and promoting reduction of water consumption, which achieved substantive results.

Realization of a low-carbon society

Proactively work to reduce greenhouse gas emissions and strive to realize a low-carbon society

Efficient use of resources

Promote resource recycling and efficient use of resources by applying the "3Rs" (reduce, reuse and recycle)

Efforts to preserve biodiversity

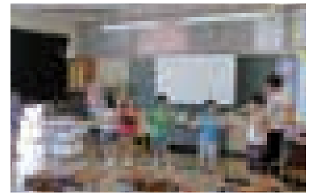
Apprehend the relationship between business activities and biodiversity, and work to preserve biodiversity

Community Activities

Dispatching Guest Lecturers/ Health-Based Lectures

The Yakult Group not only delivers products to customers but also seeks to benefit local communities through the active provision of health-related information to people who live in the area.

Yakult Honsha branches and marketing companies in each region of Japan dispatch guest lecturers to elementary schools and other locations, where they use scale models and other instructional tools to provide easy-to-understand information about the important role of the intestines and the importance of a lifestyle conducive to good bowel functions. This initiative is held in high regard and has been reported in the *Journal of Japanese Society of Shokuiku* as a good example to model. In the fiscal year ended March 31, 2017, Yakult conducted 3,000 guest lectures for more than 200,000 participants nationwide. Guest lectures are also given overseas in places such as Hong Kong, Thailand, Malaysia, India and China.



In addition, marketing company employees and Yakult Ladies in each region serve as lecturers for health-based lectures on a broad range of topics, including the importance of the intestines, probiotics and seasonal ailments, which are held using Yakult centers (Yakult Lady sales hubs) and community facilities.

Voice

Risa Matsumoto

Registered Dietician, CS Promotion Section, Sales Department, Yakult Iwamizawa Sales Co., Ltd.

In Yakult Iwamizawa Sales, two dieticians take charge of dispatching guest lecturers and health-related lectures that are given to a wide range of people, including high school students, neighborhood associations and elderly care facilities, in addition to classes on intestinal health for children from daycare and kindergarten age to elementary school age. "Each time, I try to stand in the position of the people I'm going to address and come up with interesting content that suits them," says Risa Matsumoto, Registered Dietician in the CS Promotion Section at Yakult Iwamizawa Sales. "It's the best feeling when participants express their appreciation after a lecture. I make a point of visiting the school or facility before and after the lecture for meetings and follow-up, which helps to gradually strengthen bonds. I sometimes get introduced to a new place through word of mouth and often get asked to return, which gives me a tremendous sense of motivation."

Running a Pavilion at KidZania (P.T. Yakult Indonesia Persada)

P.T. Yakult Indonesia Persada has run a pavilion at KidZania Jakarta since it opened in 2008. Through the Yakult pavilion, a large number of children get to learn about the workings of the human digestive system and the positive effects of beneficial bacteria, mainly *Lactobacillus casei* strain Shirota. A research laboratory for bacteria, complete with a microscope, was set up for children aged six and over so that they could get a close-up view of beneficial bacteria and harmful bacteria as well as learn about the structure and workings of the human digestive system using a model of the human body. Currently, around 120 children visit the Yakult Pavilion in a day. KidZania pavilions are also being run in Japan, Brazil and Singapore.

Yakult pavilion at KidZania Jakarta

Initiatives by the Yakult Ladies

Since 1972, the Yakult Ladies have been carrying out "Courtesy Visit Activities," which entail checking on the well-being of elderly people living alone and chatting with them while delivering Yakult products. Since September 2005, as part of this initiative, the Yakult Ladies have presented elderly people living on their own with flowers and a message card on Respect for the Aged Day. The fiscal year ended March 31, 2017 marked the 11th instance of this program, which has brought joy to both the Yakult Ladies presenting the flowers and elderly recipients alike. The Yakult Ladies also contribute to safety and peace of mind in local communities by organizing crime prevention and safety patrols and maintaining contact with the police and local governments.

Corporate Governance

1. Basic Stance

Our basic stance on corporate governance is to promote highly transparent management that is committed to the steady development of operations in our core business domain.

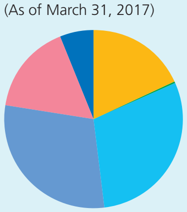
Our corporate philosophy is "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." In pursuing this philosophy, we believe it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management organization and decision-making processes. Corporate governance at the Company is also underpinned by the "company with Audit & Supervisory Board Members" system.

2. Capital Composition

The distribution of ownership among shareholders (on a number of shares basis) and major shareholders is as follows:

Distribution of Ownership Among Shareholders

(As of March 31, 2017)



Japanese financial institutions	**18.11%**
Japanese securities companies	**0.46%**
Other Japanese corporations	**29.62%**
Foreign institutions and others	**29.52%**
Japanese individuals and others	**16.29%**
Treasury stock	**6.00%**

Major Shareholders

(As of March 31, 2017)

	Percentage of total shares issued
Danone Probiotics Private Ltd.	20.02%
Fuji Media Holdings, Inc.	3.69
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.82
Matsusho Co., Ltd.	2.80
Kyoshinkai	2.51
Japan Trustee Services Bank, Ltd. (Trust account)	1.80
The Master Trust Bank of Japan, Ltd. (Trust account)	1.51
Kirin Beverage Corporation	1.40
Japan Trustee Services Bank, Ltd. (Trust account 5)	1.26
Mizuho Bank, Ltd.	1.24

Note: In addition to the above, the Company holds 10,548,970 shares (6.00%) of its own shares.

3. Governing Bodies, Organizational Operations and Operational Execution

Board of Directors

The Board of Directors is composed of 15 directors, including four outside directors, and holds meetings in principle seven times each year, in addition to convening special meetings as needed. The seven Audit & Supervisory Board Members also attend meetings. The Board of Directors deliberates on matters within its jurisdiction as defined by law and company rules, and is responsible for supervising the status of business execution.

The Company introduced the Executive Officer System in June 2011. This system strengthens the decision making of the Board of Directors and business supervision functions, and clarifies responsibilities for business execution, thereby increasing the efficiency of these functions.

As a system of support for outside directors, the General Affairs Department functions as the secretariat for the Board of Directors, and serves in this capacity as a point of contact for all Company officers, including outside directors.

The four outside directors are listed in the chart below.

(As of June 21, 2017)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Specially approved visiting Professor, International Business Strategy, Graduate School of International Corporate Strategy, Hitotsubashi University; Outside Director, ORIX Corporation; Outside Director, Benesse Holdings, Inc.; Outside Auditor, the Asahi Shimbun Company	Mr. Yasuda was appointed on the expectation that he would offer pertinent advice regarding the overall management of the Company that would further strengthen and enrich its management structure based on the expertise in business strategy he has accumulated over the years in wide-ranging positions including those of university professor, consultant and business manager.
Masayuki Fukuoka	Honorary Professor, Faculty of Law, Hakuoh University; specially approved visiting Professor, Tohoku Fukushi University; Secretary General, Assist (Japan)	Mr. Fukuoka was appointed on the expectation that he would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure based on his expertise and experience as a university professor of political science studies. While he has no experience of direct involvement in management of a company except as an outside officer, the Company believes that he will be able to perform the duty of outside director appropriately for the above reason.
Bertrand Austruy	Executive Vice President, Human Resources and General Secretary, Danone S.A.	Mr. Austruy was appointed on the expectation that he would offer pertinent advice from a broad perspective regarding overall management, which would lead to further strengthening and enhancement of the management structure based on his abundant overseas management experience.
Filip Kegels	Regional Vice President Dairy, Asia Pacific and Middle East, Danone S.A., and Greater China Director, China Mengniu Dairy Co., Ltd.	Same as above.

Management Policy Council and the Executive Officers Committee

The Company has established a set of meetings, the Management Policy Council and the Executive Officers Committee, designed to promote effective management activities and accelerate decision making. These meetings are, in principle, convened on a weekly basis.

Audit & Supervisory Board Members

The Company has seven Audit & Supervisory Board Members, including five outside Audit & Supervisory Board Members. All Audit & Supervisory Board Members attend meetings of the Board of Directors and other important company meetings and audit the operational execution of the directors by examining documents related to decision making and other matters. The Audit & Supervisory Board Members strive to enhance the effectiveness of their audits by forging close ties with the Internal Audit Department and the accounting auditor.

The system of support for the Audit & Supervisory Board consists of staff assigned exclusively to the Audit & Supervisory Board Members that functions as the secretariat for the board. Furthermore, the Audit & Supervisory Board convenes prior to meetings of the Board of Directors and other important meetings to discuss the proposed agenda for the meetings, and to share information gathered from materials provided by relevant department and division heads, as well as information gained from explanations received firsthand and by other means. Furthermore, with respect to systems for conveying information to outside Audit & Supervisory Board Members, the full-time Audit & Supervisory Board Members issue progress reports on a regular basis, and provide the outside Audit & Supervisory Board Members with a range of materials, including those from important company meetings and decision making and audit-related materials.

The five outside Audit & Supervisory Board Members are listed in the chart on the right.

Internal Audits

Internal audits are conducted by the Auditing Department, an organization that reports directly to the Company's President and that performs financial and operational audits, including those of Group companies in Japan and overseas. The head of the Auditing Department currently oversees a 14-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

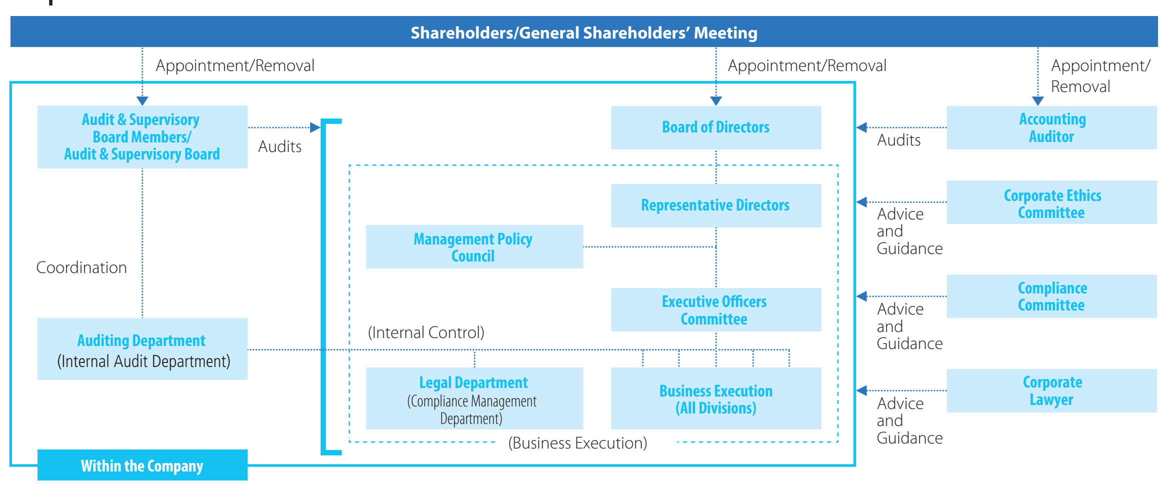
Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its business accounts as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu.

(As of June 21, 2017)

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
Akihiko Okudaira	Lawyer	Mr. Okudaira was appointed on the expectation that his expertise as a lawyer and abundant experience would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.
Seijuro Tanigawa	President of Yakult Kobe Sales Co., Ltd.	Mr. Tanigawa was appointed on the expectation that his long record of managing a Yakult sales company would be an advantage when performing audit operations primarily on the legality of the directors' execution of duties, thus contributing significantly to the development of the entire Yakult Group.
Setsuko Kobayashi	Chairperson of Yakult Joetsu Sales Co., Ltd.	Same as above.
Kouichi Yoshida	Chairman of Yakult Ishinomaki Sales Co., Ltd.	Same as above.
Seno Tezuka	Certified Public Accountant	Mr. Tezuka was appointed on the expectation that his expertise as an accountant and abundant experience in corporate accounting would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.

Corporate Governance Framework



4. Internal Control Systems and Policies

The Company resolved at the Board of Directors' meeting on May 19, 2006 to establish an internal control system as mandated for a large company with a Board of Directors by the Companies Act and its enforcement regulations. The Company revises the details of this resolution promptly in response to changes inside and outside the Company. At the current time, the details are as follows:

The Company aims to proceed with its business activities in accordance with its corporate philosophy, "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." To achieve this, the Company believes that it is important to implement management that places emphasis on strengthening and enhancing internal control functions as a company that is widely trusted by society.

Based on this perspective, the Company has made the following resolutions on basic policies regarding building internal control systems after reconfirming the current situation at the Company in relation to the development of internal control systems.

Meanwhile, the contents of the resolutions will be revised on a timely basis in line with revisions to laws and environmental changes inside and outside the Company, aiming to further strengthen and enhance internal control systems.

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

- With respect to information disclosure, especially in a timely manner, in the Yakult Code of Ethics and Code of Practice, the Company makes the following commitment: "The Company will actively disclose all relevant information to all stakeholders, including our customers, shareholders, employees, business partners, local communities, industry groups, government, and non-profit organizations, and increase the transparency of management, to gain the full trust of society through our corporate activities." Based on this approach, the Company is disclosing information in a timely manner.

(2) Internal structure related to timely disclosure

- Facts and data appropriate for public disclosure from each department within the Company (including subsidiaries) are compiled by the Public Relations Department. In parallel, each department within the

i) Systems to ensure that the performance of duties by directors and employees complies with laws and articles of incorporation

As standards for executives and workers to properly perform business activities, the Company has established the Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and Code of Practice have been distributed to all persons concerned, aiming to familiarize them with the details of the codes. At the same time, the Company is continuously offering in-house training programs regarding compliance.

In addition, a meeting of the Compliance Committee, which consists of external knowledgeable persons, is held on a regular basis to receive advice regarding the development of the Company's compliance system.

Furthermore, the Company has established an "internal reporting system," aiming to improve the self-cleaning functions by which it detects its own violations of law and takes corrective actions.

In addition, the Company will resolutely block and repudiate anti-social forces that pose a threat to business activities. We will also maintain a close relationship with the police under normal circumstances. At the same time, we will endeavor to supervise transactions through the Corporate Ethics Committee, which consists of external experts as the main committee members, and will tackle any unreasonable claims organizationally and take all possible legal measures.

ii) Systems regarding preservation and management of information related to the performance of duties by directors

Minutes of general shareholders meetings and Board of Directors meetings are preserved properly in accordance with law.

In addition, in line with the Rules for Handling Documents, information related to the performance of duties by directors is recorded and preserved in documents or electromagnetic media (hereinafter referred to as "documents and other media").

Directors and Audit & Supervisory Board Members can look through the minutes and the documents and other media at any time.

Furthermore, the Rules for Handling Documents include rules regarding maintaining confidentiality and we are taking preventive measures against information leakage.

iii) Rules and other systems regarding the management of risks for losses

The Administrative Division plays a central role in supervising the conditions of cross-sectional risk and making company-wide responses. The department concerned handles the management of risks related to the operations of each department.

In addition, to respond to crises that appear suddenly, there are the Risk Management Rules, which include a rule to have the Company's President or divisional managers serve as the head of various task forces set up in accordance with the details of crisis situations.

Furthermore, to provide safe products to customers and establish a quality assurance system, the Quality Assurance Committee has been established and its meetings are being held. In addition, the Food & Beverages Quality Assurance Department has been established as an independent department to carry out exclusive company-wide supervisory operations related to food quality assurance.

iv) Systems to ensure that the performance of duties by directors is efficient

The Company has introduced the Executive Officer System to strengthen the functions of the Board of Directors to make decisions and supervise as well as to define the responsibilities in executing operations, and ultimately to improve the efficiency of these functions.

In addition, the Company's decision-making methods are stipulated in the Rules for Decision-Making, aiming to make decisions in line with the level of importance. At the same time, a management policy meeting and the Executive Officers Committee are held every week in principle, aiming to speed up decision making.

Moreover, to carry out business operations efficiently, the organizational structure of the Company and its management standards are stipulated in the Organization Rules and the Table of Division of Duties.

v) Systems to ensure that operations at the corporate group consisting of the Company and subsidiaries are appropriate

The Company seeks to ensure that operations at its subsidiaries are appropriate and efficiently executed by sending its executives or employees to the subsidiaries and having them serve as executives of the subsidiaries.

In addition, the Rules for the Management of Affiliates and the Rules for the Management of Overseas Operations include provisions to require the subsidiaries and affiliates to obtain advance approval and provide reports. At the same time, the Auditing Department, which is the Company's internal auditing department, carries out audits.

Furthermore, the Company has secured the appropriate operations throughout the Group by drawing up the Group's strategies and targets in the medium-term management plan as well as establishing an internal support system by setting up a department in charge of the management of the subsidiaries, in addition to implementing training and education programs for its subsidiaries. At the same time, the Rules for the Risk Management include provisions to respond to any crisis that suddenly occurs throughout the Group.

vi) Matters regarding employees who support the duties of Audit & Supervisory Board Members in cases in which Audit & Supervisory Board Members make a request to assign such employees

Employees who have a thorough knowledge of the Company's business operations and can properly support the duties of Audit & Supervisory Board Members serve as full-time staff members who support Audit & Supervisory Board Members. In terms of the organizational structure, the staff members serve as "auditing officers" and are independent of the Auditing Department, which is an internal auditing department. They carry out operations under the direct supervision of Audit & Supervisory Board Members.

vii) Matters regarding the independence of employees who support the duties of Audit & Supervisory Board Members, who are mentioned in the previous item, from directors, and systems to ensure the effectiveness of instructions given to these employees by Audit & Supervisory Board Members

To secure the independence and effectiveness of instructions of full-time employees who support the duties of Audit & Supervisory Board Members from directors, such employees do not belong to any department in the organization and are not under the supervision of directors.

In addition, full-time Audit & Supervisory Board Members directly evaluate the performance of such employees to respect their independence.

viii) Systems for directors and employees to provide reports to Audit & Supervisory Board Members and other systems regarding reports provided to Audit & Supervisory Board Members

Audit & Supervisory Board Members attend Board of Directors meetings and other important meetings and read minutes of such meetings on an as-needed basis. In addition, Audit & Supervisory Board Members confirm the details of important requests. There is a system in which Audit & Supervisory Board Members can be apprised of the details of such requests.

Furthermore, reports regarding the results of internal audits of the Company and subsidiaries are provided to Audit & Supervisory Board Members on a regular basis. The Rules for Audits by Audit & Supervisory Board Members also stipulate that Audit & Supervisory Board Members can request directors to provide business reports and request related departments, subsidiaries, and other parties to provide reports if necessary.

ix) Systems to ensure that reporting parties do not receive unfair treatment as a result of such reports

The Company prohibits any retaliation against the directors and employees who provide reports to Audit & Supervisory Board Members as a result of such reports. At the same time, the Rules for the Internal Reporting System include provisions to prohibit any other actions or behavior that infringe the whistleblower's rights.

x) Other systems to ensure that audit operations of Audit & Supervisory Board Members are carried out effectively

The Rules for Audits by Audit & Supervisory Board Members ensure that Audit & Supervisory Board Members effectively exercise the authority to "attend Board of Directors meetings and other important meetings," "ask for explanations in cases of failure to attend meetings and read minutes and documents," "read documents necessary to investigate business conditions and request related departments to provide reports," and "request subsidiaries and affiliates to provide reports and investigate business and asset conditions."

In addition, they can hear opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary. Expenses related to hearing such opinions from these outside experts and other audits are the responsibility of the Company.

Company, pursuant to the Rules for Decision-Making, decides items for disclosure based on prescribed decision-making procedures. Facts and data not vetted in this manner are not publicly disclosed. When making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made of the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination: the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.

- The Company is listed on the Tokyo Stock Exchange (TSE). Any information from the Company marked for timely disclosure is registered on TDnet, a system for timely disclosure provided by the TSE. The registration of information for timely disclosure and responses to inquiries from TSE personnel are conducted by the General Affairs Department, the body responsible for coordinating timely disclosure. Following registration, information targeted for timely disclosure is quickly transmitted simultaneously to all relevant media outlets, with related materials disclosed at the same time on the Company's website.

(3) Check functions to mitigate risks associated with the improper execution of timely disclosure

- The Company has considered a variety of risk scenarios, including those in which information marked for timely disclosure is inadvertently overlooked; information is prematurely disclosed; and data pertaining to sudden crises are not promptly disclosed. A single department, the General Affairs Department, which is responsible for coordinating timely disclosure, acquires and shares information about the criteria for determining the necessity of timely disclosure, and checks information pertaining to final decisions made internally, as well as primary information when sudden crises and incidents arise. This configuration allows check functions to work and enables timely disclosure without any omissions.

Management Members

Board of Directors and Audit & Supervisory Board Members

President and Representative Director
Takashige Negishi

Directors
Yoshihiro Kawabata
Hiroshi Narita
Hiroshi Wakabayashi
Fumiyasu Ishikawa
Masaki Tanaka
Masanori Ito
Akifumi Doi
Tetsuya Hayashida
Richard Hall

Directors (Part-Time)
Ryuji Yasuda (Outside Director)
Masayuki Fukuoka (Outside Director)
Bertrand Austruy (Outside Director)
Filip Kegels (Outside Director)
Norihito Maeda

Senior Audit & Supervisory Board Members
Akinori Abe
Hiroshi Yamakami

Audit & Supervisory Board Members (Outside Auditors)
Akihiko Okudaira
Seijuro Tanigawa
Setsuko Kobayashi
Koichi Yoshida
Seno Tezuka

Executive Officers

President and Executive Officer
Takashige Negishi

Deputy President and Executive Officer
Yoshihiro Kawabata
Divisional General Manager of International Business Division

Senior Managing Executive Officers
Hiroshi Narita
Divisional General Manager of Management Support Division
Hiroshi Wakabayashi
Divisional General Manager of Administrative Division
Fumiyasu Ishikawa
Divisional General Manager of Research & Development Division

Managing Executive Officers
Masaki Tanaka
Divisional General Manager of Cosmetics Business Division
Masanori Ito
Divisional General Manager of Pharmaceuticals Business Division
Akifumi Doi
Divisional General Manager of Production Division
Tetsuya Hayashida
Divisional General Manager of Food and Beverages Division
Susumu Hirano
Masao Imada
Koichi Hirano
Masanobu Nanno

Executive Officers
Richard Hall
Masatoshi Nagira
Hideaki Hoshiko
Yasuyuki Suzuki
Masahiko Satomi
Shuichi Watanabe
Akira Kishimoto
Takao Goto
Hiroyuki Kawabata
Junichi Shimada
Yoshihiro Goto

(As of June 21, 2017)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2017, 2016, 2015, 2014, and 2013

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2013	2014	2015	2016	**2017**	**2017**
For the year:						
Net sales	¥ 319,193	¥ 350,322	¥ 367,980	¥ 390,412	**¥ 378,308**	**$3,377,747**
Selling, general and administrative expenses	148,581	161,965	168,092	178,744	**177,053**	**1,580,835**
Operating income	23,068	32,026	34,898	40,057	**37,282**	**332,871**
Net income attributable to owners of the parent	16,379	22,544	25,056	28,843	**30,155**	**269,238**
Research and development costs	10,761	11,166	12,135	12,678	**10,549**	**94,190**
Capital investments	33,587	50,163	40,371	27,403	**23,365**	**208,617**
Depreciation and amortization	19,435	20,078	22,793	24,365	**22,661**	**202,329**
At the year-end:						
Total assets	¥ 438,176	¥ 519,571	¥ 579,345	¥ 577,535	**¥ 585,741**	**$5,229,832**
Net property, plant and equipment	150,612	184,208	205,595	201,799	**198,299**	**1,770,527**
Total liabilities	151,077	211,538	217,132	212,070	**208,860**	**1,864,827**
Total equity	287,099	308,033	362,213	365,465	**376,881**	**3,365,005**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 95.03	¥ 134.44	¥ 151.58	¥ 174.54	**¥ 182.39**	**$ 1.63**
Total equity (Note 7)	1,517.88	1,662.37	1,966.13	2,007.73	**2,077.29**	**18.55**
Cash dividends applicable to the year	23.00	24.00	25.00	50.00	**32.00**	**0.29**
Financial ratios:						
Return on equity (ROE) (%)	6.7	8.4	8.4	8.8	**8.9**	
Equity ratio (%)	59.8	52.9	56.1	57.5	**58.6**	

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112 to U.S.$1, the approximate rate of exchange on March 31, 2017.
3. Noncontrolling interests are not included in equity for the calculation.

Financial Section

Contents

OVERVIEW

During the fiscal year ended March 31, 2017, the Japanese economy continued a gradual recovery with an improvement in employment conditions and the income environment. At the same time, the outlook remained unclear as a result of increasingly uncertain overseas economies and other factors.

Against this background, the Yakult Group (the "Group") worked to build awareness and understanding of the Probiotics that constitute the bedrock of our operations, while striving to communicate the superiority of its products. (Probiotics are the living microorganisms that provide health benefits by improving the balance of intestinal flora.) The Group also sought to improve its performance by shoring up its sales organization, developing new products, upgrading its production facilities, and vigorously enhancing its international business and pharmaceuticals business.

On the other hand, the international business was affected by currency exchange rate fluctuations.

As a result of these efforts, on a consolidated basis, net sales edged down 3.1% from the previous fiscal year, to ¥378.3 billion. Operating income declined 6.9%, to ¥37.3 billion, while the operating margin fell to 9.9%, down 0.4 percentage points from a year earlier. Net income attributable to owners of the parent climbed 4.5%, to ¥30.2 billion, and return on sales increased to 8.0%, up 0.6 percentage points from the prior year's result.

SALES, COSTS, EXPENSES, AND EARNINGS

SALES

Net sales fell 3.1%, to ¥378.3 billion, due mainly to the impact of currency exchange rate fluctuations, amounting to a negative ¥25.5 billion.

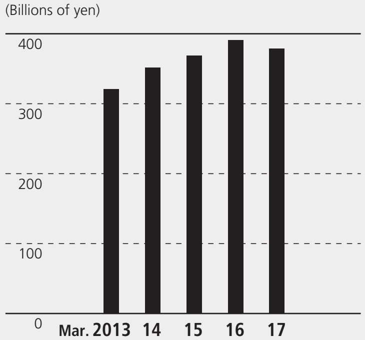
Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 51.2% of sales, up 3.0 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 36.8% of sales, down 1.7 percentage points. Pharmaceuticals generated 7.0%, down 1.4 percentage points, and Others contributed 5.0%, up 0.1 percentage points.

COSTS, EXPENSES, AND EARNINGS

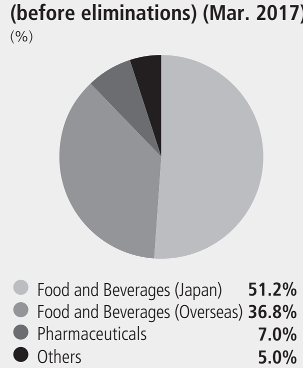
Consolidated cost of sales declined 4.5%, to ¥164.0 billion. As a result, the cost of sales ratio decreased 0.7 percentage points, to 43.3%. Gross profit fell 2.0%, to ¥214.3 billion, and the gross profit margin improved 0.7 percentage points, to 56.7%.

Selling, general and administrative (SG&A) expenses declined 0.9%, to ¥177.1 billion. This result mainly reflected a decrease in R&D expenses despite higher advertising expenses. The SG&A expense ratio rose 1.0 percentage points, to 46.8%. R&D expenses decreased ¥2.1 billion year on year, to ¥10.5 billion. As a percentage of net sales, R&D expenses fell 0.4 percentage points, to 2.8%.

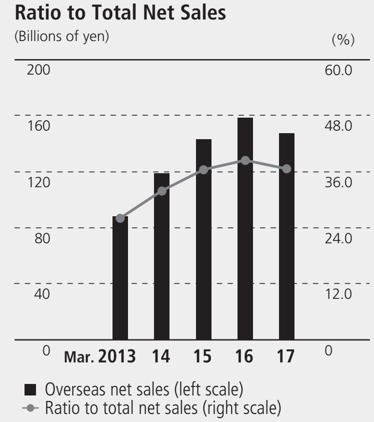
Net Sales



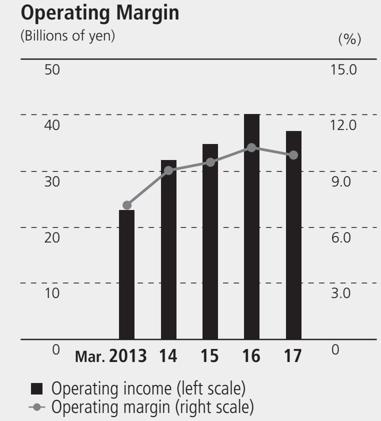
Breakdown of Net Sales (before eliminations) (Mar. 2017)



Overseas Net Sales/ Ratio to Total Net Sales



Operating Income and Operating Margin



As a result, operating income declined 6.9%, to ¥37.3 billion, impacted by a decrease in currency exchange rate fluctuations amounting to a negative ¥6.9 billion, and the operating margin fell 0.4 percentage points, to 9.9%.

Other income—net amounted to ¥11.4 billion, up ¥1.7 billion from a year earlier, mainly due to an increase in the equity in earnings of associated companies.

Income taxes amounted to ¥13.7 billion.

Consequently, net income attributable to owners of the parent increased 4.5%, to ¥30.2 billion, and the return on sales rose 0.6 percentage points, to 8.0%.

OVERVIEW BY SEGMENT

FOOD AND BEVERAGES (JAPAN): In probiotic products, Yakult focused on broadening the recognition of the science behind, and the value of, its proprietary living *Lactobacillus casei* strain Shirota, and vigorously expanded value dissemination activities that utilize scientific evidence.

Through our home delivery channel, we strived to encourage our current customers to keep drinking our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*, which were the subject of both a price revision and package update at the end of May 2016, and we strove to create new customers. We worked to bolster our home delivery organization by developing the working environment of Yakult Ladies while continuously supporting Yakult Lady hiring activities in an aggressive way. Through our retail store channel, we expanded value dissemination activities carried out by promotion staff geared toward our customers, centered on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, which were updated in May 2016. In addition, we carried out the "Thankful campaign for cheering for the Tokyo Yakult Swallows" in October 2016 and "Keep drinking to realize the power! *Lactobacillus casei* strain Shirota Campaign" in January and February 2017, targeting these products with the aim of activating their brand. We expanded sales areas for the fermented milk drink *Mainichi Nomu Yakult*, which had been sold only at Seven-Eleven locations, giving it nationwide coverage in May 2016. We launched *Mainichi Nomu Yakult* in Seven & i Group's supermarkets, such as Ito-Yokado, in November 2016, aiming at sales expansion.

By product, we expanded packages featuring Disney characters for the drinkable yogurt *Joie* series under a license agreement with Walt Disney Company (Japan) Ltd. In addition, we launched limited-time items such as *Joie Peach* and *Joie Premium Orange* so as to activate the brand.

We also worked to bolster our field activities strongly through active use of TV commercials featuring our strengths of *Yakult 400* and Yakult Lady as well as research, development and technical capabilities.

As a result of our efforts to bolster sales of our products centered on such initiatives, overall sales of dairy products surpassed those of the previous fiscal year.

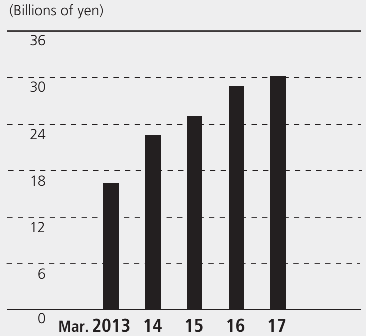
In juices and other beverages, we updated the lactic drink *Milouge* series in May 2016. Also in June 2016, we introduced the Tokyo Yakult Swallows design packages for the nutritional drink *Toughman* and *Toughman V* series and strived to increase their sales through active use of advertisements, including TV commercials in July.

Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

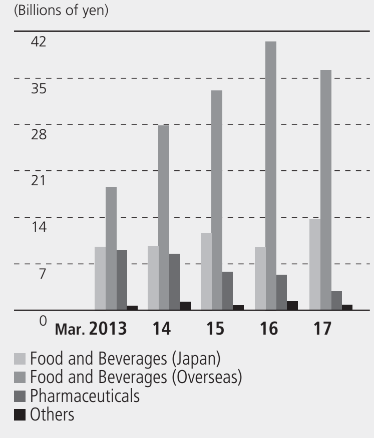
Net sales increased to ¥204.1 billion, up 2.6%, from the previous fiscal year, while a segment profit jumped 44.9%, to ¥13.8 billion.

FOOD AND BEVERAGES (OVERSEAS): Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They have now extend to 37 countries and regions outside Japan, and are centered on 28 business bases and one research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all Yakult products overseas in March 2017 amounted to approximately 28.66 million bottles, climbing 2.04 million bottles year on year, despite a drop in net sales and profits in the fiscal year under review.

Net income attributable to owners of the parent
(Billions of yen)



Operating Income by Business Segment
(Billions of yen)



In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico and the United States.

In Brazil, to meet the growing demand for low-calorie products accompanying consumers' rising health awareness, we launched the fermented milk drink *Yakult 40 Light* in July 2016.

In the United States, *Yakult* was launched in a major distribution chain centered on the Midwest in July 2016.

Net sales in the Americas decreased to ¥45.3 billion, down 14.2%, from the prior fiscal year, and segment profit declined 19.2%, to ¥10.3 billion.

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, we started sales of *Yakult* in Kunming in Yunnan province and Nanning in the Guangxi Zhuang Autonomous Region in June 2016. In addition, we established new sales bases in Taiyuan, Harbin, and Jiaxing to sell *Yakult* and *Yakult Light* in January 2017. Through these measures, the number of our sales bases in China has reached 36, and we continue to strive to further strengthen our sales structure.

In the Gulf countries of the Middle East, we began import and sales of *Yakult* in the United Arab Emirates, Oman, the Kingdom of Bahrain, Qatar, and Kuwait in March 2017, which has extended our overseas sales network to 37 countries and regions.

In Myanmar, we proceeded with preparations for the production and sales of *Yakult* in 2018.

Net sales in Asia and Oceania fell to ¥93.4 billion, down 3.9%, from the prior fiscal year, and segment profit declined 6.2%, to ¥25.3 billion.

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

In the European Probiotics market, which remains affected by challenging economic environment, we have continued to face competition from other companies.

Net sales in Europe decreased to ¥7.8 billion, down 9.5% from the prior fiscal year, and segment profit declined 20.5%, to ¥0.5 billion.

PHARMACEUTICALS: We focused on promoting dissemination of and activities recommending the proper use of our products with a focus on oncology and related fields. As for our mainstay, the antineoplastic drug *Elplat*, for which an additional indication of gastric cancer was approved in 2015, we redoubled efforts to hold lectures and medical office briefings targeting medical professionals to raise the penetration of *Elplat* in the gastric cancer field and expand market share. As a switch to generic drug versions of *Elplat* by medical institutions has been increasing since generic drugs were launched, we boosted activities to keep customers choosing *Elplat* by leveraging our information provision capabilities, a Company strength since we developed the original drug. In addition, we sought higher sales following efforts to intensify sale channel development for antineoplastic antimetabolite *Gemcitabine Yakult*, bone resorption inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug, which was launched in June 2015.

Despite these efforts we were faced with a struggle, due to a large reduction in our drug prices reflecting the revision of NHI drug price in April 2016.

In R&D, we expedited the development pipeline of oral HDAC inhibitor *Resminostat* by 4SC AG, PI3K/Akt inhibitor *Perifosine* by Aterna Zentaris Inc., and novel platelet-increasing agent YHI-1501, whose joint development we are promoting with Nissan Chemical Industries, Ltd. Through these efforts, we aim to further strengthen our position in the cancer and related fields.

As a result, net sales in the Pharmaceuticals segment fell 20.0%, to ¥27.8 billion, while segment profit was ¥2.9 billion, down 46.1% from the prior fiscal year.

OTHERS: This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to expand sales activities for basic skin care products such as our core brands *Parabio*, *Revecy* and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since the Company's foundation.

Specifically, we worked to attract new customers by thoroughly implementing sales measures for which themes and key products were set each quarter.

For the *Parabio* series, we strived to improve customer satisfaction and drive sales growth by updating the brand, rolling out *Parabio Base Makeup* in June and *Parabio AC Cream Sai* in November 2016, following an update to the entire Parabio skin care series in 2015.

Accordingly, overall sales and profit in our cosmetics operations were virtually unchanged from the prior fiscal year.

In our professional baseball team operations, attendance at Tokyo's Jingu Stadium rose from the previous fiscal year, bolstered by proactive fan services such as a variety of fan appreciation events and active information dissemination.

As a result, net sales in the Others segment decreased 1.8%, to ¥20.0 billion, and segment profit declined 35.7%, to ¥0.9 billion.

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥585.7 billion, climbing 1.4% year on year.

Current assets rose ¥7.2 billion, or 3.2%, from the prior fiscal year-end, to ¥228.8 billion, principally due to an increase of ¥16.9 billion in time deposits.

Net property, plant and equipment fell ¥3.5 billion, to ¥198.3 billion. This primarily reflected a decrease in property, plant and equipment of overseas subsidiaries accompanying yen appreciation.

Investments and other assets rose ¥4.5 billion, or 3.0%, to ¥158.6 billion, mainly due to an increase in investment securities.

During the fiscal year under review, capital investment decreased 14.7%, to ¥23.4 billion.

Total liabilities fell 1.5%, to ¥208.9 billion. The major component of this decrease was a drop of ¥6.9 billion in long-term debt. As a result, interest-bearing debt declined ¥4.7 billion from the prior fiscal year-end, to ¥111.7 billion, while the debt-to-equity ratio declined 2.6 percentage points, to 32.5%.

Equity increased 3.5%, to ¥343.5 billion, from ¥331.8 billion a year earlier. This rise was primarily due to an increase in retained earnings despite a reduction in foreign currency translation adjustments.

As a result, the equity ratio improved 1.1 percentage points, to 58.6%. Return on equity (ROE) rose 0.1 percentage points, to 8.9%. Return on assets (ROA) fell 0.5 percentage points, to 6.4%.

CASH FLOWS

Net cash provided by operating activities edged down ¥2.2 billion from the previous fiscal year, to ¥60.0 billion. The decline in net cash provided primarily resulted from ¥11.9 billion in income taxes paid, which partly offset ¥48.7 billion in income before income taxes and ¥22.7 billion in depreciation and amortization.

Net cash used in investing activities expanded ¥7.5 billion, to ¥45.0 billion. Cash was mainly used for payments into time deposits and purchases of property, plant and equipment, specifically for the expansion of new production facilities.

Net cash used in financing activities fell ¥1.3 billion, to ¥13.7 billion. This outlay mainly reflected the payment of dividends in addition to repayment of short-term loans and long-term debt.

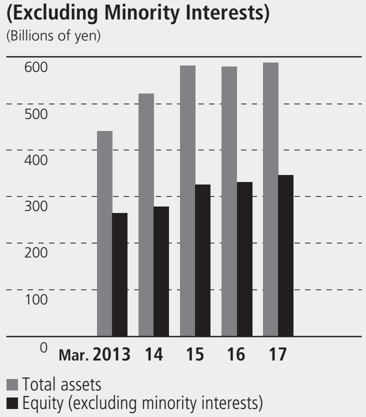
Foreign currency translation adjustments amounted to a negative ¥7.9 billion due to currency exchange rate fluctuations.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥95.1 billion, a net decrease of ¥6.7 billion from a year earlier.

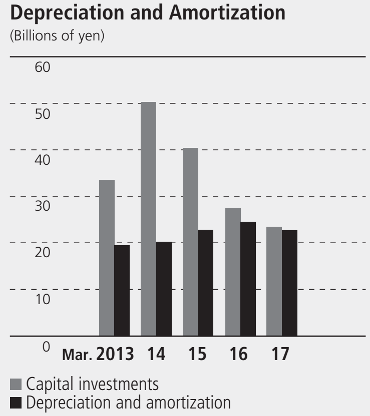
DIVIDENDS

We place top priority on the payment of stable and continuous dividends to shareholders by setting the annual dividend at a base of ¥30.0 per share. The total dividend is decided based on business

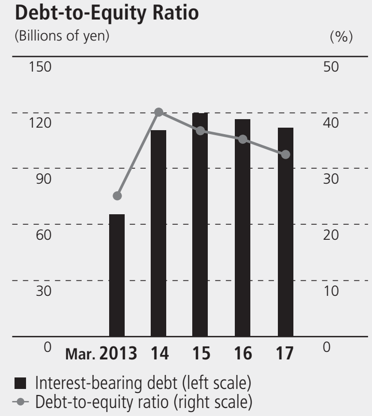
Total Assets and Equity (Excluding Minority Interests)



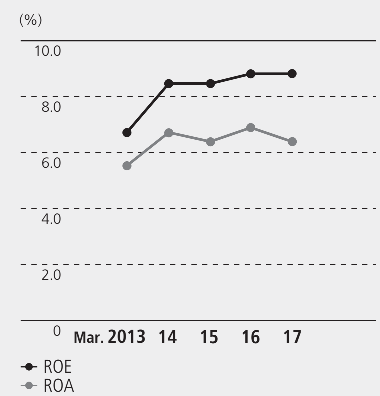
Capital Investments and Depreciation and Amortization



Interest-Bearing Debt and Debt-to-Equity Ratio



ROE and ROA



Note: ROA is calculated based on operating income.

performance for the year, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as the Company's financial position.

Based on this policy, we decided to pay a total dividend of ¥32.0 per share, up ¥2.0 from the prior fiscal year to continuously increase the return to shareholders. We have already declared and paid an interim dividend of ¥16.0 per share, and the balance of ¥16.0 per share will be distributed to our shareholders as the year-end dividend.

For the fiscal year ending March 31, 2018, we plan to raise the annual dividend by ¥2.0 to ¥34.0 in an effort to offer higher returns to shareholders in the policy described above.

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

For probiotic products in Japan, Yakult is continuously committed to focusing on the *Yakult* series of fermented milk drinks as its most important brand, aiming to expand its share in the probiotic market.

By product, we will make even greater efforts to activate the brand of *Yakult 400* and *Yakult 400LT* by drastically carrying out value dissemination activities and emphasizing our advanced research, development and technology capabilities. In addition, through our retail store channel we will deliver the value of living *Lactobacillus casei* strain Shirota more than ever regarding *New Yakult* and *New Yakult Calorie Half* while striving to increase our presence as a leading company in the probiotic market. In terms of the ***Joie*** series, we will introduce the "Third Anniversary Package" using Disney characters and deliver health, joy and fun to a wide range of customers.

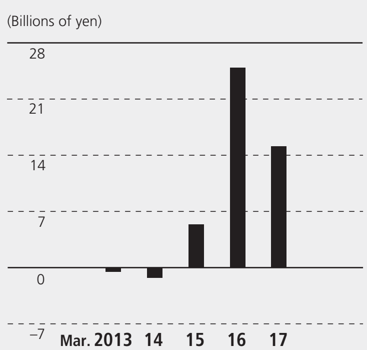
In juices and other beverages, our focus is on updating our main brand, the *Toughman* series, and reinforcing functional drinks including *Bansoreicha*.

In addition, we will continuously make efforts to increase people's recognition of the nature of Yakult Lady's work and make their work more attractive so as to bolster our home delivery organization. We will also strive to strengthen our response to each market and channel with the potential to grow so that we can further expand sales.

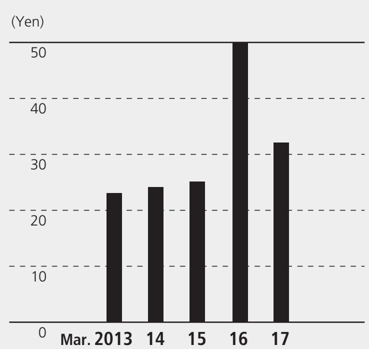
Outside Japan, we will conduct business expansion in accordance with our medium- to long-term management plan, "Yakult Vision 2020." At existing business offices, we will further expand business, enhance our financial strength, and raise profitability. With respect to the newly-established business offices, particularly those located in Vietnam, India, China, the United States, and the Middle East, we will promote both the strengthening of management bases and business growth. We will also proceed with preparations for the business launch in Myanmar.

We will decide on further new overseas expansions after carefully considering the environments both in Japan and abroad.

Free Cash Flow



Dividends



PHARMACEUTICALS

In Japan, due to the release of a generic copy of our mainstay *Elplat*, an antineoplastic drug, it is inevitable that people will switch to the generic drug to a certain extent. However, drawing on our ability to provide information, which was cultivated through development and sales of *Campto* and *Elplat*, and our relationships of trust with individuals in the medical industry established to date, we will work to secure a greater presence in the field of colorectal cancer and keep customers choosing our products through joint promotion activities of the antineoplastic drug ZALTRAP® (aflibercept beta [genetical recombination]), on which we entered into a contractual agreement with Sanofi S.A. in February 2016.

In R&D, we are promoting new drug development both in Japan and abroad while rapidly assessing the introduction of drugs to strengthen our pipelines. We will also actively develop new generic drugs for cancer and related fields.

OTHERS

In our cosmetics operations, we will continue to expand sales of basic skin care products such as our core brands *Parabio*, *Revecy*, and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agents, *S.E. (Shirota Essence)*, derived from our research expertise on lactic acid bacteria that has been developed since our foundation.

In addition, other measures aimed at improving customer satisfaction and driving sales growth will continue to include marketing measures to encourage people to regularly use our cosmetic series, such as through offering trial use of basic cosmetics centered largely on *Revecy*, scheduled to be revamped, and selected featured products and services arranged according to the season.

BUSINESS RISKS

This section includes an explanation of business risks associated with business conditions, accounting, and other factors stated in our securities report. This discussion will focus on factors that may have a material impact on investor decisions.

Forward-looking statements contained herein are based on the Group's judgment as of the date of filing of our securities report.

1. Risks Accompanying Global Business Operations

The Group conducts business operations worldwide, and is involved in production and sales activities overseas. As these overseas business sites gain stronger footing, the proportion of overseas business results grows each year.

This trend notwithstanding, consolidated business results as reported in the financial statements are affected by currency exchange rate fluctuations. Moreover, the regions where the Group operates overseas include countries marked by political and economic instability. While we work to mitigate these risks in various ways, there is no guarantee that such risks can be completely avoided. Moreover, given the underlying differences of social background between many overseas countries and regions and Japan, there is a risk that the unforeseen establishment, amendment, or abolition of certain laws and regulations could provoke problems with respect to Group business activities. The occurrence of such issues could adversely impact our business performance and financial condition.

2. Risks Related to Product Safety

Growing concern regarding food safety and quality assurance among consumers is placing strong pressure on companies to provide unquestionably reliable and safe food products. The Group recognizes that this trend demands greater levels of safety and quality assurance for the products it handles, which are subject to Japan's Food Sanitation Law, Pharmaceutical Affairs Law, and other regulations. As a Group, we also strive to strengthen our quality assurance system, with the provision of safe products as our highest priority.

These efforts notwithstanding, the unexpected occurrence of incidents related to the Group's food products could have an extremely adverse impact on our business results and financial condition.

For this reason, every available step is taken to improve the safety and quality of our food products.

3. Risks Pertaining to Raw Material Prices

The Group's main products consist of dairy products and lactobacillus-based drinks. Sharp increases in procurement prices for the raw materials required for these products, due largely to market supply and demand, could affect manufacturing costs, including costs for containers and other packaging. Moreover, price increases in the crude oil market, especially those sustained over extended periods, could adversely affect transportation costs related to our products. In the event that we are unable to cover the effects of higher raw materials prices through cost reductions, or are prevented from enacting price revisions due to market conditions, these trends could have a tremendously adverse impact on the Group's financial condition.

In addition to the aforementioned, the Group faces a range of other risks, including the risks related to unseasonable weather conditions and natural disasters. As such, the aforementioned risks are not an exhaustive list of those that could negatively affect the Group's business operations. The Group is aware of these risks, however, and strives to mitigate or avoid their occurrence.

Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries
March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 11)	**¥ 95,131**	¥ 101,799	**$ 849,383**
Time deposits (Notes 5 and 11)	**36,899**	20,047	**329,456**
Receivables (Note 11):			
Notes and accounts receivable	**49,843**	51,881	**445,026**
Associated companies	**5,052**	4,856	**45,110**
Other	**3,597**	4,632	**32,115**
Inventories (Note 3)	**28,526**	28,056	**254,698**
Deferred tax assets (Note 8)	**4,771**	5,036	**42,597**
Other current assets	**5,206**	5,527	**46,480**
Allowance for doubtful accounts (Note 11)	**(229)**	(204)	**(2,046)**
Total current assets	**228,796**	221,630	**2,042,819**
Property, plant and equipment:			
Land (Note 5)	**41,930**	37,234	**374,378**
Buildings and structures (Note 5)	**161,844**	159,081	**1,445,032**
Machinery, equipment and vehicles	**145,084**	142,364	**1,295,394**
Furniture and fixtures	**24,935**	24,632	**222,636**
Lease assets (Note 9)	**18,842**	20,296	**168,234**
Construction in progress	**3,804**	4,534	**33,962**
Total	**396,439**	388,141	**3,539,636**
Accumulated depreciation (Note 5)	**(198,140)**	(186,342)	**(1,769,109)**
Net property, plant and equipment	**198,299**	201,799	**1,770,527**
Investments and other assets:			
Investment securities (Notes 4 and 11)	**89,375**	85,755	**797,995**
Investments in and advances to associated companies (Note 11)	**54,447**	54,237	**486,134**
Long-term loans	**35**	54	**315**
Goodwill		11	
Deferred tax assets (Note 8)	**1,921**	1,899	**17,151**
Other assets (Note 6)	**12,868**	12,150	**114,891**
Total investments and other assets	**158,646**	154,106	**1,416,486**
Total (Note 17)	**¥ 585,741**	¥ 577,535	**$ 5,229,832**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 5 and 11)	**¥ 41,072**	¥ 35,418	**$ 366,713**
Current portion of long-term debt (Notes 5, 9, and 11)	**7,744**	11,229	**69,146**
Payables (Note 11):			
Notes and accounts payable	**24,618**	24,653	**219,804**
Associated companies	**140**	99	**1,255**
Other	**7,813**	9,143	**69,757**
Income taxes payable	**3,907**	2,835	**34,885**
Accrued expenses	**20,869**	20,734	**186,327**
Deferred tax liabilities (Note 8)		115	
Other current liabilities	**7,989**	7,388	**71,331**
Total current liabilities	**114,152**	111,614	**1,019,218**
Long-term liabilities:			
Long-term debt (Notes 5, 9, and 11)	**62,856**	69,758	**561,215**
Liability for retirement benefits (Note 6)	**7,973**	9,971	**71,186**
Asset retirement obligations	**973**	917	**8,688**
Deferred tax liabilities (Note 8)	**19,901**	17,510	**177,685**
Other long-term liabilities	**3,005**	2,300	**26,835**
Total long-term liabilities	**94,708**	100,456	**845,609**
Commitments and contingent liabilities (Note 9)			
Equity (Notes 7 and 15):			
Common stock— authorized, 700,000,000 shares; issued, 175,910,218 shares in 2017 and 2016	**31,118**	31,118	**277,836**
Capital surplus	**41,581**	41,534	**371,259**
Retained earnings	**314,102**	290,723	**2,804,479**
Treasury stock—at cost 10,548,970 shares in 2017 and 10,650,620 shares in 2016	**(40,446)**	(41,213)	**(361,126)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**26,117**	24,485	**233,188**
Foreign currency translation adjustments	**(26,599)**	(11,217)	**(237,488)**
Defined retirement benefit plans	**(2,370)**	(3,633)	**(21,162)**
Total	**343,503**	331,797	**3,066,986**
Noncontrolling interests	**33,378**	33,668	**298,019**
Total equity	**376,881**	365,465	**3,365,005**
Total	**¥585,741**	¥577,535	**$5,229,832**

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net sales (Note 17)	**¥378,308**	¥390,412	**$3,377,747**
Cost of sales (Notes 6, 9, and 14)	**163,973**	171,611	**1,464,041**
Gross profit	**214,335**	218,801	**1,913,706**
Selling, general and administrative expenses (Notes 6, 9, 13, and 14)	**177,053**	178,744	**1,580,835**
Operating income (Note 17)	**37,282**	40,057	**332,871**
Other income (expenses):			
Interest and dividend income	**4,585**	4,443	**40,941**
Interest expense	**(709)**	(915)	**(6,326)**
Foreign exchange gain	**2,223**	2,348	**19,845**
Equity in earnings of associated companies	**4,443**	3,314	**39,668**
Loss on valuation of investment securities	**(373)**		**(3,333)**
Loss on liquidation of subsidiaries and associates		(332)	
Loss on impairment	**(177)**	(140)	**(1,578)**
Other—net (Note 4)	**1,407**	967	**12,567**
Other income—net	**11,399**	9,685	**101,784**
Income before income taxes	**48,681**	49,742	**434,655**
Income taxes (Note 8):			
Current	**12,464**	12,143	**111,288**
Deferred	**1,244**	2,952	**11,109**
Total income taxes	**13,708**	15,095	**122,397**
Net income	**34,973**	34,647	**312,258**
Net income attributable to noncontrolling interests	**4,818**	5,804	**43,020**
Net income attributable to owners of the parent	**¥ 30,155**	¥ 28,843	**$ 269,238**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 16):			
Basic net income	**¥ 182.39**	¥ 174.54	**$ 1.63**
Cash dividends applicable to the year	**32.00**	50.00	**0.29**

Diluted net income per share of common stock for 2017 and 2016 was not calculated due to the absence of dilutive securities.
See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net income	**¥34,973**	¥34,647	**$312,258**
Other comprehensive income (loss) (Note 12):			
Unrealized gain on available-for-sale securities	**1,659**	3,813	**14,813**
Foreign currency translation adjustments	**(18,927)**	(23,193)	**(168,995)**
Defined retirement benefit plans	**1,270**	(2,817)	**11,342**
Share of other comprehensive income in associates	**422**	127	**3,771**
Total other comprehensive loss	**(15,576)**	(22,070)	**(139,069)**
Comprehensive income	**¥19,397**	¥12,577	**$173,189**
Total comprehensive income (loss) attributable to:			
Owners of the parent	**¥17,668**	¥13,464	**$157,750**
Noncontrolling interests	**1,729**	(887)	**15,439**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2017

	Thousands	Millions of yen									
						Accumulated other comprehensive income (loss)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
Balance, March 31, 2015	165,306	¥31,118	¥41,537	¥268,077	¥(40,732)	¥20,751	¥ 5,096	¥ (833)	¥325,014	¥37,199	¥362,213
Net income attributable to owners of the parent				28,843					28,843		28,843
Surplus from disposal of treasury stock			72						72		72
Change in the parent's ownership interest due to transactions with noncontrolling interests			(75)						(75)		(75)
Cash dividends, ¥50.0 per share				(6,197)					(6,197)		(6,197)
Repurchase of treasury stock	(82)				(687)				(687)		(687)
Other decrease in treasury stock	36				206				206		206
Net change in the year						3,734	(16,313)	(2,800)	(15,379)	(3,531)	(18,910)
Balance, March 31, 2016	165,260	31,118	41,534	290,723	(41,213)	24,485	(11,217)	(3,633)	331,797	33,668	365,465
Net income attributable to owners of the parent				**30,155**					**30,155**		**30,155**
Surplus from disposal of treasury stock			**41**						**41**		**41**
Change in the parent's ownership interest due to transactions with noncontrolling interests			**6**						**6**		**6**
Cash dividends, ¥32.0 per share				**(6,776)**					**(6,776)**		**(6,776)**
Repurchase of treasury stock	**(1)**				**(3)**				**(3)**		**(3)**
Other decrease in treasury stock	**102**				**770**				**770**		**770**
Net change in the year						**1,632**	**(15,382)**	**1,263**	**(12,487)**	**(290)**	**(12,777)**
Balance, March 31, 2017	**165,361**	**¥31,118**	**¥41,581**	**¥314,102**	**¥(40,446)**	**¥26,117**	**¥(26,599)**	**¥(2,370)**	**¥343,503**	**¥33,378**	**¥376,881**

	Thousands of U.S. dollars (Note 1)									
					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
Balance, March 31, 2016	$277,836	$370,842	$2,595,746	$(367,975)	$218,618	$(100,154)	$(32,439)	$2,962,474	$300,605	$3,263,079
Net income attributable to owners of the parent			**269,238**					**269,238**		**269,238**
Surplus from disposal of treasury stock		**362**						**362**		**362**
Change in the parent's ownership interest due to transactions with noncontrolling interests		**55**						**55**		**55**
Cash dividends, $0.29 per share			**(60,505)**					**(60,505)**		**(60,505)**
Repurchase of treasury stock				**(24)**				**(24)**		**(24)**
Other decrease in treasury stock				**6,873**				**6,873**		**6,873**
Net change in the year					**14,570**	**(137,334)**	**11,277**	**(111,487)**	**(2,586)**	**(114,073)**
Balance, March 31, 2017	**$277,836**	**$371,259**	**$2,804,479**	**$(361,126)**	**$233,188**	**$(237,488)**	**$(21,162)**	**$3,066,986**	**$298,019**	**$3,365,005**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes	**¥ 48,681**	¥ 49,742	**$ 434,655**
Adjustments for:			
Income taxes—paid	**(11,856)**	(13,454)	**(105,859)**
Income taxes—refund	**663**	296	**5,920**
Depreciation and amortization (Note 17)	**22,661**	24,365	**202,329**
Loss on disposals and sales of property, plant and equipment	**98**	402	**873**
Equity in earnings of associated companies	**(4,443)**	(3,314)	**(39,668)**
Loss on valuation of investment securities	**373**		**3,333**
Loss on liquidation of subsidiaries and affiliates		332	
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	**551**	(2,261)	**4,920**
(Increase) decrease in inventories	**(959)**	2,095	**(8,562)**
Increase in payables	**813**	1,813	**7,260**
(Decrease) increase in liability for retirement benefits	**(1,938)**	2,126	**(17,305)**
Other—net	**5,355**	8	**47,809**
Total adjustments	**11,318**	12,408	**101,050**
Net cash provided by operating activities	**59,999**	62,150	**535,705**
Investing activities:			
Transfers to time deposits	**(55,466)**	(24,789)	**(495,235)**
Proceeds from withdrawing time deposits	**36,976**	20,297	**330,148**
Purchases of property, plant and equipment	**(24,773)**	(30,772)	**(221,186)**
Proceeds from sales of property, plant and equipment	**605**	668	**5,402**
Purchases of investment securities	**(1,635)**	(2,347)	**(14,602)**
Acquisition of controlling interest in companies		25	
Other—net (Note 4)	**(693)**	(520)	**(6,191)**
Net cash used in investing activities	**(44,986)**	(37,438)	**(401,664)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Financing activities:			
Net increase (decrease) in short-term loans	**5,782**	(1,199)	**51,628**
Proceeds from long-term debt		5,521	
Payments for settlement of long-term debt	**(11,189)**	(10,923)	**(99,904)**
Repurchase of treasury stock	**(2)**	(5)	**(24)**
Sales of treasury stock	**549**	301	**4,903**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(62)**		**(557)**
Dividends paid	**(6,767)**	(6,182)	**(60,417)**
Dividends paid to noncontrolling interests	**(2,236)**	(2,528)	**(19,961)**
Other—net	**176**	(10)	**1,571**
Net cash used in financing activities	**(13,749)**	(15,025)	**(122,761)**
Foreign currency translation adjustments on cash and cash equivalents	**(7,932)**	(11,290)	**(70,817)**
Net decrease in cash and cash equivalents	**(6,668)**	(1,603)	**(59,537)**
Cash and cash equivalents, beginning of year	**101,799**	103,402	**908,920**
Cash and cash equivalents, end of year	**¥ 95,131**	¥101,799	**$ 849,383**

See notes to consolidated financial statements.

NOTE 1 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which YAKULT HONSHA CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to U.S.$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its 74 (74 in 2016) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (4 in 2016) associated companies are accounted for by the equity method.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

(B) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Cordification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized development costs of R&D; and 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(C) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD

ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized development costs of R&D; and 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(D) BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(E) CASH EQUIVALENTS

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

(F) INVENTORIES

Inventories are stated at the lower of cost, mainly determined by the moving-average method, or net selling value.

(G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is mainly computed by the declining-balance method based on the estimated useful lives of assets. On the other hand, the straight-line method is principally applied to the property, plant and equipment of foreign subsidiaries.

Estimated useful lives are as follows:

• The Company and its domestic subsidiaries

Buildings and structures	7 to 50 years
Machinery, equipment and vehicles	4 to 17 years

• Foreign subsidiaries

Buildings and structures	5 to 40 years
Machinery, equipment and vehicles	3 to 21 years

The useful lives for leased assets are the terms of the respective leases.

Pursuant to an amendment to the Corporate Tax Act, the Company and subsidiaries in Japan adopted ASBJ PITF No. 32 "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect on operating income and income before income taxes was not significant.

(H) LONG-LIVED ASSETS

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(I) INVESTMENT SECURITIES

The Group classifies all securities as available-for-sale securities, and reports marketable securities at fair value, with unrealized gains and losses (net of applicable taxes) as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(J) RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have noncontributory and contributory funded pension plans covering substantially all of their employees. Certain subsidiaries have unfunded retirement benefit plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

Retirement benefits to Directors and Audit and Supervisory Board Members of certain subsidiaries are provided at the amount which would be required if all Directors and Audit and Supervisory Board Members retired at each balance sheet date.

(K) ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

(M) LEASES

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

(N) INCOME TAXES

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

(O) FOREIGN CURRENCY TRANSACTIONS

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(P) FOREIGN CURRENCY FINANCIAL STATEMENTS

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rate.

(Q) PER SHARE INFORMATION

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share for the years ended March 31, 2017 and 2016, is not disclosed due to the absence of dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(R) ACCOUNTING CHANGES AND ERROR CORRECTIONS

Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors

When an error in prior-period consolidated financial statements is discovered, those statements are restated.

(S) NEW ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards ("IFRS") 16 "Leases"—On January 13, 2016, the International Accounting Standards Board issued a new accounting standard for leases, IFRS 16 "Leases."

IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities if IFRS 15 "Revenue from Contracts with Customers" has also been applied.

The Company expects to apply the new standard from the annual period beginning on April 1, 2019, and is in the process of measuring the effects of applying the new standard in future applicable periods.

NOTE 3 INVENTORIES

Inventories at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished products	**¥ 8,641**	¥ 8,146	**$ 77,157**
Work in process	**2,726**	3,401	**24,335**
Raw materials and supplies	**17,159**	16,509	**153,206**
Total	**¥28,526**	¥28,056	**$254,698**

NOTE 4 INVESTMENT SECURITIES

Investment securities at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investment securities:			
Marketable equity securities	**¥86,454**	¥82,553	**$771,909**
Trust fund investments and other	**2,921**	3,202	**26,086**
Total	**¥89,375**	¥85,755	**$797,995**

The costs and aggregate fair values of investment securities at March 31, 2017 and 2016, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥49,450**	**¥37,558**	**¥ 584**	**¥86,454**
March 31, 2016				
Securities classified as—				
Available-for-sale:				
Equity securities	¥47,913	¥35,739	¥1,099	¥82,553

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017				
Securities classified as—				
Available-for-sale:				
Equity securities	**$441,518**	**$335,601**	**$5,210**	**$771,909**

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2017 and 2016, were ¥2,921 million ($26,086 thousand) and ¥3,202 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2017 and 2016, were ¥63 million ($561 thousand) and ¥53 million, respectively. Gross realized loss on these sales for the year ended March 31, 2017, computed on the moving average cost basis, was ¥40 million ($359 thousand). Gross realized gain on these sales for the year ended March 31, 2016, computed on the moving average cost basis, was ¥17 million.

NOTE 5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings mainly consisting of bank loans, which include notes to banks and bank overdrafts, at March 31, 2017 and 2016, were ¥41,072 million ($366,713 thousand) and ¥35,418 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2017 and 2016, ranged from 0.25% to 3.80% and 0.33% to 1.39%, respectively.

Long-term debt at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans from banks and other financial institutions, 0.41% to 4.93% (0.45% to 4.93% in 2016), due serially to 2030:			
Collateralized	**¥ 3,402**	¥ 3,818	**$ 30,377**
Unsecured	**59,688**	68,077	**532,930**
Obligations under finance leases (Note 9)	**7,510**	9,092	**67,054**
Total	**70,600**	80,987	**630,361**
Less current portion	**(7,744)**	(11,229)	**(69,146)**
Long-term debt, less current portion	**¥62,856**	¥69,758	**$561,215**

Annual maturities of long-term debt as of March 31, 2017, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 7,744	$ 69,146
2019	47,399	423,199
2020	7,043	62,883
2021	4,177	37,297
2022	1,213	10,832
2023 and thereafter	3,024	27,004
Total	¥70,600	$630,361

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2017, were as follows:

March 31, 2017	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 9**	**$ 82**
Land	**3,954**	**35,304**
Buildings and structures—net of accumulated depreciation	**1,970**	**17,589**
Total	**¥5,933**	**$52,975**

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

NOTE 6 RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have severance payment plans for employees. Certain subsidiaries have severance payment plans for Directors and Audit & Supervisory Board Members.

The plans provide benefits based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2017 and 2016, included the amounts of ¥501 million ($4,475 thousand) and ¥499 million, respectively, for Directors and Audit & Supervisory Board Members. The retirement benefits for Directors and Audit & Supervisory Board Members are paid subject to the approval of the shareholders.

The Company and certain subsidiaries have various noncontributory and contributory plans and other retirement benefit plans.

1. The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year (as restated)	**¥63,694**	¥60,215	**$568,696**
Current service cost	**3,331**	3,034	**29,743**
Interest cost	**426**	669	**3,805**
Actuarial (gains) losses	**(77)**	3,799	**(685)**
Benefits paid	**(3,052)**	(3,576)	**(27,248)**
Others	**(335)**	(447)	**(2,994)**
Balance at end of year	**¥63,987**	¥63,694	**$571,317**

2. The changes in plan assets for the years ended March 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥54,531**	¥52,988	**$486,886**
Expected return on plan assets	**1,279**	1,177	**11,422**
Actuarial gains (losses)	**262**	(770)	**2,341**
Contributions from the employer	**3,868**	4,538	**34,532**
Benefits paid	**(2,829)**	(3,145)	**(25,259)**
Others	**(149)**	(257)	**(1,330)**
Balance at end of year	**¥56,962**	¥54,531	**$508,592**

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Defined benefit obligation	**¥61,122**	¥60,906	**$545,729**
Plan assets	**(56,962)**	(54,531)	**(508,592)**
Total	**4,160**	6,375	**37,137**
Unfunded defined benefit obligation	**2,865**	2,788	**25,588**
Net liability arising from defined benefit obligation	**¥ 7,025**	¥ 9,163	**$ 62,725**

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Liability for retirement benefits	**¥7,472**	¥9,472	**$66,711**
Asset for retirement benefits	**(447)**	(309)	**(3,986)**
Net liability arising from defined benefit obligation	**¥7,025**	¥9,163	**$62,725**

4. The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service cost	**¥3,331**	¥3,034	**$29,743**
Interest cost	**426**	669	**3,805**
Expected return on plan assets	**(1,279)**	(1,177)	**(11,422)**
Recognized actuarial losses	**1,445**	542	**12,900**
Others	**162**	99	**1,449**
Net periodic benefit costs	**¥4,085**	¥3,167	**$36,475**

5. The amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Actuarial gains (losses)	**¥1,831**	¥(4,029)	**$16,348**
Total	**1,831**	(4,029)	**16,348**

6. The amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized actuarial losses	**¥3,440**	¥5,271	**$30,714**
Total	**3,440**	5,271	**30,714**

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Bonds	**15%**	11%
Stocks	**22**	24
Cash and Deposits	**29**	35
General accounts	**25**	24
Others	**9**	6
Total	**100%**	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2017 and 2016, are set forth as follows:

	2017	2016
Discount rate	**0.7%**	0.6%
Expected rate of return on plan assets	**2.5**	2.5

NOTE 7 EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(A) DIVIDENDS

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(B) INCREASES/DECREASES AND TRANSFER OF COMMON STOCK, RESERVE, AND SURPLUS

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(C) TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

NOTE 8 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal statutory tax rate of approximately 30.86% and 33.06% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2017 and 2016, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Pension and severance costs	**¥ 2,451**	¥ 2,979	**$ 21,879**
Tax loss carryforwards	**6,344**	7,132	**56,644**
Accrued bonuses	**1,886**	1,841	**16,837**
Others	**7,621**	7,954	**68,048**
Less valuation allowance	**(8,055)**	(8,655)	**(71,919)**
Total	**¥ 10,247**	¥ 11,251	**$ 91,489**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**¥ 10,984**	¥ 10,543	**$ 98,071**
Undistributed earnings of foreign subsidiaries and associated companies	**8,667**	7,619	**77,382**
Unrealized gain on land held by subsidiaries	**1,193**	1,293	**10,654**
Others	**2,612**	2,486	**23,319**
Total	**¥ 23,456**	¥ 21,941	**$ 209,426**
Net deferred tax liabilities	**¥(13,209)**	¥(10,690)	**$(117,937)**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	**30.86%**	33.06%
Equity in earnings of associated companies	**(2.82)**	(2.20)
Tax exemption	**(0.35)**	(0.71)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**2.15**	1.92
Social expenses not deductible for income tax purposes	**1.40**	1.55
Tax rate differences in foreign subsidiaries	**(3.63)**	(5.35)
Effect of tax rate reduction		0.06
Others—net	**0.55**	2.02
Actual effective tax rate	**28.16%**	30.35%

On March 31, 2017, certain subsidiaries have tax loss carryforwards aggregating approximately ¥17,661 million ($157,688 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 238	$ 2,128
2019	407	3,630
2020	388	3,468
2021	363	3,240
2022	586	5,236
2023 and thereafter	15,679	139,986
Total	¥17,661	$157,688

NOTE 9 LEASES

The Group leases certain machinery, research equipment, vending machines, computer equipment, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2017		**2017**	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥2,146**	**¥1,266**	**$19,159**	**$11,301**
Due after one year	**5,364**	**2,162**	**47,895**	**19,305**
Total	**¥7,510**	**¥3,428**	**$67,054**	**$30,606**

	Millions of yen	
	2016	
	Finance leases	Operating leases
Due within one year	¥2,557	¥ 909
Due after one year	6,535	1,695
Total	¥9,092	¥2,604

NOTE 10 RELATED PARTY DISCLOSURES

Transactions of the Company with related parties that are owned by Directors, Audit & Supervisory Board Members, and their close relatives for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Sales	**¥6,962**	¥6,708	**$62,156**
Sales discount and rebate	**155**	74	**1,386**
Collection of loans	**7**	7	**62**
Rent of vending machines	**23**	12	**205**
Temporary receipt	**2,473**	2,195	**22,078**
Subsidy of sales expenses	**50**	32	**447**
Rent of leased assets	**21**	21	**189**

The balances due to or from these related parties at March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Notes and accounts receivable	**¥1,629**	¥1,543	**$14,546**
Other receivables	**8**	6	**75**
Long-term loans	**11**	17	**94**
Other payables	**45**	26	**399**
Accrued expenses	**19**	7	**166**
Other current liabilities		1	
Other long-term liabilities	**50**		**450**

NOTE 11 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group uses bank loans based on its capital investment plan mainly for the food and beverages business.

Temporal surplus funds are invested in short-term investments exposed to an insignificant risk of changes in value such as bank deposits. The Group does not invest in speculative instruments in compliance with the Group policy.

(2) NATURE, EXTENT OF RISK, AND RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

Notes and accounts receivable are exposed to customer credit risk. To manage such credit risk, the Group monitors payment terms and credit information of major customers. Investment securities, mainly held for business-related purposes, are exposed to the risk of market price fluctuations. To manage such market risk, the fair value of the investments are obtained regularly and reported to the Company's Board of Directors.

Payment terms of notes and accounts payable are usually within one year.

Loans are made principally in connection with capital investments. Most of the loans are at variable interest rates and exposed to the risk of interest rate fluctuations. It is the Group's policy not to hedge such market risk by derivatives such as interest-rate swaps as a result of considering the financial market situation and outstanding balance.

Payables and loans are exposed to liquidity risk. The Group manages the risk by reviewing cash flow projections prepared by the accounting and related departments.

(3) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are based on the quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. The estimation might differ if other valuation techniques were used.

	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2017			
Cash and cash equivalents	**¥ 95,131**	**¥ 95,131**	
Time deposits	**36,899**	**36,899**	
Receivables	**58,492**		
Allowance for doubtful accounts	**(229)**		
Receivables—net	**58,263**	**58,263**	
Investment securities	**86,454**	**86,454**	
Total	**¥276,747**	**¥276,747**	
Short-term borrowings	**¥ 41,072**	**¥ 41,072**	
Payables	**32,571**	**32,571**	
Long-term debt (exclude obligations under finance leases)	**63,090**	**63,288**	**¥198**
Total	**¥136,733**	**¥136,931**	**¥198**

	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2016			
Cash and cash equivalents	¥101,799	¥101,799	
Time deposits	20,047	20,047	
Receivables	61,369		
Allowance for doubtful accounts	(204)		
Receivables—net	61,165	61,165	
Investment securities	82,553	82,553	
Total	¥265,564	¥265,564	
Short-term borrowings	¥ 35,418	¥ 35,418	
Payables	33,895	33,895	
Long-term debt (exclude obligations under finance leases)	71,895	72,178	¥283
Total	¥141,208	¥141,491	¥283

	Thousands of U.S. dollars		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2017			
Cash and cash equivalents	**$ 849,383**	**$ 849,383**	
Time deposits	**329,456**	**329,456**	
Receivables	**522,251**		
Allowance for doubtful accounts	**(2,046)**		
Receivables—net	**520,205**	**520,205**	
Investment securities	**771,909**	**771,909**	
Total	**$2,470,953**	**$2,470,953**	
Short-term borrowings	**$ 366,713**	**$ 366,713**	
Payables	**290,816**	**290,816**	
Long-term debt (exclude obligations under finance leases)	**563,307**	**565,067**	**$1,760**
Total	**$1,220,836**	**$1,222,596**	**$1,760**

Cash and cash equivalents, Time deposits, and Receivables

The carrying values of cash and cash equivalents, time deposits, and receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Short-term borrowings and Payables (excluding current portion of long-term debt)

The carrying values of short-term borrowings and payables (excluding the current portion of long-term debt) approximate fair value because of their short maturities.

Long-term debt (including current portion of long-term debt)

The fair value of long-term borrowings is determined by discounting the cash flows related to the debt at the Group's assumed corporate discount rate.

(4) FINANCIAL INSTRUMENTS WHOSE FAIR VALUE CANNOT BE RELIABLY DETERMINED

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies	**¥57,368**	¥57,439	**$512,220**

(5) MATURITY ANALYSIS FOR FINANCIAL ASSETS

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2017				
Cash and cash equivalents	**¥ 95,131**			
Time deposits	**36,899**			
Receivables	**58,492**			
Total	**¥190,522**			

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2016				
Cash and cash equivalents	¥101,799			
Time deposits	20,047			
Receivables	61,369			
Total	¥183,215			

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2017				
Cash and cash equivalents	**$ 849,383**			
Time deposits	**329,456**			
Receivables	**522,251**			
Total	**$1,701,090**			

NOTE 12 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 2,261	¥ 5,496	$ 20,187
Reclassification adjustments to profit or loss	90		807
Amount before income tax effect	2,351	5,496	20,994
Income tax effect	(692)	(1,683)	(6,181)
Total	¥ 1,659	¥ 3,813	$ 14,813

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(18,927)	¥(23,417)	$(168,995)
Reclassification adjustments to profit or loss		332	
Amount before income tax effect	(18,927)	(23,085)	(168,995)
Income tax effect		(108)	
Total	¥(18,927)	¥(23,193)	$(168,995)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 372	¥ (4,571)	$ 3,323
Reclassification adjustments to profit or loss	1,459	542	13,025
Amount before income tax effect	1,831	(4,029)	16,348
Income tax effect	(561)	1,212	(5,006)
Total	¥ 1,270	¥ (2,817)	$ 11,342

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 449	¥ 161	$ 4,014
Reclassification adjustments to profit or loss	(27)	(34)	(243)
Total	¥ 422	¥ 127	$ 3,771
Total other comprehensive income (loss)	¥(15,576)	¥(22,070)	$(139,069)

NOTE 13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Advertising	¥17,280	¥14,303	$154,283
Salaries	37,117	37,901	331,402
Net periodic benefit costs	3,064	2,277	27,353
Depreciation and amortization	4,496	5,238	40,142
Research and development	10,512	12,641	93,856

NOTE 14 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,549 million ($94,190 thousand) and ¥12,678 million for the years ended March 31, 2017 and 2016, respectively.

NOTE 15 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's Board of Directors' meeting held on May 12, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥16.00 ($0.14) per share	¥2,646	$23,623

NOTE 16 NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016, is as follows:

Diluted net income per share for the years ended March 31, 2017 and 2016, is not disclosed due to the absence of dilutive securities.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2017				
Basic EPS:				
Net income available to common shareholders	**¥30,155**	**165,327**	**¥182.39**	**$1.63**

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average shares	EPS
For the year ended March 31, 2016			
Basic EPS:			
Net income available to common shareholders	¥28,843	165,250	¥174.54

NOTE 17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decisionmaker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) DESCRIPTION OF REPORTABLE SEGMENTS

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of Food and Beverages (Japan), Food and Beverages (The Americas), Food and Beverages (Asia and Oceania), Food and Beverages (Europe), Pharmaceuticals, and Others.

Food and Beverages (Japan) consists of fermented milk drinks, juice, and noodles, etc.

Food and Beverages (The Americas) consists of fermented milk drinks, etc.

Food and Beverages (Asia and Oceania) consists of fermented milk drinks, etc.

Food and Beverages (Europe) consists of fermented milk drinks, etc.

Pharmaceuticals consists of anticancer drugs and other pharmaceuticals.

Others consist of cosmetics and professional baseball team operation.

(2) METHODS OF MEASUREMENT FOR THE AMOUNTS OF SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) INFORMATION ABOUT SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS

Millions of yen

2017

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	**¥186,532**	**¥45,252**	**¥93,364**	**¥7,801**	**¥27,837**	**¥17,522**		**¥378,308**
Intersegment sales or transfers	**17,599**					**2,430**	**¥(20,029)**	
Total	**204,131**	**45,252**	**93,364**	**7,801**	**27,837**	**19,952**	**(20,029)**	**378,308**
Segment profit (loss)	**13,814**	**10,324**	**25,308**	**492**	**2,890**	**904**	**(16,450)**	**37,282**
Segment assets	**183,500**	**69,400**	**173,745**	**9,031**	**26,634**	**13,586**	**109,845**	**585,741**
Other:								
Depreciation and amortization	**12,319**	**1,815**	**5,481**	**330**	**1,306**	**555**	**855**	**22,661**
Amortization of goodwill	**11**							**11**
Investment in associates			**52,314**					**52,314**
Increase in property, plant and equipment and intangible assets	**7,563**	**976**	**9,365**	**113**	**569**	**675**	**6,067**	**25,328**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,611 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥115,599 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥855 million of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥6,067 million of capital expenditure of the head office.

Millions of yen

2016

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥179,518	¥52,737	¥97,122	¥8,621	¥34,814	¥17,600		¥390,412
Intersegment sales or transfers	19,441					2,715	¥(22,156)	
Total	198,959	52,737	97,122	8,621	34,814	20,315	(22,156)	390,412
Segment profit (loss)	9,534	12,779	26,981	619	5,361	1,406	(16,623)	40,057
Segment assets	183,372	73,271	164,954	9,281	32,379	13,283	100,995	577,535
Other:								
Depreciation and amortization	12,950	2,087	5,503	466	1,487	580	1,292	24,365
Amortization of goodwill	11							11
Investment in associates								
Increase in property, plant and equipment and intangible assets	13,226	2,390	8,888	109	1,756	389	725	27,483

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,329 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥106,578 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,292 million of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥725 million of capital expenditure of the head office.

	Thousands of U.S. dollars							
	2017							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	$1,665,468	$404,037	$833,609	$69,647	$248,541	$156,445		$3,377,747
Intersegment sales or transfers	157,130					21,698	$(178,828)	
Total	1,822,598	404,037	833,609	69,647	248,541	178,143	(178,828)	3,377,747
Segment profit (loss)	123,338	92,175	225,963	4,390	25,805	8,074	(146,874)	332,871
Segment assets	1,638,397	619,639	1,551,298	80,629	237,806	121,307	980,756	5,229,832
Other:								
Depreciation and amortization	109,989	16,208	48,937	2,949	11,657	4,953	7,636	202,329
Amortization of goodwill	97							97
Investment in associates			467,088					467,088
Increase in property, plant and equipment and intangible assets	67,529	8,715	83,615	1,009	5,079	6,024	54,170	226,141

Notes: 1. Reconciliation in segment profit (loss) mainly consists of $112,594 thousand of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of $1,032,134 thousand of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of $7,636 thousand of depreciation of the head office.
4. Reconciliation in capital expenditure consists of $54,170 thousand of capital expenditure of the head office.

(4) Related information

1. Information about geographical areas

a. Sales

	Japan	The Americas	Asia and Oceania	Europe	Total
Millions of yen, 2017	**¥229,593**	**¥45,271**	**¥95,467**	**¥7,977**	**¥378,308**
Millions of yen, 2016	¥229,860	¥52,769	¥99,102	¥8,681	¥390,412
Thousands of U.S. dollars, 2017	**$2,049,937**	**$404,202**	**$852,381**	**$71,227**	**$3,377,747**

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

	Japan	The Americas	Asia and Oceania	Europe	Total
Millions of yen, 2017	**¥124,611**	**¥17,082**	**¥54,921**	**¥1,685**	**¥198,299**
Millions of yen, 2016	¥125,364	¥18,617	¥55,779	¥2,039	¥201,799
Thousands of U.S. dollars, 2017	**$1,112,596**	**$152,514**	**$490,368**	**$15,049**	**$1,770,527**

Independent Auditors' Report

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yakult Honsha Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 21, 2017

Member of
Deloitte Touche Tohmatsu Limited

Global Network

(As of April 1, 2017)

PRINCIPAL INTERNATIONAL SUBSIDIARIES AND AFFILIATES

1. YAKULT HONSHA CO., LTD.

★ Yakult Central Institute

2. Yakult Taiwan Co., Ltd.
3. Hong Kong Yakult Co., Ltd.
4. Yakult (Thailand) Co., Ltd.
5. Korea Yakult Co., Ltd.
6. Yakult Philippines, Inc.
7. Yakult (Singapore) Pte., Ltd.
8. P.T. Yakult Indonesia Persada
9. Yakult Australia Pty. Ltd.
   - New Zealand Branch
10. Yakult (Malaysia) Sdn. Bhd.
11. Yakult Vietnam Co., Ltd.
12. Yakult Danone India Pvt. Ltd.
13. Yakult (China) Corporation
14. Guangzhou Yakult Co., Ltd.
15. Shanghai Yakult Co., Ltd.
16. Beijing Yakult Co., Ltd.
17. Tianjin Yakult Co., Ltd.
18. Wuxi Yakult Co., Ltd.
19. Yakult Myanmar Co., Ltd.
20. Yakult Middle East FZCO
21. Yakult S/A Ind. E Com. (Brazil)
22. Yakult S.A. de C.V. (Mexico)
23. Yakult U.S.A. Inc.
24. Yakult Europe B.V.
25. Yakult Nederland B.V.
26. Yakult Belgium N.V./S.A.
27. Yakult UK Ltd.
    - Ireland Branch
28. Yakult Deutschland GmbH
29. Yakult Oesterreich GmbH
30. Yakult Italia S.R.L.

★ Yakult Honsha European Research Center for Microbiology, ESV

Countries where test and other sales are conducted: Luxembourg, France, Spain, Brunei, Uruguay, Canada, Belize, Malta, Switzerland, the United Arab Emirates, Oman, Bahrain, Qatar and Kuwait

Corporate Data

(As of March 31, 2017)

CORPORATE NAME	YAKULT HONSHA CO., LTD.
DATE FOUNDED	1935
DATE INCORPORATED	April 9, 1955
HEAD OFFICE	1-19, Higashi Shimbashi 1-chome, Minato-ku, Tokyo 105-8660, Japan URL: http://www.yakult.co.jp/
PAID-IN CAPITAL	¥31,117,654,815
ANNUAL ACCOUNT SETTLEMENT DATE	March 31
NUMBER OF EMPLOYEES	24,636 (Consolidated)
NUMBER OF ISSUED AND OUTSTANDING SHARES	175,910,218
NUMBER OF SHAREHOLDERS	24,693*

* Including shareholders who own shares of less than one unit

OFFICES

1 head office, 1 institute, 5 branches, 7 plants

- ● **Head Office**
- ★ **Yakult Central Institute**

Branches

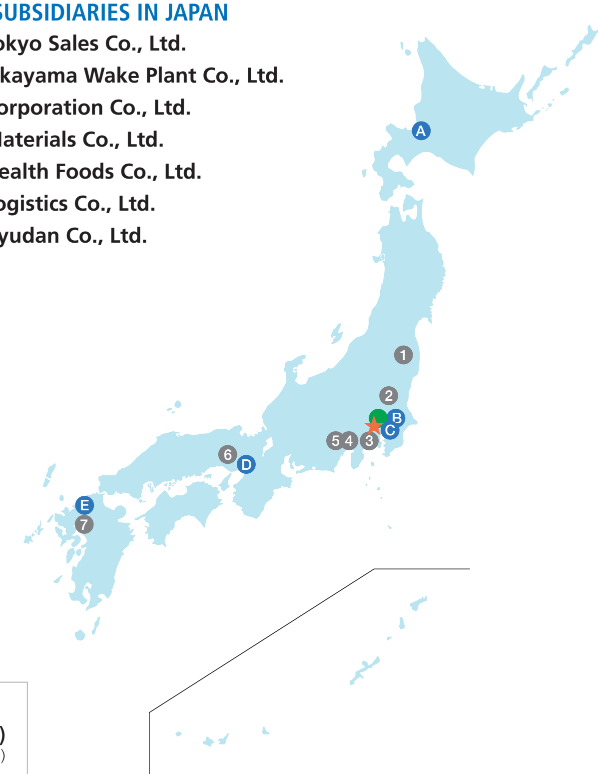
- A **Hokkaido Branch**
- B **East Japan Branch**
- C **Metropolitan Branch**
- D **Central Japan Branch**
- E **West Japan Branch**

Plants

- 1 **Fukushima Plant**
- 2 **Ibaraki Plant**
- 3 **Shonan Cosmetics Plant**
- 4 **Fuji Susono Plant**
- 5 **Fuji Susono Pharmaceuticals Plant**
- 6 **Hyogo Miki Plant**
- 7 **Saga Plant**

MAJOR SUBSIDIARIES IN JAPAN

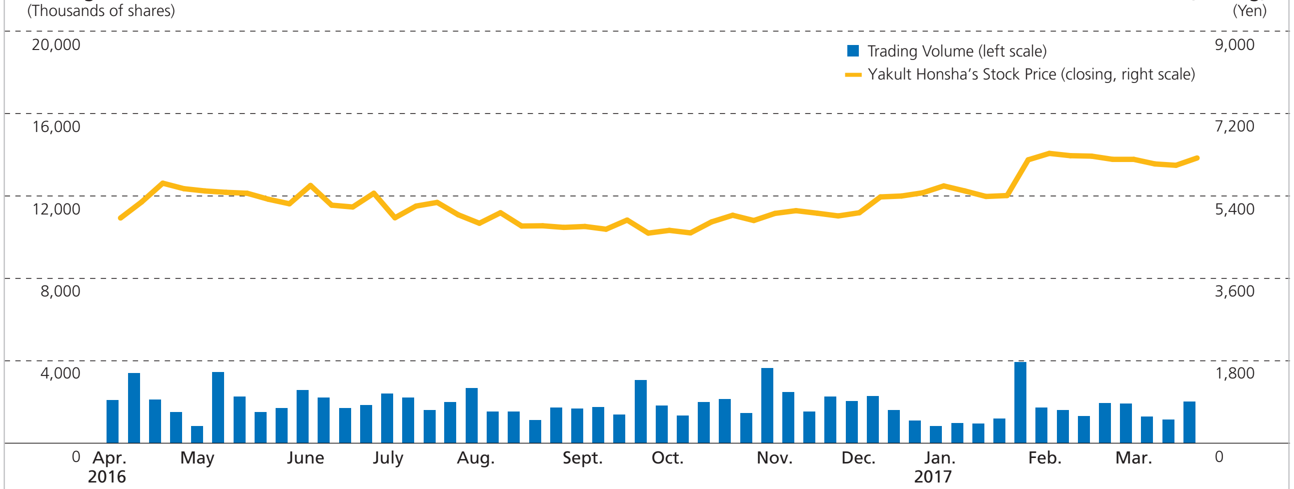
Yakult Tokyo Sales Co., Ltd.
Yakult Okayama Wake Plant Co., Ltd.
Yakult Corporation Co., Ltd.
Yakult Materials Co., Ltd.
Yakult Health Foods Co., Ltd.
Yakult Logistics Co., Ltd.
Yakult Kyudan Co., Ltd.



SHARE PRICE MOVEMENT

Trading Volume
(Thousands of shares)

Yakult Honsha's Stock Price (Closing)
(Yen)



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報1708RV1220（宝）
Printed in Japan