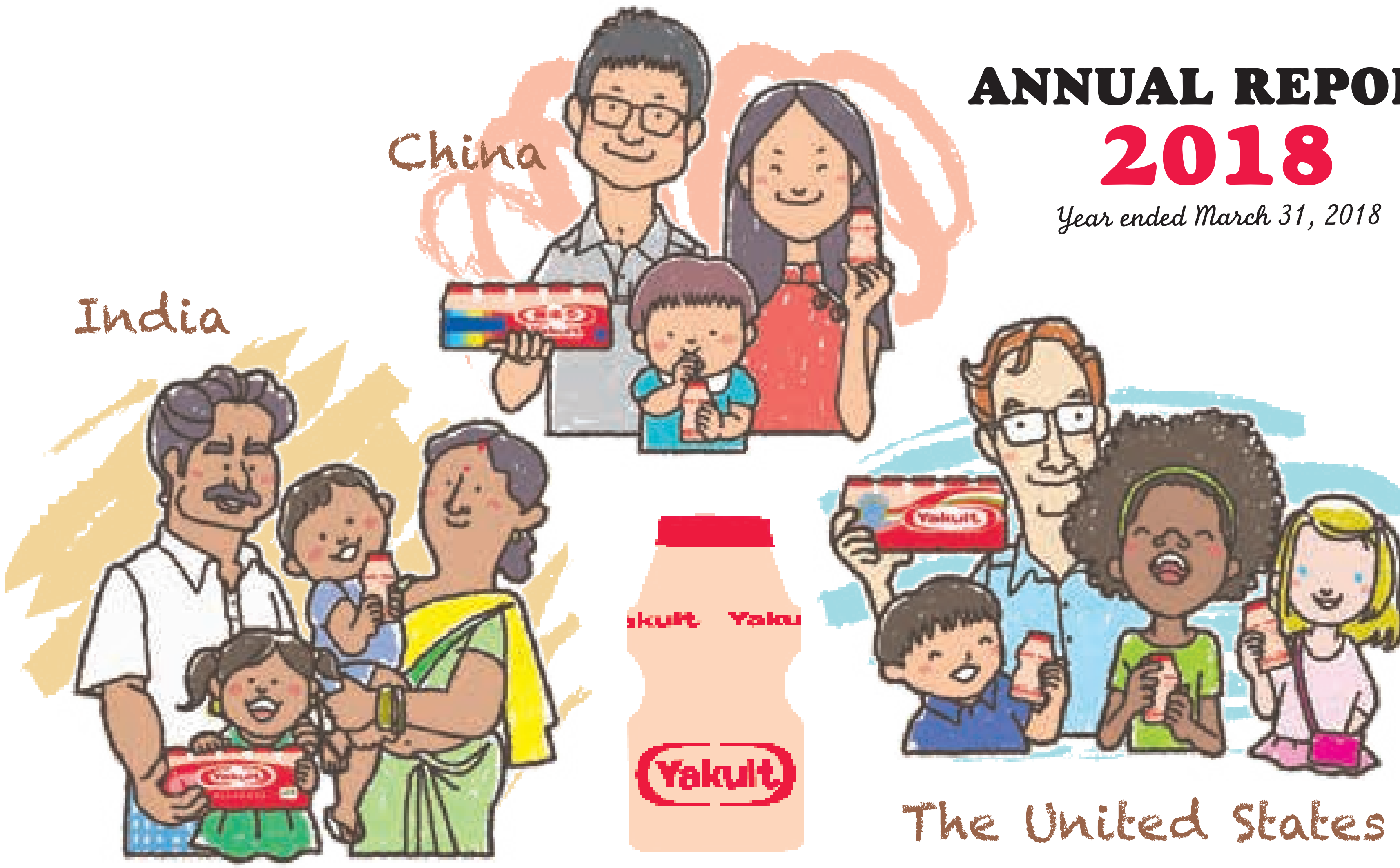
Yakult

ANNUAL REPORT 2018

Year ended March 31, 2018



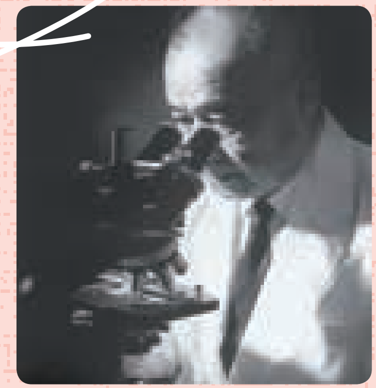
Yakult's Potential in the World's Three Most Populous Countries

Growing from Our Roots

contents

Forward-Looking Statements
Statements contained in the Annual Report 2018 regarding business results for fiscal 2018 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.

Dr. Minoru Shirota



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 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, as of March 31, 2018. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceutical 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.

The Sources of Yakult's Strength

Yakult has three unique sources of strength:

Product 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 pharmaceuticals and cosmetics as well.

The Yakult Lady System:

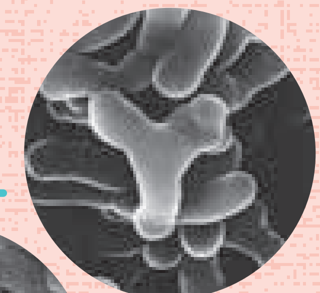
Everywhere Is Local

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.

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 new ingredients in food, pharmaceuticals, cosmetics and other areas.



Electron micrograph of *Bifidobacterium breve* strain Yakult

Electron micrograph of *Lactobacillus casei* strain Shirota

Yakult Consumption around the World

Taking Good Health Global

THE AMERICAS

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

United States*

294 Thousands of bottles/day

Mexico*

3,678 Thousands of bottles/day

Brazil*

1,817 Thousands of bottles/day

Austria

12 Thousands of bottles/day

United Kingdom*

198 Thousands of bottles/day

Italy

95 Thousands of bottles/day

Germany

81 Thousands of bottles/day

The Netherlands*

173 Thousands of bottles/day

Belgium*

76 Thousands of bottles/day

EUROPE

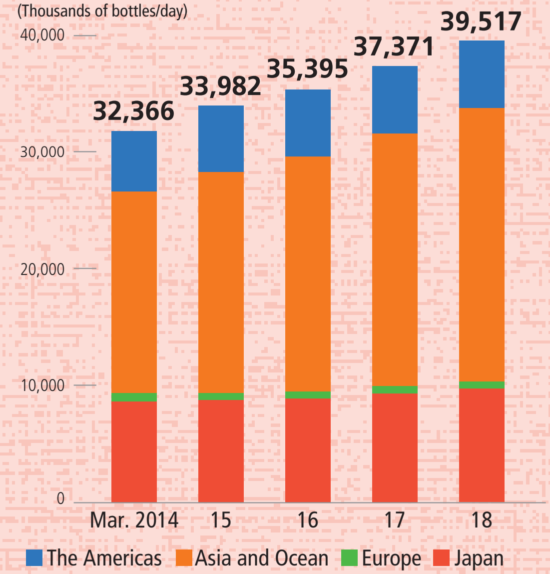
Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2018, 2017, 2016, 2015 and 2014

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2014	2015	2016	2017	**2018**	**2018**
For the year:						
Net sales	¥350,322	¥367,980	¥390,412	¥378,308	**¥401,570**	**$3,788,393**
Operating income	32,026	34,898	40,057	37,282	**43,464**	**410,034**
Net income attributable to owners of the parent	22,544	25,056	28,843	30,155	**34,065**	**321,367**
At the year-end:						
Total assets	¥519,571	¥579,345	¥577,535	¥585,741	**¥631,242**	**$5,955,111**
Total liabilities	211,538	217,132	212,070	208,860	**244,568**	**2,307,241**
Total equity	308,033	362,213	365,465	376,881	**386,674**	**3,647,870**
Financial ratio:						
Return on equity (ROE) (%)	8.4	8.4	8.8	8.9	**9.8**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 134.44	¥ 151.58	¥ 174.54	¥ 182.39	**¥ 207.02**	**$ 1.95**
Total equity (Note 3)	1,662.37	1,966.13	2,007.73	2,077.29	**2,194.32**	**20.70**
Cash dividends applicable to the year	24.00	25.00	50.00	32.00	**34.00**	**0.32**

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 ¥106 to U.S.$1, the approximate rate of exchange at March 31, 2018.
3. Noncontrolling interests are not included in equity on process of calculation.

Sales Volume by Region



ASIA AND OCEANIA

Middle East

11 Thousands of bottles/day

South Korea

3,573 Thousands of bottles/day

Thailand

2,211 Thousands of bottles/day

China (total)

7,003 Thousands of bottles/day

Breakdown is as follows:

· Guangzhou	2,660
· Shanghai	651
· Beijing	413
· Other areas of China	3,279

Taiwan

751 Thousands of bottles/day

Hong Kong

528 Thousands of bottles/day

Australia*

245 Thousands of bottles/day

The Philippines

2,762 Thousands of bottles/day

Indonesia

5,294 Thousands of bottles/day

India

186 Thousands of bottles/day

Vietnam

275 Thousands of bottles/day

Singapore*

229 Thousands of bottles/day

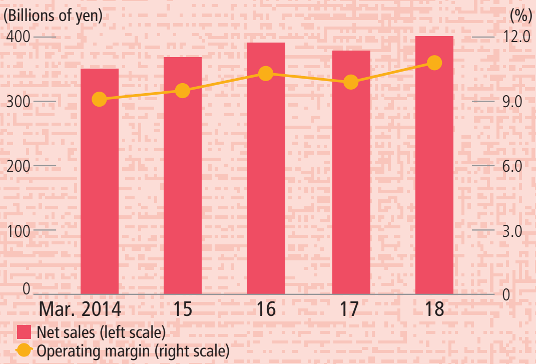
Malaysia

330 Thousands of bottles/day

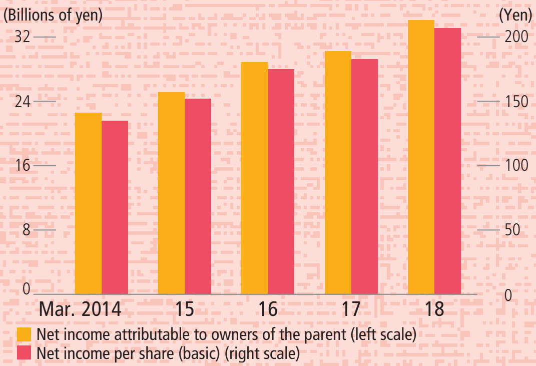
Japan

9,694 Thousands of bottles/day

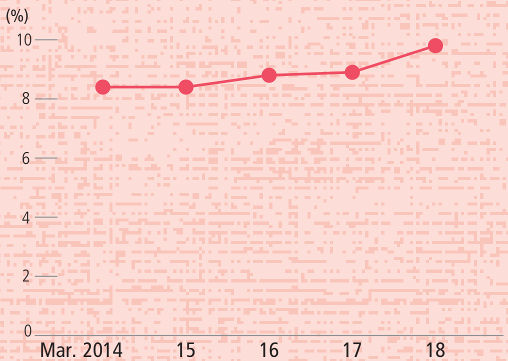
Net Sales and Operating Margin



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



ROE



To Our Shareholders

Takashige Negishi
President and Representative Director

We strive for continuous business growth and improved IR initiatives to meet the expectations of shareholders and investors.

As we have already disclosed, Danone, the Company's largest shareholder, sold a portion of its holdings of the Company's shares in the form of a global offering. As a result of this secondary offering of shares, Danone's shareholding percentage decreased from approximately 20% of total shares issued to 6.2%.

In addition to this secondary offering of shares, the memorandum of understanding with Danone was amended. In the revised memorandum of understanding, the Company and Danone agree to continue their joint ventures, active promotion of probiotics, and research activities that have been jointly undertaken. They also agreed to consider the feasibility of new collaborative businesses, such as the sale of the Company's products by Danone in European markets that the Company has yet to enter on a full scale. The Company and Danone have built an amicable long-term relationship, and intend to carry on this good relationship in order to continue to promote probiotics globally.

The secondary offering of shares has enhanced the liquidity of the shares of the Company as well as increased the number of domestic and overseas shareholders. In this regard, we will work harder than ever before to improve investor relations (IR) initiatives to meet the expectations of shareholders and investors.

With regards to the returns for shareholders, the Company strengthened returns to shareholders through a ¥36 billion repurchase of shares at the time of offering, as well as the retirement of all repurchased shares. Based on the policy of placing priority on the payment of a stable and continuous dividend, our dividend forecast for the current fiscal year calls for an increase of ¥6.0 per share in the annual dividend, to ¥40.0.

With respect to information disclosure, we are continuing to enhance the "For Investors" page on the Company's website. Specifically, with due consideration to the increase in overseas investors, we have increased the availability of English language financial statements as well as Supplementary Materials for Financial Statements. In addition to this we have added monthly information on the number of bottles of dairy products sold domestically to the website as part of fair disclosure.

The fiscal year under review was the first year of the third phase of our long-term vision, Yakult Vision 2020, and we have made a good start, achieving higher revenue and profit. We will strive for "continuous business growth," which is an objective of the long-term vision, and improve IR initiatives to meet the expectations of investors and all our other stakeholders.

We look forward to the continued understanding and support of our shareholders and investors.

August 2018

Interview With The President

Reflecting on the Fiscal Year Ended March 31, 2018

Q Please summarize the business results for the fiscal year ended March 31, 2018.

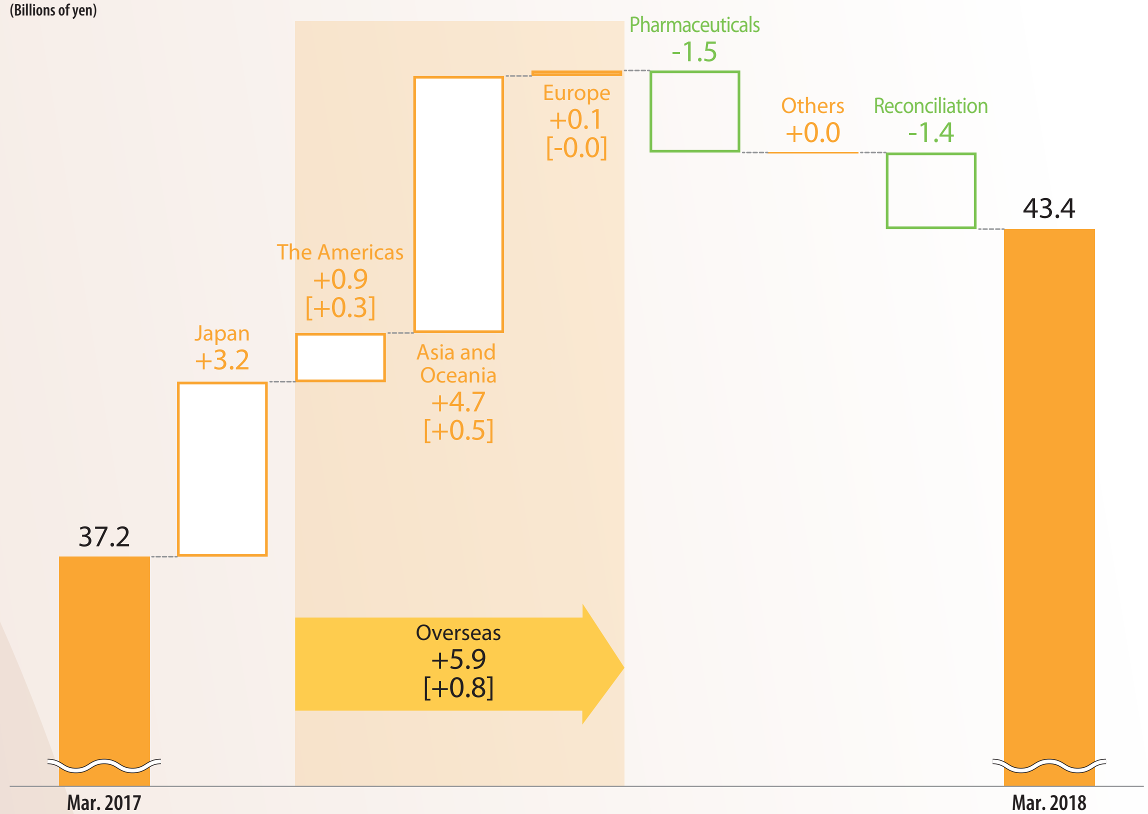
A We recorded record-high growth in sales as well as all stages of profit.

We achieved record-breaking net sales, as well as new records for all profit metrics during the fiscal year under review.

The overseas food and beverage business experienced growth in bottle sales, especially in Asia, which drove overall net sales and operating income. In Japan, we saw higher sales and profits due mainly to an increase in bottle sales, together with the effects of continued marketing investments in dairy products. In the pharmaceuticals business, sales and profits declined due to a variety of factors, including lower sales volume of our mainstay *Elplat* following its replacement by generic drugs and a rise in selling expenses.

Operating income: Factor analysis (YoY change)

(Billions of yen)



Notes: 1. Japan, the Americas, Asia and Oceania, and Europe fall under the remit of the Food and Beverages business.
2. The amounts in brackets are the increase/decrease in foreign currency translation adjustments.

Targets

Consolidated Earnings Forecast for the fiscal year ending March 31, 2019

- Net sales: ¥418.0 billion
- Operating income: ¥46.5 billion
- Net income attributable to owners of the parent: ¥35.5 billion
- Net income per share: ¥221.19

Q Please discuss the initiatives you plan to implement in the overseas food and beverage business in the fiscal year ending March 31, 2019.

A Our market penetration is still low overseas, which means there is sufficient room for growth. We will expand and maximize the market with strategies tailored to each region.

The Company first undertook overseas operations in Taiwan in 1964, and the current fiscal year (the fiscal year ending March 31, 2019) marks the 55th year of operations there. At present, the Company has operations in 37 countries and regions, excluding Japan, with 22,000 employees and 46,000 Yakult Ladies around the world.

Yakult's international business has expanded worldwide, supported by the local population, who play a central role in manufacturing *Yakult* and explaining the product to customers, while also striving to maintain the quality set in Japan, so that every country in which we operate can enjoy the same high level product. The understanding of probiotics has deepened, and expectations for probiotics are rising throughout the world. We intend to continue carrying out activities that aim to contribute to the health of the people around the globe through their consumption of *Yakult*.

Half a century has passed since operations started in Brazil in 1968. After the initial establishment, the number of bottles sold climbed until it reached a peak 30 years after the commencement of operations at which point hyperinflation and the subsequent turmoil in the market economy led to sales falling by half. Subsequently, the Company dispatched employees from Japan with the goal of rebuilding operations in Brazil, which entailed reworking the home delivery system and reviewing terms with stores, with a focus on the state of São Paulo. As a result of these efforts, the number of bottles sold recovered. In recent years, however, the number of bottles sold has struggled due to falling consumer spending stemming from inflation once again, but the most recent economic indicators show improvements so we too shall aim for continued growth.

In the current fiscal year, operations in Mexico entered their 38th year since their commencement in 1981. After 15 years of operations we conducted a proactive expansion into rural areas, and this increased the number of bottles sold. At present, our marketing population is approximately 95 million people, or nearly 80% of Mexico's total population of around 130 million.

The population ratio (a rough indication of the status of penetration calculated by dividing the average number of bottles sold per day by the marketing population) for the fiscal year ended March 31, 2018 was less than 4% for Mexico as a whole. However, in the nation's capital of Mexico City, long a market for *Yakult*, and the neighboring state, the State of Mexico, the population ratio exceeds 6%, indicating progress made in market penetration. Based on such cases, we believe that we can achieve stable growth through meticulous market creation in other cities as well.

In the current fiscal year, operations in Indonesia entered their 28th year since their commencement in 1991. After pushing ahead with the creation of a market in both the home delivery and retail store channels for more than 10 years, we initiated policies focused on the home delivery channel and earnings rapidly expanded due to enhancement of skills through training and an increase in Yakult Ladies. Although the number of bottles sold in the previous fiscal year slowed somewhat because of factors including unseasonable weather conditions and declining consumer spending, we intend to aim at further expansion of earnings by continuing to strengthen the organization with a focus on human resource development.

The business in the giant Chinese market has performed favorably, but has yet to see fully fledged growth. For details, please see the featured article on page 13.

Overseas Food and Beverages

Domestic Food and Beverage Business

Q Please explain the planned initiatives for the domestic food and beverage business in the fiscal year ending March 31, 2019.

A By strategically linking products, advertisements, public relations, and sales activities from multiple aspects, we will further boost the brand value of Yakult to attract more customers.

To enhance the value of the Yakult brand, the Company has been channeling its energies into advertising in the media for two years, while implementing price revisions commensurate with product value. As a result of the linked advertising and sales activities in each region, we have achieved an increase in the number of bottles of dairy products sold, centered on the *New Yakult* series in the retail store channel and the *Yakult 400* series in the home delivery channel. To encourage customers to continue choosing the Yakult brand in the future, we are intent on not only creating safe products that offer peace of mind, but also on taking initiatives such as providing health information to convey the importance of continuing to drink our products.

Regarding our advertising efforts for the current fiscal year, we will focus on the key themes of "concentrating on the Yakult brand and revitalizing major dairy products" as well as "maximizing Yakult's contact with customers and continuing to create loyal customers."

During the current fiscal year we will pursue the "three arrows of Yakult advertisements" in TV commercials, marking the third year of this effort. By using easy-to-understand taglines with a consistent concept, we will maximize the cumulative effect of TV advertisements to more powerfully convey the product appeal and brand power, R&D and technology capabilities, and organizational and sales capabilities of Yakult.

In addition to advertisements, we will also provide information on the functions and future potential of *lactobacillus* through public relations activities, so that consumers will have an even more favorable image of, and attachment to the Yakult brand.

More than 3,000 health lectures are conducted annually, with more than 200,000 people participating. This initiative is held in high regard in educational settings and we plan to focus more energy on this, along with plant tours. In addition, we are undertaking joint research with the Japan Aerospace Exploration Agency (JAXA) as a key theme for the future, and both organizations will work to promote public relations activities to communicate the potential of *lactobacillus*.

At the same time, we are receiving a growing number of requests for lectures and training on the efficacy of Yakult's probiotic products in the field of medicine for physicians, nurses, nutritionists, pharmacists and other opinion leaders. As such, we will continue channeling our energies into this initiative in the current fiscal year.

Meanwhile, in sales sites that are closer to customers, we will press ahead with community-based value dissemination activities that meet the diverse needs of our customers.

In order to further enhance the already superior level of Yakult's home delivery, we will focus more attention on area value dissemination activities, in addition to activities undertaken by Yakult Ladies to communicate the value of products directly to customers. Furthermore, with respect to the online home-delivery ordering system, Yakult Delivery Net that was introduced in 2017, we will commence nationwide operation during the current fiscal year and actively promote the use of this system.

As for retail stores, the field staff of sales companies will step up efforts to create points of sale, while promotion staff will intensify activities to create new customers in the Company's top priority market, supermarkets. Meanwhile in the convenience store market, with progress in the creation of a channel-targeted product lineup, we will work to secure and expand points of sale by making these products part of the standard product range. In other markets, we will conduct value dissemination activities for dairy products targeted mainly at hospitals, schools and offices, to push ahead and create new customers.

As I have described, we intend to further enhance the value of the Yakult brand by comprehensively linking products, advertisements, public relations, and sales activities to facilitate efforts to create new customers.

Please explain the initiatives you plan to take in the pharmaceuticals business in the fiscal year ending March 31, 2019.

We are in a difficult business environment with decreasing sales, but we will add R&D expenses to recover and expand the business over the medium to long term.

Our results forecast for the pharmaceuticals business for the current fiscal year anticipates a severe outlook for both net sales and operating income.

There are two adverse factors affecting net sales: revision of the NHI drug price and the replacement of *Elplat* with generic drugs.

Regarding the first factor, revision of the NHI drug price, the price of *Elplat* was lowered by 12.3% and ethical drugs handled by the Company overall saw a price reduction in the mid-10% range in this revision.

Regarding the second factor, the replacement of *Elplat* with generic drugs, we expect *Elplat* to be increasingly replaced with generic drugs in the future due to the government's push to further promote the use of generic drugs in an effort to boost the use of generic drugs to 80% by September 2020.

Although we are facing a decline in net sales, we intend to achieve a recovery and expansion of revenues over the medium to long term, so that we can continue the pharmaceuticals business specializing in the field of oncology.

Since new items are needed to boost net sales, we are increasing R&D expenses under the plan for the current fiscal year.

As for revenues for the next fiscal year and thereafter, we expect the deficit to decrease. However, as it will take time to recoup R&D investments, we anticipate a difficult period for three years. Subsequently, we will aim to achieve a recovery and expansion of revenues through a rise in net sales.

Even during that period, considering that current co-promotion of *Zaltrap®* with Sanofi K.K. is making more progress than initially planned, we will aim to expand alliances with other companies based on this success.

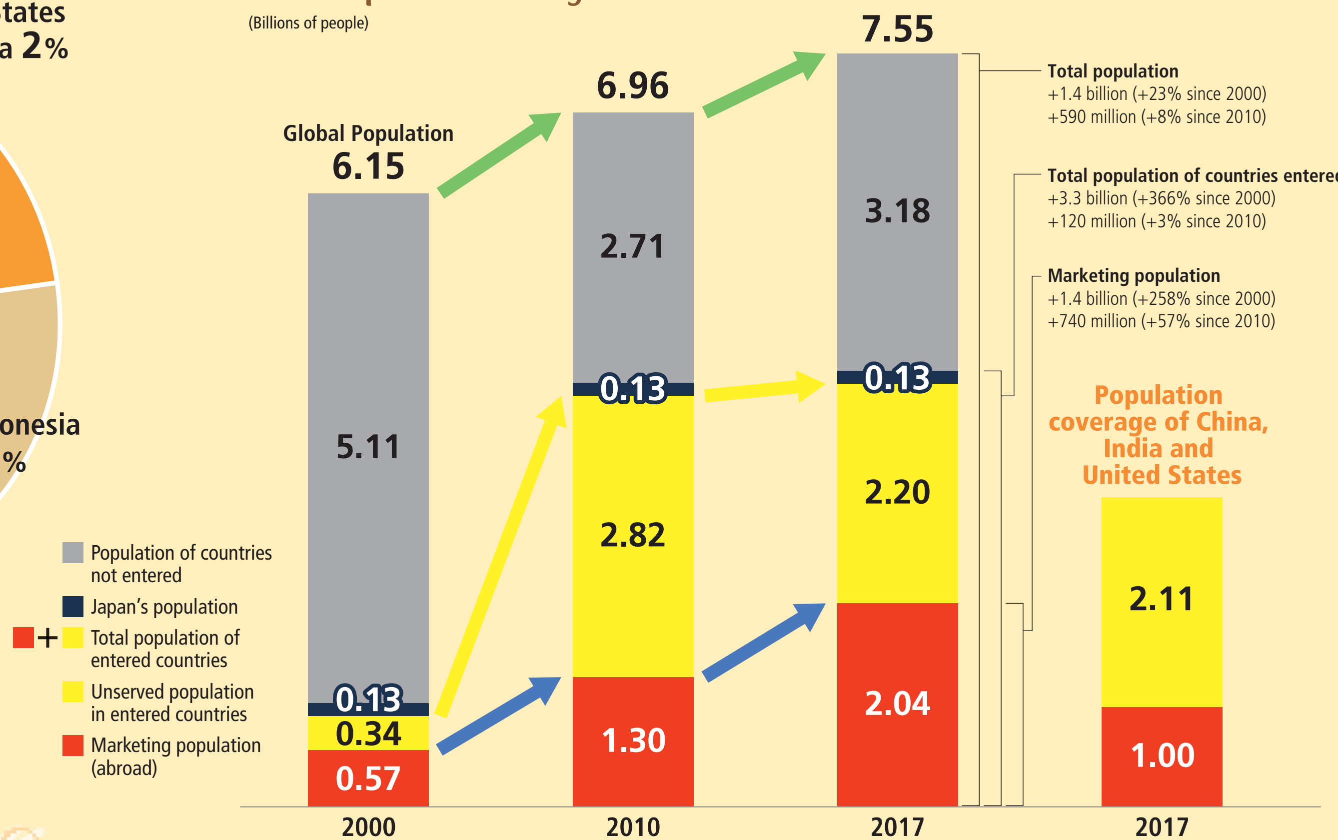
Pharmaceuticals Business

Yakult's Potential in the World's Three Most Populous Countries

Since expanding overseas in 1964, Yakult has grown dramatically. As of March 2018, its products are consumed by more than 39 million people per day (39.52 million bottles per day in the fiscal year ended March 2018) in 38 countries and regions including Japan. This article features our initiatives in China, the United States and India, the world's three most populous countries, where further growth is expected.

*Excluding Japan

World Population Coverage



Populous Countries with Huge Growth Potential

Yakult operates its business in six of the world's 10 most populous countries excluding Japan. The business model of Yakult's overseas business expansion is focused on the creation of a probiotics market by distributing the fermented milk drink *Yakult*. Activities to enhance the understanding of the product's value are instrumental to customer acquisition. As Figure 1 indicates, the market penetration rate tends to be higher in countries we have been doing business in for longer, and conversely, in countries that we have recently entered, the market penetration rate tends to be lower: the rate in China is as low as 1%. Moreover, the rates in India and the United States are even lower than China. If, in the medium term, we can create an environment that will allow us to bring to bear our business model, then we can expect large growth in the future.

Figure 1 Yakult's Business Conditions in Populous Countries

	Entry of Yakult into this market	Consolidation classification	Marketing population (thousands of people)	Sales results[7] Thousand bottles per day	Sales results[7] YOY change (%)	Market penetration rate (sales/marketing population) (%)
Recently entered countries						
India	2008	50.0	126,000	186	+18.5	0.15
China[1]	2002-2007	100.0[6]	702,970	7,003	+20.2	1.00
United States[2]	1999[5]	100.0	173,200	294	+15.3	0.17
Indonesia	1991	100.0	200,000	5,294	+4.8	2.65
Established markets						
Mexico[3]	1981	61.2	94,532	3,678	+3.3	3.89
Brazil[4]	1968	51.4	101,290	1,817	-6.1	1.79
Japan	1935	–	128,052	9,694	+3.5	7.57

Notes: 1. Figures exclude Hong Kong and Macau. 2. Figures include Canada. 3. Figures include Belize. 4. Figures include Uruguay. 5. Yakult U.S.A. started full-fledged distribution in the state of California in 2007. 6. Yakult Honsha owns 95.0% of Guangzhou Yakult. 7. Daily average sales of Yakult's dairy products (Japan: from April 2017 to March 2018; countries excluding Japan: from January to December 2017).

Unrivaled, One and Only Business Model

Since its foundation, research and development of lactic acid bacteria has always 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 good health to customers through both our retail store and home delivery channels. In order to sustainably maximize the potential for value creation with this business model, we have established our entire value chain from R&D, manufacturing, distribution to logistics on our own, without relying on M&A or other capital instruments (that is, by using our own capital). This sets us apart from major global food manufacturers which capture markets by aggressively employing M&A to acquire local brands to use as a starting point.

In order for customers to understand the concept of consuming live bacteria for health, Yakult's work starts with explaining

Figure 2 Yakult's Market Position

	M&A-driven growth (Growth using external management resources)	Organic growth (Growth using internal resources)	
R&D-oriented Safety, peace of mind and health-oriented	**Major global food manufacturer** Captures the market through aggressive M&A starting with the acquisition of local brands	**"Hunting"-type marketing** Pursues short-term results through mass marketing	**"Agricultural" marketing** Continues contacting consumers in a steady and thorough manner to create a market from a medium- and long-term perspective
General manufacturer Taste, preference and price-oriented	**Domestic national brand** Expands its national presence through vertical integration of overseas companies or merging a local brand in Japan	**Domestic local brand** Provides local goods	

Market position of Yakult

that *Lactobacillus casei* strain Shirota is a live microorganism that contributes to health. To do this, it is necessary to make steady grassroots efforts, not only in explaining the product and scientific facts concerning the microorganism through individual home visits and store demonstrations, but also in implementing public relations activities at elementary schools, kindergartens and community centers and giving presentations to hospital staff such as nutritionists.

Unlike the "hunting" approach to marketing, which pursues short-term results through major advertising campaigns, Yakult's management style leans towards an "agricultural" approach to marketing, which requires repeated, steady and thorough efforts as if cultivating a field. When entering a new country or region overseas, Yakult does so with the determination to create the market from scratch and grow into a community-based company beloved by people who live there.

CHINA

Unparalleled Performance in the Chinese Market

Yakult's surge in the Chinese market is evident when looking at its business results. After starting business in Guangzhou in 2002, Yakult subsequently established sales sites in Shanghai, Beijing and the coastal area, and in 2012 it entered cities in inland areas including Wuhan, Xi'an and Changsha, in an effort to grow its commercial area through a focus on the retail store channel. As a result, as of December 2017, total sales through home delivery and the retail store channel were approximately seven million bottles per day, with a 10-year compound average growth rate (CAGR) as high as 24.9%.

Figure 3 **Annual Average Bottle Sales/Day**

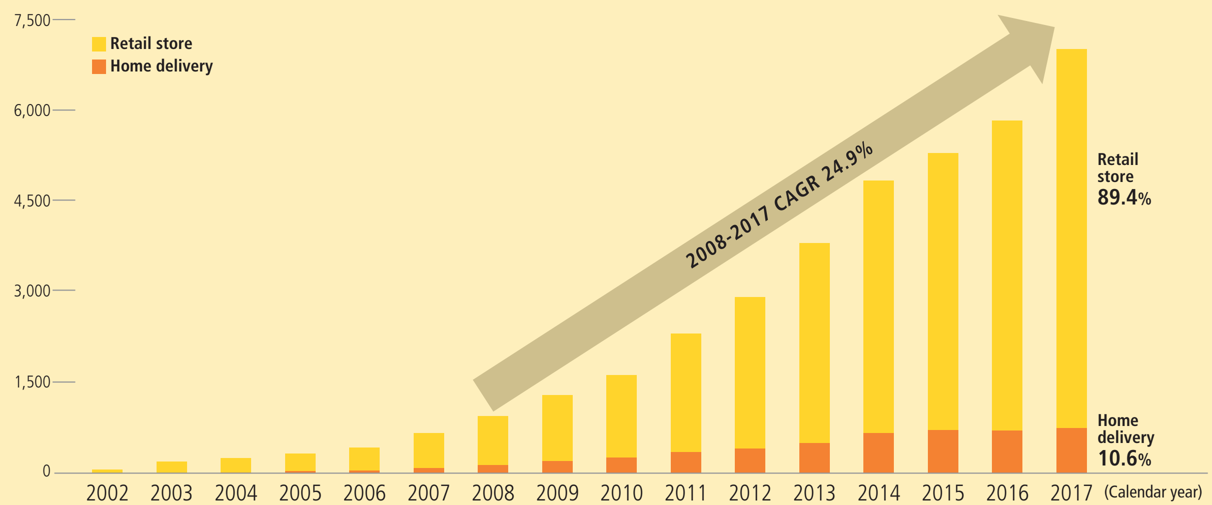
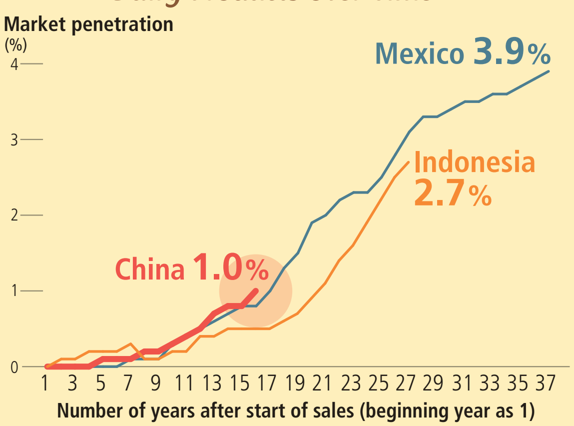


Figure 4 **Market Penetration of Our Dairy Products over Time**



Notes: 1. The marketing population data for each country is calculated based on our own records (data for China does not include Hong Kong, Macau, or Taiwan). The penetration rate is calculated by taking the average daily sales for each country over a calendar year and dividing this by the marketing population for that year.
2. The first years of operation was 1981 in Mexico, 1991 in Indonesia, and 2002 in China.
3. The average daily sales for 2017 calendar year.

A Full-Scale Advance Is at Hand

Our unique business model focuses on the creation of markets from a medium- and long-term perspective by expanding the value chain without relying on M&A; through such a value chain we have placed ourselves in a competitive position in the current Chinese market. Figure 4 on the left shows the rising trend of market penetration of our dairy products in China, Indonesia and Mexico. The rate for Indonesia and Mexico grew significantly during the period from our 15th year to the 25th year of business. In China, 15 years have now passed since we started business and we expect that a full-scale advance is at hand.

In China, Yakult pursues an aggressive business strategy in its marketing for further growth. As for sales channels, our efforts continue to be focused on retail store sales activities to boost exposure of the Yakult brand. The marketing population is only 700 million out of China's total population of approximately 1.4 billion. Going forward, Yakult will establish more sales branches to develop markets in untapped areas and further cultivate existing markets. Meanwhile in the medium-term, we will enhance the home delivery channel by increasing the number of Yakult Ladies and improving their distribution efficiency, aiming to achieve sustainable high growth.

With regard to product range, *Yakult Light*, a low-calorie version of *Yakult*, was brought to the Chinese market in 2015, in response to growing health-consciousness among Chinese consumers. The product's share of total sales volume rose from about 13% in fiscal 2016 to about 18% in fiscal 2017, which proves that the product strategy we adapted to meet rising demand from consumers is succeeding.

In January 2018, the price of *Yakult* was revised across China, excluding Guangzhou. By raising the price of *Yakult* from 2.2 yuan to 2.4 yuan, and that of *Yakult Light* from 2.4 yuan to 2.6 yuan, we are striving for further improvement in the operating margin. The sales volume for the period from January to June 2018 was solid, which confirms consumers' continued support for Yakult.

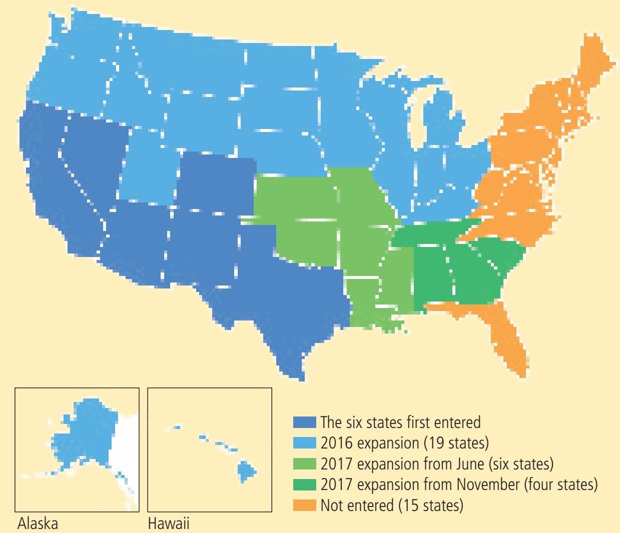
In line with the increase in sales volume, an enhancement of the product distribution structure is also scheduled. In China, in addition to Guangzhou Plant 1 and Plant 2, the Shanghai Plant, the Tianjin Plant, and the Wuxi Plant, our sixth plant, the Foshan Plant, will start operations in March 2019, and Plant Building 2 of the Wuxi Plant will start operations in June 2019. This will boost the production volume from 11 million bottles to 14.2 million bottles per day.

A completed image of the Foshan Plant

UNITED STATES

To grow into a truly global brand with the competitive strength and know-how it has gained, Yakult embarked on a major challenge: running a full-fledged operation in the United States, the world's economic giant. In September 2007, the full-fledged distribution of *Yakult* products, which were imported from the neighboring country of Mexico, started through the retail store channel in six states in the western and southern United States. In 2014, a new plant was constructed in California. From 2016, the distribution of *Yakult* was expanded using a major distribution chain in areas centering on midwestern states, and as of 2017 *Yakult* was sold in 35 states. Net sales have steadily grown in proportion to an increase in the number of bottles sold, as we plan to enhance the business foundation aiming at medium- and long-term growth.

Figure 5



INDIA

Yakult considers India to be the market where it can take full advantage of the experience and know-how gained through its initial phase of overseas business development in Asia and Latin America.

The levels of hygiene in Asia and Latin America at the time of our entry, were poor, causing infectious diseases and other problems. *Yakult*, our product embodying Shirota-ism (preventive medicine, the link between a healthy intestinal tract and a long life and offering products at a price anyone can afford), was very well received by people in these regions. While cold chain distribution was not developed at the time, the Yakult Ladies delivered *Yakult* directly to customers, promoting the value of our product and service. Furthermore, the introduction of the Yakult Lady system created employment opportunities for women, playing a major role in helping Yakult to take root in local communities.

As the Indian economy continues to develop rapidly, the cold chain distribution network and other facets of the business environment will become more established similar to the process in Asia and Latin America, and we expect that this will lead to significant growth in the medium- and long-term.

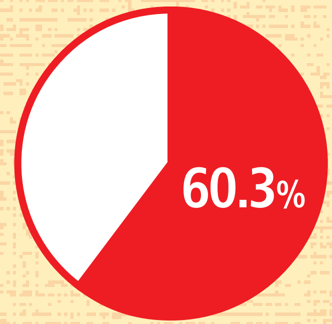
Review of Operations

JAPAN

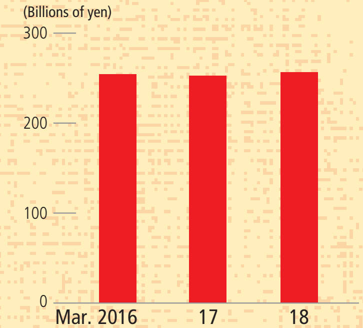
Note: Sales by business segment and percentage of net sales by region include intersegment transactions.

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, 2018, net sales in Japan came to ¥256.5 billion.

Percentage of Net Sales (%)



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 proactively expanded value dissemination activities that utilize scientific evidence.

Through our home delivery channel, we strived to create new customers and encourage continued drinking by our existing customers for our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, in October 2017, we launched services in limited regions through Yakult Delivery Net, which allows customers to order products online for delivery with the aim of enhancing convenience for customers and creating a point of contact with customers who have never used Yakult's home delivery channel. We also improved the working environment for Yakult Ladies as well as proactively supported Yakult Lady hiring activities. Through our retail store channel we continuously expanded value dissemination activities, carried out by promotion staff, centered on the fermented milk drinks *New Yakult* and New *Yakult Calorie Half*. Furthermore, we ran the "2017 Pro Baseball Support" campaign from July through August 2017 and the "Yakult: Keep Drinking to Feel the Difference" campaign from February through March 2018 for these products and worked to expand sales. We also launched the fermented milk drink *Synbiotics Yakult W* at convenience stores and supermarkets nationwide in November 2017 in order to reach new customers.

Regarding individual products, we continued to use packaging featuring Disney characters for the drinkable yogurt *Joie* series, under a license agreement with Walt Disney Company (Japan) Ltd. and we launched limited-time items such as *Joie Maroyaka Hani (Joie Mellow Honey)* and *Joie Tedumi Ringo (Joie Hand-Picked Apple)*, as well as running the "Take a Break with *Joie*—Reward Your Body" advertising campaign from October 2017 to January 2018 so as to invigorate the brand.

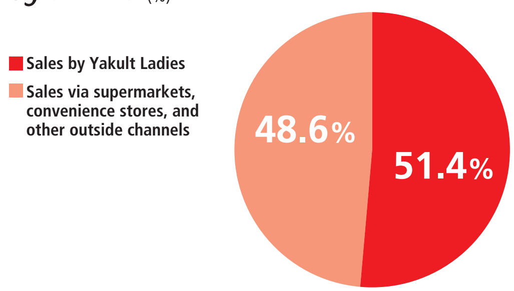
As a result of our efforts to bolster sales of our products centered on the initiatives mentioned, overall sales of dairy products surpassed those of the previous fiscal year.

In juices and other beverages, we strove to increase sales primarily through functional beverages such as *Toughman* nutritional drinks and *Bansoreicha* tea with blood sugar regulating properties. Also in January 2018, we launched a fruit drink fermented with lactobacillus, *Yakult no Oishii Hakko Kajitsu (Yakult Tasty Fermented Fruit Juice)* nationwide.

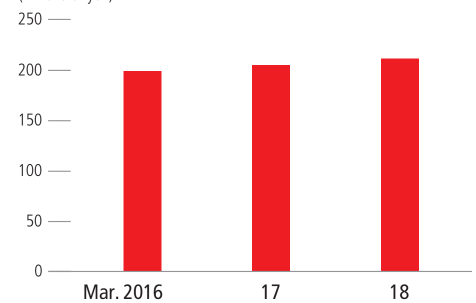
Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

Net sales in the Food and Beverages business increased to ¥210 billion, up 2.9%, on the previous 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

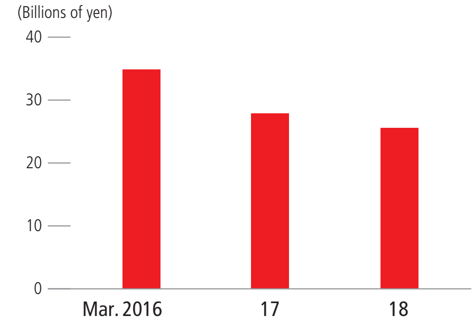
We focused on promoting dissemination of and activities recommending the proper use of our products with a focus on oncology and related fields.

As for our leading product, the antineoplastic drug *Elplat*, we actively held lectures and medical office briefings targeting medical professionals to maintain and expand market share. Given the increasing shift by medical institutions to the generic drug of *Elplat* since its launch, we boosted activities to keep customers choosing our *Elplat* by leveraging both our information provision capabilities, a Company strength since we developed the original drug, and the close relationships we have built up over many years with medical professionals. With respect to antineoplastic drug *Zaltrap®* for which we concluded a co-promotion agreement with Sanofi K.K., we actively provided information and promoted activities to have *Zaltrap®* introduced at medical institutions to pursue the market penetration in the colorectal cancer field immediately after its launch. In addition, we sought higher sales following efforts to intensify sale channel development for our main generic product, antineoplastic anti-metabolite *Gemcitabine Yakult*, bone resorption inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug.

In R&D, we expedited the clinical development of product candidates such as HDAC inhibitor *Resminostat* licensed from 4SC AG, and novel platelet-increasing agent YHI-1501, whose joint development we are promoting with Nissan Chemical Corporation. 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 7.8%, to ¥25.7 billion.

Net Sales of Pharmaceuticals

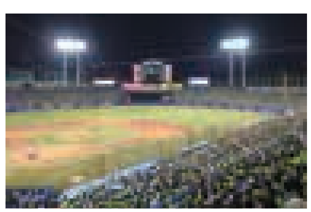


Others

This segment focuses on Yakult's cosmetics operations as well as those of its professional baseball team.

We continued to expand sales activities for our cosmetics operations, with a particular focus on basic skin care products such as our core brands *Parabio*, *Revecy* and *Revecy White*. We achieved this through home visits designed to educate customers on our products, emphasizing the value of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our extensive research on lactic acid bacteria since our foundation.

Revecy series



Tokyo's Jingu Stadium filled with Tokyo Yakult Swallows fans

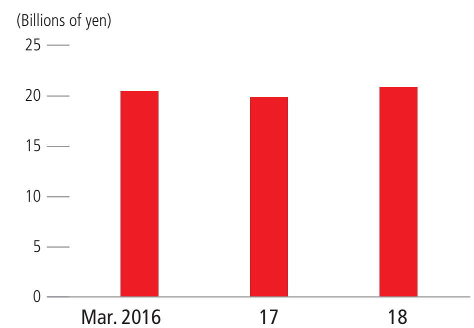
In June 2017, we revamped the *Revecy* series, incorporating our proprietary *Ludwigia octovalvis* (Mexican primrose - willow) extract natural plant extract. In November 2017, in order to take customer satisfaction a step further and drive sales growth, we updated *AGETICS Moist Repair Essence*, designed to reduce the appearance of fine lines and wrinkles.

These efforts enabled the cosmetics operations overall to generate higher earnings than in the previous 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 including a variety of fan appreciation events and active information dissemination.

As a result, net sales in the Others segment increased 4.1%, to ¥20.8 billion.

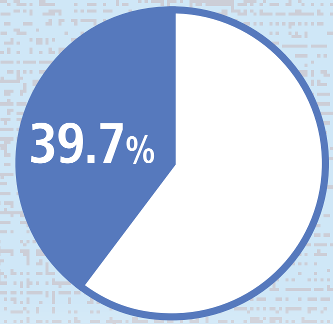
Net Sales of Others



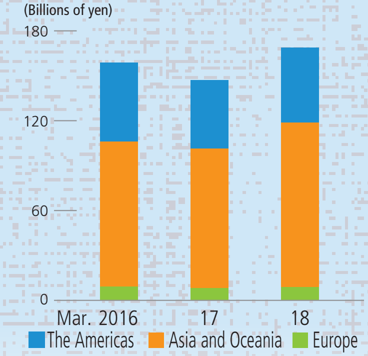
INTERNATIONAL BUSINESS

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, 2018, *Yakult* probiotic drinks and other products are sold in 37 countries and regions, excluding Japan, with an average of 29.82 million bottles sold per day during the year under review. For the fiscal year ended March 31, 2018, the International Business recorded net sales of ¥168.4 billion.

Percentage of Net Sales (%)



Net Sales



The Americas

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

Brazil

Mexico

United States

Brazil

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

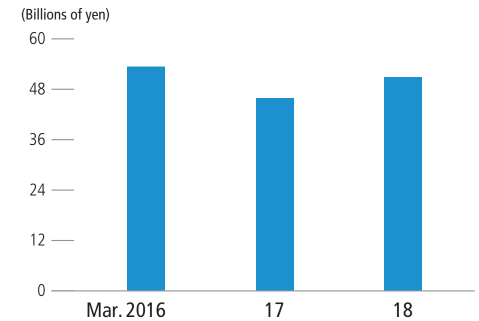
During the fiscal year under review, we worked to strengthen our sales structure in the home delivery and retail store channels to boost market share.

Review of Operations

Net sales in the Americas increased to ¥50.2 billion, up 10.8%, from the prior fiscal year.

Mexico

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

United Arab Emirates

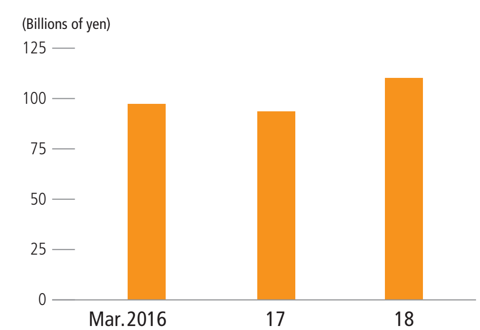
Vietnam

Yakult manufactures and sells the fermented milk drink, *Yakult,* as well as other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries, and imports and sells *Yakult* in the United Arab Emirates and other countries.

In China, we expanded our sales bases throughout China to 43 locations by January 2018 to further strengthen our sales network. Given the increase in bottle sales of *Yakult,* we have started construction of a new factory in Foshan in Guangdong Province and a second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.) scheduled to begin production in 2019.

In India, in order to meet the consumer's need for low-sugar and low-calorie products, we began sales of *Yakult Light*, a low-calorie version of *Yakult*, in February 2018.

Net Sales in Asia and Oceania



We also continued with our preparations to start production and sales of *Yakult* in Myanmar.

Net sales in Asia and Oceania rose to ¥109.9 billion, up 17.7%, from the prior fiscal year.

Malaysia

Europe

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

The Netherlands

Belgium

United Kingdom

Germany

Italy

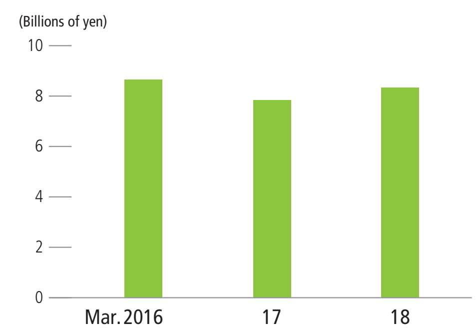
Germany

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.

During the fiscal year under review, we strove to boost sales while engaging in initiatives to aid the approval of health claims amid strict regulations on activities to disseminate probiotics.

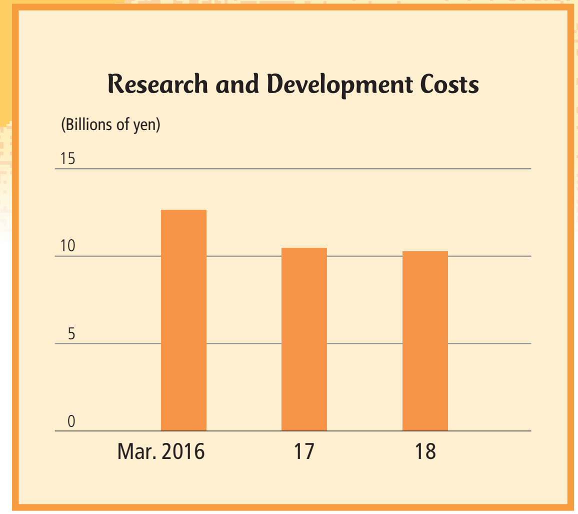
Net sales in Europe increased to ¥8.3 billion, up 6.9% from the prior fiscal year.

Net Sales in Europe



Research and Development

Since the Company's foundation, the work conducted in R&D has been the cornerstone of its ability to create products that contribute to people's health. The R&D Division pursues fundamental research in life science aimed at developing and applying new ingredients in food, pharmaceuticals, cosmetics and other areas.



The Yakult Central Institute and the Yakult Honsha European Research Center for Microbiology

The Yakult Central Institute is a cutting-edge research facility in the field of probiotics that pursues life science in order to contribute to human health. The research concentrates on the study of beneficial microorganisms, particularly within the intestinal microbiota, and has recorded numerous achievements, including the discovery and use of lactic acid bacteria with high levels of functionality.

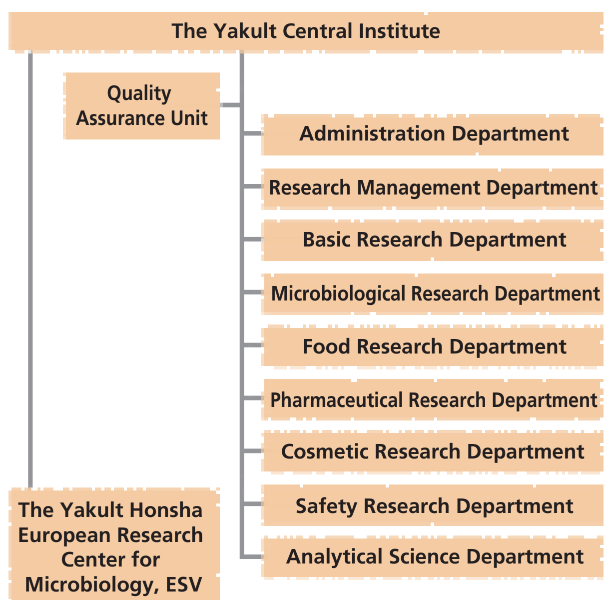
The Yakult Central Institute consists of seven separate research departments, each with their own research function and state-of-the-art research facilities. Supporting the work of the research departments is: the Administration Department, responsible for managing the Institute; the Research Management Department which is in charge of planning research strategies, promoting domestic and overseas research activities, as well as controlling and communicating information and also the Quality Assurance Unit, which 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. Outside of Japan, the Yakult Honsha European Research Center for Microbiology, ESV (YHER) was established in Ghent, Belgium to gather scientific evidence on the benefits of the consumption of probiotic products. By establishing a research base in Europe, a region advanced in the study of microorganisms, our goal is to support global business expansion not only in Europe, but also the Americas and Asia.

Steps in R&D Activities

Before a product can be completed there are a great many steps that need to be taken. The Yakult Central Institute is responsible for the development of the functional ingredients, which proceeds in three steps: basic research, ingredient development research, and commercialization research. Prospective ingredients undergo full-scale product development within each of the business divisions.

During the commercialization research, each of the three segments concentrates their efforts on specific research themes conducting research and development proprietary to Yakult: the food segment focuses on ingredients which maintain and promote health; the pharmaceutical segment focuses on ingredients with a particularly high level of specificity which have the potential to work as anticancer drugs; the cosmetics segment focuses on safe and effective ingredients based on dermatology.

Organization of the Yakult Central Institute



Recent R&D Activities

Randomized study of the effect of synbiotics during neoadjuvant chemotherapy on adverse events in esophageal cancer patients

Joint Study with the Department of Surgery, Osaka Medical Center for Cancer and Cardiovascular Diseases (Now the Osaka International Cancer Institute)

We investigated the effects of the administration of synbiotics to patients with advanced esophageal cancer in a joint study with the Osaka Medical Center for Cancer and Cardiovascular Diseases (now the Osaka International Cancer Institute) using a combination of *Lactobacillus casei* strain Shirota, *Bifidobacterium breve* strain Yakult and galacto-oligosaccharides. The results showed a reduction in the occurrence of adverse events including febrile neutropenia and diarrhea, and a decrease in lymphopenia. The study found that the administration of synbiotics during preoperative chemotherapy on esophageal cancer is helpful for reducing the occurrences of adverse events through regulation of chemotherapy-induced disturbances of the gut microbiota and the gut environment. The study results have been published in *Clinical Nutrition*, an academic journal.

Probiotic reduces bacterial translocation in type 2 diabetes mellitus: A randomised controlled study

Joint study with Juntendo University Graduate School of Medicine

We investigated the effectiveness of ingestion of a probiotic drink containing *Lactobacillus casei* strain Shirota for Japanese type 2 diabetic patients in a joint study with the Juntendo University Graduate School of Medicine.

The results of the study showed that continuous intake of the drink changed the gut microbiota and suppressed bacterial translocation into the blood, which causes chronic inflammation. Continuous intake of probiotic drinks may enhance gut barrier functions and suppress chronic inflammation-induced deterioration of diabetic patients' condition. The study results have been published in *Scientific Reports*, an academic journal.

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, and set out concrete action targets and put them into practice in fiscal 2017. As for global developments in CSR, the Sustainable Development Goals (SDGs) were adopted by the United Nations General Assembly in 2015, and environmental, social, and governance (ESG) investment has been expanding in recent years. We are promoting CSR activities while incorporating these developments.

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 out 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," and 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 its long-term environment activities in the form of Yakult Sustainable Ecology 2020.

This describes the future vision of Yakult in terms of three elements, including the realization of a low-carbon society (response to climate change), 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, 2018, Yakult carried on its initiatives from the previous year and achieved substantive results in the utilization of renewable energy with solar and other forms of power generation, implementation of greenhouse gas reduction efforts at dairy product plants as well as in logistics operations, striving to achieve zero waste emissions, and promotion of water consumption reduction. In this way, we regard the risks inherent in the procurement of raw materials and business operations owing to climate change as opportunities to build energy-saving and resource-saving production and logistics systems, and we will continue to promote environmental conservation activities.

Realization of a low-carbon society
Actively 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
Grasp the relationship between business activities and biodiversity, and work to preserve biodiversity

Community Activities

Dispatching Guest Lecturers/ Health-Related 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.

Our 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 has won a great deal of esteem and was reported as an example of best practice in the Journal of *Japanese Society of Shokuiku*. In 2015 our program of dispatching guest lecturers received an Honorable Mention from the Judging Committee of the Awards for Companies Promoting Experience-Based Learning Activities for Youth sponsored by the Ministry of Education, Culture, Sports, Science and Technology (MEXT). In fiscal 2017, the Group conducted about 3,800 guest lectures for more than 270,000 participants nationwide. Outside Japan, some 39,700 guest lectures were also given for roughly 2,290,000 participants in locations 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-related lectures on a broad range of topics, including the importance of the intestines, probiotics and seasonal ailments, which are held at Yakult centers (Yakult Ladies sales hubs) and community facilities.


A guest lecturer at an elementary school

Initiatives by the Yakult Ladies

For more than 45 years, Yakult Ladies have been visiting elderly people living alone as they make their deliveries, both to confirm that they are safe and to spend some time chatting with them. This activity began when a Yakult Lady in Koriyama, Fukushima, Japan, took it upon herself to provide *Yakult* products to elderly people living alone, at her own expense, after hearing the sad news of one such person who had died unnoticed. Her initiative resonated with both the local Yakult marketing company and social workers in the region, and further moved many local governments to take action. As a result, these visits by Yakult Ladies, known as Courtesy Visit Activities, have spread throughout Japan. As of March 2018, about 3,000 Yakult Ladies pay regular visits to roughly 40,000 elderly people in response to requests from around 131 local governments and other institutions in Japan. Since 2005 we have also observed the Japanese Respect for the Aged Day when we deliver flowers and a message card to elderly people who are visited. Outside Japan, Korea Yakult Co., Ltd. undertakes activities to verify the safety of about 30,000 elderly persons living alone.

Community Activities Overseas

Closely Supporting the Work of Women in the Community (P.T. Yakult Indonesia Persada)

At P.T. Yakult Indonesia Persada, most Yakult Ladies are homemakers with children. They are assigned areas that are in the immediate vicinity of their homes to enable them to balance work with private life and family. In addition, employees are continuously present at the home delivery centers, to closely follow up with Yakult Ladies regarding any questions or concerns they have about sales, as well as any personal issues they might have.

Instead of a morning meeting, an afternoon meeting is held each day at the centers. Besides sharing information on the daily happenings in the field, Yakult Ladies brush up on conversational skills by role playing and conduct study sessions to deepen product knowledge, among other things, which increase motivation, create a sense of unity, as well as boost their skills as a salesperson. The company also places importance on creating an engaging and enjoyable atmosphere. For instance, the Yakult Ladies hold lunches once a month, to create a fun working environment. Such an atmosphere serves as a driver for communicating cheerfully with customers.

Motivation is also raised through training and events outside the centers. After three months on the job, follow-up training is held at a plant to help improve communication skills and network with Yakult Ladies in other areas. In the sales technique competition held once a year, Yakult Ladies display skills gained from their daily accomplishments while having fun competing with each other.

As a result of these efforts, many of the Yakult Ladies say they are enjoying their stable jobs, and the job retention rate is increasing every year.

P.T. Yakult Indonesia Persada will continue promoting these activities to empower local women through its business activities.

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.

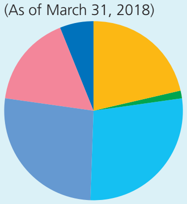
Our corporate philosophy is "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." In pursuing this philosophy, we believe it is important to implement transparent 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, 2018)



Japanese financial institutions	**22.29%**
Japanese securities companies	**1.41%**
Other Japanese corporations	**28.54%**
Foreign institutions and others	**24.47%**
Individuals and others	**17.12%**
Treasury stock	**6.17%**

Major Shareholders

(As of March 31, 2018)

	Percentage of total shares issued
Danone Probiotics Private Ltd.	6.20%
Fuji Media Holdings, Inc.	3.80
Japan Trustee Services Bank, Ltd. (Trust account)	3.34
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.90
The Master Trust Bank of Japan, Ltd. (Trust account)	2.74
Kyoshinkai	2.34
Matsusho Co., Ltd.	2.00
Kirin Beverage Corporation	1.44
Japan Trustee Services Bank, Ltd. (Trust account 5)	1.34
Mizuho Bank, Ltd.	1.28

Note: In addition to the above, the Company holds 10,549,711 shares (6.17%) 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 directors, including outside directors.

The four outside directors are listed in the chart below.

(As of June 20, 2018)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Specially approved visiting Professor, Graduate School of Management, Hitotsubashi University; Outside Director, ORIX Corporation; Outside Director, Benesse Holdings, Inc.; Outside Director, Kansai Mirai Financial Group, 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	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.
Norihito Maeda	President of Yakult Kanagawa Tobu Sales Co., Ltd.	Mr. Maeda, the president of a Yakult sales company, was appointed on the expectation that by having someone of his capabilities serve as director he would offer advice to the Company's management based on his long record of managing a Yakult sales company, thus contributing significantly to the development of the entire Yakult Group.
Pascal Yves De Petrini	Senior Vice President, Non-Executive Chairman, Danone Asia; Non-Executive Director, China Mengniu Dairy Co., Ltd.	Mr. Petrini 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.

Note: Mr. Ryuji Yasuda and Mr. Masayuki Fukuoka are independent Directors as specified by the Tokyo Stock Exchange.

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

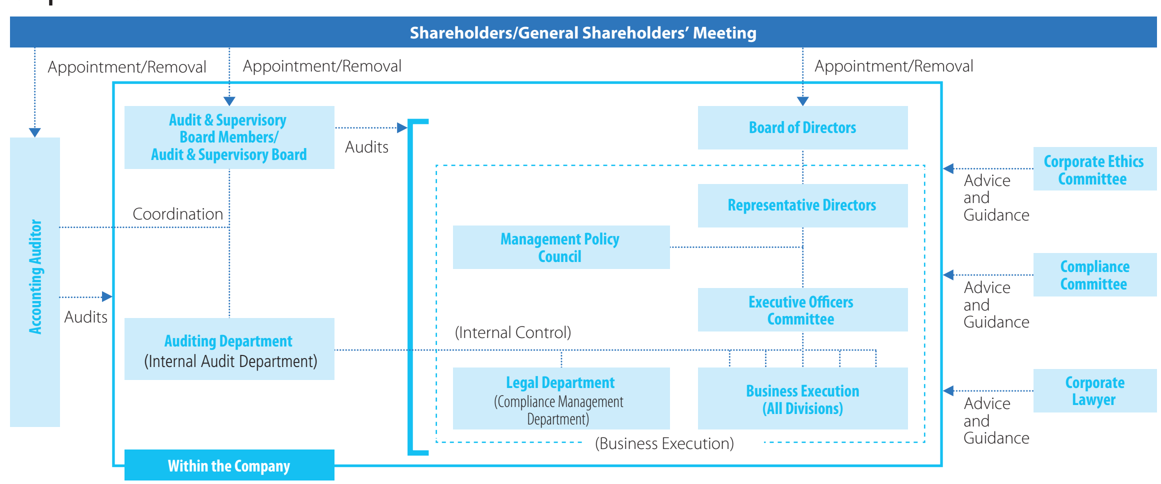
The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its business accounts as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu.

(As of June 20, 2018)

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 abundant experience as a lawyer 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 director, 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 director, the Company believes that he will be able to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.

Note: Mr. Akihiko Okudaira and Mr. Seno Tezuka are independent Audit & Supervisory Board Members as specified by the Tokyo Stock Exchange.

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

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 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.

Relations Department. In parallel, each department within the 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
Susumu Hirano

Directors (Part-Time)
Richard Hall
Ryuji Yasuda (Outside Director)
Masayuki Fukuoka (Outside Director)
Norihito Maeda (Outside Director)
Pascal Yves De Petrini (Outside Director)

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

(As of June 20, 2018)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2018, 2017, 2016, 2015, and 2014

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2014	2015	2016	2017	**2018**	**2018**
For the year:						
Net sales	¥ 350,322	¥ 367,980	¥ 390,412	¥ 378,308	**¥ 401,570**	**$3,788,393**
Selling, general and administrative expenses	161,965	168,092	178,744	177,053	**186,466**	**1,759,120**
Operating income	32,026	34,898	40,057	37,282	**43,464**	**410,034**
Net income attributable to owners of the parent	22,544	25,056	28,843	30,155	**34,065**	**321,367**
Research and development costs	11,166	12,135	12,678	10,549	**10,208**	**96,298**
Capital investments	50,163	40,371	27,403	23,365	**23,305**	**219,857**
Depreciation and amortization	20,078	22,793	24,365	22,661	**21,532**	**203,134**
At the year-end:						
Total assets	¥ 519,571	¥ 579,345	¥ 577,535	¥ 585,741	**¥ 631,242**	**$5,955,111**
Net property, plant and equipment	184,208	205,595	201,799	198,299	**201,199**	**1,898,101**
Total liabilities	211,538	217,132	212,070	208,860	**244,568**	**2,307,241**
Total equity	308,033	362,213	365,465	376,881	**386,674**	**3,647,870**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 134.44	¥ 151.58	¥ 174.54	¥ 182.39	**¥ 207.02**	**$ 1.95**
Total equity (Note 3)	1,662.37	1,966.13	2,007.73	2,077.29	**2,194.32**	**20.70**
Cash dividends applicable to the year	24.00	25.00	50.00	32.00	**34.00**	**0.32**
Financial ratios:						
Return on equity (ROE) (%)	8.4	8.4	8.8	8.9	**9.8**	
Equity ratio (%)	52.9	56.1	57.5	58.6	**55.8**	

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 ¥106 to U.S. $1, the approximate rate of exchange on March 31, 2018.
3. Noncontrolling interests are not included in equity for the calculation.

Financial Section

Contents

Management's Discussion and Analysis

OVERVIEW

During the fiscal year ended March 31, 2018, the Japanese economy continued its gradual recovery with a moderate improvement in corporate earnings and employment conditions. However, the outlook remained unclear because of the increasingly uncertain outlook for 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 its 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.

As a result of these efforts, on a consolidated basis, net sales increased 6.1% from the previous fiscal year, to ¥401.6 billion. Operating income climbed 16.6%, to ¥43.5 billion, while the operating margin rose to 10.8%, up 0.9 percentage points from a year earlier. Net income attributable to owners of the parent climbed 13.0%, to ¥34.1 billion, and return on sales increased to 8.5%, up 0.5 percentage points from the prior year's result.

SALES, COSTS, EXPENSES, AND EARNINGS

SALES

Net sales rose 6.1%, to ¥401.6 billion.

Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 49.4% of sales, down 1.8 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 39.7% of sales, up 2.9 percentage points. Pharmaceuticals generated 6.0%, down 1.0 percentage points, and Others contributed 4.9%, down 0.1 percentage points.

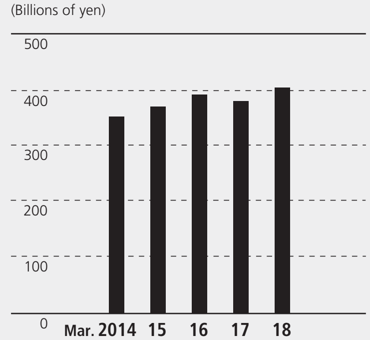
COSTS, EXPENSES, AND EARNINGS

Consolidated cost of sales increased 4.7%, to ¥171.6 billion. As a result, the cost of sales ratio fell 0.6 percentage points, to 42.7%. Gross profit rose 7.3%, to ¥229.9 billion, and the gross profit margin improved 0.6 percentage points, to 57.3%.

Selling, general and administrative (SG&A) expenses increased 5.3%, to ¥186.5 billion. This rise resulted mainly from higher transportation expenses and personnel expenses accompanying the expansion of the Group's operations. The SG&A expense ratio fell 0.4 percentage points, to 46.4%. R&D expenses decreased ¥0.3 billion year on year, to ¥10.2 billion. As a percentage of net sales, R&D expenses fell 0.3 percentage points, to 2.5%.

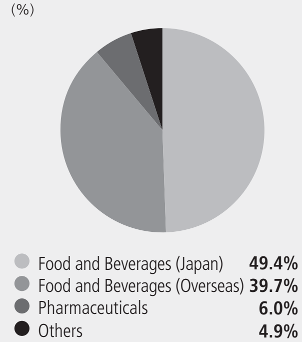
Net Sales

(Billions of yen)



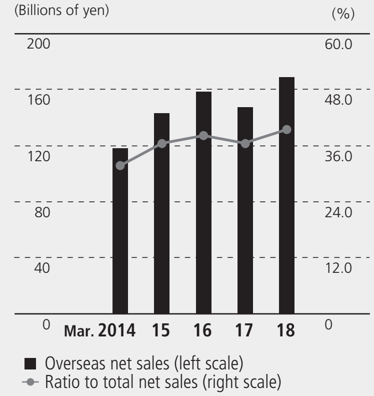
Breakdown of Net Sales (before Eliminations) (Mar. 2018)

(%)



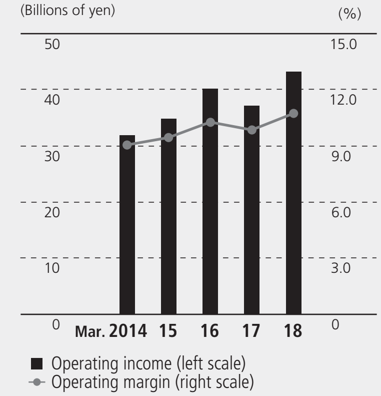
Overseas Net Sales/ Ratio to Total Net Sales

(Billions of yen) (%)



Operating Income and Operating Margin

(Billions of yen) (%)



As a result, operating income increased 16.6%, to ¥43.5 billion, impacted by an increase in currency exchange rate fluctuations amounting to ¥0.8 billion, and the operating margin rose 0.9 percentage points, to 10.8%.

Other income—net amounted to ¥10.0 billion, down ¥1.4 billion from a year earlier, mainly due to a decrease in foreign exchange gain.

Income taxes amounted to ¥14.8 billion.

Consequently, net income attributable to owners of the parent increased 13.0%, to ¥34.1 billion, and return on sales rose 0.5 percentage points, to 8.5%.

OVERVIEW BY SEGMENT

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

Through our home delivery channel, we strived to create new customers and encourage continued drinking for our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, in October 2017, we launched services in limited regions through Yakult Todokete Net, which allows customers to order product delivery online with the aim of enhancing convenience for customers and creating a point of contact with customers who have never used Yakult's home delivery channel. We also worked to bolster the working environment for Yakult Ladies while supporting Yakult Lady hiring activities in a proactive manner. Through our retail store channel, we continuously expanded value dissemination activities carried out by promotion staff, centered on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*. Furthermore, we ran the "2017 Pro Baseball Cheer Campaign" from July through August 2017 and the "Keep Drinking! Yakult campaign" from February through March 2018 for these products and worked to expand sales. We also launched the personal-type fermented milk drink *Synbiotics Yakult W* at convenience stores and supermarkets nationwide in November 2017 and strived to gain new customers.

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 Mellow Honey* and *Joie Hand-Picked Apple*, and carried out the "Take a break with Joie and make your body happy campaign" from October 2017 to January 2018 so as to activate the brand.

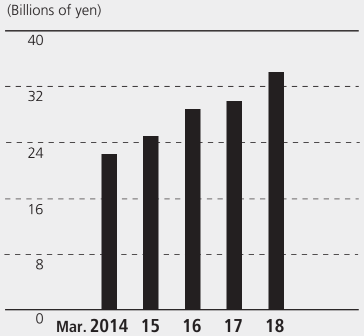
As a result of our efforts to bolster sales of our products centered on such initiatives, overall sales of dairy products surpassed those of the previous fiscal year.

In juices and other beverages, we aimed to boost sales of our functional drinks centered on the nutritional drink *Toughman* and *Bansoreicha*, a drink that lowers blood glucose levels. Also in January 2018, we launched a fruit drink fermented with lactobacillus, *Oishii Hakkou Kajitsu* nationwide.

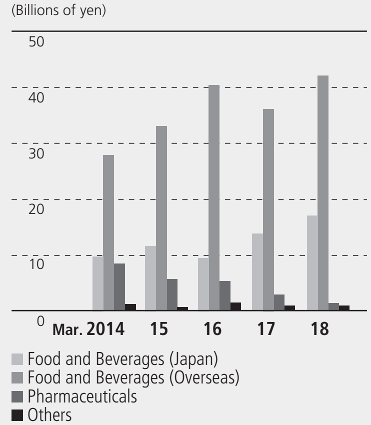
Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

Net sales increased to ¥210.0 billion, up 2.9%, from the previous fiscal year, and segment profit jumped 23.3%, to ¥17.0 billion.

Net Income Attributable to Owners of the Parent
(Billions of yen)



Operating Income by Business Segment
(Billions of yen)



FOOD AND BEVERAGES (OVERSEAS): Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They 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 2018 amounted to approximately 29.78 million bottles.

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

During the fiscal year under review, we worked to strengthen our sales structure in the home delivery and retail store channels to boost market share.

Net sales in the Americas increased to ¥50.2 billion, up 10.8%, from the prior fiscal year, and segment profit climbed 9.3%, to ¥11.3 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, besides importing and selling *Yakult* in the United Arab Emirates.

In China, we expanded our sales base to 42 locations by January 2018 to further strengthen our sales structure. Given the sales expansion for *Yakult*, we have started construction of a new factory in Foshan in Guangdong Province and a second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.) to begin production in 2019.

In India, to satisfy the consumer need for low-sugar and low-calorie products, we began sales of *Yakult Light*, a low-calorie version of Yakult, in February 2018.

In Myanmar, we plan to start production and sales of *Yakult* and proceeded with preparations for this.

Net sales in Asia and Oceania rose to ¥109.9 billion, up 17.7%, from the prior fiscal year, and segment profit increased 18.9%, to ¥30.1 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.

During the fiscal year under review, we strove to boost sales while conducting initiatives for approval of health claims under strict regulations on activities to disseminate probiotics.

Net sales in Europe increased to ¥8.3 billion, up 6.9% from the prior fiscal year, and segment profit jumped 35.2%, to ¥0.7 billion.

PHARMACEUTICALS: We focused on promoting dissemination 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*, we redoubled efforts to hold lectures and medical office briefings targeting medical professionals and maintain and expand market share. Given the increasing shift by medical institutions to the generic drug versions of *Elplat* since launch, we boosted activities to keep customers choosing our products by leveraging both our information provision capabilities, a Company strength since we developed the original drug, and the close relationships we have built up over many years with medical professionals. With respect to anti-cancer agent Zaltrap®, for which we signed a co-promotion agreement with Sanofi K.K., we actively provided information and promoted activities to have Zaltrap® introduced at medical institutions to pursue market penetration in the colorectal cancer field immediately after its launch. In addition, we sought higher sales following efforts to intensify sales channel development for our mainstay generic product, antineoplastic antimetabolite *Gemcitabine Yakult*, osteoclastic inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug.

In R&D, we expedited the clinical development of product candidates such as HDAC inhibitor *Resminostat* by 4SC AG, 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 cancer prevention and treatment.

As a result, net sales in the Pharmaceuticals segment fell 7.8%, to ¥25.7 billion, and segment profit was ¥1.3 billion, down 54.2% 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 our foundation.

In June 2017, we revamped and launched the *Revecy* series, which incorporates our original natural plant ingredient extracted from Ludwigia octovalvis. In November 2017, in order to take customer satisfaction a step further and drive sales growth, we rolled out *AGETICS Moist Repair Essence*, which is designed to reduce the appearance of dry fine lines and wrinkles.

These efforts enabled cosmetics operations overall to generate higher earnings than in the previous 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 increased 4.1%, to ¥20.8 billion, and segment profit rose 5.1%, to ¥1.0 billion.

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥631.2 billion, climbing 7.8% year on year.

Current assets increased ¥21.5 billion, or 9.4%, from the prior fiscal year-end, to ¥250.3 billion, principally due to an increase of ¥19.8 billion in cash and cash equivalents and time deposits.

Net property, plant and equipment advanced ¥2.9 billion, to ¥201.2 billion. This primarily reflected an increase in property, plant and equipment of overseas subsidiaries.

Investments and other assets rose ¥21.1 billion, or 13.3%, to ¥179.7 billion, mainly due to an increase in investment securities.

During the fiscal year under review, capital investment decreased 0.3%, to ¥23.3 billion.

Total liabilities grew 17.1%, to ¥244.6 billion. The major component of this increase was a rise of ¥39.9 billion in current portion of long-term debt. As a result, interest-bearing debt climbed ¥24.2 billion from the prior fiscal year-end, to ¥135.8 billion, while the debt-to-equity ratio increased 6.1 percentage points, to 38.6%.

Equity (excluding noncontrolling interests) increased 2.5%, to ¥352.2 billion, from ¥343.5 billion a year earlier. This rise was primarily due to an increase in retained earnings and an increase in unrealized gains on available-for-sale securities accompanying higher stock prices despite a decline reflecting the acquisition of treasury stock.

As a result, the equity ratio fell 2.8 percentage points, to 55.8%. Return on equity (ROE) rose 0.9 percentage points, to 9.8%. Return on assets (ROA) increased 0.7 percentage points, to 7.1%.

CASH FLOWS

Net cash provided by operating activities rose ¥2.0 billion from the previous fiscal year, to ¥62.0 billion. The increase in net cash provided primarily resulted from ¥53.5 billion in income before income taxes and ¥21.5 billion in depreciation and amortization, which was partly offset by ¥14.3 billion in income taxes paid.

Net cash used in investing activities declined ¥14.7 billion, to ¥30.3 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 increased ¥8.2 billion, to ¥22.0 billion. This outlay mainly reflected the acquisition of treasury stock and the payment of dividends.

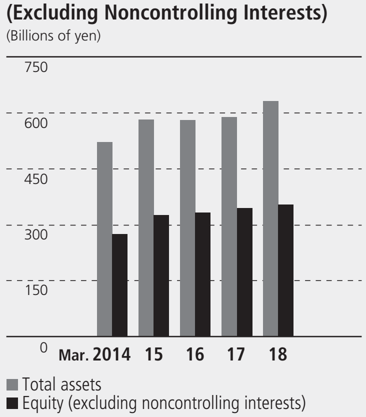
As a result, cash and cash equivalents at the fiscal year-end amounted to ¥105.9 billion, a net increase of ¥10.8 billion from a year earlier.

DIVIDENDS

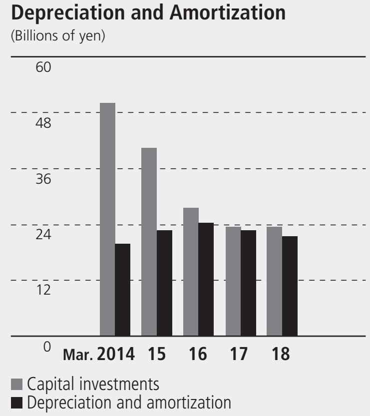
We place top priority on the payment of a stable and continuous dividend to shareholders by setting the annual dividend at a base of ¥30.0 per share. The total dividend is decided based on business performance for the year, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as the Company's financial position.

Based on this policy, we decided to pay a total dividend of ¥34.0 per share, up ¥2.0 from the prior fiscal year to continuously increase the return to shareholders. We have

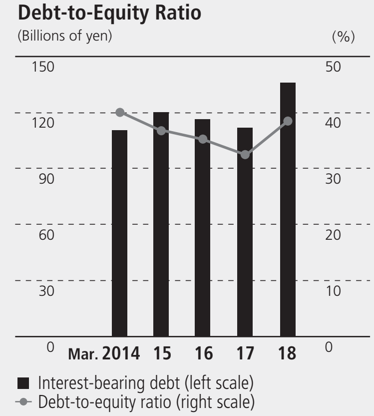
Total Assets and Equity (Excluding Noncontrolling Interests)



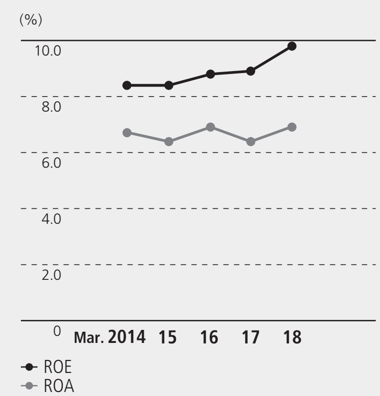
Capital Investments and Depreciation and Amortization



Interest-Bearing Debt and Debt-to-Equity Ratio



ROE and ROA



Note: ROA is calculated based on operating income.

already declared and paid an interim dividend of ¥17.0 per share, and the balance of ¥17.0 per share will be distributed to our shareholders as the year-end dividend.

In addition, to strengthen shareholder returns and improve capital efficiency, we acquired 4,864,800 shares of treasury stock for a total of ¥36.0 billion in February and retired all of them in March 2018.

For the fiscal year ending March 31, 2019, we plan to raise the annual dividend by ¥6.0 to ¥40.0 in an effort to provide shareholders with stable and continuous dividends and enhance shareholder returns 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 and broadening the recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota, and expand value dissemination activities by leveraging organizational strength, aiming to expand its share in the probiotic market.

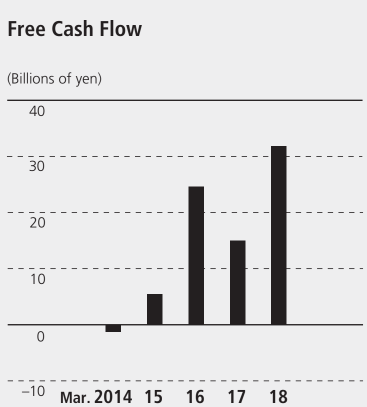
By product, we will make even greater efforts to continuously activate the brand of *Yakult 400* and *Yakult 400LT* by drastically carrying out value dissemination activities rooted in the local community and emphasizing our advanced research, development, and technology capabilities. In addition, through our retail store channel we will aim to further boost sales by improving visibility and functional appeal centered on *New Yakult* and *New Yakult Calorie Half*.

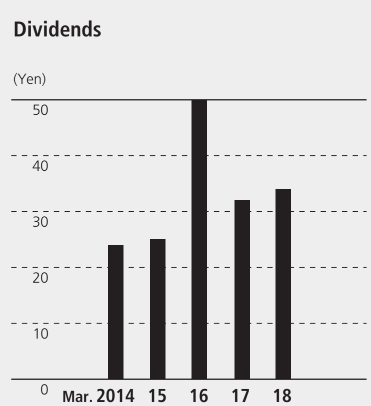
In juices and other beverages, we will activate our *Toughman* brand by launching new carbonated container-type *Tough-Man Refresh*, aiming at sales expansion by reinforcing functional drinks.

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

Outside Japan, at existing business offices, we will further expand business, enhance our financial strength, and raise profitability. With respect to the offices located particularly 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 our business launch in Myanmar.

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





PHARMACEUTICALS

In Japan, the drug prices revision that took place in April 2018 caused a drop in drug prices for a large portion of our products. Accordingly, we project a decrease in sales. As for our mainstay, the antineoplastic drug *Elplat*, it is inevitable that people will continue switching to the generic going forward. However, drawing on our proposal-based marketing based on information provision capabilities that we have cultivated since our beginning, in addition to our relationships of trust established to date with individuals in the medical industry, we will work to develop market expansion, aiming to secure sales.

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. We will emphasize 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.

As for our medicinal toothpaste, *Yakult Medicinal APACOAT S.E. (Nanotechnology)*, scheduled to be revamped in May 2018, we will launch a small-size *Yakult Medicinal APACOAT S.E. (Nanotechnology) Portable*, to improve convenience for customer use. Ongoing measures aimed at improving customer satisfaction and driving sales growth in our cosmetic operations include marketing activities to offer products and services that enable us to win customer trust and satisfaction.

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.

Risks Related to Dependency on Yakult products and Competitive Environment, Etc.

The Group's core products are the *Yakult* products containing *Lactobacillus casei* Shirota strain, the sales of which make up the majority of the sales of the Group. We strive to boost sales of *Yakult* products to contribute to the health and happiness of people around the world. As we expand overseas businesses, which greatly depend on the sales of *Yakult* products, the Group's dependency on *Yakult* products is likely to increase.

While we implement R&D investment to develop high-value-added products, there is uncertainty as to whether the Group's new products will attract customers and gain and maintain significant advantages over competitors' products. Amid intensified competition in the food and beverage industry, including drinks containing probiotics, if events occur that might adversely affect the sales of *Yakult* products, including even greater competition caused by the appearance of competitive products that are assumed to have superior health effects or are sold at lower prices than the Group's dairy products, or a change in consumer recognition and preference for the safety and effects of probiotics, our dependency on *Yakult* products could have a significant adverse impact on the Group's business results and financial condition.

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, especially in developing countries in Asia. Amid the possibility of the domestic market shrinking due to the decreasing population, this tendency is likely to continue.

Abroad, the cultural and competitive environment differs from country to country. In certain countries and regions where the Group develops business (including countries and regions where the Group will develop business in the future), political or economic changes may have significant impacts on the Group's business environment. Despite our utmost efforts, we might be unable to seize the opportunity for growth and achieve the expected return on investment due to changes in such external environments. Moreover, given the underlying differences of social backgrounds and legal restrictions between many overseas countries and regions and Japan, there is a risk that the execution of contractual rights and protection of intellectual property rights could be more difficult compared to in Japan, and an unforeseen establishment, amendment, or abolition of certain laws and regulations could provoke problems with respect to the Group's business activities. For example, we are not allowed to indicate the health effects of probiotics in Europe, which restricts the options for advertising the Group's products. There is no guarantee that we would be free from relevant restrictions in other countries. An occurrence of such issues could adversely impact our business results and financial condition.

The Group plans to expand its business to overseas markets, including China, and make a major capital investment in new plants and sales sites as well as upgrading existing facilities (including construction of a third plant in Guangzhou (Foshan Plant) [production will start in March 2019: expected capital investment of approximately ¥11.4 billion] and a second plant building at the Wuxi Plant [production will start in June 2019: expected capital investment of approximately ¥9.3 billion]). However, there is a possibility that factors including the above-mentioned issues could prevent the Group from achieving the expected growth and generating earnings sufficient to recover the investment, which could have a significant adverse impact on our business results and financial condition.

Risks Related to Product Safety

Amid growing concerns regarding food safety and quality assurance among consumers, companies in Japan and overseas are under intense pressure to provide 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 Act, Pharmaceuticals and Medical Devices Act, and other laws and regulations in Japan and overseas. As a Group, we also strive to strengthen our quality assurance system, with the provision of safe products as our highest priority.

However, in the event of unexpected circumstances associated with product safety and other factors, we could be forced to suspend manufacturing and sales, or to recall such products. Costs resulting from the occurrence of such issues and the damage to the reputation and brand image of the Group's products could have a significant adverse impact on our business results and financial condition. Moreover, regardless of whether it is a factual problem or a rumor with no grounds, or whether it is about the Group's product or a competitor's product, the occurrence of incidents that could weaken the safety of and consumer confidence in the health effects of products containing probiotics could have an adverse impact on the sales of the Group's products, resulting in a significant adverse impact on the Group's business results and financial condition.

Risks Accompanying the Group's Sales System

The sales channels of the Group's food and beverage business are divided into the Group's unique Yakult Lady home delivery channels and retail store channels. Given the importance of home delivery channels in disseminating probiotics, we put high priority on improving the work environment of Yakult Ladies and enhancing their network, as well as offering them well-developed training programs for conducting the Group's sales activities in Japan and overseas.

Most sales activities in the Domestic Food and Beverages business, both through the home delivery channel and the retail store channel, are conducted by sales companies throughout Japan, from which each Yakult Lady is entrusted with sales activities. Most of the sales companies (some are represented by a director of the Company) are neither our subsidiaries nor affiliate companies and have no capital relationship with the Company. In the event that we are unable to maintain a good relationship between sales companies and the Company, and Yakult Ladies and their sales companies, or to secure appropriate human resources, including Yakult Ladies, such trends could pose a serious problem to the sale of the Group's products and have a significant adverse impact on the Group's business results and financial condition.

In addition, in the event that sales companies stop selling or are unable to sell the Group's products, it could pose a serious problem to the sales of the Group's products and a significant amount of expenses and losses incurred related to the support of sales companies and system improvements could have a significant adverse impact on the Group's business results and financial condition.

In principle, our subsidiaries conduct all the operations from manufacturing to sales in the Overseas Food and Beverages business, except in certain countries and regions where our affiliate companies conduct business. While the importance of home delivery channels depends on countries and regions, the Group's business in countries, such as Thailand, South Korea, Indonesia, and Mexico, depends largely on the Yakult Lady home delivery system. In the event that the Group is unable to manage local affiliate companies properly, maintain good relationships with Yakult Ladies, or secure appropriate human resources, including Yakult Ladies, needed for the cultivation and expansion of overseas businesses, such trends could have a significant adverse impact on the Group's business results and financial condition.

Business through retail store channels may face competition with other companies' products, including retailers' private brand products and newly introduced sales methods including e-commerce. These trends could have an adverse impact on the sale of the Group's products.

Risks Pertaining to Increases in Raw Material Prices and Labor Costs

Sharp increases in procurement prices for the raw materials required for the Group's products, including the mainstay dairy products and lactobacillus-based drinks in particular, due to the market supply and demand situation, currency fluctuations, and so forth, could affect manufacturing costs, including costs for containers and other packaging. Moreover, sharp price increases in the crude oil market, especially those sustained over extended periods, could adversely affect transportation costs related to our products. In addition, in Japan, a decrease in the labor force is spurring improvement of working environments and so forth, and may cause a hike in labor costs, and so forth. Overseas, especially in developing countries, economic growth could push up comparatively low labor costs. In addition, in the event that we have to pay additional fees for Yakult Ladies because of a hike in labor costs, the Group's cost burden could grow or have an adverse impact on the product sale prices we offer sales companies. In the event that our cost reduction efforts are unable to cover the direct or indirect effects of heightened raw material prices and labor costs, or we are prevented from enacting price revisions due to market conditions, these trends could have a significant adverse impact on the Group's business results and financial condition.

Risks Accompanying the Pharmaceutical Business

(1) Risks of dependency on specific products

Our pharmaceutical business depends largely on the sales of the antineoplastic drug *Elplat*, and sales have been decreasing since the launch of a generic drug. As a result, sales in the Group's pharmaceutical business have been decreasing in recent years, and the trend could continue into the future.

(2) Risks of new drug development

The Group undertakes R&D activities aimed at launching new drugs. However, marketing of ethical drugs is allowed only when they are approved through rigorous investigations of efficacy and safety, as stipulated by the competent authorities.

Research and development of ethical drugs is a costly process. However, if the efficacy and safety is not determined to meet the required level for approval, we will have to discontinue R&D activities and will not be able to recoup the money invested. We will also have to conduct additional testing for approval, resulting in a significant amount of additional costs or delay in launching a new drug. Even a new drug launched successfully still has the possibility of failing to achieve the amount of sales that matches the money invested.

(3) Risks accompanying patent expirations

Generic drugs penetrate the market following patent expirations of the Group's original drugs, and this could have an adverse impact on the sales of our original drugs. The Japanese government's promotion of the use of generic drugs may intensify the competition with generic drugs in the future. While the Group also manufactures and sells generic drugs, given the comparatively low entry barrier into the market, intense competition may lower our profitability.

(4) Risks of drug price reduction measures

Drug prices under the National Health Insurance System have been periodically lowered, causing prices of our ethical drugs to decline. The next revision of drug prices is scheduled for April 2018, and is expected to continue on an annual basis thereafter.

Risks of Deterioration of the "Yakult" Brand

The Group places high priority on maintaining its brand image. "Yakult" is the name of the brand, common to the name of the Company and the name of our core products, and therefore, a problem related to *Yakult* products and other products bearing the name "Yakult," especially regarding quality and safety, could have a significant adverse impact on the brand image of the Group and its products. A scandal involving concerned parties using the name "Yakult," including domestic sales companies and Yakult Ladies, could have a significant adverse impact on the Group's brand image.

Risks in Intellectual Property Rights

Each of the Group's products and technologies is protected for a certain period by patents and other intellectual property rights, but an infringement of the intellectual property rights by a third party may reduce the Group's expected revenue. Moreover, trademarks of product containers similar to the Group's products have already been registered by competitors in certain countries, and this could adversely affect the sale of our products in such countries. In addition, if the Group were to infringe the intellectual property rights of a third party, it may be required to recall, terminate manufacturing and sales of relevant products, or pay compensation for damages, or royalties.

Risks Related to Litigation, Environmental Problems, Compliance, Etc.

The Group is subject to various laws and regulations of Japan and overseas countries where it conducts business. Changes in laws and regulations applicable to the Group have the potential to adversely affect the economic situation and consumer behavior, or could oblige the Group to pay additional costs or make additional capital investment. The Group takes the utmost care to comply with such laws and regulations, but if the Company were to violate laws and regulations, it could face administrative punishment or be subject to compensation for damages or other legal actions. The Group also undertakes environmentally conscious activities and complies with relevant environmental laws and regulations. Notwithstanding such considerations and actions, however, if the Group were to have to spend additional costs to address an environment-related problem or a revision of relevant laws and regulations, and so forth, the occurrence of such issues could have a significant adverse impact on the Group's credibility and financial condition.

Risks Accompanying Business Alliances, M&As, Joint Ventures, Etc.

The Group always seeks opportunities, including those of large scale and high importance, for business alliances, mergers and acquisitions, and joint ventures. In fact, our overseas affiliate companies include a company jointly established with our local partner. However, it is impossible to guarantee that the Group will acquire such opportunities, reach agreement with counterparties, or raise the necessary capital. Even if the Group were able to execute a transaction, it could fail to obtain the expected profits or results.

Risks Related to Currency Fluctuations

The Group's consolidated financial statements are expressed in Japanese yen. Accordingly, financial conditions and earnings of overseas consolidated subsidiaries and companies accounted for by the equity method are subject to currency fluctuations when they are converted into yen for consolidation purposes. In particular, fluctuations in the Chinese yuan, Indonesian rupiah, Mexican peso, and Brazilian real could have a significant adverse impact on the Group's performance and financial condition.

Risks in Investment Securities

The Group holds investment securities, including specified equity securities, mainly for forming cooperative relationships in business. Fluctuations in market prices of marketable listed stocks, and so forth, of the aforementioned securities could have an adverse impact on the Group's financial condition. Moreover, a significant decline in book values of the investment securities we hold could have a significant adverse impact on the Group's business results due to the recording of impairment losses, etc.

Risks in Interest-Bearing Debt

The Group partly finances its business via bank borrowings. Deterioration of market conditions, such as an interest rate hike, could increase the interest burden or prevent the Group from obtaining financing with preferable terms, causing a significant adverse impact on the Group's business results and financial condition. In addition, the Group lacks diversity in its funding methods as it relies on borrowings from specific banks.

Risks Related to Information Systems and Information Security

Since the Group's business operations rely on information systems, the failure of information devices, software, or networks could disrupt or interrupt operations, causing a significant adverse impact on the Group's business results and financial condition. For preventing a breach of customer information and other confidential information, the Group enforces system management, employee education, and so forth, as a means to implement security measures. However, breaches of such information caused by unexpected events including theft and cyber-attacks by an external party could damage the Group's credibility and result in a significant amount of compensation for damages, resulting in a significant adverse impact on the Group's business results and financial condition.

Risks of Weather, Climate Change, Natural Disasters, Etc.

The Group extends its business to various countries and regions throughout the world. The occurrence of unusual weather conditions, including bad weather and large-scale natural disasters, such as earthquakes, could restrict the Group's business activities directly or indirectly, having a significant adverse impact on the Group's business results and financial condition.

Risks Related to Management Strategy and Business Plan

The Group has strived to enhance corporate value in line with its Long-Term Vision "Yakult Vision 2020," established in January 2011. Taking into account the changes in the business environment since then, the Group announced "Yakult Vision 2020, Phase III (2017 – 2020)" in May 2017, in which the Group defined the third phase of the long-term vision (from 2017 to 2020) as a "transformation period for enabling continuous growth" and redefined quantitative objectives for the period. The Group has conducted various measures accordingly. The global average volume of our dairy products sales, our management benchmark, includes the volume of sales of affiliate companies accounted for by the equity method.

However, postponed or interrupted operations of newly built plants; failure to expand sales channels, including Yakult Ladies or advertisements; delayed introduction of new products and sluggish sales volume; reactive and insufficient measures to improve operational efficiency; any other risk factors, including issues described in the above-mentioned "BUSINESS RISKS," and changes in the Group's corporate policy; as well as changes in economic conditions and the management environment, could prevent the Group from executing said measures or achieving the planned objectives.

In addition to the aforementioned, the Group faces a range of other risks. 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, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 11)	**¥ 105,936**	¥ 95,131	**$ 999,397**
Time deposits (Notes 5 and 11)	**45,852**	36,899	**432,571**
Receivables (Note 11):			
Notes and accounts receivable	**51,675**	49,843	**487,498**
Associated companies	**5,353**	5,052	**50,497**
Other	**1,856**	3,597	**17,509**
Inventories (Note 3)	**28,138**	28,526	**265,458**
Deferred tax assets (Note 8)	**5,059**	4,771	**47,727**
Other current assets	**6,726**	5,206	**63,449**
Allowance for doubtful accounts (Note 11)	**(254)**	(229)	**(2,398)**
Total current assets	**250,341**	228,796	**2,361,708**
Property, plant and equipment:			
Land (Note 5)	**44,562**	41,930	**420,394**
Buildings and structures (Note 5)	**165,406**	161,844	**1,560,440**
Machinery, equipment and vehicles	**151,059**	145,084	**1,425,082**
Furniture and fixtures	**25,693**	24,935	**242,386**
Lease assets (Note 9)	**17,993**	18,842	**169,747**
Construction in progress	**9,407**	3,804	**88,745**
Total	**414,120**	396,439	**3,906,794**
Accumulated depreciation (Note 5)	**(212,921)**	(198,140)	**(2,008,693)**
Net property, plant and equipment	**201,199**	198,299	**1,898,101**
Investments and other assets:			
Investment securities (Notes 4 and 11)	**102,284**	89,375	**964,948**
Investments in and advances to associated companies (Note 11)	**61,307**	54,447	**578,369**
Long-term loans	**24**	35	**223**
Deferred tax assets (Note 8)	**1,955**	1,921	**18,442**
Other assets (Note 6)	**14,132**	12,868	**133,320**
Total investments and other assets	**179,702**	158,646	**1,695,302**
Total (Note 17)	**¥ 631,242**	¥ 585,741	**$ 5,955,111**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 5 and 11)	**¥ 41,644**	¥ 41,072	**$ 392,867**
Current portion of long-term debt (Notes 5, 9, and 11)	**47,669**	7,744	**449,705**
Payables (Note 11):			
Notes and accounts payable	**29,529**	24,618	**278,573**
Associated companies	**114**	140	**1,074**
Other	**7,340**	7,813	**69,245**
Income taxes payable	**3,404**	3,907	**32,119**
Accrued expenses	**23,915**	20,869	**225,614**
Other current liabilities	**8,186**	7,989	**77,222**
Total current liabilities	**161,801**	114,152	**1,526,419**
Long-term liabilities:			
Long-term debt (Notes 5, 9, and 11)	**46,513**	62,856	**438,805**
Liability for retirement benefits (Note 6)	**5,742**	7,973	**54,169**
Asset retirement obligations	**967**	973	**9,122**
Deferred tax liabilities (Note 8)	**26,361**	19,901	**248,688**
Other long-term liabilities	**3,184**	3,005	**30,038**
Total long-term liabilities	**82,767**	94,708	**780,822**
Commitments (Note 9)			
Equity (Notes 7 and 15):			
Common stock— authorized, 700,000,000 shares; issued, 171,045,418 shares in 2018 and 175,910,218 shares in 2017	**31,118**	31,118	**293,563**
Capital surplus	**41,528**	41,581	**391,777**
Retained earnings	**318,580**	314,102	**3,005,474**
Treasury stock—at cost 10,549,711 shares in 2018 and 10,548,970 shares in 2017	**(52,322)**	(40,446)	**(493,607)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**35,215**	26,117	**332,217**
Foreign currency translation adjustments	**(20,722)**	(26,599)	**(195,488)**
Defined retirement benefit plans	**(1,219)**	(2,370)	**(11,499)**
Total	**352,178**	343,503	**3,322,437**
Noncontrolling interests	**34,496**	33,378	**325,433**
Total equity	**386,674**	376,881	**3,647,870**
Total	**¥631,242**	¥585,741	**$5,955,111**

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net sales (Note 17)	**¥401,570**	¥378,308	**$3,788,393**
Cost of sales (Notes 6, 9, and 14)	**171,640**	163,973	**1,619,239**
Gross profit	**229,930**	214,335	**2,169,154**
Selling, general and administrative expenses (Notes 6, 9, 13, and 14)	**186,466**	177,053	**1,759,120**
Operating income (Note 17)	**43,464**	37,282	**410,034**
Other income (expenses):			
Interest and dividend income	**5,813**	4,585	**54,838**
Interest expense	**(653)**	(709)	**(6,160)**
Foreign exchange gain	**152**	2,223	**1,435**
Equity in earnings of associated companies	**3,884**	4,443	**36,641**
Loss on valuation of investment securities		(373)	
Gain on sales of investment securities	**660**		**6,227**
Loss on impairment	**(12)**	(177)	**(115)**
Other—net (Note 4)	**173**	1,407	**1,639**
Other income—net	**10,017**	11,399	**94,505**
Income before income taxes	**53,481**	48,681	**504,539**
Income taxes (Note 8):			
Current	**13,096**	12,464	**123,550**
Deferred	**1,725**	1,244	**16,269**
Total income taxes	**14,821**	13,708	**139,819**
Net income	**38,660**	34,973	**364,720**
Net income attributable to noncontrolling interests	**4,595**	4,818	**43,353**
Net income attributable to owners of the parent	**¥ 34,065**	¥ 30,155	**$ 321,367**
	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 16):			
Basic net income	**¥ 207.02**	¥ 182.39	**$ 1.95**
Cash dividends applicable to the year	**34.00**	32.00	**0.32**

Diluted net income per share of common stock for 2018 and 2017 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, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net income	**¥38,660**	¥34,973	**$364,720**
Other comprehensive income (loss) (Note 12):			
Unrealized gain on available-for-sale securities	**8,951**	1,659	**84,441**
Foreign currency translation adjustments	**5,487**	(18,927)	**51,765**
Defined retirement benefit plans	**1,152**	1,270	**10,865**
Share of other comprehensive income in associates	**114**	422	**1,079**
Total other comprehensive income (loss)	**15,704**	(15,576)	**148,150**
Comprehensive income	**¥54,364**	¥19,397	**$512,870**
Total comprehensive income (loss) attributable to:			
Owners of the parent	**¥50,191**	¥17,668	**$473,501**
Noncontrolling interests	**4,173**	1,729	**39,369**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2018

	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, 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
Net income attributable to owners of the parent				**34,065**					**34,065**		**34,065**
Change in the parent's ownership interest due to transactions with noncontrolling interests			**(53)**						**(53)**		**(53)**
Cash dividends, ¥34.0 per share				**(5,457)**					**(5,457)**		**(5,457)**
Repurchase of treasury stock	**(4,865)**				**(36,006)**				**(36,006)**		**(36,006)**
Retirement of treasury stock				**(24,130)**	**24,130**						
Net change in the year						**9,098**	**5,877**	**1,151**	**16,126**	**1,118**	**17,244**
Balance, March 31, 2018	**160,496**	**¥31,118**	**¥41,528**	**¥318,580**	**¥(52,322)**	**¥35,215**	**¥(20,722)**	**¥(1,219)**	**¥352,178**	**¥34,496**	**¥386,674**

	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, 2017	$293,563	$392,274	$2,963,223	$(381,567)	$246,387	$(250,931)	$(22,360)	$3,240,589	$314,888	$3,555,477
Net income attributable to owners of the parent			**321,367**					**321,367**		**321,367**
Change in the parent's ownership interest due to transactions with noncontrolling interests		**(497)**						**(497)**		**(497)**
Cash dividends, $0.32 per share			**(51,480)**					**(51,480)**		**(51,480)**
Repurchase of treasury stock				**(339,676)**				**(339,676)**		**(339,676)**
Retirement of treasury stock			**(227,636)**	**227,636**						
Net change in the year					**85,830**	**55,443**	**10,861**	**152,134**	**10,545**	**162,679**
Balance, March 31, 2018	**$293,563**	**$391,777**	**$3,005,474**	**$(493,607)**	**$332,217**	**$(195,488)**	**$(11,499)**	**$3,322,437**	**$325,433**	**$3,647,870**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Operating activities:			
Income before income taxes	**¥ 53,481**	¥ 48,681	**$ 504,539**
Adjustments for:			
Income taxes—paid	**(14,331)**	(11,856)	**(135,204)**
Income taxes—refunded	**391**	663	**3,689**
Depreciation and amortization (Note 17)	**21,532**	22,661	**203,134**
Loss on disposals and sales of property, plant and equipment	**218**	98	**2,055**
Equity in earnings of associated companies	**(3,884)**	(4,443)	**(36,641)**
Loss on valuation of investment securities		373	
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	**(1,499)**	551	**(14,145)**
Decrease (increase) in inventories	**390**	(959)	**3,678**
Increase in payables	**4,679**	813	**44,145**
Decrease in liability for retirement benefits	**(1,812)**	(1,938)	**(17,091)**
Other—net	**2,825**	5,355	**26,649**
Total adjustments	**8,509**	11,318	**80,269**
Net cash provided by operating activities	**61,990**	59,999	**584,808**
Investing activities:			
Transfers to time deposits	**(63,712)**	(55,466)	**(601,056)**
Proceeds from withdrawing time deposits	**55,970**	36,976	**528,024**
Purchases of property, plant and equipment	**(22,333)**	(24,773)	**(210,685)**
Proceeds from sales of property, plant and equipment	**269**	605	**2,539**
Purchases of investment securities	**(1,143)**	(1,635)	**(10,785)**
Proceeds from sales of investment securities	**1,801**		**16,988**
Other—net (Note 4)	**(1,138)**	(693)	**(10,738)**
Net cash used in investing activities	**(30,286)**	(44,986)	**(285,713)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Financing activities:			
Net increase in short-term loans	**669**	5,782	**6,309**
Proceeds from long-term debt	**30,000**		**283,019**
Payments for settlement of long-term debt	**(8,067)**	(11,189)	**(76,101)**
Repurchase of treasury stock	**(36,006)**	(2)	**(339,676)**
Sales of treasury stock		549	
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(1,183)**	(62)	**(11,160)**
Dividends paid	**(5,450)**	(6,767)	**(51,417)**
Dividends paid to noncontrolling interests	**(1,932)**	(2,236)	**(18,229)**
Other—net		176	
Net cash used in financing activities	**(21,969)**	(13,749)	**(207,255)**
Foreign currency translation adjustments on cash and cash equivalents	**1,070**	(7,932)	**10,095**
Net increase (decrease) in cash and cash equivalents	**10,805**	(6,668)	**101,935**
Cash and cash equivalents, beginning of year	**95,131**	101,799	**897,462**
Cash and cash equivalents, end of year	**¥ 105,936**	¥ 95,131	**$ 999,397**

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106 to U.S. $1, the approximate rate of exchange at March 31, 2018. 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, 2018 include the accounts of the Company and its seventy four (74 in 2017) 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 four (4 in 2017) 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 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 Codification) 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 on 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

(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 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. Past service costs are accounted for as expenses in the periods in which the costs are incurred. 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.

(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.

(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.

Diluted net income per share for the years ended March 31, 2018 and 2017, 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

Accounting Standard for Revenue Recognition—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Merchandise and finished products	**¥ 9,089**	¥ 8,641	**$ 85,751**
Work in process	**2,450**	2,726	**23,113**
Raw materials and supplies	**16,599**	17,159	**156,594**
Total	**¥28,138**	¥28,526	**$265,458**

NOTE 4 INVESTMENT SECURITIES

Investment securities at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Investment securities:			
Marketable equity securities	**¥ 98,737**	¥86,454	**$931,482**
Trust fund investments and other	**3,547**	2,921	**33,466**
Total	**¥102,284**	¥89,375	**$964,948**

The costs and aggregate fair values of investment securities at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥48,828**	**¥50,914**	**¥1,005**	**¥98,737**
March 31, 2017				
Securities classified as—				
Available-for-sale:				
Equity securities	¥49,450	¥37,558	¥ 584	¥86,454

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Securities classified as—				
Available-for-sale:				
Equity securities	**$460,642**	**$480,321**	**$9,481**	**$931,482**

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2018 and 2017 were ¥3,547 million ($33,466 thousand) and ¥2,921 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2018 and 2017 were ¥1,801 million ($16,988 thousand) and ¥63 million, respectively. Gross realized gain on these sales for the year ended March 31, 2018, computed on the moving-average cost basis, was ¥660 million ($6,227 thousand). Gross realized loss on these sales for the year ended March 31, 2017, computed on the moving-average cost basis, was ¥40 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, 2018 and 2017 were ¥41,644 million ($392,867 thousand) and ¥41,072 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2018 and 2017 ranged from 0.26% to 3.86% and 0.25% to 3.80%, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans from banks and other financial institutions, 0.37% to 4.93% (0.41% to 4.93% in 2017), due serially to 2030:			
Collateralized	**¥ 3,043**	¥ 3,402	**$ 28,707**
Unsecured	**84,426**	59,688	**796,472**
Obligations under finance leases (Note 9)	**6,713**	7,510	**63,331**
Total	**94,182**	70,600	**888,510**
Less current portion	**(47,669)**	(7,744)	**(449,705)**
Long-term debt, less current portion	**¥46,513**	¥62,856	**$438,805**

Annual maturities of long-term debt as of March 31, 2018 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥47,669	$449,705
2020	7,325	69,110
2021	6,983	65,879
2022	6,502	61,341
2023	5,813	54,837
2024 and thereafter	19,890	187,638
Total	¥94,182	$888,510

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2018 were as follows:

March 31, 2018	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 9**	**$ 84**
Land	**3,745**	**35,333**
Buildings and structures—net of accumulated depreciation	**1,868**	**17,617**
Total	**¥5,622**	**$53,034**

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, 2018 and 2017, included the amounts of ¥396 million ($3,733 thousand) and ¥501 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 obligations for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥63,987**	¥63,694	**$603,655**
Current service cost	**3,322**	3,331	**31,337**
Interest cost	**527**	426	**4,972**
Actuarial loss (gains)	**1,414**	(77)	**13,334**
Benefits paid	**(3,045)**	(3,052)	**(28,724)**
Others	**135**	(335)	**1,274**
Balance at end of year	**¥66,340**	¥63,987	**$625,848**

2. The changes in plan assets for the years ended March 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥56,962**	¥54,531	**$537,380**
Expected return on plan assets	**1,380**	1,279	**13,019**
Actuarial gains	**1,865**	262	**17,599**
Contributions from the employer	**3,898**	3,868	**36,770**
Benefits paid	**(2,693)**	(2,829)	**(25,410)**
Others	**220**	(149)	**2,078**
Balance at end of year	**¥61,632**	¥56,962	**$581,436**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Defined benefit obligations	**¥64,161**	¥61,122	**$605,293**
Plan assets	**(61,632)**	(56,962)	**(581,436)**
Total	**2,529**	4,160	**23,857**
Unfunded defined benefit obligations	**2,179**	2,865	**20,555**
Net liability arising from defined benefit obligations	**¥ 4,708**	¥ 7,025	**$ 44,412**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Liability for retirement benefits	**¥5,346**	¥7,472	**$50,436**
Asset for retirement benefits	**(638)**	(447)	**(6,024)**
Net liability arising from defined benefit obligations	**¥4,708**	¥7,025	**$44,412**

4. The components of net periodic benefit costs for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥3,322**	¥3,331	**$31,337**
Interest cost	**527**	426	**4,972**
Expected return on plan assets	**(1,380)**	(1,279)	**(13,019)**
Recognized actuarial losses	**1,211**	1,445	**11,424**
Others	**40**	162	**383**
Net periodic benefit costs	**¥3,720**	¥4,085	**$35,097**

5. Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Actuarial gains	**¥1,660**	¥1,831	**$15,660**
Total	**¥1,660**	¥1,831	**$15,660**

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized actuarial losses	**¥1,780**	¥3,440	**$16,793**
Total	**¥1,780**	¥3,440	**$16,793**

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2018 and 2017 consisted of the following:

	2018	2017
Bonds	**17%**	15%
Stocks	**20**	22
Cash and Deposits	**30**	29
General accounts	**24**	25
Others	**9**	9
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, 2018 and 2017 are set forth as follows:

	2018	2017
Discount rate	**0.61%**	0.70%
Expected rate of return on plan assets	**2.50**	2.50

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% for each of the years ended March 31, 2018 and 2017. 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Pension and severance costs	**¥ 1,968**	¥ 2,451	**$ 18,565**
Tax loss carryforwards	**4,815**	6,344	**45,421**
Accrued bonuses	**1,838**	1,886	**17,345**
Others	**7,893**	7,621	**74,458**
Less valuation allowance	**(6,341)**	(8,055)	**(59,815)**
Total	**¥ 10,173**	¥ 10,247	**$ 95,974**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**¥ 14,944**	¥ 10,984	**$ 140,985**
Undistributed earnings of foreign subsidiaries and associated companies	**10,528**	8,667	**99,321**
Unrealized gain on land held by subsidiaries	**1,201**	1,193	**11,329**
Others	**2,847**	2,612	**26,858**
Total	**¥ 29,520**	¥ 23,456	**$ 278,493**
Net deferred tax liabilities	**¥(19,347)**	¥(13,209)	**$(182,519)**

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, 2018 and 2017 is as follows:

	2018	2017
Normal effective statutory tax rate	**30.86%**	30.86%
Equity in earnings of associated companies	**(2.24)**	(2.82)
Tax exemption	**(1.66)**	(0.35)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**3.48**	2.15
Social expenses not deductible for income tax purposes	**1.42**	1.40
Tax rate differences in foreign subsidiaries	**(4.72)**	(3.63)
Effect of tax rate reduction		
Others—net	**0.57**	0.55
Actual effective tax rate	**27.71%**	28.16%

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥25,407 million ($239,687 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
2019	¥ 339	$ 3,195
2020	254	2,393
2021	520	4,906
2022	575	5,423
2023	772	7,282
2024 and thereafter	22,947	216,488
Total	¥25,407	$239,687

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	
	2018		2018	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥2,098**	**¥1,419**	**$19,797**	**$13,387**
Due after one year	**4,615**	**2,446**	**43,534**	**23,072**
Total	**¥6,713**	**¥3,865**	**$63,331**	**$36,459**

	Millions of yen	
	2017	
	Finance leases	Operating leases
Due within one year	¥2,146	¥1,266
Due after one year	5,364	2,162
Total	¥7,510	¥3,428

NOTE 10 RELATED PARTY DISCLOSURES

1. Transactions of the Company with Danone Probiotics Private Ltd. that was other affiliated entity for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Repurchase of treasury stock	**¥34,715**		**$327,499**

2. 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Sales	**¥5,977**	¥6,962	**$56,391**
Sales discounts and rebates	**96**	155	**909**
Collection of loans	**7**	7	**66**
Rent of vending machines	**24**	23	**222**
Temporary receipts	**2,149**	2,473	**20,273**
Subsidy of sales expenses	**52**	50	**487**
Rent of leased assets	**5**	21	**49**

The balances due to or from these related parties at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Notes and accounts receivable	**¥1,311**	¥1,629	**$12,368**
Other receivables	**9**	8	**84**
Long-term loans	**4**	11	**33**
Other payables	**17**	45	**158**
Accrued expenses	**22**	19	**213**
Other long-term liabilities	**37**	50	**350**

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 with 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 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, 2018			
Cash and cash equivalents	**¥105,936**	**¥105,936**	
Time deposits	**45,852**	**45,852**	
Receivables	**58,884**		
Allowance for doubtful accounts	**(254)**		
Receivables—net	**58,630**	**58,630**	
Investment securities	**98,737**	**98,737**	
Total	**¥309,155**	**¥309,155**	
Short-term borrowings	**¥ 41,644**	**¥ 41,644**	
Payables	**36,983**	**36,983**	
Long-term debt (excluding obligations under finance leases)	**87,469**	**87,635**	**¥166**
Total	**¥166,096**	**¥166,262**	**¥166**

	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 (excluding obligations under finance leases)	63,090	63,288	¥198
Total	¥136,733	¥136,931	¥198

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2018			
Cash and cash equivalents	**$ 999,397**	**$ 999,397**	
Time deposits	**432,571**	**432,571**	
Receivables	**555,504**		
Allowance for doubtful accounts	**(2,398)**		
Receivables—net	**553,106**	**553,106**	
Investment securities	**931,482**	**931,482**	
Total	**$2,916,556**	**$2,916,556**	
Short-term borrowings	**$ 392,867**	**$ 392,867**	
Payables	**348,892**	**348,892**	
Long-term debt (excluding obligations under finance leases)	**825,179**	**826,742**	**$1,563**
Total	**$1,566,938**	**$1,568,501**	**$1,563**

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
	2018	2017	**2018**
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies	**¥64,854**	¥57,368	**$611,835**

(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, 2018				
Cash and cash equivalents	**¥105,936**			
Time deposits	**45,852**			
Receivables	**58,884**			
Total	**¥210,672**			

	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			

	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, 2018				
Cash and cash equivalents	**$ 999,397**			
Time deposits	**432,571**			
Receivables	**555,504**			
Total	**$1,987,472**			

NOTE 12 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ 13,561**	¥ 2,261	**$ 127,935**
Reclassification adjustments to profit or loss	**(660)**	90	**(6,227)**
Amount before income tax effect	**12,901**	2,351	**121,708**
Income tax effect	**(3,950)**	(692)	**(37,267)**
Total	**¥ 8,951**	¥ 1,659	**$ 84,441**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥5,487**	¥(18,927)	**$51,765**
Total	**¥5,487**	¥(18,927)	**$51,765**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥ 449**	¥ 372	**$ 4,236**
Reclassification adjustments to profit or loss	**1,211**	1,459	**11,424**
Amount before income tax effect	**1,660**	1,831	**15,660**
Income tax effect	**(508)**	(561)	**(4,795)**
Total	**¥ 1,152**	¥ 1,270	**$ 10,865**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Share of other comprehensive income in associates:			
Gains arising during the year	**¥ 131**	¥ 449	**$ 1,242**
Reclassification adjustments to profit or loss	**(17)**	(27)	**(163)**
Total	**¥ 114**	¥ 422	**$ 1,079**
Total other comprehensive income (loss)	**¥ 15,704**	¥(15,576)	**$ 148,150**

NOTE 13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Advertising	**¥18,384**	¥17,280	**$173,432**
Sales subsidies	**9,574**	9,086	**90,324**
Freight expense	**13,328**	12,050	**125,736**
Sales commission	**24,528**	23,384	**231,398**
Salaries	**40,019**	37,117	**377,535**
Provision for bonuses	**3,826**	3,620	**36,092**
Net periodic benefit costs	**2,789**	3,064	**26,316**
Depreciation and amortization	**4,579**	4,496	**43,201**
Research and development	**10,171**	10,512	**95,956**

NOTE 14 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,208 million ($96,298 thousand) and ¥10,549 million for the years ended March 31, 2018 and 2017, respectively.

NOTE 15 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2018 was approved at the Company's Board of Directors' meeting held on May 10, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥17.00 ($0.16) per share	**¥2,728**	**$25,740**

NOTE 16 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2018 and 2017 is as follows:

Diluted net income per share for the years ended March 31, 2018 and 2017 is not disclosed due to the absence of dilutive securities.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income attributable to owners of the parent	Weighted-average shares	EPS	
Year ended March 31, 2018				
Basic EPS:				
Net income available to common shareholders	**¥34,065**	**164,550**	**¥207.02**	**$1.95**

	Millions of yen	Thousands of shares	Yen
	Net income attributable to owners of the parent	Weighted-average shares	EPS
Year ended March 31, 2017			
Basic EPS:			
Net income available to common shareholders	¥30,155	165,327	¥182.39

NOTE 17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segment of an Enterprise and a Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segment of an Enterprise and a Related Information," 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 decision-maker 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

2018

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	**¥189,214**	**¥50,159**	**¥109,852**	**¥8,342**	**¥25,662**	**¥18,341**		**¥401,570**
Intersegment sales or transfers	**20,808**					**2,438**	**¥(23,246)**	
Total	**210,022**	**50,159**	**109,852**	**8,342**	**25,662**	**20,779**	**(23,246)**	**401,570**
Segment profit (loss)	**17,029**	**11,279**	**30,094**	**665**	**1,323**	**950**	**(17,876)**	**43,464**
Segment assets	**181,671**	**72,971**	**200,697**	**10,481**	**25,204**	**14,268**	**125,950**	**631,242**
Other:								
Depreciation and amortization	**10,942**	**1,958**	**5,946**	**283**	**951**	**460**	**992**	**21,532**
Investment in associates			**59,174**					**59,174**
Increase in property, plant and equipment and intangible assets	**7,951**	**1,043**	**10,833**	**676**	**665**	**326**	**3,630**	**25,124**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥13,298 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥131,846 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥992 million of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥3,630 million of capital expenditure of the head office.

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.

	Japan (Food and Beverages)	The Americas (Food and Beverages)	Asia and Oceania (Food and Beverages)	Europe (Food and Beverages)	Pharmaceuticals	Others	Reconciliation	Consolidated
	Thousands of U.S. dollars							
	2018							
Sales								
Sales to external customers	$1,785,036	$473,194	$1,036,340	$78,703	$242,094	$173,026		$3,788,393
Intersegment sales or transfers	196,308					22,997	$(219,305)	
Total	1,981,344	473,194	1,036,340	78,703	242,094	196,023	(219,305)	3,788,393
Segment profit (loss)	160,651	106,408	283,905	6,270	12,480	8,962	(168,642)	410,034
Segment assets	1,713,873	688,406	1,893,369	98,882	237,771	134,604	1,188,206	5,955,111
Other:								
Depreciation and amortization	103,227	18,469	56,095	2,667	8,970	4,343	9,363	203,134
Investment in associates			558,244					558,244
Increase in property, plant and equipment and intangible assets	75,010	9,837	102,198	6,377	6,275	3,076	34,243	237,016

Notes: 1. Reconciliation in segment profit (loss) mainly consists of $125,452 thousand of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of $1,243,829 thousand of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of $9,363 thousand of depreciation of the head office.
4. Reconciliation in capital expenditure consists of $34,243 thousand of capital expenditure of the head office.

(4) INFORMATION ABOUT GEOGRAPHICAL AREAS

a. Sales

	Japan	The Americas	Asia and Oceania	Europe	Total
Millions of yen, 2018	**¥231,089**	**¥50,178**	**¥111,961**	**¥8,342**	**¥401,570**
Millions of yen, 2017	¥229,593	¥45,271	¥95,467	¥7,977	¥378,308
Thousands of U.S. dollars, 2018	**$2,180,083**	**$473,373**	**$1,056,234**	**$78,703**	**$3,788,393**

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, 2018	**¥124,592**	**¥15,809**	**¥58,543**	**¥2,255**	**¥201,199**
Millions of yen, 2017	¥124,611	¥17,082	¥54,921	¥1,685	¥198,299
Thousands of U.S. dollars, 2018	**$1,175,395**	**$149,139**	**$552,292**	**$21,275**	**$1,898,101**

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, 2018, 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, 2018, 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 20, 2018

Member of
Deloitte Touche Tohmatsu Limited

Global Network

(As of April 1, 2018)

PRINCIPAL INTERNATIONAL SUBSIDIARIES AND AFFILIATES

Company name	Start of Sales	Location
ASIA AND OCEANIA		
Yakult Taiwan Co., Ltd.	March 1964	Taipei
Hong Kong Yakult Co., Ltd.	June 1969	Hong Kong
Yakult (Thailand) Co., Ltd.	June 1971	Bangkok
Korea Yakult Co., Ltd.	August 1971	Seoul
Yakult Philippines, Inc.	October 1978	Manila
Yakult (Singapore) Pte., Ltd.	July 1979	Singapore
P.T. Yakult Indonesia Persada	January 1991	Jakarta
Yakult Australia Pty. Ltd. • New Zealand Branch	February 1994	Dandenong
Yakult (Malaysia) Sdn. Bhd.	February 2004	Shah Alam
Yakult Vietnam Co., Ltd.	September 2007	Ho Chi Minh
Yakult Danone India Pvt. Ltd.	January 2008	New Delhi
Yakult (China) Corporation	April 2007	Shanghai
Guangzhou Yakult Co., Ltd.	June 2002	Guangzhou
Shanghai Yakult Co., Ltd.	May 2005	Shanghai
Beijing Yakult Co., Ltd.	June 2006	Beijing
Tianjin Yakult Co., Ltd.	August 2011	Tianjin
Wuxi Yakult Co., Ltd.	June 2015	Wuxi
Yakult Middle East FZCO	March 2017	Dubai
Yakult Myanmar Co., Ltd.	Preparing to start sales	Yangon

Company name	Start of Sales	Location
The AMERICAS		
Yakult S/A Ind. E Com. (Brazil)	October 1968	São Paulo
Yakult S.A. De C.V. (Mexico)	October 1981	Mexico City
Yakult U.S.A. Inc.	October 1999	Fountain Valley
EUROPE		
Yakult Europe B.V.	March 1996	Almere, Nederland
Yakult Nederland B.V.	April 1994	Amstelveen
Yakult Belgium N.V./S.A.	April 1995	Brussels
Yakult UK Ltd. • Ireland Branch	April 1996	London
Yakult Deutschland GmbH	April 1996	Neuss
Yakult Oesterreich GmbH	December 2005	Vienna
Yakult Italia S.r.l.	February 2007	Milan
Yakult Honsha European Research Center for Microbiology, ESV	May 2005	Ghent, Belgium

Note: Countries where test and other sales are conducted: Brunei, Oman, Bahrain, Qatar, Kuwait, Uruguay, Canada, Belize, France, Luxembourg, Spain, Malta, and Switzerland.

Corporate Data

(As of March 31, 2018)

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 25,993 (Consolidated)

NUMBER OF ISSUED AND OUTSTANDING SHARES 171,045,418

NUMBER OF SHAREHOLDERS 30,425*

* 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

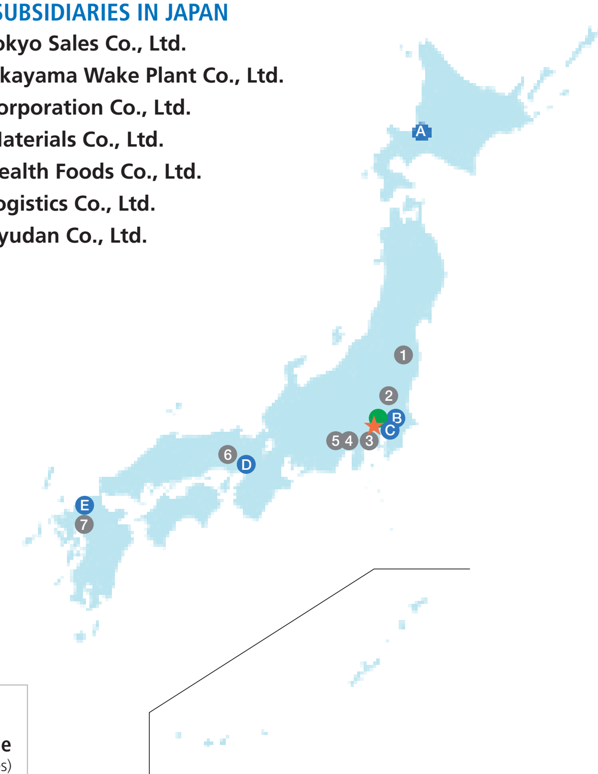
- A Hokkaido Branch
- B East Japan Branch
- C Metropolitan Branch
- D Central Japan Branch
- E West Japan Branch

Plants

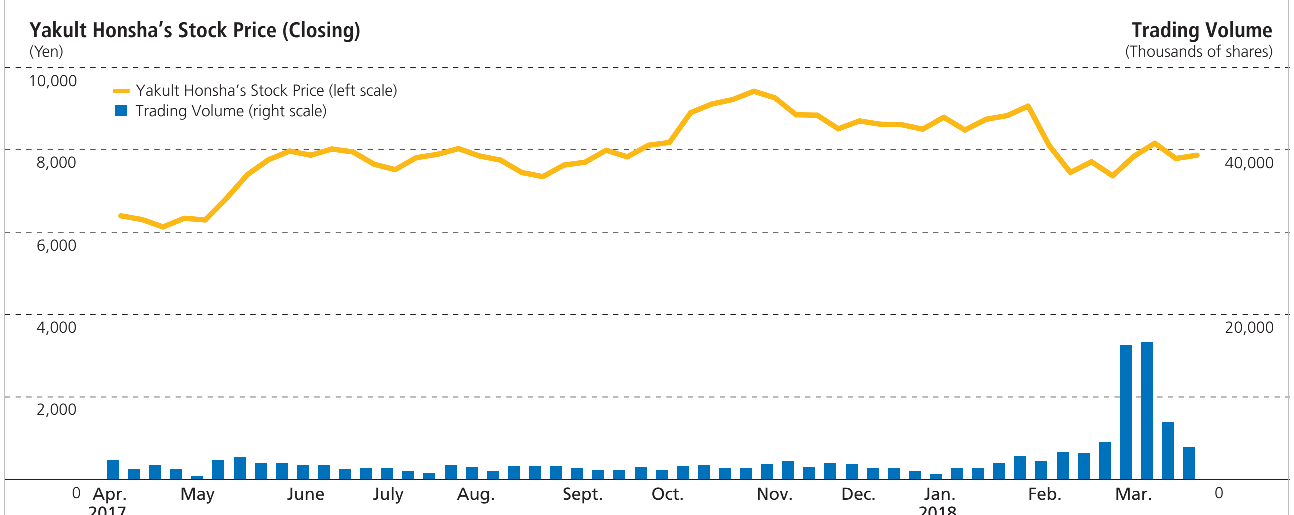
1. Fukushima Plant
2. Ibaraki Plant
3. Shonan Cosmetics Plant
4. Fuji Susono Plant
5. Fuji Susono Pharmaceuticals Plant
6. Hyogo Miki Plant
7. Saga Plant

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



YAKULT HONSHA CO., LTD.
1-19, Higashi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8660, Japan
Phone: +81-3-3574-8960
URL: http://www.yakult.co.jp/

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