Yakult

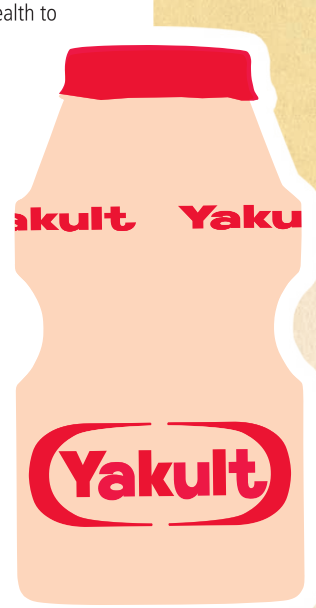
Toward Sustainable Growth

Delivering Smiles and Good Health to as Many People as Possible

ANNUAL REPORT 2019 *Year ended March 31, 2019*

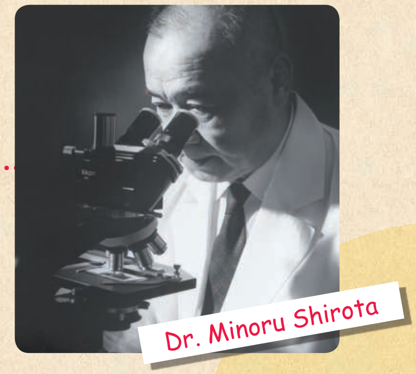
Growing from

Contents



Forward-Looking Statements
Statements contained in the Annual Report 2019 regarding business results for fiscal 2019 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

Our founder,



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

In the more than 80 years since then,

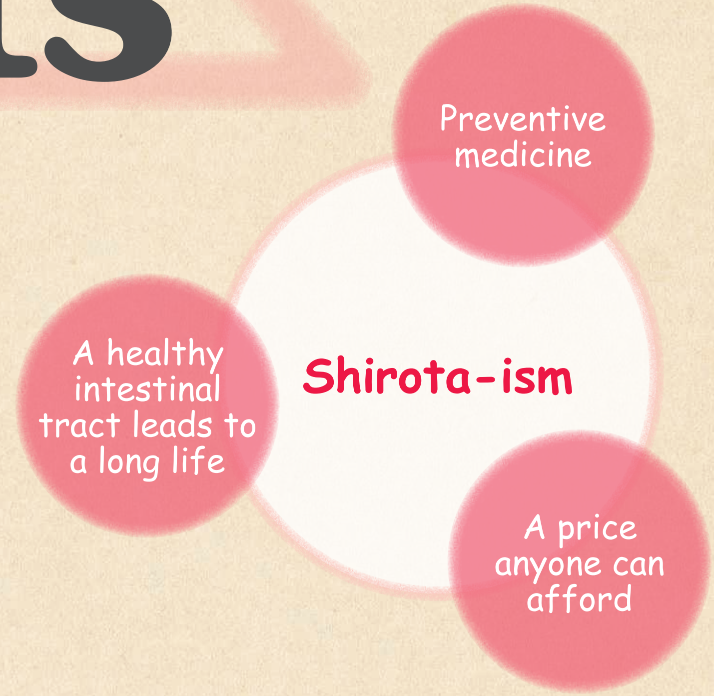
Yakult has conducted its business activities around the world in ways based on Dr. Shirota's philosophy—Shirota-ism (preventive medicine, the idea that a healthy intestinal tract leads to a long life, and offering products at a price anyone can afford)—as explained on the next page.

As a probiotics* pioneer,

we help to protect people's health in 40 countries and regions, including Japan, as of August 31, 2019. 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.

Our Roots



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 the fields of pharmaceuticals and cosmetics as well.

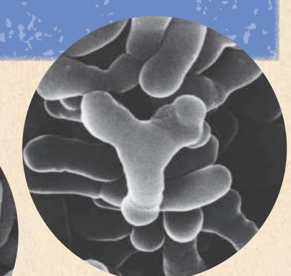
The Yakult Lady System:
Everywhere Is Local

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 the 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. From its beginnings in Japan, our unique Yakult Lady home-delivery system has expanded to and been highly successful in many countries and regions around 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 *Lactobacillus casei* strain Shirota



Electron micrograph of *Bifidobacterium breve* strain Yakult

Yakult Consumption around the World

Taking Good Health Global

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

THE AMERICAS

United States

Mexico

Brazil

EUROPE

Italy

Austria

United Kingdom

The Netherlands

Germany

Belgium

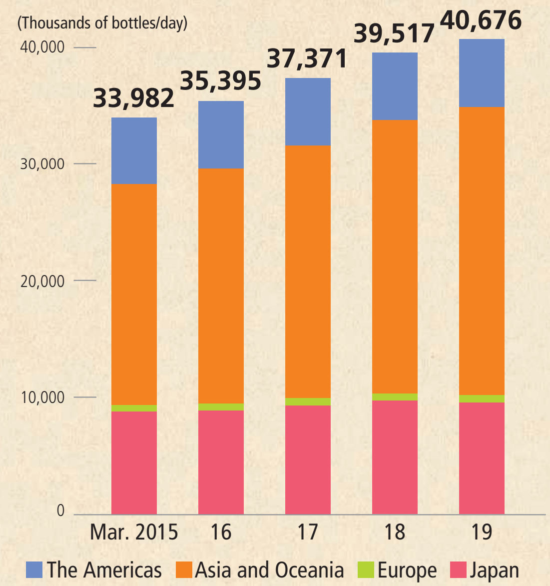
Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2019, 2018, 2017, 2016 and 2015

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2015	2016	2017	2018	**2019**	**2019**
For the year:						
Net sales	¥367,980	¥390,412	¥378,308	¥401,570	**¥407,017**	**$3,666,825**
Operating income	34,898	40,057	37,282	43,464	**45,846**	**413,029**
Net income attributable to owners of the parent	25,056	28,843	30,155	34,065	**34,935**	**314,733**
At the year-end:						
Total assets	¥579,345	¥577,535	¥585,741	¥627,032	**¥618,533**	**$5,572,369**
Total liabilities	217,132	212,070	208,860	240,358	**226,254**	**2,038,321**
Total equity	362,213	365,465	376,881	386,674	**392,279**	**3,534,048**
Financial ratio:						
Return on equity (ROE) (%)	8.4	8.8	8.9	9.8	**9.8**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥151.58	¥174.54	¥182.39	¥207.02	**¥217.89**	**$1.96**
Total equity (Note 3)	1,966.13	2,007.73	2,077.29	2,194.32	**2,229.80**	**20.09**
Cash dividends applicable to the year	25.00	50.00	32.00	34.00	**44.00**	**0.40**

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 ¥111 to U.S.$1, the approximate rate of exchange at March 31, 2019.
3. Noncontrolling interests are not included in equity on process of calculation.

Sales Volume by Region



ASIA AND OCEANIA

South Korea


3,239 Thousands of bottles/day

Hong Kong


542 Thousands of bottles/day

China (total)


7,526 Thousands of bottles/day

Breakdown is as follows:

· Guangzhou	2,856
· Shanghai	617
· Beijing	425
· Other areas of China	3,628

Thailand


2,292 Thousands of bottles/day

Australia


245 Thousands of bottles/day

The Philippines


3,088 Thousands of bottles/day

Middle East

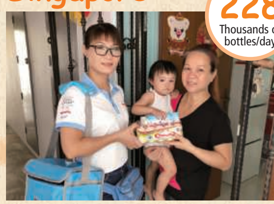

16 Thousands of bottles/day

India


217 Thousands of bottles/day

Vietnam


377 Thousands of bottles/day

Singapore


228 Thousands of bottles/day

Malaysia


345 Thousands of bottles/day

Taiwan


731 Thousands of bottles/day

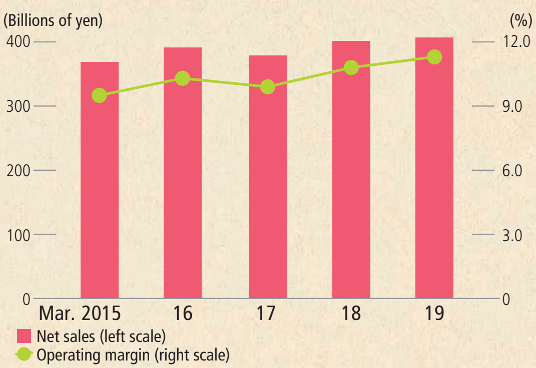
Indonesia


5,831 Thousands of bottles/day

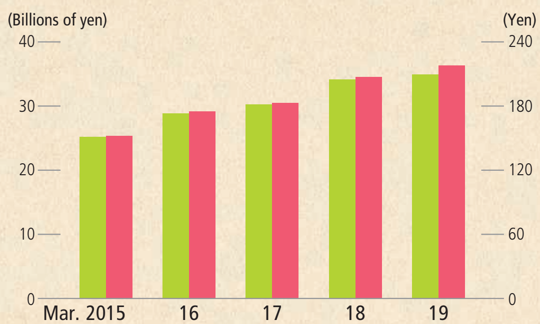
Japan


9,543 Thousands of bottles/day

Net Sales and Operating Margin

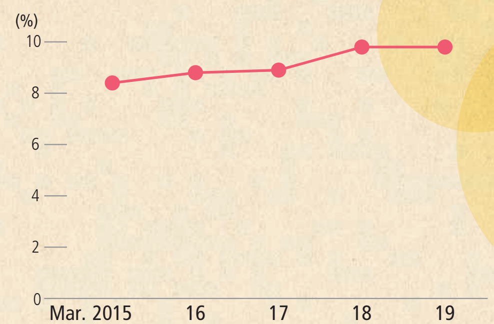


Net Income Attributable to Owners of the Parent and Net Income per Share (Basic)



Net income attributable to owners of the parent (left scale)
Net income per share (basic) (right scale)

ROE



At the dawn of a new imperial era, we pledge to address the dual challenges of improving financial results and helping to make society more sustainable.

On May 1 this year, Japan's new emperor ascended to the throne and the imperial era changed to Reiwa. At Yakult, we are marking this new era by pursuing a range of innovations and implementing fresh new measures.

In our overseas food and beverage business, we will renew our efforts to break into markets in new countries. We started in January of this year, commencing sales in Denmark in Northern Europe. This was followed in August with the commencement of sales in Myanmar in the Asia and Oceania region. Of course, we will also maintain our efforts in countries where we already operate, continuing to expand our reach and penetrate more deeply into these markets to ensure sustained growth.

In our domestic food and beverage business, we will introduce several major new products to the market during the current fiscal year (ending March 31, 2020), which will serve as our core products in the new era.

We will also relocate our offices to Takeshiba, Tokyo in April 2020, aiming to make our operations more efficient and facilitate smooth business development by bringing our head office organization and affiliates—currently dispersed in different locations—together in the same building.

I believe that the most important concerns when running a business are the continuous improvement of financial results, and engagement with a range of challenges to achieve a more sustainable society. These concerns are also making themselves felt through the workings of the stock markets.

Japan's Government Pension Investment Fund, one of the world's largest institutional investors, invests large sums in companies that are taking action to increase the sustainability of society as a whole or, in other words, companies that are actively tackling environmental, social, and governance (ESG) issues. The government pension fund already indirectly holds a large number of Yakult Honsha shares.

Going forward, we will aim to further boost corporate value by continuing to address the dual challenges of improving our financial results and helping to make society more sustainable.

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

August 2019

Takashige Negishi

Takashige Negishi
President and Representative Director

Interview with the President

Reflecting on the Fiscal Year Ended March 31, 2019

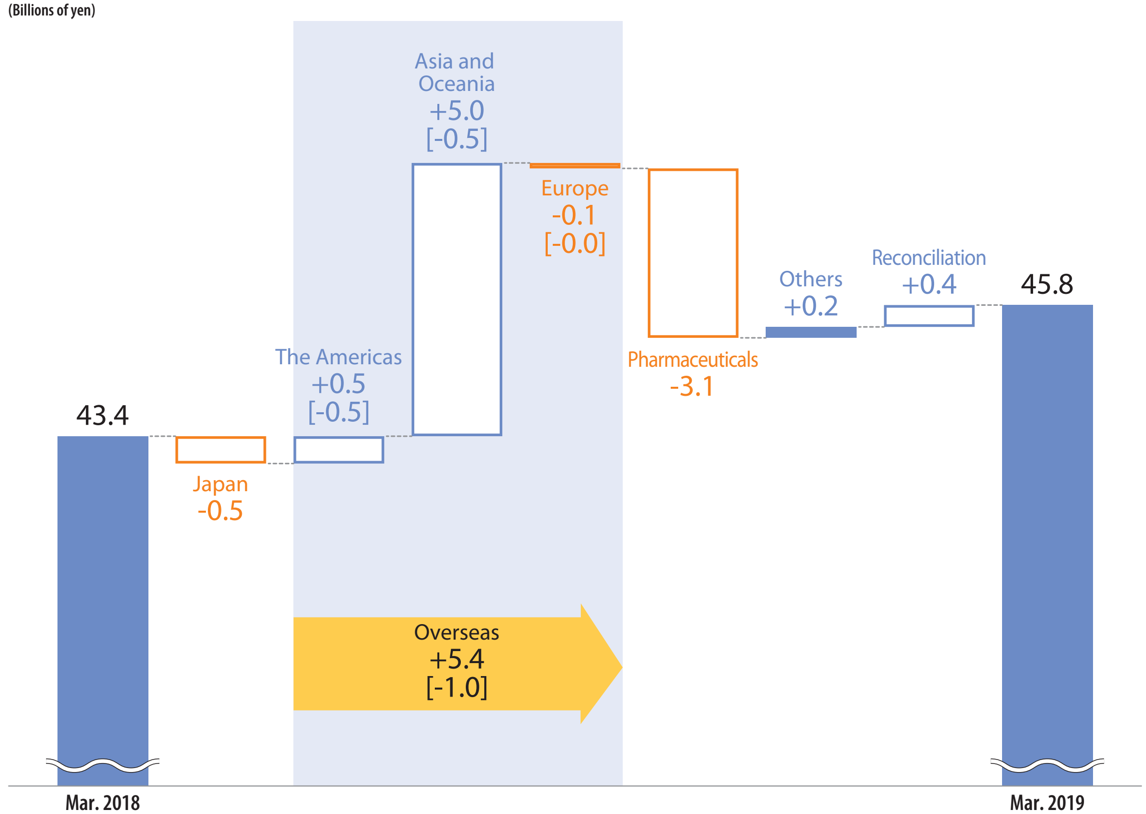
Q Please summarize the business results for the fiscal year ended March 31, 2019.

A We recorded our highest ever growth in sales as well as all stages of profit.

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

The overseas food and beverage business saw growth in sales and profits due mainly to a rise in bottle sales along with the effects of price adjustments, especially in Asia, which drove overall net sales and operating income. In Japan, we experienced higher sales reflecting increased production equipment sales and lower profits reflecting mainly higher expenses despite a drop in bottle sales of dairy products and juice and other beverages. In the pharmaceuticals business, sales and profits declined due to revision of the National Health Insurance (NHI) drug price and other factors.

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.

Strategy and Initiatives for the Fiscal Year Ending March 31, 2020

Targets — Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2020

- **Net sales: ¥420.0 billion (103.2% YoY)**
- **Operating income: ¥48.5 billion (105.8% YoY)**
- **Net income attributable to owners of the parent: ¥36.5 billion (104.5% YoY)**
- **Net income per share: ¥227.80 (104.5% YoY)**

Q Please discuss the initiatives you plan to implement in the overseas food and beverage business in the fiscal year ending March 31, 2020.

Overseas Food and Beverages

A We will keep pushing ahead with our customer creation initiatives focusing on the growing Asia and Oceania region.

Our results for the fiscal year ended March 31 show continued progress toward the achievement of the stated goals for the Yakult Vision 2020 Phase III Plan, with the goal for operating profit having already been surpassed (goal: ¥46 billion, result: ¥47.5 billion). We intend to keep pushing ahead with our customer creation initiatives, focusing on the Asia and Oceania region, where sales growth is holding strong.

Our overseas food and beverage business now operates in 39 countries and regions outside Japan (as of August 31, 2019), each with its own unique history and culture, but the foundation of our international development remains local manufacture for local sales. This commitment to a local approach has paid off, enabling us to leverage know-how cultivated all over the world as our sales overall have gone from strength to strength. At this point I would like to focus on China and Vietnam, two countries within the Asia and Oceania region, where we have witnessed remarkable growth.

In China, as major local dairy companies sell both chilled and room temperature products, the probiotics market is in something of a state of confusion but is growing in size. Yakult's share of the chilled fermented milk drink market in sales regions we have entered is more than 60 percent, bearing witness to the strong support we have earned from consumers.

In March 2019, we started production at our Foshan Plant. In June, we also commenced production at the second plant building at our Wuxi Plant. In addition to expanding and enhancing our production network, we have moved ahead with bolstering our sales network. We opened three new branches that launched sales in June 2019.

Next, Vietnam is known for its young working population. On the other hand, it also has a high rate of turnover of employees. We have therefore placed emphasis on training Yakult Ladies and other employees and invested effort in helping them to understand Yakult's business. As a result, we have been able to develop local employees, each Yakult Lady is selling more bottles, and our sales network has expanded steadily, leading to smooth operations on the sales front.

During the fiscal year ending March 31, 2020 we will redouble our efforts to accelerate sales activities. This will involve further increasing the number of branches, Yakult Lady home delivery centers, and the number of Yakult Ladies, as well as the number of stores to which we deliver products. We will also take steps to boost the number of bottles sold by each Yakult Lady and each store.

Q Please explain the initiatives you plan to take in the pharmaceuticals business in the fiscal year ending March 31, 2020.

A To continue the pharmaceuticals business specializing in the field of oncology, we intend to achieve a recovery and expansion of revenues over the medium to long term.

Our forecast for the results of pharmaceuticals business for the fiscal year ending March 31, 2020 anticipates a severe outlook for both net sales and operating income. It is anticipated that two adverse factors will affect net sales: revision of the NHI drug price and the replacement of *Elplat* with the generic drugs.

Regarding the first factor, drug prices under the National Health Insurance System in Japan have been periodically lowered and another revision is scheduled for October this year.

Regarding the second factor, continued replacement of *Elplat* with generic versions, we expect this trend of replacement to continue as part of a governmental further push to raise the use of generic drugs to 80% share by September 2020.

Although we are facing a decline in net sales, we intend to raise the market share of our existing products by focusing on and specializing in oncology and its related fields, where we have strength and expertise. In concrete terms, for our leading product *Elplat*, we are aiming to achieve sales targets by establishing and expanding robust connections with medical professionals through the provision of information about the latest treatments and proper use in compliance with the guidelines. In addition, we will make efforts to boost sales of generic drugs that were newly launched in June 2019, by promoting the prompt and smooth introduction into the market. Meanwhile, having signed a licensing agreement for duvelisib [YHI-1702] in June 2018, we will start clinical trials for duvelisib in Japan during the current fiscal year. We expect duvelisib to be launched as a new drug in the next several years and it contributes to recovery and further expansion of the revenues over the medium to long term.

Pharmaceuticals Business

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, 2020.

A Through comprehensive marketing activities centered on the introduction of new, highly functional, high unit price products, we will facilitate efforts to create new customers.

To achieve the targets set in the Yakult Vision 2020 Phase III Plan, we intend to boost profitability by releasing new, highly functional, high unit price products in addition to expanding bottle sales of existing dairy products.

We launched the highly functional *Yakult Five* in the spring of 2019, with five added nutrients including calcium, dietary fiber, and vitamins, along with *Lactobacillus casei* strain Shirota. It will be followed by the release this autumn of *Yakult 1000* which will in turn be followed by other new, highly functional products which we are currently working on.

In advertising campaigns, we have been implementing the "three arrows of Yakult advertisements" advertising campaign for three years now, and as a result *Yakult* has become a more important part of daily life among not only those who drink it regularly, but also new customers. In the current fiscal year, we will deploy the unified tagline "Strong probiotics for a strong body" to promote further brand invigoration for *Yakult*. In addition, we are focusing on the Yakult Ladies to support our home delivery segment. We plan to further improve the image of Yakult Ladies and strengthen the association with a good working environment, not only with the benefits of childcare, but also by emphasizing the customer base-growing effects of Yakult Delivery Net.

In sales channel development, despite the fact that the number of Yakult Ladies in the home delivery channel continues to decrease, we aim to boost our sales figures by creating a more productive home delivery system. Over the past three years, Yakult Honsha and marketing companies have each invested approximately ¥700 million each year to make improvements to the work environment that will enable Yakult Ladies to concentrate on sales activities. In the fiscal year ending March 31, 2020, we will maintain the same level of business investment to make further improvements to the work facilities and working environment. With regard to our Yakult Delivery Net online ordering system for home delivery, we view it as a communication tool to increase our customer base and plan to conduct a variety of measures to raise awareness of it.

In our retail store channel, we will focus on *New Yakult Calorie Half* as we work to increase bottle sales. *New Yakult Calorie Half*, which has a blue cap, is less sweet than regular *New Yakult*, with 50% less sugar and calories. We will focus our efforts on winning loyal customers as consumers become increasingly health conscious. Additionally, alongside promotional activities targeting consumers, we will actively promote *New Yakult Calorie Half* to the stores that stock our products.

In the retail channel, we will focus on drugstores in addition to supermarkets and convenience stores. In recent years, the drugstore business format has changed significantly to include fresh foods in addition to medicine. Through proposals such as the creation of sales spaces and collaboration with our regional marketing companies, we intend to forge win-win relationships with drugstores.

Toward Sustainable Growth

Delivering Smiles and Good Health to as Many People as Possible

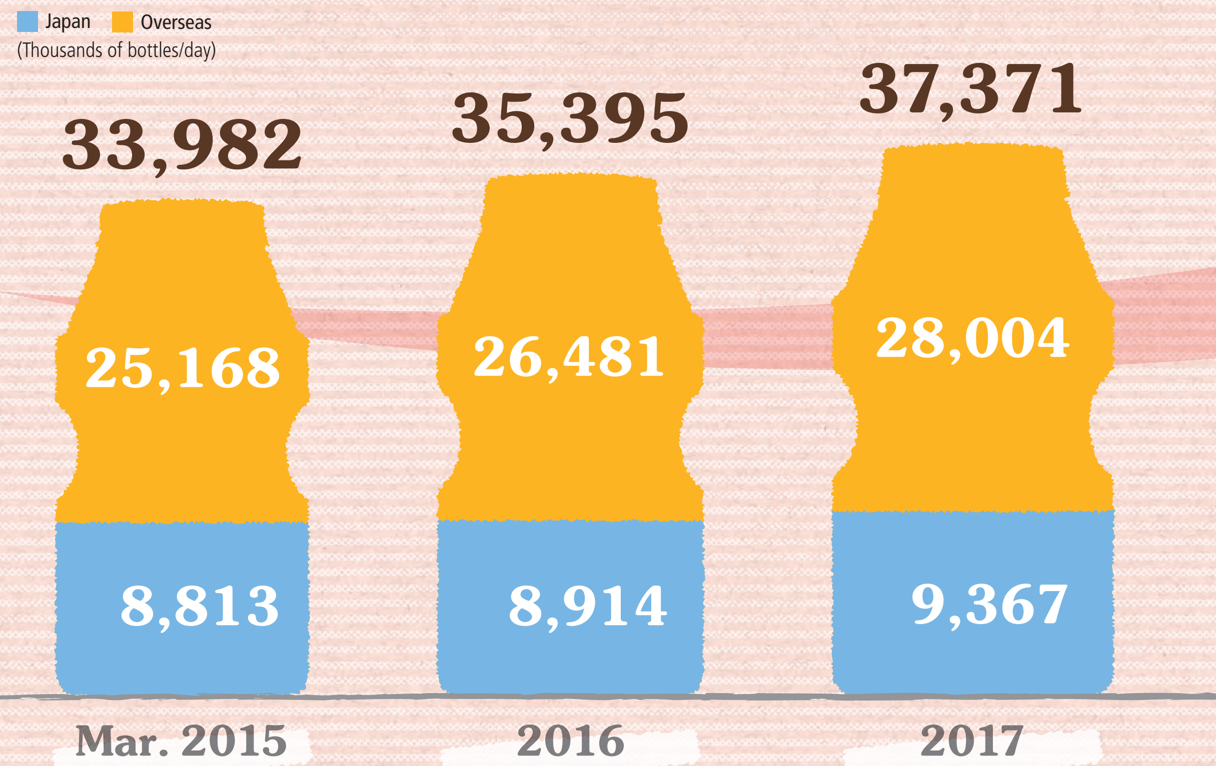
Starting with Taiwan in 1964, Yakult has entered 39 countries and regions outside Japan (as of August 31, 2019). We have grown into a leading global player in the probiotics market, with the average number of *Yakult* bottles sold worldwide per day surpassing 40 million. This feature article highlights the measures we have introduced in order to continue driving sustainable growth both in Japan and overseas.

The Source of Yakult's Sustainable Growth

Since its foundation, research and development of lactic acid bacteria has always been the foundation of Yakult's business. With a focus on disseminating the value of our proprietary living *Lactobacillus casei* strain Shirota, which is supported by a large amount of scientific evidence pertaining to both safety and efficacy, we are setting ourselves apart from competitors with our business model of delivering good health to customers through both our retail store and home delivery channels, building a competitive position in the global probiotics market. This business model is consistent across the Company's domestic and overseas expansion and is the source of our sustainable growth.

Key Performance Indicators for Achieving Sustainable Growth

Global Progress of *Yakult* Bottle Sales



Key Strategies for Sustainable Growth

Increasing global sales of dairy products × Developing high-value-added products

Domestic Dairy Products Market

Win New Customers in Line with Current Trends

We are focused on the introduction of cashless payment coupled with a web-based order system, the utilization of customers' purchase history, and the development of high-value-added products based on cutting-edge scientific evidence, with the aim of winning new customers in line with current trends.

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Overseas Dairy Products Market

Further Accelerate Market Expansion and Cultivation

The growth in the overseas markets has been vigorous. We will continue using two flexible growth models based on delivery-oriented and store sale-oriented approaches to accelerate expansion and cultivation of markets with strategies tailored to each region.

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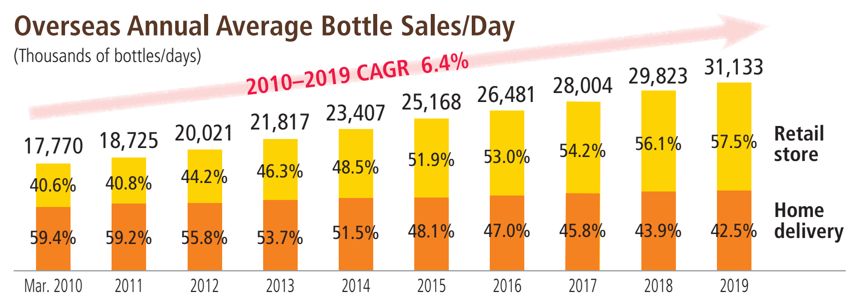
Overseas Annual Average Bottle Sales/Day

(Thousands of bottles/days)



Domestic Dairy Products Market

Win New Customers in Line with Current Trends

In order to strengthen the brand equity we have cultivated since our foundation, including the investment in mass marketing that we have continued in recent years, we are striving to win new customers in line with current trends.

Cashless Payments

High-Value-Added Products

Strategic Move to Cashless Payments

Cashless payment is used more and more widely as internet shopping and other services are further integrated into people's daily lives. Over the medium to long term, we hope to take advantage of this big shift in purchasing habits, making use of the position our Yakult Ladies have, with direct access to customers. Web-based customer purchase history information can potentially be utilized to develop an innovative marketing system that integrates sales promotion and customer management.

From September 2018, we commenced full-scale operation of the cashless order and delivery system, Yakult Delivery Net. Through this system, customers can place and pay for orders online, with the products later delivered by Yakult Ladies. Conventional deliveries are made on a cash-on-delivery basis. The new system not only reduces the burden of collecting money but also provides a view into the medium- to long-term purchase history data.

Development of High-Value-Added Products Based on Cutting-Edge Scientific Evidence

Since our foundation, research and development of lactic acid bacteria has always been the basis of our business, which has guided us to establish a globally competitive structure with research centers in Japan and overseas (see page 21). During the current fiscal year, the Company will introduce *Yakult 1000* to market, a fermented milk drink which contains 100 billion live *Lactobacillus casei* strain Shirota per 100 ml bottle, making it the largest quantity and highest concentration of lactic acid bacteria in any product in the Company's history.* We will continue to actively develop high-value-added products based on cutting-edge scientific evidence.

* *Yakult 1000* contains one billion *Lactobacillus casei* strain Shirota per one ml, the largest quantity in the history of Yakult.

New Products

Yakult 1000

This product helps to mitigate the stress of temporary mentally stressful conditions and also improves the quality of sleep (depth and feeling of refreshment). Moreover, *Lactobacillus casei* strain Shirota is reported to improve the intestinal environment.

Yakult Five

Yakult Five is a high-value-added *Yakult* series product containing 30 billion *Lactobacillus casei* strain Shirota per 80 ml bottle as well as five key nutrients: calcium, vitamin C, vitamin D, vitamin E, and dietary fiber.

Overseas Dairy Products Market

Further Accelerate Market Expansion and Cultivation

In the overseas markets which are experiencing vigorous growth, we will continue using our two growth models of the home delivery approach and the store sales approach, in order to accelerate market expansion and cultivation, aiming for sustainable growth with strategies tailored to each region.

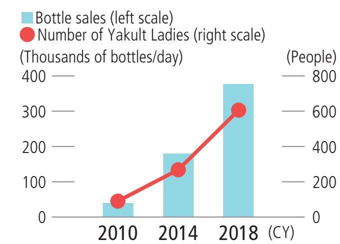
Vietnam

Steadily Growing Based on the Concept of an “Organization Which Promotes Sales”, and Centered on Human Resource Development

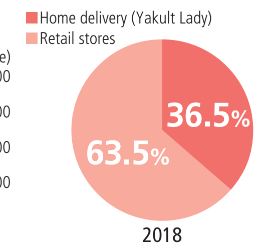
We commenced operations in Vietnam in September 2007, selling *Yakult* in Vietnam’s largest economic and commercial center, Ho Chi Minh City. Later, we entered into centrally controlled cities including Hanoi, Hai Phong, and Da Nang to expand and cultivate the probiotics market. As of the end of 2018, the Company had 679 employees and 606 Yakult Ladies, achieving year-on-year growth for the past 10 consecutive years with average daily bottle sales of 377,000 bottles.

The driving force behind this growth has been thorough employee education. Local employee education is conducted systematically based on the concept of an “organization which promotes sales”. It has resulted in the growth of not only employees, but also the Yakult Ladies, resulting in an increase in their numbers as well as a rise in the number of retail partners. The whole company works together in an effort to create a working environment which can revitalize the daily “value dissemination activities” to communicate the product value of *Yakult* to customers. We invest time and effort in building our unique “organization which promotes sales” that allows for the expansion and cultivation of sales areas, resulting in steady sales growth.

Annual Average Bottle Sales/Day



Home Delivery/Retail Store Composition

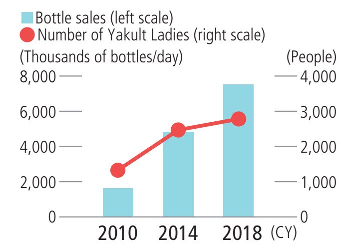


China

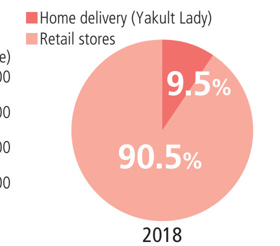
Developing a Business Which Can Seize Opportunities in a Market with Huge Potential

In China’s huge market with a total population of approximately 1.3 billion, the Company’s marketing population is just about 0.7 billion. The market penetration rate (sales results as a percentage of marketing population) is 1.05%, which constitutes a relatively low level in comparison with other areas (6.79% for Hong Kong and 3.20% for Taiwan). We are focused on increasing the number of sales bases and expanding their distribution coverage in a market that is still in a growth phase. Therefore, at this moment we are focusing more on the retail store channel to boost exposure and expand the sales area more effectively, than on the home delivery channel. Our current market share of the dairy (chilled) drink category in the areas we have entered has surpassed 60%. To further solidify our competitive market position, we will further cultivate the market both in the retail store channel and the home delivery channel.

Annual Average Bottle Sales/Day



Home Delivery/Retail Store Composition

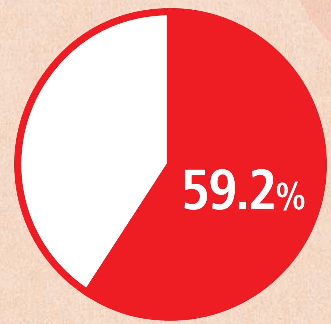


Japan

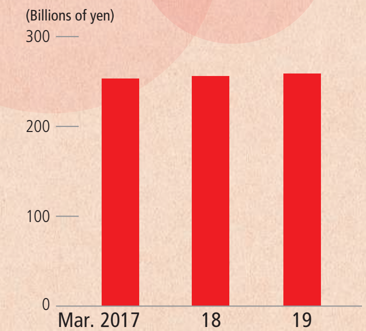
Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing Yakult into a specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our "Others" business segment. For the fiscal year ended March 31, 2019, net sales in Japan came to ¥259.1 billion.

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

Percentage of Net Sales (%)



Net Sales



Food and Beverages

New Yakult *Yakult 400* *Joie* *Mil-Mil* *Sofuhl*

In dairy products for the Japanese market, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, and proactively conducted grassroots value dissemination initiatives utilizing scientific evidence.

Through our home delivery channel, we again worked to encourage existing customers to continue drinking our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*, taking advantage of the 20th anniversary of *Yakult 400*'s launch, in January of this year. In addition, we stepped up efforts to create a point of contact for new customers through Yakult Delivery Net, the online home-delivery ordering system which commenced nationwide operation in September of last year. We also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while continuing with hiring initiatives.

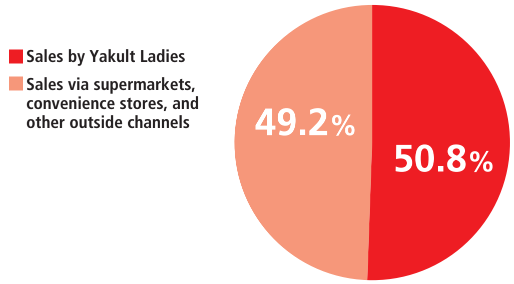
In the retail store channel, during July 2018 we ran the "2018 Pro Baseball Support" campaign for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, while in February and March 2019 we ran the consumer campaign "Yakult: Keep Drinking to Feel the Difference!", on top of which we unveiled revamped designs of both products in March 2019. In the same month, we sought to revitalize our brand with initiatives that included the launch of the fermented milk drink *Yakult Five*, a combination of *Lactobacillus casei* strain Shirota and five key nutrients.

In product specific initiatives, we took steps to promote the consumption of the *Mil-Mil* fermented milk series following the September 2018 release of a new design with continuous campaigns with the aim of increasing sales. In addition, in January 2019 we launched our limited time product, *Cup de Yakult*.

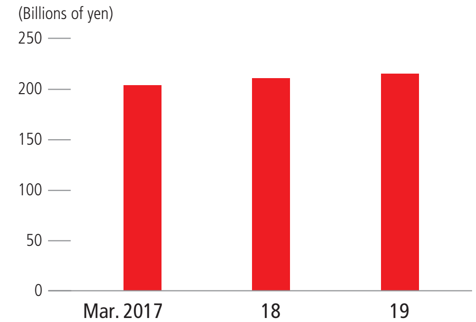
In other beverages, we strove to increase sales with a focus on health drinks, including through strengthening sales for the lactobacillus-fermented fruit drink, *Yakult Oishii Hakkou Kajitsu* (Yakult Tasty Fermented Fruit Juice), which is made using our proprietary fermentation techniques.

As a result, consolidated net sales for the food and beverages segment (Japan) increased 2.3% from the previous fiscal year, totaling ¥215.0 billion.

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 pursued activities for promoting awareness and proper use of our products that specialize in oncology and related fields.

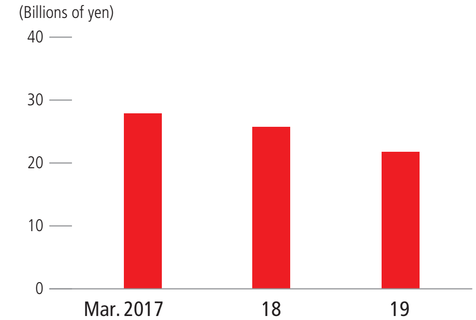
As for our leading product, the antineoplastic drug *Elplat*, we proactively conducted lecture/seminar meetings targeting medical professionals in order to maintain our market share. Although medical institutions are increasingly switching to generic versions of *Elplat*, we boosted activities to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information, as well as the relationships of trust we have built up with medical professionals, which are our strength as the original drug developer in Japan. We also proactively pursued provision of medical information on the antineoplastic drug *ZALTRAP®*, for which we conducted co-promotion with Sanofi K.K., in order to achieve further market penetration in the colorectal cancer field. In addition, we sought to expand sales channels for our core generic product, the antineoplastic metabolite *Gemcitabine [Yakult]* and other products. However, the revision of NHI Drug Price Standards in April 2018 resulted in a decline in the price of most of our products, and this had a big impact on our revenue.

Meanwhile, in R&D, we actively proceeded with planned clinical development of our pipeline programs, including the PI3K inhibitor duvelisib [YHI-1702], for which we concluded an exclusive licensing agreement for development and commercialization in Japan with Verastem (the United States) in June 2018, and the HDAC inhibitor resminostat [YHI-1001], in-licensed from 4SC AG (Germany).

Furthermore, generic antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]* were newly approved in February 2019 and then launched in June 2019. Through these efforts, we aim to further strengthen our position in oncology and related fields.

As a result, consolidated net sales in the Pharmaceuticals segment declined 15.5% to ¥21.7 billion.

Net Sales of Pharmaceuticals



Others

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

In our cosmetics operations, we worked to help customers realize their internal and external beauty and to increase the number of regular users of our cosmetics by focusing on initiatives to disseminate the value of our proprietary moisturizing agent *S.E. (Shirota Essence)*, which is the result of our extensive research on lactic acid bacteria since the Company's foundation.

One specific initiative involved an effort to expand opportunities for engagement with new customers by releasing a revamped version of our *Yakult Medicated APACOAT S.E. Nanotechnology* toothpaste in May 2018.

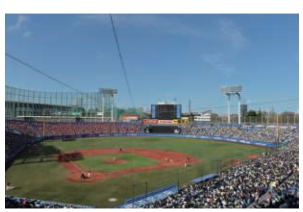
Additionally, we revamped and rereleased both *BECYCLE Lift Repair Essence* serum, in November 2018, and our *Revecy White* series of highly moisturizing basic skin-care products with lightening effects in March 2019, aiming to increase customer satisfaction and boost sales.

Through these initiatives, the results achieved by the cosmetics operation as a whole surpassed those of the previous year.

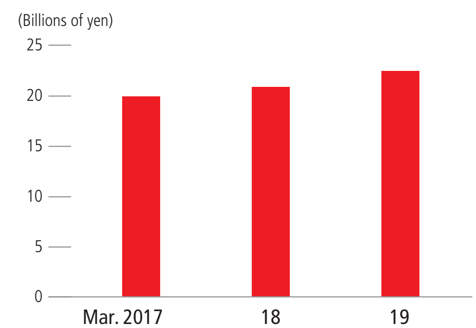
In our professional baseball operations, the Tokyo Yakult Swallows advanced to the Climax Series, while diverse events and promotions were laid on at Tokyo's Jingu Stadium in conjunction with active information dissemination. As a result of this active fan service the attendance at the stadium rose from the previous fiscal year.

As a result, consolidated net sales in the Others segment rose 8.0% to ¥22.4 billion.


Revecy series


Tokyo's Jingu Stadium filled with Tokyo Yakult Swallows fans

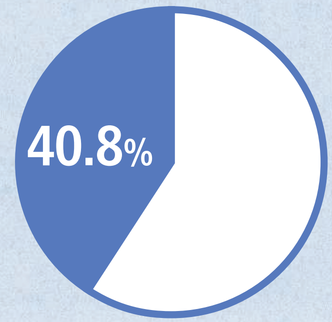
Net Sales of Others



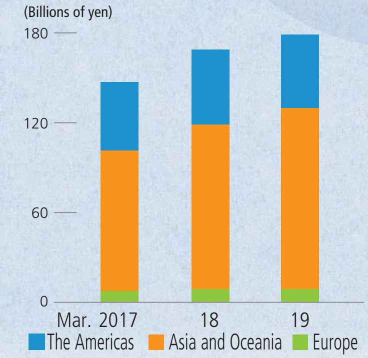
International Business

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 August 31, 2019, Yakult probiotic drinks and other products are sold in 39 countries and regions outside of Japan, with an average of 31.13 million bottles sold per day during the year under review. For the fiscal year ended March 31, 2019, the International Business recorded net sales of ¥178.4 billion.

Percentage of Net Sales (%)



Net Sales



The Americas

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

Brazil Mexico United States

Mexico

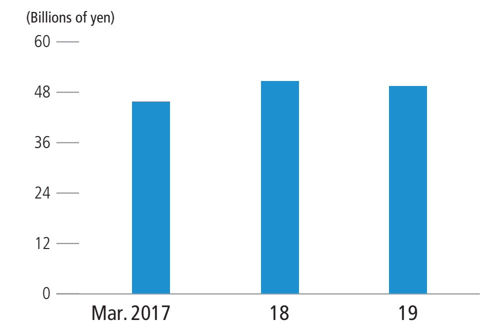
Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, and the United States.

During the year under review we worked to enhance our sales network in the region, including both our home delivery and retail store channels, and to achieve sales growth.

Despite these efforts, consolidated net sales in the food and beverages (The Americas) segment decreased 2.5% to ¥48.9 billion.

Uruguay

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, Myanmar (start of sales in August 2019)

Indonesia

Hong Kong

China

Vietnam

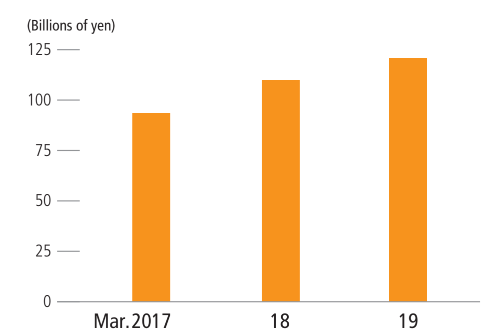
United Arab Emirates

Bahrain

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, China, Malaysia, Vietnam, India, and Myanmar, among others, while also conducting import sales of *Yakult* in the United Arab Emirates among other nations.

In China, in line with increased demand for *Yakult* and other products, production at the Foshan Plant commenced in March 2019 under Guangzhou Yakult Co., Ltd. Meanwhile, we started production in the second plant building at our Wuxi Plant (Wuxi Yakult Co., Ltd.) in June 2019. In Myanmar, we commenced production and sale of *Yakult* in August 2019.

Net Sales in Asia and Oceania



As a result, consolidated net sales in the food and beverages (Asia and Oceania) segment rose 10.0% from the previous year to ¥120.8 billion.

China

Europe

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

The Netherlands

Belgium

United Kingdom

Germany

Italy

France

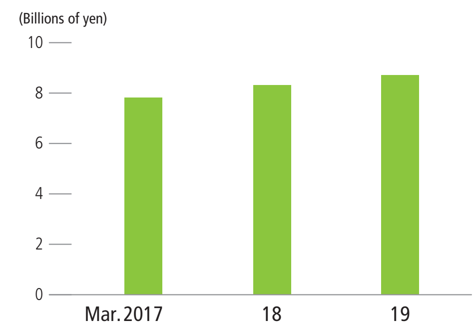
In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

In the European market, where the promotion of probiotics faces strict regulation, we are engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products. Under these circumstances, the Yakult companies in each country aimed for sustainable growth by conducting sales initiatives tailored to their respective markets.

In January 2019, we started the sale of *Yakult* in Denmark.

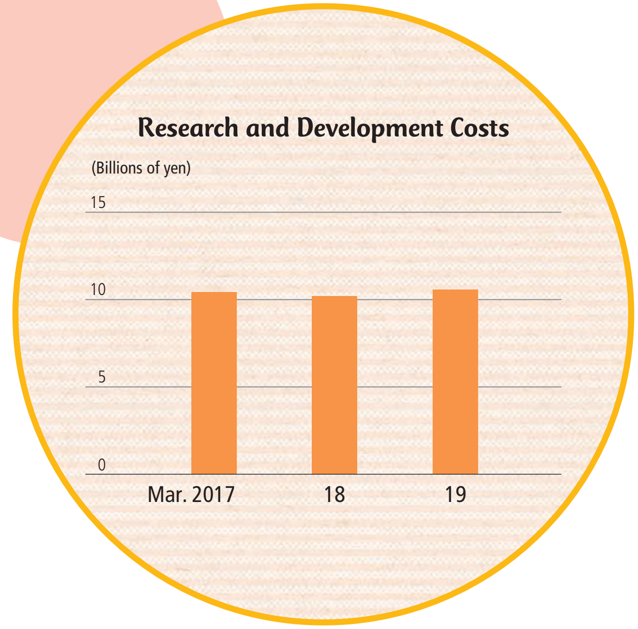
As a result, consolidated net sales in the food and beverages (Europe) segment rose 4.0% from the previous year to ¥8.7 billion.

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, Non-Profit Corporation

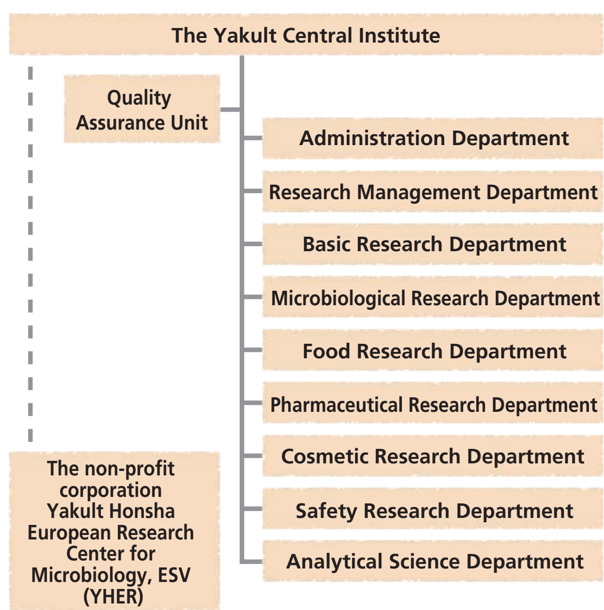
The Yakult Central Institute is a cutting-edge research facility in the field of probiotics that pursues life science in the aim to contribute to human health. Their research concentrates on the study of beneficial microorganisms, particularly within the intestinal microbiota, and has recorded numerous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

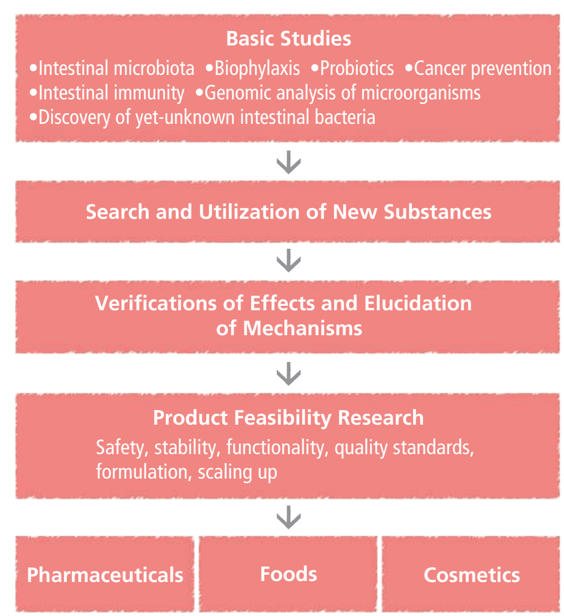
The Yakult Central Institute consists of seven separate research departments, each with their own research function and state-of-the-art research facilities. Supporting the work of the research departments is: the Administration Department, responsible for managing the Institute; the Research Management 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 non-profit corporation Yakult Honsha European Research Center for Microbiology, ESV (YHER), was established in the Technology Park 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 & Oceania.

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 dermatologically safe and effective ingredients.

Organization of the Yakult Central Institute





Recent R&D Activities

Basic probiotic properties of *Lactobacillus casei* strain Shirota are maintained in the space environment

Joint study with Japan Aerospace Exploration Agency (JAXA) on the International Space Station (ISS)

In a joint study with JAXA, we conducted a one-month storage test of a capsule containing freeze-dried live probiotic bacteria (*Lactobacillus casei* strain Shirota) on board the Japanese Experimental Module "Kibo" of the ISS. After return to the Earth, we analyzed the number of live probiotic bacteria, its fermentation profiles, genetic information, and immune modulation properties. The results on all the parameters in the flight sample were equivalent to those of the ground control samples, indicating that basic properties of the probiotics are maintained in the space environment. Based on the results mentioned above, we expect that administration of the probiotics will have positive impact on the crew members aboard the ISS, as we have observed in the ground-based human studies. The study was published in *Scientific Reports*.

Administration of Synbiotics containing *Lactobacillus casei* Strain Shirota helps improve prognosis of sepsis patients

Joint research with the Department of Traumatology and Acute Critical Medicine, Osaka University Graduate School of Medicine

In a joint study conducted with the Department of Traumatology and Acute Critical Medicine, Osaka University Graduate School of Medicine, sepsis patients undergoing mechanical ventilation in the intensive care unit (ICU) were administered Synbiotics (*Bifidobacterium breve* strain Yakult, *Lactobacillus casei* strain Shirota, and galactooligosaccharides) (the Synbiotics group). As a result, it was confirmed that the incidence of enteritis was significantly lower in the Synbiotics group versus the No-Synbiotics group. In addition, the number of beneficial intestinal bacteria (Bifidobacteria and Lactobacilli) and total organic acid concentration, especially the amounts of acetate, were significantly higher in the Synbiotics group than in the No-Synbiotics group. The research suggests that Synbiotics administered to patients with sepsis help improve their prognosis. The study was published in *Critical Care*.

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 have set out concrete action targets and put them into practice since fiscal 2017. As a measure to respond to global developments in CSR, we are promoting CSR activities while incorporating the Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) investment into our system of activities.

The Environment

Contributing to the Realization of 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, or as close as possible, since fiscal 2001, 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, 2019, 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 as well as conservation of biodiversity. 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, in 2015, 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). Further to this, in 2019 Yakult was recognized as a Shokuiku (food and nutrition education) promotion company by the Japanese Society of Shokuiku.

In fiscal 2018, the Group conducted about 4,000 guest lectures for more than 290,000 participants nationwide. Outside Japan, some 41,000 guest lectures were also given for roughly 3,160,000 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.


Health-related lecture

Community Activities Overseas

Received the SDGs Partnership Special Award at the Second Japan Sustainable Development Goals Awards

Yakult has a broad involvement with all 17 of the Sustainable Development Goals (SDGs) and promotes its business activities with a particular focus on the five goals most relevant to our business. These activities led to Yakult being awarded with the SDGs Partnership Special Award at the second Japan SDGs Awards hosted by the Sustainable Development Goals (SDGs) Promotion Headquarters.*

The award was given in recognition of our daily work "contributing to the health and happiness of people around the world, across borders and generations". In particular, Yakult has extended the Yakult Lady home delivery system, allowing health-related information to be disseminated with the delivery of products, from its inception in Japan to other countries where it contributes to people's health and happiness, while boosting health awareness and contributing to employment and the empowerment of women. Going forward, as a global company operating in 39 countries and regions outside Japan, we will continue to fulfill goal 17: partnerships for the goals, while working to "contribute to the health and happiness of people around the world". with the aim of achieving the SDGs.

* The national entity for the integrated implementation and promotion of SDG initiatives, established in May 2016 and headed by the Prime Minister, with the Chief Cabinet Secretary and Foreign Minister as deputy chiefs, and the entire cabinet as members.

Yakult Corporate Activities and SDGs

3 GOOD HEALTH AND WELL-BEING	Contributing to the health of as many people as possible through the sale and delivery of products that contribute to people's health	5 GENDER EQUALITY	Aiming to improve Yakult Ladies' working environments and realize a society where women are empowered
8 DECENT WORK AND ECONOMIC GROWTH	Continue being a company where workers feel motivated while improving our business productivity	12 RESPONSIBLE CONSUMPTION AND PRODUCTION / 13 CLIMATE ACTION	Implementing initiatives that consider human rights, labor, the environment, and anti-corruption throughout our supply chain, from raw material procurement to production, logistics and sales

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 31, 2019, about 2,800 Yakult Ladies pay regular visits to roughly 38,000 elderly people in response to requests from around 127 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.

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.

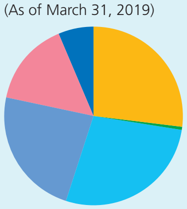
Our corporate philosophy is "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular". In pursuing this philosophy, we believe it is important to implement transparent 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, 2019)



- Japanese financial institutions **27.19%**
- Japanese securities companies **0.47%**
- Other Japanese corporations **27.53%**
- Foreign institutions and others **23.23%**
- Japanese individuals and others **15.41%**
- Treasury stock **6.17%**

Major Shareholders

(As of March 31, 2019)

	Percentage of total shares issued
Danone Probiotics Private Ltd.	6.20%
The Master Trust Bank of Japan, Ltd. (Trust account)	4.71
Japan Trustee Services Bank, Ltd. (Trust account)	4.51
Fuji Media Holdings, Inc.	3.80
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.90
Kyoshinkai	2.31
Matsusho Co., Ltd.	2.00
Japan Trustee Services Bank, Ltd. (Trust account 5)	1.71
Kirin Beverage Company, Ltd.	1.44
Mizuho Bank, Ltd.	1.28

Note: In addition to the above, the Company holds 10,550,366 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 members, including five outside directors, one of whom is female. The seven members of the Audit & Supervisory Board, which includes five outside members, one of whom is female, also attend meetings. The Board of Directors adopts resolutions and receives reports on matters within its jurisdiction as defined by law and the Rules of the Board of Directors, and is responsible for supervising the execution of duties by directors and executive officers. The Board of Directors holds meetings, in principle, seven times per year, in addition to convening special meetings as required.

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 five outside directors are listed in the chart below.

(As of June 19 2019)

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 he would continue to make a significant contribution to the development of the entire Yakult Group as he has offered a range of advice to improve customer services based on market conditions, leveraging his management experience at a Yakult sales company.
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 management experience in foreign companies.
Naoko Tobe	Lawyer; Partner, Fukazawa Sogo Law Offices	Ms. Tobe was appointed on the expectation that she would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure, based on her abundant experience as a lawyer.

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

The Management Policy Council and the Executive Officers Committee

The Company established the Management Policy Council, members of which include a representative director, six divisional general managers, and one senior Audit & Supervisory Board Member, as a meeting body designed to promote effective management activities and accelerate decision making with meetings convened, in principle, on a weekly basis. The Management Policy Council discusses and receives reports on management policies and measures as well as business operations.

The Company also established the Executive Officers Committee, comprised of 22 executive officers and two senior Audit & Supervisory Board Members, which meets on a weekly basis in principle to facilitate business execution. The Executive Officers Committee deliberates and receives reports relating to the full range of major business duties. It ensures close information sharing among the executive officers and adopts resolutions on matters stipulated by the Rules for Approval.

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. At the same time, the Audit & Supervisory Board Members monitor and verify that the accounting auditor conducts audits appropriately.

The system of support for the Audit & Supervisory Board consists of staff assigned exclusively to the Audit & Supervisory Board Members that function 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 15-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

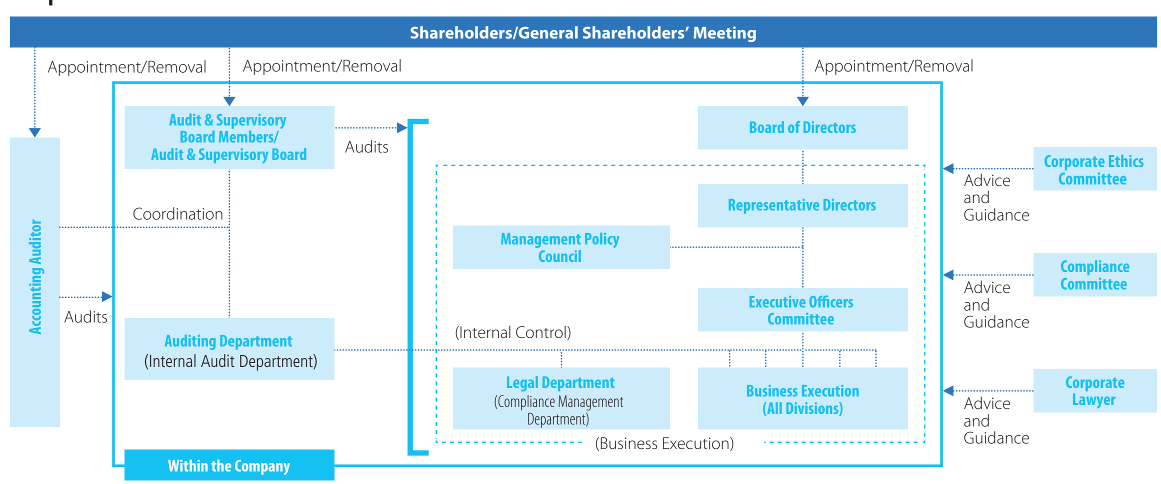
The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its business accounts as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu.

(As of June19, 2019)

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.

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.

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

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

(2) Internal structure related to timely disclosure

- Facts and data appropriate for public disclosure from each department within the Company (including subsidiaries) are compiled by the Public

Relations Department. In parallel, each department within the 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
Hiroshi Narita
Hiroshi Wakabayashi
Fumiyasu Ishikawa
Masanori Ito
Akifumi Doi
Tetsuya Hayashida
Susumu Hirano
Masao Imada

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

Senior Managing Executive Officers
Hiroshi Narita
Divisional General Manager of International Business Division,
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
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,
Divisional General Manager of Cosmetics Business Division
Susumu Hirano
Masao Imada
Koichi Hirano
Masanobu Nanno
Masatoshi Nagira
Hideaki Hoshiko

Executive Officers
Yasuyuki Suzuki
Masahiko Satomi
Shuichi Watanabe
Akira Kishimoto
Takao Goto
Hiroyuki Kawabata
Junichi Shimada
Yoshihiro Goto
Masato Nagaoka

(As of June 19, 2019)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2019, 2018, 2017, 2016, and 2015

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2015	2016	2017	2018	**2019**	**2019**
For the year:						
Net sales	¥ 367,980	¥ 390,412	¥ 378,308	¥ 401,570	**¥ 407,017**	**$3,666,825**
Selling, general and administrative expenses	168,092	178,744	177,053	186,466	**190,064**	**1,712,290**
Operating income	34,898	40,057	37,282	43,464	**45,846**	**413,029**
Net income attributable to owners of the parent	25,056	28,843	30,155	34,065	**34,935**	**314,733**
Research and development costs	12,135	12,678	10,549	10,208	**10,564**	**95,168**
Capital investments	40,371	27,403	23,365	23,305	**29,505**	**265,813**
Depreciation and amortization	22,793	24,365	22,661	21,532	**21,238**	**191,333**
At the year-end:						
Total assets	¥ 579,345	¥ 577,535	¥ 585,741	¥ 627,032	**¥ 618,533**	**$5,572,369**
Net property, plant and equipment	205,595	201,799	198,299	201,199	**200,072**	**1,802,450**
Total liabilities	217,132	212,070	208,860	240,358	**226,254**	**2,038,321**
Total equity	362,213	365,465	376,881	386,674	**392,279**	**3,534,048**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 151.58	¥ 174.54	¥ 182.39	¥ 207.02	**¥ 217.89**	**$ 1.96**
Total equity (Note 3)	1,966.13	2,007.73	2,077.29	2,194.32	**2,229.80**	**20.09**
Cash dividends applicable to the year	25.00	50.00	32.00	34.00	**44.00**	**0.40**
Financial ratios:						
Return on equity (ROE) (%)	8.4	8.8	8.9	9.8	**9.8**	
Equity ratio (%)	56.1	57.5	58.6	56.2	**57.8**	

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 ¥111 to U.S. $1, the approximate rate of exchange on March 31, 2019.
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, 2019, the Japanese economy continued to show a moderate recovery trend as income conditions continued to improve, although it is necessary to keep in mind the effects of fluctuations in the global economy and financial capital markets.

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 1.4% from the previous fiscal year, to ¥407.0 billion. Operating income climbed 5.5%, to ¥45.8 billion, while the operating margin rose to 11.3%, up 0.5 percentage points from a year earlier. Net income attributable to owners of the parent climbed 2.6%, to ¥34.9 billion, and return on sales increased to 8.6%, up 0.1 percentage points from the prior year's result.

SALES, COSTS, EXPENSES, AND EARNINGS

SALES

Net sales rose 1.4%, to ¥407.0 billion.

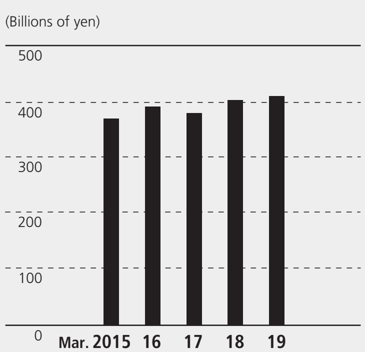
Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 49.1% of sales, down 0.3 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 40.8% of sales, up 1.1 percentage points. Pharmaceuticals generated 5.0%, down 1.0 percentage points, and Others contributed 5.1%, up 0.2 percentage points.

COSTS, EXPENSES, AND EARNINGS

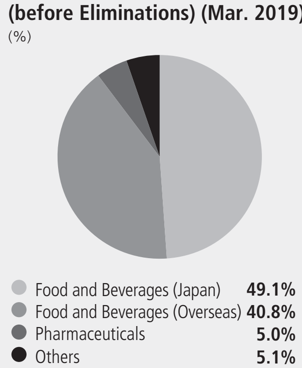
Consolidated cost of sales decreased 0.3%, to ¥171.1 billion. As a result, the cost of sales ratio fell 0.7 percentage points, to 42.0%. Gross profit rose 2.6%, to ¥235.9 billion, and the gross profit margin improved 0.7 percentage points, to 58.0%.

Selling, general and administrative (SG&A) expenses increased 1.9%, to ¥190.1 billion. This rise resulted mainly from higher personnel expenses. The SG&A expense ratio rose 0.3 percentage points, to 46.7%. R&D expenses increased ¥0.4 billion year on year, to ¥10.6 billion. As a percentage of net sales, R&D expenses rose 0.1 percentage points, to 2.6%.

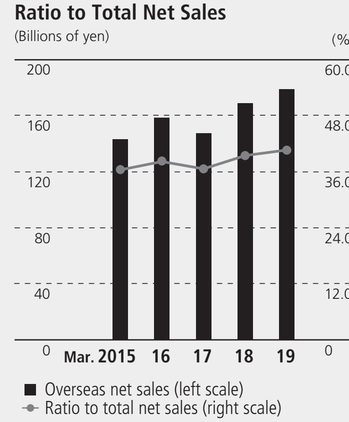
Net Sales



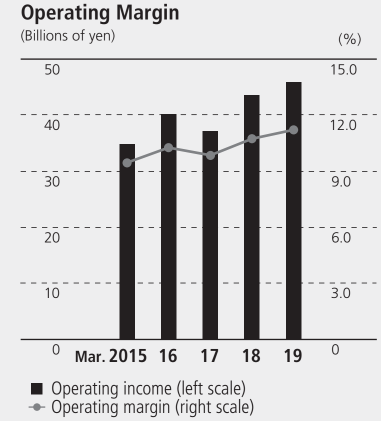
Breakdown of Net Sales (before Eliminations) (Mar. 2019)



Overseas Net Sales/ Ratio to Total Net Sales



Operating Income and Operating Margin



As a result, operating income increased 5.5%, to ¥45.8 billion, impacted by a decrease in currency exchange rate fluctuations amounting to ¥1.1 billion, and the operating margin improved 0.5 percentage points, to 11.3%.

Other income—net amounted to ¥10.0 billion, down ¥0.1 billion from a year earlier.

Income taxes amounted to ¥15.6 billion.

Consequently, net income attributable to owners of the parent increased 2.6%, to ¥34.9 billion, and return on sales rose 0.1 percentage points, to 8.6%.

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 *Bifidobacterium breve* strain Yakult. In addition, the Company vigorously expanded value dissemination activities rooted in the local community that rely on scientific evidence.

Through our home delivery channel, on the occasion of the 20th anniversary of the launch of *Yakult 400* in January 2019, we worked to encourage further consumption of our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, we leveraged the Internet ordering service "Yakult Todokete Net," which was launched nationwide in September 2018, to create a point of contact with potential customers. Furthermore, to strengthen our home delivery channel, we worked to bolster the working environment for Yakult Ladies while supporting Yakult Lady hiring activities in a proactive manner.

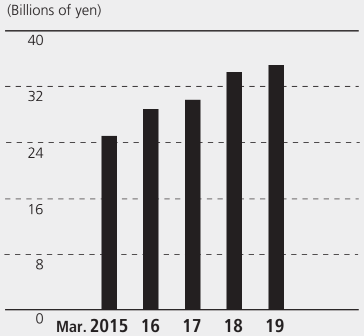
Through our retail store channel, we ran the “2018 Pro Baseball Support” campaign in July 2018 and the “Yakult: Keep Drinking to Feel the Difference” campaign from February through March 2019 for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*. In addition, we updated the package design of these products in March 2019. We also launched the fermented milk drink *Yakult Five* in March 2019, which contains *Lactobacillus casei* strain Shirota and five types of nutrient components, to activate the brand.

By product, we updated the package design of fermented milk products *Mil-Mil* series in September 2018 and developed continuous drinking promotion activities to expand sales. In addition, we introduced *Cup de Yakult*, a spoonable version of *Yakult* using fresh cream, as a time-limited item in January 2019.

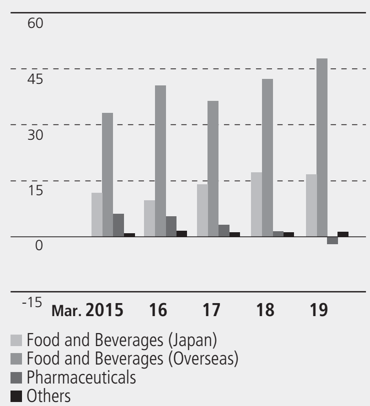
In beverages, we aimed to boost sales mainly of our health drinks by enhancing sales of *Oishii Hakkou Kajitsu*, a fruit drink fermented with lactobacillus utilizing our fermentation technology.

Net sales in the Food and Beverages business increased to ¥215.0 billion, up 2.3% from the previous fiscal year, while segment profit fell 3.5%, to ¥16.4 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 38 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 2019 amounted to approximately 29.85 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 decreased to ¥48.9 billion, down 2.5%, from the prior fiscal year, while segment profit increased 4.9%, to ¥11.8 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* and other products in the

United Arab Emirates. In China, given the sales expansion for *Yakult* and other products, we started production at Foshan Plant (Guangzhou Yakult Co., Ltd.) in March 2019 and in June 2019 at a second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.). 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 ¥120.8 billion, up 10.0%, from the prior fiscal year, and segment profit increased 16.8%, to ¥35.2 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 conducted initiatives for approval of health claims under strict regulations on activities to disseminate probiotics. Under these circumstances, we aimed for sustainable growth by developing sales activities tailored to the market characteristics of each business location. In Denmark, we launched sales of *Yakult* in January 2019. As a result, in terms of the number of overseas expansions, the global sales network expanded to 38 countries and regions.

Net sales in Europe increased to ¥8.7 billion, up 4.0% from the prior fiscal year, while segment profit dropped 22.0%, to ¥0.5 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 market share. Given the increasing shift by medical institutions to the generic drug versions of *Elplat*, 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 our close relationships with medical professionals. With respect to anti-cancer agent Zaltrap®, for which we expanded co-promotion activities with Sanofi K.K., we actively provided information to have Zaltrap® introduced at medical institutions to pursue market penetration in the colorectal cancer field. In addition, we worked to expand sales channels for our mainstay generic products such as antineoplastic antimetabolite *Gemcitabine Yakult* However, the NHI (National Health Insurance) drug price revision standard that took place in April 2018 caused a drop in drug prices for a large portion of our products, which has a significant impact on our sales. In R&D, we expedited the clinical development of product candidates such as P13K inhibitor COPIKTRA™, whose exclusive license agreement for development and commercialization in Japan we signed with Verastem Oncology, Inc. (the United States) in June 2018, and HDAC inhibitor Resminostat by 4SC AG (Germany). In addition, in February 2019 we acquired manufacturing and marketing approval for the anti-cancer agent *Capecitabine tablets Yakult* and *Gefitinib tablets Yakult* as a new generic drug. Through these efforts, we aim to further strengthen our position in cancer prevention and treatment.

Net sales in the Pharmaceuticals segment fell 15.5%, to ¥21.7 billion, and the segment loss was ¥1.8 billion.

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

In our cosmetics operations, we worked to facilitate customers' "internal and external beauty" and boost the number of cosmetic customers, emphasizing the value dissemination activities of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since our foundation.

Specifically, in May 2018 we updated the pharmaceutical toothpaste *Yakult APACOAT S.E.* in an effort to expand contact with new customers.

Furthermore, to take customer satisfaction a step further and drive sales growth, we revamped and launched beauty essence *BECYCLE Lift Repair Essence* in November 2018 and moisturizing basic skin care for lighter complexion *Revecy White* series in March 2019. 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, reflecting the Tokyo Yakult Swallows' advance to the Climax Series. Attendance was also 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 8.0%, to ¥22.4 billion, and segment profit rose 24.3%, to ¥1.2 billion.

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥618.5 billion, declining 1.4% year on year.

Current assets increased ¥2.4 billion, or 1.0%, from the prior fiscal year-end, to ¥247.6 billion, principally due to an increase of ¥4.7 billion in cash and cash equivalents and time deposits of overseas subsidiaries.

Net property, plant and equipment declined ¥1.1 billion, to ¥200.1 billion.

Investments and other assets fell ¥9.7 billion, or 5.4%, to ¥170.8 billion, mainly due to a drop in investment securities.

During the fiscal year under review, capital investment rose 26.6%, to ¥29.5 billion. This primarily reflected the construction and expansion of production facilities at overseas subsidiaries.

Total liabilities fell 5.9%, to ¥226.3 billion. The major component of this decrease was a decline of ¥13.6 billion borrowings (total of short- and long-term debts). As a result, the debt-to equity ratio fell 4.4 percentage points, to 34.2%.

Equity (excluding noncontrolling interests) increased 1.4%, to ¥357.3 billion, from ¥352.2 billion a year earlier. This result was primarily due to growth in retained earnings despite a decline in unrealized gain on available-for-sale securities due to the strong yen.

As a result, the equity ratio rose 1.6 percentage points, to 57.8%. Return on equity (ROE) remained unchanged from the prior fiscal year at 9.8%. Return on assets (ROA) increased 0.3 percentage points, to 7.4%.

CASH FLOWS

Net cash provided by operating activities rose ¥0.1 billion from the previous fiscal year, to ¥62.1 billion. The increase in net cash provided primarily resulted from ¥55.8 billion in income before income taxes and ¥21.2 billion in depreciation and amortization, which was partly offset by ¥13.9 billion in income taxes paid.

Net cash used in investing activities climbed ¥6.7 billion, to ¥37.0 billion. Cash was mainly used for payments into time deposits and purchases of property, plant and equipment, specifically for the expansion of new production facilities.

Net cash used in financing activities increased ¥1.0 billion, to ¥23.0 billion. This outlay mainly reflected the payments for settlement of long-term and short-term debt and the payment of dividends.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥103.2 billion, a net decrease of ¥2.8 billion from a year earlier.

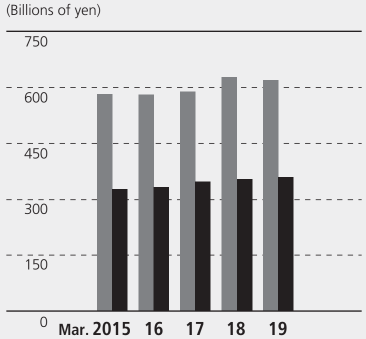
DIVIDENDS

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 and business performance.

Based on this policy, we decided to pay a total dividend of ¥44.0 per share, up ¥10.0 from the prior fiscal year to continuously increase the return to shareholders. We have already declared and paid an interim dividend of ¥20.0 per share, and the balance of ¥24.0 per share will be distributed to our shareholders as the year-end dividend.

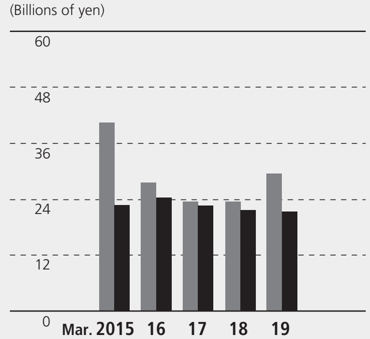
For the fiscal year ending March 31, 2020, we plan to raise the annual dividend by ¥2.0, to ¥46.0, in an effort to provide shareholders with stable and continuous dividends and enhance shareholder returns as part of the policy described above.

Total Assets and Equity (Excluding Noncontrolling Interests)
(Billions of yen)



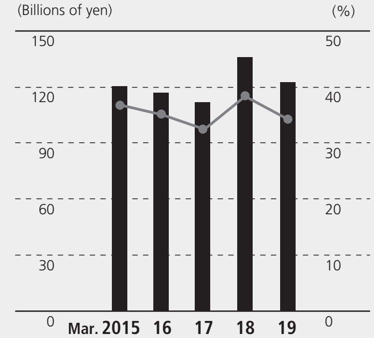
■ Total assets
■ Equity (excluding noncontrolling interests)

Capital Investments and Depreciation and Amortization
(Billions of yen)



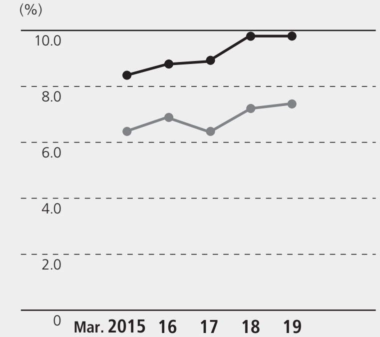
■ Capital investments
■ Depreciation and amortization

Interest-Bearing Debt and Debt-to-Equity Ratio
(Billions of yen) (%)



■ Interest-bearing debt (left scale)
-●- Debt-to-equity ratio (right scale)

ROE and ROA
(%)



-●- ROE
-●- ROA

Note: ROA is calculated based on operating income.

FORWARD LOOKING STATEMENT

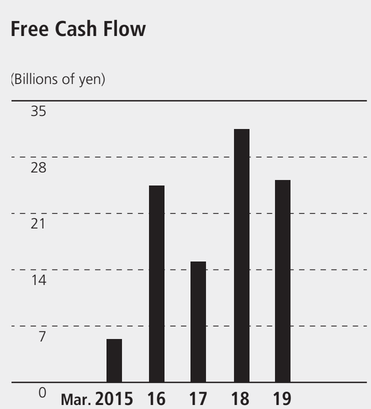
FOOD AND BEVERAGES

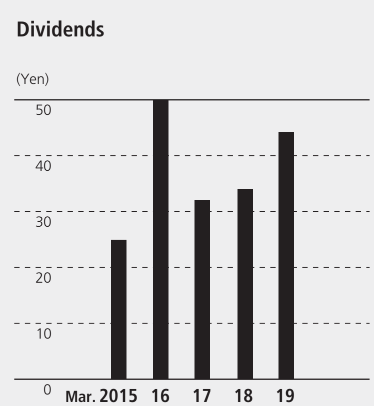
For probiotic products in Japan, Yakult is continuously committed to focusing on the *Yakult* series of fermented milk drinks as its most important brand and broadening the recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota, and to expand value dissemination activities in a community-based manner, aiming to activate the brand.

By product, through our home delivery channel we will make even greater efforts to activate the brand centered on *Yakult 400* and *Yakult 400LT* by strengthening value dissemination activities that rely on scientific evidence and emphasizing our advanced research, development, and technology capabilities. In addition, through our retail store channel we will aim to further boost sales centered on *New Yakult* and *New Yakult Calorie Half* by improving visibility and functional appeal and through free tasting and sales in-store activities by promotional staff.

In beverages, we will strengthen sales mainly for health drinks such as our mainstay brands, *Toughman* series and *Kurozu drink*, aiming at sales expansion.

In addition, we will strive continuously to improve the attractiveness and people's recognition of the nature of Yakult Ladies' activities to bolster our home delivery organization. We will also work to strengthen our response to each market with growth potential so that we can boost sales even further.





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.

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PHARMACEUTICALS

In Japan, we project a decrease in sales reflecting a drop in drug prices due to the NHI drug price revision scheduled for October 2019. 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 ensure sales targets. In addition, we will work to promote a smooth market introduction for the anti-cancer agent *Capecitabine tablets Yakult* and *Gefitinib tablets Yakult* in June 2019, in order to boost 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 aim to facilitate customers' "internal and external beauty" and boost the number of cosmetic customers, emphasizing the value dissemination activities of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since our foundation. We will also introduce new products with functional enhancement and new material combination and provide counseling services close to each customer, to improve customer satisfaction and drive sales growth in our cosmetic operations.

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. 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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
ASSETS			
Current assets:			
Cash and cash equivalents (Note 12)	¥ 103,171	¥ 105,936	$ 929,471
Time deposits (Notes 6 and 12)	53,313	45,852	480,301
Receivables (Note 12):			
Notes and accounts receivable	48,464	51,675	436,614
Associated companies	4,963	5,353	44,708
Other	2,163	1,856	19,484
Inventories (Note 3)	29,114	28,138	262,286
Other current assets	6,712	6,726	60,470
Allowance for doubtful accounts (Note 12)	(262)	(254)	(2,362)
Total current assets	247,638	245,282	2,230,972
Property, plant and equipment:			
Land (Notes 4 and 6)	44,415	44,562	400,136
Buildings and structures (Notes 4 and 6)	165,641	165,406	1,492,264
Machinery, equipment and vehicles (Note 4)	151,994	151,059	1,369,319
Furniture and fixtures (Note 4)	25,899	25,693	233,323
Lease assets (Notes 4 and 10)	17,406	17,993	156,805
Construction in progress (Note 4)	17,469	9,407	157,378
Total	422,824	414,120	3,809,225
Accumulated depreciation (Note 6)	(222,752)	(212,921)	(2,006,774)
Net property, plant and equipment	200,072	201,199	1,802,451
Investments and other assets:			
Investment securities (Notes 5 and 12)	94,697	102,284	853,129
Investments in and advances to associated companies (Note 12)	60,609	61,307	546,027
Long-term loans	96	24	867
Deferred tax assets (Note 9)	2,561	2,804	23,068
Other assets (Notes 4 and 7)	12,860	14,132	115,855
Total investments and other assets	170,823	180,551	1,538,946
Total (Note 18)	¥ 618,533	¥ 627,032	$ 5,572,369

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 6 and 12)	¥ 34,598	¥ 41,644	$ 311,696
Current portion of long-term debt (Notes 6, 10, and 12)	7,532	47,669	67,857
Payables (Note 12):			
Notes and accounts payable	27,984	29,529	252,105
Associated companies	74	114	669
Other	9,871	7,340	88,922
Income taxes payable	3,985	3,404	35,899
Accrued expenses	22,562	23,915	203,263
Other current liabilities	8,850	8,186	79,729
Total current liabilities	115,456	161,801	1,040,140
Long-term liabilities:			
Long-term debt (Notes 6, 10, and 12)	80,056	46,513	721,228
Liability for retirement benefits (Note 7)	5,856	5,742	52,755
Asset retirement obligations	982	967	8,843
Deferred tax liabilities (Note 9)	21,075	22,151	189,868
Other long-term liabilities	2,829	3,184	25,487
Total long-term liabilities	110,798	78,557	998,181
Commitments (Note 10)			
Equity (Notes 8 and 16):			
Common stock— authorized, 700,000,000 shares; issued, 171,045,418 shares in 2019 and 171,045,418 shares in 2018	31,118	31,118	280,339
Capital surplus	41,743	41,528	376,058
Retained earnings	347,741	318,580	3,132,801
Treasury stock—at cost 10,819, 582 shares in 2019 and 10,549,711 shares in 2018	(54,834)	(52,322)	(493,999)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	30,465	35,215	274,463
Foreign currency translation adjustments	(36,305)	(20,722)	(327,069)
Defined retirement benefit plans	(2,656)	(1,219)	(23,926)
Total	357,272	352,178	3,218,667
Noncontrolling interests	35,007	34,496	315,381
Total equity	392,279	386,674	3,534,048
Total	¥618,533	¥627,032	$5,572,369

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Net sales (Note 18)	**¥407,017**	¥401,570	**$3,666,825**
Cost of sales (Notes 7, 10, and 15)	**171,107**	171,640	**1,541,506**
Gross profit	**235,910**	229,930	**2,125,319**
Selling, general and administrative expenses (Notes 7, 10, 14, and 15)	**190,064**	186,466	**1,712,290**
Operating income (Note 18)	**45,846**	43,464	**413,029**
Other income (expenses):			
Interest and dividend income	**6,562**	5,813	**59,123**
Interest expense	**(728)**	(653)	**(6,560)**
Foreign exchange gain	**576**	152	**5,190**
Equity in earnings of associated companies	**3,558**	3,884	**32,054**
Gain on sales of investment securities	**2,204**	660	**19,853**
Loss on impairment (Note 4)	**(4,187)**	(12)	**(37,724)**
Other—net (Note 5)	**1,971**	173	**17,754**
Other income—net	**9,956**	10,017	**89,690**
Income before income taxes	**55,802**	53,481	**502,719**
Income taxes (Note 9):			
Current	**15,241**	13,096	**137,306**
Deferred	**379**	1,725	**3,409**
Total income taxes	**15,620**	14,821	**140,715**
Net income	**40,182**	38,660	**362,004**
Net income attributable to noncontrolling interests	**5,247**	4,595	**47,271**
Net income attributable to owners of the parent	**¥ 34,935**	¥ 34,065	**$ 314,733**
	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 17):			
Basic net income	**¥ 217.89**	¥ 207.02	**$ 1.96**
Cash dividends applicable to the year	**44.00**	34.00	**0.40**

Diluted net income per share of common stock for 2019 and 2018 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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Net income	**¥40,182**	¥38,660	**$362,004**
Other comprehensive income (loss) (Note 13):			
Unrealized (loss) gain on available-for-sale securities	**(4,652)**	8,951	**(41,914)**
Foreign currency translation adjustments	**(17,540)**	5,487	**(158,014)**
Defined retirement benefit plans	**(1,436)**	1,152	**(12,941)**
Share of other comprehensive (loss) income in associates	**(282)**	114	**(2,543)**
Total other comprehensive (loss) income	**(23,910)**	15,704	**(215,412)**
Comprehensive income	**¥16,272**	¥54,364	**$146,592**
Total comprehensive income attributable to:			
Owners of the parent	**¥13,284**	¥50,191	**$119,675**
Noncontrolling interests	**2,988**	4,173	**26,917**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2019

	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, April 1, 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
Net income attributable to owners of the parent				**34,935**					**34,935**		**34,935**
Cumulative effects of changes in accounting policies				**157**		**(118)**			**39**		**39**
Change in the parent's ownership interest due to transactions with noncontrolling interests			**244**						**244**		**244**
Cash dividends, ¥44.0 per share				**(5,931)**					**(5,931)**		**(5,931)**
Repurchase of treasury stock	**(270)**				**(2,913)**				**(2,913)**		**(2,913)**
Disposal of treasury stock			**(29)**		**401**				**372**		**372**
Net change in the year						**(4,632)**	**(15,583)**	**(1,437)**	**(21,652)**	**511**	**(21,141)**
Balance, March 31, 2019	**160,226**	**¥31,118**	**¥41,743**	**¥347,741**	**¥(54,834)**	**¥30,465**	**¥(36,305)**	**¥(2,656)**	**¥357,272**	**¥35,007**	**¥392,279**

	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, 2018	$280,339	$374,129	$2,870,093	$(471,372)	$317,252	$(186,682)	$(10,981)	$3,172,778	$310,774	$3,483,552
Net income attributable to owners of the parent			**314,733**					**314,733**		**314,733**
Cumulative effects of changes in accounting policies			**1,414**		**(1,062)**			**352**		**352**
Change in the parent's ownership interest due to transactions with noncontrolling interests		**2,198**						**2,198**		**2,198**
Cash dividends, $0.40 per share			**(53,439)**					**(53,439)**		**(53,439)**
Repurchase of treasury stock				**(26,244)**				**(26,244)**		**(26,244)**
Disposal of treasury stock		**(269)**		**3,617**				**3,348**		**3,348**
Net change in the year					**(41,727)**	**(140,387)**	**(12,945)**	**(195,059)**	**4,607**	**(190,452)**
Balance, March 31, 2019	**$280,339**	**$376,058**	**$3,132,801**	**$(493,999)**	**$274,463**	**$(327,069)**	**$(23,926)**	**$3,218,667**	**$315,381**	**$3,534,048**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Operating activities:			
Income before income taxes	**¥ 55,802**	¥ 53,481	**$ 502,719**
Adjustments for:			
Income taxes—paid	**(13,881)**	(14,331)	**(125,056)**
Income taxes—refunded		391	
Depreciation and amortization (Note 18)	**21,238**	21,532	**191,333**
Loss on Impairment	**4,187**	12	**37,724**
Loss on disposals and sales of property, plant and equipment	**440**	218	**3,961**
Equity in earnings of associated companies	**(3,558)**	(3,884)	**(32,054)**
Gain on sales of investment securities	**(2,204)**	(660)	**(19,853)**
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	**2,196**	(1,499)	**19,784**
(Increase) decrease in inventories	**(2,248)**	390	**(20,250)**
Increase in payables	**(909)**	4,679	**(8,188)**
Decrease in liability for retirement benefits	**(2,294)**	(1,812)	**(20,669)**
Other—net	**3,356**	3,473	**30,235**
Total adjustments	**6,323**	8,509	**56,967**
Net cash provided by operating activities	**62,125**	61,990	**559,686**
Investing activities:			
Transfers to time deposits	**(77,653)**	(63,712)	**(699,574)**
Proceeds from withdrawing time deposits	**67,374**	55,970	**606,969**
Purchases of property, plant and equipment	**(29,385)**	(22,333)	**(264,727)**
Proceeds from sales of property, plant and equipment	**406**	269	**3,660**
Purchases of investment securities	**(917)**	(1,143)	**(8,260)**
Proceeds from sales of investment securities	**4,440**	1,801	**40,000**
Acquisition of controlling interest in a company	**(1,089)**		**(9,812)**
Other—net (Note 5)	**(189)**	(1,138)	**(1,703)**
Net cash used in investing activities	**(37,013)**	(30,286)	**(333,447)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Financing activities:			
Net (decrease) increase in short-term loans	**(7,136)**	669	**(64,283)**
Proceeds from long-term debt	**40,000**	30,000	**360,360**
Payments for settlement of long-term debt	**(47,973)**	(8,067)	**(432,191)**
Repurchase of treasury stock	**(5)**	(36,006)	**(46)**
Sales of treasury stock	**386**		**3,477**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(489)**	(1,183)	**(4,407)**
Dividends paid	**(5,924)**	(5,450)	**(53,367)**
Dividends paid to noncontrolling interests	**(1,840)**	(1,932)	**(16,578)**
Net cash used in financing activities	**(22,981)**	(21,969)	**(207,035)**
Foreign currency translation adjustments on cash and cash equivalents	**(4,896)**	1,070	**(44,112)**
Net (decrease) increase in cash and cash equivalents	**(2,765)**	10,805	**(24,908)**
Cash and cash equivalents, beginning of year	**105,936**	95,131	**954,379**
Cash and cash equivalents, end of year	**¥ 103,171**	¥105,936	**$ 929,471**

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 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111 to U.S. $1, the approximate rate of exchange at March 31, 2019. 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, 2019 include the accounts of the Company and its seventy six (74 in 2018) subsidiaries (together, the "Group"). The Company included Yakult Musashino Sales Co., Ltd. (acqusition of additional shares) and Yakult Shonan Sales Co., Ltd. (new acqusition of shares) as consolidated subsidiaries from the current consolidated fiscal year.

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 2018) 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 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.

(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.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥5,059 million and deferred tax liabilities of ¥1 million which were previously classified as current assets and current liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet.

(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, 2019 and 2018, 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Merchandise and finished products	**¥ 9,405**	¥ 9,089	**$ 84,727**
Work in process	**2,143**	2,450	**19,309**
Raw materials and supplies	**17,566**	16,599	**158,250**
Total	**¥29,114**	¥28,138	**$262,286**

NOTE 4 LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2019. As a result, the Group recognized an impairment loss of ¥4,187 million ($37,724 thousand) as other expenses for the Pharmaceutical segment due to continuing operating losses and for idle assets due to a decrease in fair market value. In addition the carrying amount of the relevant fixed assets was written down to the recoverable amount for the year ended March 31, 2019. The recoverable amount of the Pharmaceutical segment was measured at its fair market value. An impairment loss of ¥12 million was recognized in 2018.

NOTE 5 INVESTMENT SECURITIES

Investment securities at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Investment securities:			
Marketable equity securities	**¥91,228**	¥ 98,737	**$821,874**
Trust fund investments and other	**3,469**	3,547	**31,255**
Total	**¥94,697**	¥102,284	**$853,129**

The costs and aggregate fair values of investment securities at March 31, 2019 and 2018 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥47,621**	**¥44,985**	**¥1,378**	**¥91,228**
March 31, 2018				
Securities classified as—				
Available-for-sale:				
Equity securities	¥48,828	¥50,914	¥1,005	¥98,737

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2019				
Securities classified as—				
Available-for-sale:				
Equity securities	**$429,016**	**$405,270**	**$12,412**	**$821,874**

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2019 and 2018 were ¥3,469 million ($31,255 thousand) and ¥3,547 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2019 and 2018 were ¥3,518 million ($31,692 thousand) and ¥1,801 million, respectively. Gross realized gain on these sales for the year ended March 31, 2019 and 2018, computed on the moving-average cost basis, was ¥2,204 million ($19,853 thousand) and ¥660 million, respectively. Gross realized loss on these sales for the year ended March 31, 2019, computed on the moving-average cost basis, was ¥2 million ($14 thousand).

NOTE 6 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisting of bank loans, which include bank overdrafts, at March 31, 2019 and 2018 were ¥34,598 million ($311,696 thousand) and ¥41,644 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2019 and 2018 ranged from 0.26% to 4.12% and 0.26% to 3.86%, respectively.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Loans from banks and other financial institutions, 0.37% to 4.93% (0.37% to 4.93% in 2018), due serially to 2030:			
Collateralized	**¥ 2,514**	¥ 3,043	**$ 22,652**
Unsecured	**79,372**	84,426	**715,067**
Obligations under finance leases (Note 10)	**5,702**	6,713	**51,366**
Total	**87,588**	94,182	**789,085**
Less current portion	**(7,532)**	(47,669)	**(67,857)**
Long-term debt, less current portion	**¥80,056**	¥46,513	**$721,228**

Annual maturities of long-term debt as of March 31, 2019 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥7,532	$67,857
2021	7,192	64,792
2022	6,733	60,664
2023	6,015	54,188
2024	45,998	414,396
2025 and thereafter	14,118	127,188
Total	¥87,588	$789,085

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2019 were as follows:

March 31, 2019	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 9**	**$ 80**
Land	**3,536**	**31,858**
Buildings and structures—net of accumulated depreciation	**1,792**	**16,139**
Total	**¥5,337**	**$48,077**

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 7 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, 2019 and 2018, included the amounts of ¥393 million ($3,534 thousand) and ¥396 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Balance at beginning of year	**¥66,340**	¥63,987	**$597,657**
Current service cost	**3,504**	3,322	**31,569**
Interest cost	**497**	527	**4,476**
Actuarial losses	**614**	1,414	**5,537**
Benefits paid	**(3,311)**	(3,045)	**(29,828)**
Others	**(926)**	135	**(8,345)**
Balance at end of year	**¥66,718**	¥66,340	**$601,066**

2. The changes in plan assets for the years ended March 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Balance at beginning of year	**¥61,632**	¥56,962	**$555,246**
Expected return on plan assets	**1,430**	1,380	**12,881**
Actuarial (losses) gains	**(1,831)**	1,865	**(16,496)**
Contributions from the employer	**3,836**	3,898	**34,559**
Benefits paid	**(2,967)**	(2,693)	**(26,726)**
Others	**(170)**	220	**(1,534)**
Balance at end of year	**¥61,930**	¥61,632	**$557,930**

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
	2019	2018	**2019**
Defined benefit obligations	**¥64,457**	¥64,161	**$ 580,699**
Plan assets	**(61,930)**	(61,632)	**(557,930)**
Total	**2,527**	2,529	**22,769**
Unfunded defined benefit obligations	**2,261**	2,179	**20,367**
Net liability arising from defined benefit obligations	**¥ 4,788**	¥ 4,708	**$ 43,136**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Liability for retirement benefits	**¥5,463**	¥5,346	**$49,221**
Asset for retirement benefits	**(675)**	(638)	**(6,085)**
Net liability arising from defined benefit obligations	**¥4,788**	¥4,708	**$43,136**

4. The components of net periodic benefit costs for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Service cost	**¥3,504**	¥3,322	**$31,570**
Interest cost	**497**	527	**4,476**
Expected return on plan assets	**(1,430)**	(1,380)	**(12,881)**
Recognized actuarial losses	**375**	1,211	**3,380**
Others	**(454)**	40	**(4,091)**
Net periodic benefit costs	**¥2,492**	¥3,720	**$22,454**

5. Amounts recognized in other comprehensive income (before income tax effect) in respect to defined retirement benefit plans for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Actuarial (losses) gains	**¥(2,070)**	¥1,660	**$(18,647)**
Total	**¥(2,070)**	¥1,660	**$(18,647)**

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect to defined retirement benefit plans as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrecognized actuarial losses	**¥3,850**	¥1,780	**$34,683**
Total	**¥3,850**	¥1,780	**$34,683**

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2019 and 2018 consisted of the following:

	2019	2018
Bonds	**12%**	17%
Stocks	**16**	20
Cash and Deposits	**39**	30
General accounts	**24**	24
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, 2019 and 2018 are set forth as follows:

	2019	2018
Discount rate	**0.52%**	0.61%
Expected rate of return on plan assets	**2.50**	2.50

NOTE 8 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 9 INCOME TAXES

The Company and its domestic subsidiaries were subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.62% and 30.86% for each of the years ended March 31, 2019 and 2018. Foreign subsidiaries were 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, 2019 and 2018 were as follows:

Note in 2018 was made base on "Supplementary Provisions Article3 (2) of Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements."

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Pension and severance costs	¥ 2,478	¥ 1,968	$ 22,324
Tax loss carryforwards	4,474	4,815	40,305
Accrued bonuses	1,905	1,838	17,158
Long-lived assets (Impairment loss)	1,373	92	12,373
Others	8,243	7,801	74,265
Total of tax loss carryforwards and temporary differences	18,473	16,514	166,425
Less valuation allowance for tax loss carryforwards	(4,203)		(37,864)
Less valuation allowance for temporary differences	(1,628)		(14,668)
Total valuation allowance	(5,831)	(6,341)	(52,532)
Total	¥ 12,642	¥ 10,173	$ 113,893
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	¥ 14,109	¥ 14,944	$ 127,111
Undistributed earnings of foreign subsidiaries and associated companies	12,453	10,528	112,186
Unrealized gain on land held by subsidiaries	1,257	1,201	11,328
Others	3,337	2,847	30,068
Total	¥ 31,156	¥ 29,520	$ 280,693
Net deferred tax liabilities	¥(18,514)	¥(19,347)	$(166,800)

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, 2019 and 2018 was as follows:

	2019	2018
Normal effective statutory tax rate	30.62%	30.86%
Equity in earnings of associated companies	(1.95)	(2.24)
Tax exemption	(1.42)	(1.66)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	4.78	3.48
Social expenses not deductible for income tax purposes	0.67	1.42
Tax rate differences in foreign subsidiaries	(4.64)	(4.72)
Others—net	(0.07)	0.57
Actual effective tax rate	27.99%	27.71%

The expiration of tax loss carryforwards , the related valuation allowances and the resulting net deferred tax assets as of March 31, 2019 were as follows:

	Millions of yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥94	¥162	¥133	¥217	¥274	¥3,594	¥4,474
Less valuation allowances for tax loss carryforwards	(92)	(151)	(110)	(205)	(248)	(3,397)	(4,203)
Net deferred tax assets relating to tax loss carryforwards	2	11	23	12	26	197	271

	Thousands of U.S. dollars						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$842	$1,462	$1,196	$1,955	$2,472	$32,378	$40,305
Less valuation allowances for tax loss carryforwards	(828)	(1,362)	(986)	(1,845)	(2,235)	(30,608)	(37,864)
Net deferred tax assets relating to tax loss carryforwards	14	100	210	110	237	1,770	2,441

NOTE 10 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	
	2019		2019	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥1,990**	**¥1,543**	**$17,923**	**$13,903**
Due after one year	**3,712**	**2,919**	**33,443**	**26,293**
Total	**¥5,702**	**¥4,462**	**$51,366**	**$40,196**

	Millions of yen	
	2018	
	Finance leases	Operating leases
Due within one year	¥2,098	¥1,419
Due after one year	4,615	2,446
Total	¥6,713	¥3,865

NOTE 11 RELATED PARTY DISCLOSURES

1. Transactions of the Company with Danone Probiotics Private Ltd. that was major shareholder for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Repurchase of treasury stock		¥34,715	

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales	**¥5,428**	¥5,977	**$48,905**
Sales discounts and rebates	**59**	96	**533**
Collection of loans	**4**	7	**31**
Rent of vending machines	**25**	24	**227**
Temporary receipts	**2,057**	2,149	**18,532**
Subsidy of sales expenses	**52**	52	**466**
Rent of leased assets		5	

The balances due to or from these related parties at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Notes and accounts receivable	**¥1,260**	¥1,311	**$11,349**
Other receivables	**9**	9	**78**
Long-term loans		4	
Other payables	**11**	17	**102**
Accrued expenses	**14**	22	**126**
Other long-term liabilities	**37**	37	**335**

NOTE 12 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, 2019			
Cash and cash equivalents	**¥103,171**	**¥103,171**	
Time deposits	**53,313**	**53,313**	
Receivables	**55,590**		
Allowance for doubtful accounts	**(262)**		
Receivables—net	**55,328**	**55,328**	
Investment securities	**91,228**	**91,228**	
Total	**¥303,040**	**¥303,040**	
Short-term borrowings	**¥ 34,598**	**¥ 34,598**	
Payables	**37,929**	**37,929**	
Long-term debt (excluding obligations under finance leases)	**81,886**	**82,030**	**¥144**
Total	**¥154,413**	**¥154,557**	**¥144**

	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

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2019			
Cash and cash equivalents	**$ 929,471**	**$ 929,471**	
Time deposits	**480,301**	**480,301**	
Receivables	**500,806**		
Allowance for doubtful accounts	**(2,362)**		
Receivables—net	**498,444**	**498,444**	
Investment securities	**821,874**	**821,874**	
Total	**$2,730,090**	**$2,730,090**	
Short-term borrowings	**$ 311,696**	**$ 311,696**	
Payables	**341,696**	**341,696**	
Long-term debt (excluding obligations under finance leases)	**737,719**	**739,006**	**$1,287**
Total	**$1,391,111**	**$1,392,398**	**$1,287**

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 5.

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
	2019	2018	**2019**
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies	**¥64,078**	¥64,854	**$577,282**

(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, 2019				
Cash and cash equivalents	**¥103,171**			
Time deposits	**53,313**			
Receivables	**55,590**			
Total	**¥212,074**			

	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			

	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, 2019				
Cash and cash equivalents	**$ 929,471**			
Time deposits	**480,301**			
Receivables	**500,806**			
Total	**$1,910,578**			

NOTE 13 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ (4,504)**	¥13,561	**$ (40,574)**
Reclassification adjustments to profit or loss	**(2,202)**	(660)	**(19,838)**
Amount before income tax effect	**(6,706)**	12,901	**(60,412)**
Income tax effect	**2,054**	(3,950)	**18,498**
Total	**¥ (4,652)**	¥ 8,951	**$ (41,914)**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥(17,540)**	¥ 5,487	**$(158,014)**
Total	**¥(17,540)**	¥ 5,487	**$(158,014)**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥ (2,442)**	¥ 449	**$ (22,001)**
Reclassification adjustments to profit or loss	**372**	1,211	**3,350**
Amount before income tax effect	**(2,070)**	1,660	**(18,651)**
Income tax effect	**634**	(508)	**5,710**
Total	**¥ (1,436)**	¥ 1,152	**$ (12,941)**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Share of other comprehensive income in associates:			
Gains arising during the year	**¥ (281)**	¥ 131	**$ (2,539)**
Reclassification adjustments to profit or loss	**(1)**	(17)	**(4)**
Total	**¥ (282)**	¥ 114	**$ (2,543)**
Total other comprehensive income (loss)	**¥(23,910)**	¥15,704	**$(215,412)**

NOTE 14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Advertising	**¥18,012**	¥18,384	**$162,267**
Sales subsidies	**9,329**	9,574	**84,044**
Freight expense	**13,827**	13,328	**124,569**
Sales commission	**24,894**	24,528	**224,275**
Salaries	**42,183**	40,019	**380,027**
Provision for bonuses	**3,975**	3,826	**35,809**
Net periodic benefit costs	**2,212**	2,789	**19,932**
Depreciation and amortization	**4,844**	4,579	**43,641**
Research and development	**10,535**	10,171	**94,909**

NOTE 15 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥10,564 million ($95,168 thousand) and ¥10,208 million for the years ended March 31, 2019 and 2018, respectively.

NOTE 16 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2019 was approved at the Company's Board of Directors' meeting held on May 14, 2019:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥24.00 ($0.22) per share	**¥3,852**	**$34,702**

NOTE 17 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2019 and 2018 is as follows:

Diluted net income per share for the years ended March 31, 2019 and 2018 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, 2019				
Basic EPS:				
Net income available to common shareholders	**¥34,935**	**160,333**	**¥217.89**	**$1.96**

	Millions of yen	Thousands of shares	Yen
	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

NOTE 18 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							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥186,879	¥48,908	¥120,784	¥8,674	¥21,696	¥20,076		¥407,017
Intersegment sales or transfers	28,078					2,371	¥(30,449)	
Total	214,957	48,908	120,784	8,674	21,696	22,447	(30,449)	407,017
Segment profit (loss)	16,431	11,837	35,156	519	(1,803)	1,181	(17,475)	45,846
Segment assets	178,692	75,678	209,586	9,663	17,989	14,892	112,033	618,533
Other:								
Depreciation and amortization	10,438	1,793	6,095	317	897	436	1,262	21,238
Investment in associates			58,515					58,515
Increase in property, plant and equipment and intangible assets	8,478	1,856	17,714	286	490	425	1,481	30,730

	Thousands of U.S. dollars							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	$1,683,598	$440,610	$1,088,149	$78,141	$195,462	$180,865		$3,666,825
Intersegment sales or transfers	252,957					21,361	$(274,318)	
Total	1,936,555	440,610	1,088,149	78,141	195,462	202,226	(274,318)	3,666,825
Segment profit (loss)	148,032	106,640	316,723	4,673	(16,246)	10,637	(157,430)	413,029
Segment assets	1,609,836	681,782	1,888,162	87,055	162,063	134,166	1,009,305	5,572,369
Other:								
Depreciation and amortization	94,036	16,155	54,907	2,855	8,081	3,932	11,367	191,333
Investment in associates			527,164					527,164
Increase in property, plant and equipment and intangible assets	76,381	16,718	159,589	2,572	4,418	3,832	13,339	276,849

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,867 million ($115,918 thousand) of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥117,047 million ($1,054,478 thousand) of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,262 million ($11,367 thousand) of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥1,481 million ($13,339 thousand) of capital expenditure of the head office.

	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	121,740	627,032
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.

(4) INFORMATION ABOUT GEOGRAPHICAL AREAS

a. Sales

	Millions of yen				
	2019				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥226,360	**¥48,921**	**¥123,062**	**¥8,674**	**¥407,017**

	Millions of yen				
	2018				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥231,089	¥50,178	¥111,961	¥8,342	¥401,570

	Thousands of U.S. dollars				
	2019				
	Japan	The Americas	Asia and Oceania	Europe	Total
	$2,039,283	**$440,731**	**$1,108,670**	**$78,141**	**$3,666,825**

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

b. Property, plant and equipment

	Millions of yen				
	2019				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥115,460	**¥14,949**	**¥67,570**	**¥2,093**	**¥200,072**

	Millions of yen				
	2018				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥124,592	¥15,809	¥58,543	¥2,255	¥201,199

	Thousands of U.S. dollars				
	2019				
	Japan	The Americas	Asia and Oceania	Europe	Total
	$1,040,180	**$134,681**	**$608,735**	**$18,855**	**$1,802,451**

(5) LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

	Millions of yen							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
	¥36				**¥4,151**			**¥4,187**

	Millions of yen							
	2018							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
							¥12	¥12

	Thousands of U.S. dollars							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
	$327				**$37,397**			**$37,724**

(6) BARGAIN PURCHASE GAIN

	Millions of yen							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
							¥381	**¥381**

	Thousands of U.S. dollars							
	2019							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
							$3,436	**$3,436**

Year ended March, 2018

No applicable items.

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
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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, 2019, 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, 2019, 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 19, 2019

Member of
Deloitte Touche Tohmatsu Limited

Global Network

OVERSEAS OPERATIONS AND RESEARCH CENTER

(As of April 1, 2018)

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.	August 2019	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, Netherlands
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
The non-profit corporation Yakult Honsha European Research Center for Microbiology, ESV (YHER)	May 2005	Ghent, Belgium

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

Corporate Data

(As of March 31, 2019)

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: https://www.yakult.co.jp/
PAID-IN CAPITAL	¥31,117,654,815
ANNUAL ACCOUNT SETTLEMENT DATE	March 31
NUMBER OF EMPLOYEES	27,279 (Consolidated)
NUMBER OF ISSUED SHARES	171,045,418
NUMBER OF SHAREHOLDERS	24,082*

* 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

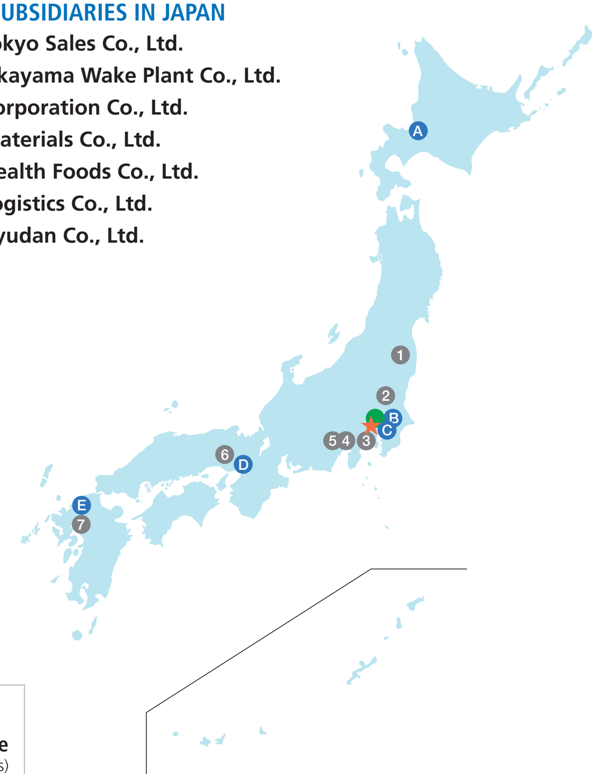
- **A Hokkaido Branch**
- **B East Japan Branch**
- **C Metropolitan Branch**
- **D Central Japan Branch**
- **E West Japan Branch**

Plants

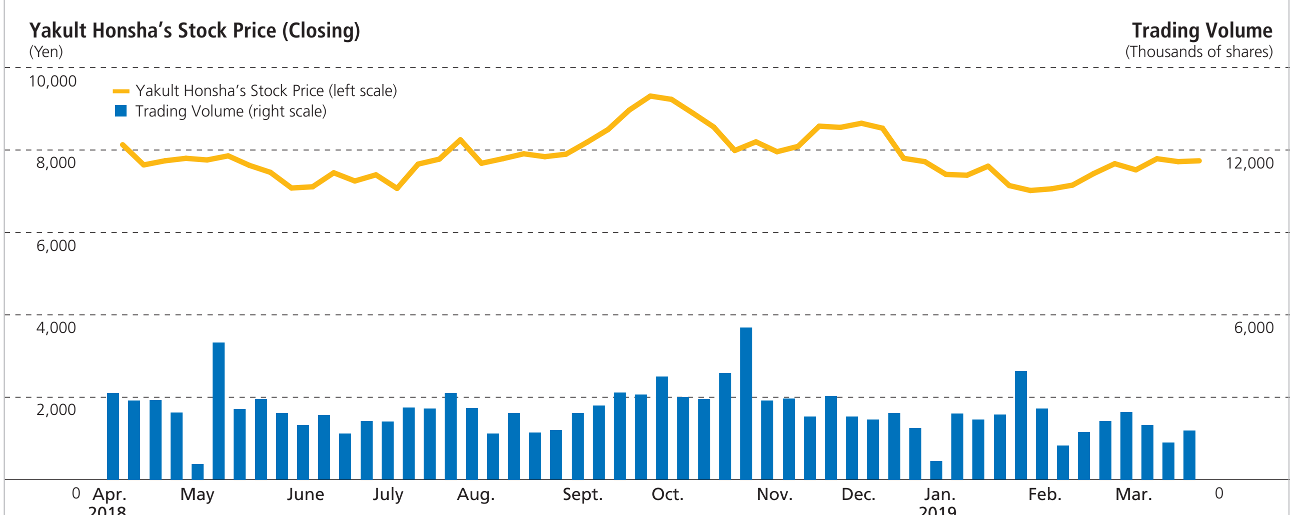
- **1 Fukushima Plant**
- **2 Ibaraki Plant**
- **3 Shonan Cosmetics Plant**
- **4 Fuji Susono Plant**
- **5 Fuji Susono Pharmaceuticals Plant**
- **6 Hyogo Miki Plant**
- **7 Saga Plant**

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



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