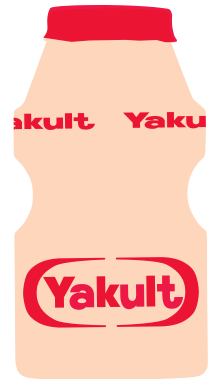
Yakult

Returning to a Path toward Sustainable Growth



ANNUAL REPORT 2022

Year ended March 31, 2022

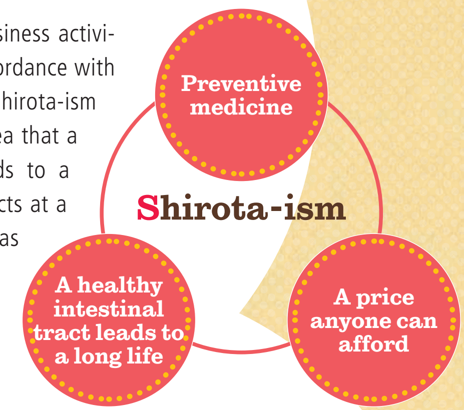
GROWING OUR

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.

In the nearly 90 years since then,

Yakult has conducted its business activities around the world in accordance with 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 right.



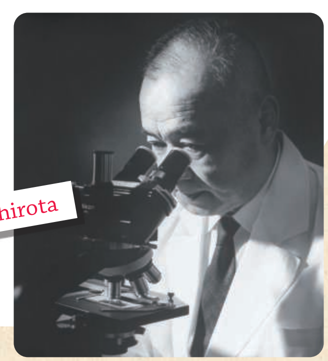
Contents

Forward-Looking Statements
Statements contained in the Annual Report 2022 regarding business results for fiscal 2022 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*.

* Reclassified as *Lacticaseibacillus paracasei* strain Shirota in April 2020.


Dr. Minoru Shirota

As a probiotics* pioneer,

We help to protect people's health in 40 countries and regions, including Japan. 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.

* Live microorganisms that, when administered in adequate amounts confer a health benefit on the host (ISAPP modified FAO/WHO definition, 2013).

FROM ROOTS

The Sources of Yakult's Strength

Yakult has three unique sources of strength:

Product Power:

Nearly 90 years as a Probiotics Pioneer

Since its founding nearly 90 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 role in the fields of pharmaceuticals and cosmetics as well.

The Yakult Lady System:

Everywhere Is Local

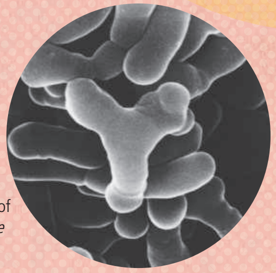
Yakult's products are offered mainly through two channels, home delivery and retail sales. Our Yakult Ladies are an essential part of our home delivery sales. The strength of the Yakult Ladies lies in their ability to communicate directly with customers, which allows them to convey the value and appeal 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

* Other countries and regions where 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

Taking Good Health Global

THE AMERICAS

Yakult S/A Ind. E Com. (Brazil)

1,382 Thousands of bottles/day

Yakult U.S.A. Inc.

565 Thousands of bottles/day

Yakult S.A. De C.V. (Mexico)

3,438 Thousands of bottles/day

EUROPE

Yakult Oesterreich GmbH

11 Thousands of bottles/day

Yakult UK Ltd.

237 Thousands of bottles/day

Yakult Deutschland GmbH

78 Thousands of bottles/day

Yakult Belgium N.V./S.A.

84 Thousands of bottles/day

Yakult Italia S.r.l.

89 Thousands of bottles/day

Yakult Nederland B.V.

183 Thousands of bottles/day

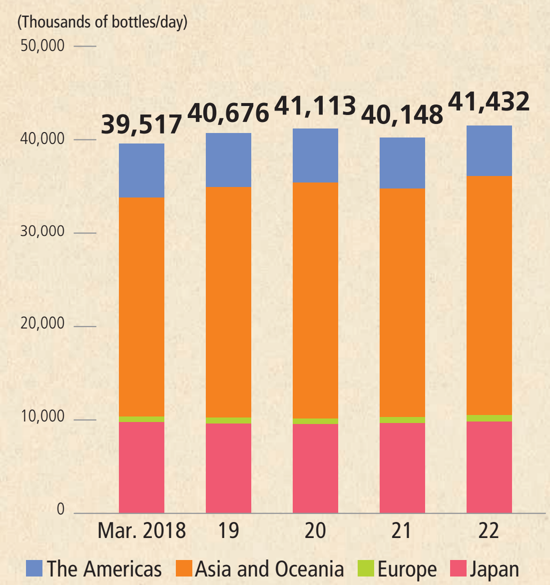
Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2022, 2021, 2020, 2019 and 2018

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2018	2019	2020	2021	**2022**	**2022**
For the year:						
Net sales	¥401,570	¥407,017	¥406,004	¥385,707	**¥415,116**	**$3,402,590**
Operating income	43,464	45,846	45,675	43,694	**53,202**	**436,084**
Net income attributable to owners of the parent	34,065	34,935	39,736	39,267	**44,918**	**368,179**
At the year-end:						
Total assets	¥627,032	¥618,533	¥627,871	¥635,102	**¥672,856**	**$5,515,210**
Total liabilities	240,358	226,254	215,789	195,341	**187,920**	**1,540,330**
Total equity	386,674	392,279	412,082	439,761	**484,936**	**3,974,880**
Financial ratio:						
Return on equity (ROE) (%)	9.8	9.8	10.9	10.1	**10.6**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 207.02	¥ 217.89	¥ 248.04	¥ 244.85	**¥ 280.36**	**$ 2.30**
Total equity (Note 3)	2,194.32	2,229.80	2,330.58	2,523.81	**2,812.63**	**23.05**
Cash dividends applicable to the year	34.00	44.00	46.00	52.00	**72.00**	**0.59**

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 ¥122 to U.S.$1, the approximate rate of exchange at March 31, 2022.
3. Noncontrolling interests are not included in equity on process of calculation.

Sales Volume by Region



Yakult Middle East FZCO

20 Thousands of bottles/day

P.T. Yakult Indonesia Persada

7,328 Thousands of bottles/day

Yakult (China) Corporation

3,388 Thousands of bottles/day

Shanghai Yakult Co., Ltd.

431 Thousands of bottles/day

Yakult Vietnam Co., Ltd.

772 Thousands of bottles/day

Yakult Danone India Pvt. Ltd.

225 Thousands of bottles/day

Yakult Australia Pty. Ltd.

290 Thousands of bottles/day

Yakult (Singapore) Pte., Ltd.

263 Thousands of bottles/day

Beijing Yakult Co., Ltd.

345 Thousands of bottles/day

Yakult Taiwan Co., Ltd.

681 Thousands of bottles/day

Yakult Philippines, Inc.

3,539 Thousands of bottles/day

Yakult (Malaysia) Sdn. Bhd.

330 Thousands of bottles/day

Korea Yakult (hy Co., Ltd.)

2,661 Thousands of bottles/day

Yakult (Thailand) Co., Ltd.

2,058 Thousands of bottles/day

Guangzhou Yakult Co., Ltd.

2,824 Thousands of bottles/day

Hong Kong Yakult Co., Ltd.

422 Thousands of bottles/day

Yakult Myanmar Co., Ltd.

2 Thousands of bottles/day

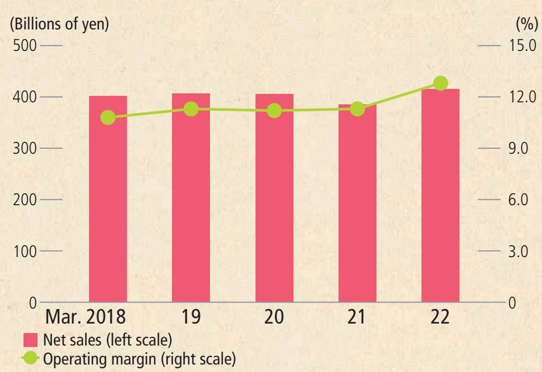
* In Myanmar, we have temporarily suspended our sales and manufacturing activities in light of the political situation, among other considerations.

ASIA AND OCEANIA

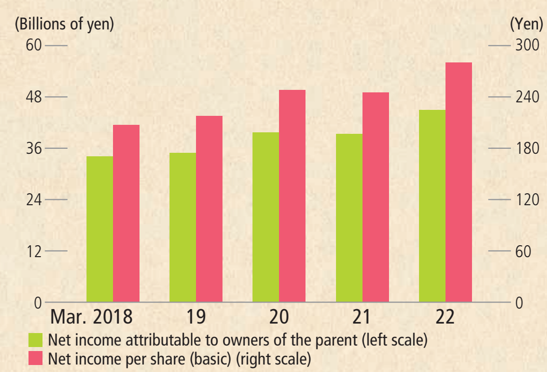
Yakult Honsha Co., Ltd.

9,786 Thousands of bottles/day

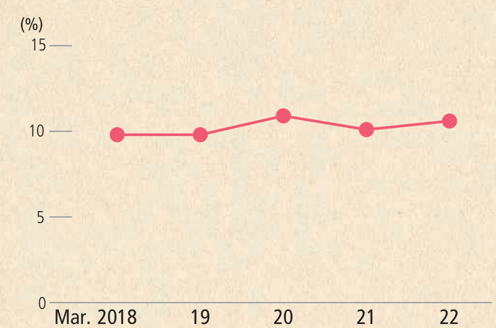
Net Sales and Operating Margin



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



ROE



To Our Shareholders

Hiroshi Narita
President and Representative Director

Both Net Sales and Profits Reached Record Highs. We Will Continue to Steadily Implement Initiatives for Sustainable Growth.

Nearly a year has passed since I took over as president of Yakult. During this time, the Company has sought to meet stakeholders' expectations by tackling a range of initiatives under its new management structure.

One such initiative is capital policy. Yakult's dividend policy places top priority on aiming to continuously increase payouts. In line with this policy, we raised the dividend per share by ¥10 in May 2021, followed by another ¥10 per share in November 2021, resulting in an annual dividend of ¥72. Furthermore, in light of company performance, we announced a further dividend increase of ¥10 per share, for an annual dividend forecast of ¥82 for the fiscal year ending March 31, 2023.

Additionally, in February 2022, we announced the repurchase of shares as treasury stock to strengthen shareholder returns and improve capital efficiency. We repurchased shares on the stock market up to a maximum of 5.5 million shares, or ¥30 billion. We will repurchase more shares in the future if and when we judge it necessary to do so, taking into consideration our financial position, market trends, and other factors.

For the fiscal year ended March 31, 2022, the introduction in Japan of the high-value-added products *Yakult 1000* and *Y1000* led to record-high net sales and profits at every level.

In the fiscal year ending March 31, 2023, we will be in the second year of our long-term Yakult Group Global Vision 2030, and our Medium-Term Management Plan (2021–2024). The operating environment around us remains somewhat unpredictable, primarily due to major changes in the international situation and accompanying economic impacts. Nonetheless, Yakult's individual business segments are working toward quantitative targets in line with their own business strategies.

Meanwhile, we are also taking action to achieve management that is ESG-aware. The Yakult Group also has a responsibility to the environment, especially with regard to CO_2 emissions and the use of plastics, among other things. A great number of companies and people are involved with Yakult's business across our supply chain. Companies must take action to preserve the environment and respect human rights to ensure the sustainability of society and their own operations. At Yakult, we conduct our business activities in accordance with guidelines such as the Yakult Group Environmental Vision and the Yakult Group Human Rights Policy, which were finalized in 2021. In addition, we intend to meet stakeholders' expectations by further strengthening our system of controls and disclosing relevant information.

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

September 2022

Hiroshi Narita
President and Representative Director

Interview with the President

Reflecting on the Fiscal Year Ended March 31, 2022

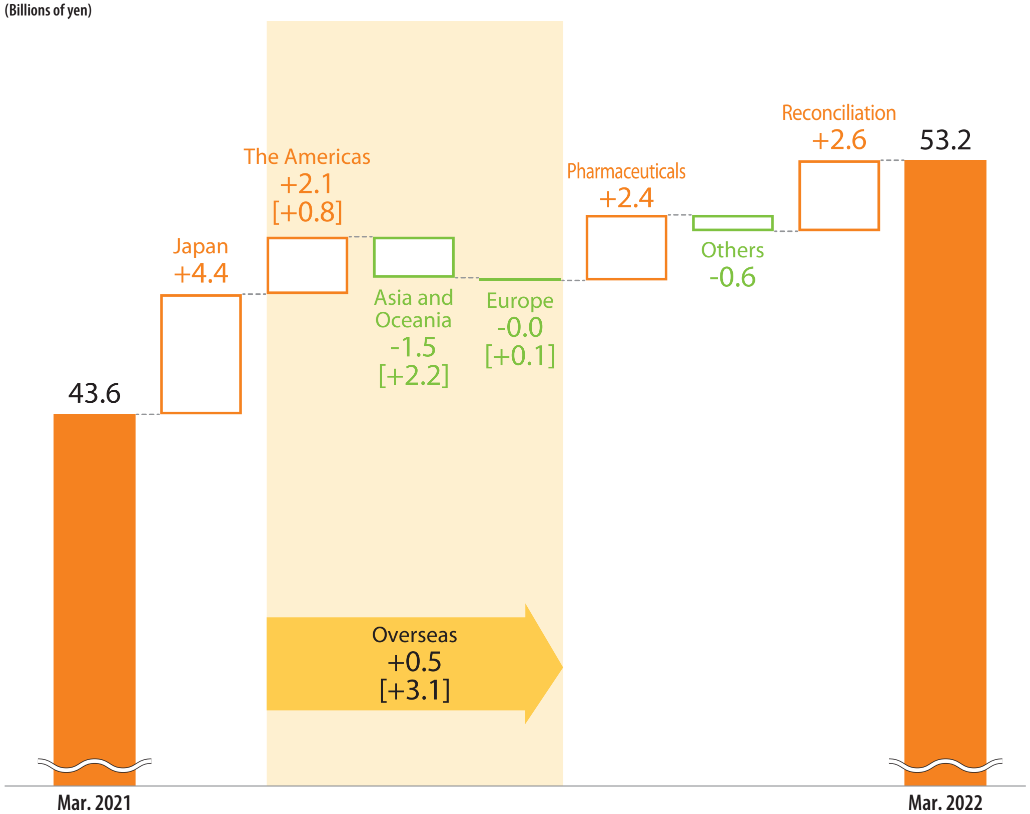
Q Please summarize the business results for the fiscal year ended March 31, 2022.

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

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

The domestic food and beverage business saw a decline in sales due to the application of the Revenue Recognition Standards. However, the nationwide sales expansion of *Yakult 1000* in the home delivery channel and the launch of *Y1000* in the retail store sales channel led to an increase in dairy product sales volume, resulting in higher profits. Overseas, we experienced higher net sales and profits due mainly to a rise in the sales volume of dairy products and the positive impact of the yen's depreciation on foreign exchange rates. In the pharmaceuticals business, net sales declined due to NHI drug price revisions despite a rise in promotion fees, but profits increased due to reductions in operating expenses.

Operating Income: Factor Analysis (YoY change)
(Billions of yen)



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

Domestic Food and Beverage Business

Strategy and Initiatives for the Fiscal Year Ending March 31, 2023

Targets

Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023:

- **Net sales: ¥467.5 billion (YoY 112.6%)**
- **Operating income: ¥59.0 billion (YoY 110.9%)**
- **Net income attributable to owners of the parent: ¥48.0 billion (YoY 106.9%)**
- **Basic net income per share: ¥307.42 (YoY 109.7%)**

Q Please explain the planned initiatives for the domestic food and beverage business in the fiscal year ending March 31, 2023.

A We will continue to focus on sales of high-value-added products to expand net sales and profits.

Our plan for the domestic food and beverage business in the fiscal year ending March 31, 2023, is to achieve net sales of ¥228.1 billion (up 12.2% from the previous fiscal year) and operating income of ¥35.5 billion (up 25.7%).

Through our home delivery channel, we have set a target of selling 1.80 million bottles of *Yakult 1000* per day for the fiscal year ending March 31, 2023. We expanded the sales region for *Yakult 1000* across Japan in April 2021, and have prioritized existing home delivery customers during its roll-out. For the fiscal year ending March 31, 2023, we will encourage the Yakult Ladies to create new customers for this product to increase the number of bottles sold.

Bottle sales of *Yakult 1000* via the online ordering service Yakult Delivery Net are increasing steadily. Yakult Delivery Net also caters to customers who prefer deliveries without personal interaction by providing cooler boxes to deposit deliveries and accepting payment by credit card. This sales method has proved popular among customers due, in part, to the COVID-19 crisis. We are therefore planning to conduct a number of internet-based value dissemination activities.

In the retail store channel, *Y1000* was launched as a product offering the same functionality as *Yakult 1000*: stress relief in situations that cause temporary mental stress, and improved sleep quality. Since its launch, *Y1000* has exceeded the sales target for each period, leading to persistent stock shortages in stores. We are currently addressing these stock shortages by boosting production capacity. We aim to do this as quickly as possible to meet the needs of customers who want easy access to a product offering these new functions in stores, and of those who are looking to try it.

Q Please explain the initiatives you plan to take in the overseas food and beverage business in the fiscal year ending March 31, 2023.

A We will continue to boost the number of bottles sold with sales strategies tailored to each operating company.

Our goal for overseas bottle sales for the fiscal 2021 was to recover to the pre-pandemic level of fiscal 2019, and we were able to achieve our target for the number of bottles sold at all overseas operating companies. On an individual basis, operating companies such as P.T. Yakult Indonesia Persada, Yakult Vietnam Co., Ltd., and Yakult U.S.A. Inc. continued to increase the number of bottles sold, while the Yakult Group in China, Guangzhou Yakult Co., Ltd., Yakult S/A Ind. E Com. (Brazil), and other operating companies lagged behind in recovering.

Our plan in the overseas business for the fiscal year ending March 31, 2023 is to achieve net sales of ¥212.8 billion (up 15.0% from the previous fiscal year) and operating income of ¥36.8 billion (down 3.1%).

I will explain the efforts of the major operating companies.

The Yakult Group in China and Guangzhou Yakult Co., Ltd.: Consumption has been impacted by a combination of an economic slowdown since the second half of 2021 and localized outbreaks of COVID-19. As has been previously reported, lockdowns in certain Chinese cities since March 2022, in particular, have significantly impacted our business activities. Recovery in sales has been slow in both the retail store and home delivery channels as a result of a variety of factors including the temporary closure of stores and constraints on the sales activities of Yakult Ladies. Despite the current situation on the ground, we are looking beyond COVID-19 and supplementing existing activities by further increasing opportunities to provide information via social media, through influencers, live commerce, and other similar avenues. Currently, a total of 50 sales bases have been set up by the Yakult Group in China and Guangzhou Yakult Co., Ltd. We plan to expand purchasing opportunities by treating these 50 existing sales offices as focal points to increase the number of stores in the surrounding areas, enhancing the exposure of our products. In addition, we will further reinforce our home delivery network. At Guangzhou Yakult Co., Ltd., which is leading sales in China, the number of Yakult Ladies now exceeds 2,100, and we are setting up additional centers as future sales offices. Despite the restrictions accompanying outbreaks of COVID-19, bottle sales in the home delivery channel have risen steadily, and we intend to continue focusing on this channel as one in which we can leverage Yakult's strengths. Furthermore, we are expanding the home delivery channel by replicating the success achieved in Guangzhou Yakult Co., Ltd. at other operating companies.

P.T. Yakult Indonesia Persada: In January 2022, we raised prices for the first time in two years. Despite this price increase, bottle sales have continued to grow, with no sign of a downturn. We are now seeking to expand bottle sales further still through continued value dissemination activities and online plant tours and other initiatives, as well as boosting the numbers of Yakult Ladies and stores.

Yakult U.S.A. Inc.: In recent years, the number of bottles sold in the United States has achieved double-digit growth. A key factor in this growth has been the new business relationships forged and the subsequent growth of retail chains across all 50 states. Another key point to note is the continued growth in the number of bottles sold per store in the six southwestern states centered on California, where full-scale sales were first launched. We will continue to enhance Yakult's position in the store-based market.

Yakult S/A Ind. E Com. (Brazil): Consumption remains weak in Brazil, and the timeframe for the full recovery of retail bottle sales remains uncertain. As around 70% of bottles are sold in the state of São Paulo, we are focusing on expanding sales into other states with large populations. However, the business outlook for the current fiscal year is likely to remain challenging.

Yakult S.A. De C.V. (Mexico): The number of bottles sold in Mexico during December 2021 was the highest ever for the month of December, while the number of Yakult Ladies also reached a record high. However, annual sales have still not recovered to the level achieved in the fiscal year ended March 31, 2020. In the fiscal year ending March 31, 2023, therefore, we will continue reinforcing and expanding our sales network to return to the growth trajectory achieved previously.

Overseas Food and Beverages

Pharmaceuticals Business

Q Please explain the initiatives that you plan to implement in the pharmaceuticals business during the fiscal year ending March 31, 2023.

A We will conduct business in line with our fundamental strategy of continued development, launch, and market deployment of outstanding products that cater to medical needs.

NHI drug price were reduced again in April 2022, resulting in a price decline of around 14% throughout Yakult's pharmaceutical business. For this reason, our plan in the pharmaceuticals business for the fiscal year ending March 31, 2023 is to achieve net sales of ¥14.0 billion (down 17.6% from the previous fiscal year) and operating income of ¥0.7 billion (down 73.4%). Despite these ongoing challenges, we will continue to conduct business in line with our fundamental strategy of continued development, launch, and market deployment of outstanding products that cater to medical needs.

On March 24, 2022, we applied for approval to manufacture and sell duvelisib [YHI-1702] —a drug in our pipeline for which we had been conducting clinical trials—as a treatment for relapsed or refractory chronic lymphocytic leukemia and small lymphocytic lymphoma. As both these indications for duvelisib [YHI-1702] have already been approved by the U.S. Food and Drug Administration (in September 2018), we will act promptly after manufacturing and sale are approved to minimize any drug lag. Given that duvelisib [YHI-1702] is also undergoing clinical trials for the treatment of other cancers, we will continue to research its further potential in collaboration with licensees.

Special Feature

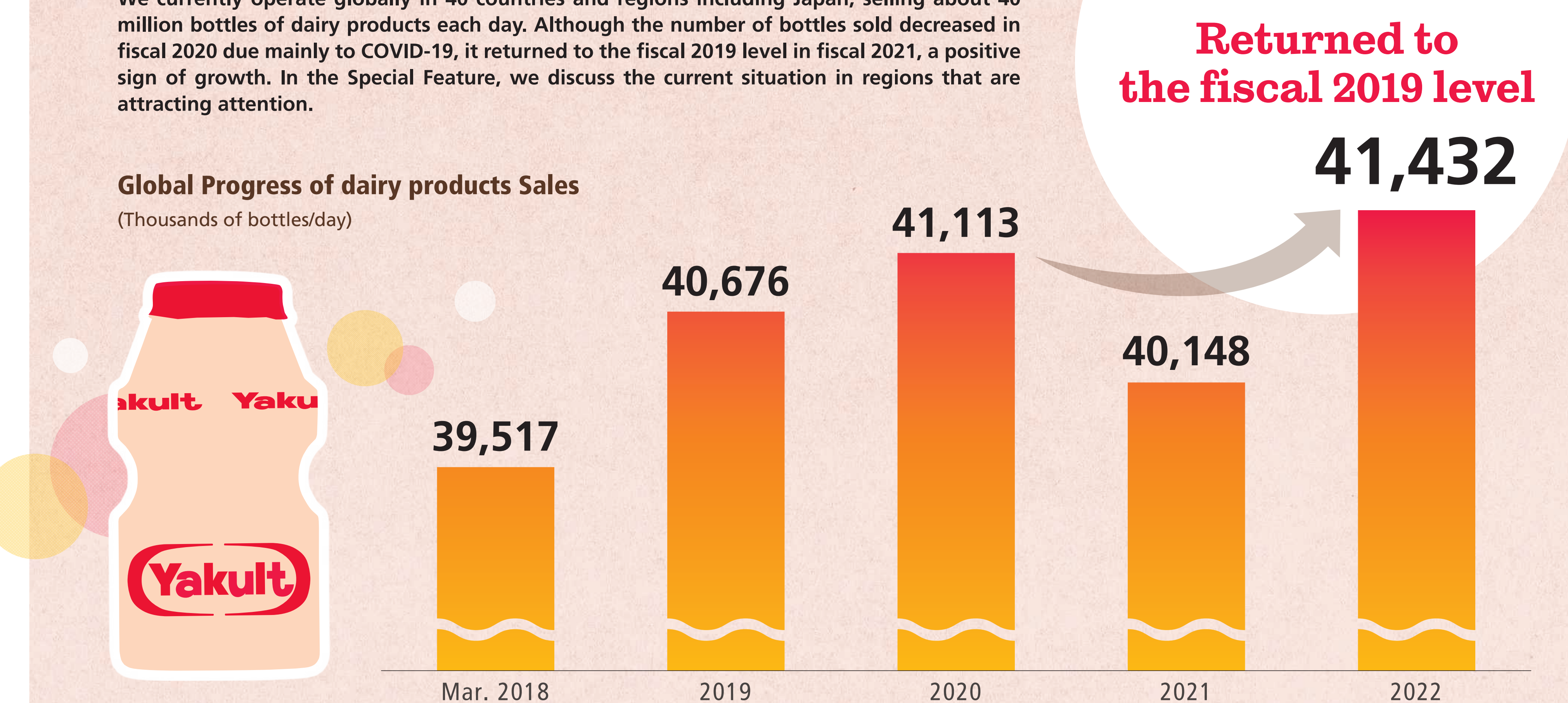
Returning to a Path toward Sustainable Growth

In fiscal 2021, the number of bottles of dairy products sold in Japan and overseas returned to the fiscal 2019 level

We currently operate globally in 40 countries and regions including Japan, selling about 40 million bottles of dairy products each day. Although the number of bottles sold decreased in fiscal 2020 due mainly to COVID-19, it returned to the fiscal 2019 level in fiscal 2021, a positive sign of growth. In the Special Feature, we discuss the current situation in regions that are attracting attention.

Global Progress of dairy products Sales

(Thousands of bottles/day)



Japan

The number of bottles sold increased partly due to the launch of high-value-added products that could provide new value to customers

In the domestic dairy product market, probiotic drinks attracted attention as health awareness expanded due to COVID-19. The steady sales of high-value-added/ high-unit-price products (*Yakult 1000, Y1000* and *Yakult 400W*) introduced in each sales channel led to revitalization of dairy products as a whole, and the number of dairy products sold increased year on year for the second consecutive year.

As for sales activities, we worked to raise product awareness and customer's buying motivation through TV commercials and other advertising. In the home delivery channel, the Yakult Ladies continued sales activities with thorough infection-control measures. Orders increased via the Yakult Delivery Net online ordering service, which provides a special cooler box in which to leave deliveries and accepts credit card payment that allows for non-face-to-face delivery, contributing to a rise in bottle sales.

Strategy

Launched high-value-added products

Products

Yakult 1000 *Yakult 400W*

Y1000

Channel

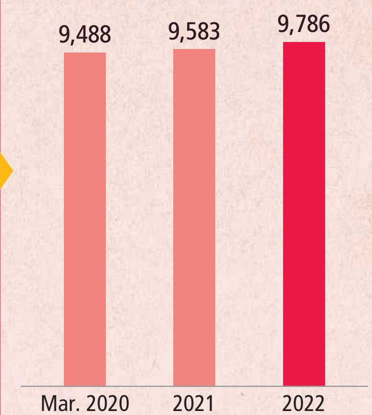
Home delivery

Retail store

Performance

Dairy products Sales

(Thousands of bottles/day)



Overseas

As a result of steady development of our business with a local focus, the total number of bottles sold returned to the fiscal 2019 level, although the time to full recovery may differ from country to country

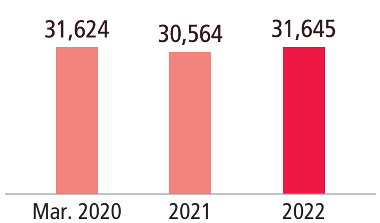
International Business

Our overseas business model enjoys a steady track record gained through many years of market cultivation and expansion

As the population of counties and regions that we cover reached only 30.6% of the global population, the overseas market enjoys substantial growth potential. We will continue to disseminate the value of our products despite restrictions in the market environment, while cultivating markets in the regions we have already entered and expanding markets in the countries and regions we have yet to enter.

Performance

Dairy products Sales
(Thousands of bottles/day)



Status of Major Operating Companies

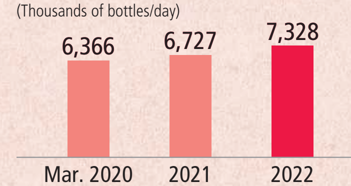
Operating companies with strong bottle sales despite COVID-19

Strong combination of the home delivery channel and retail store channel!

P.T. Yakult Indonesia Persada

Due to the coronavirus pandemic, about a quarter of the Yakult Ladies suspended sales activities in April 2020, but we later resumed normal operations with strict infection control measures. In addition to our efforts to educate the Yakult Ladies and employees, we have developed a strong sales organization through the sharing of know-how over many years. Even during the COVID-19 pandemic, we succeeded in steadily expanding the number of Yakult Ladies and the number of partner retail stores, which led to steady growth.

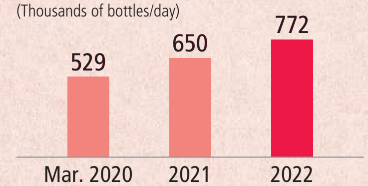
Dairy products Sales
(Thousands of bottles/day)



Yakult Vietnam Co., Ltd.

The capital of Ho Chi Minh City and its suburban area were affected by the COVID-19 lockdown in 2021, but the drop in bottle sales was counterbalanced by operations in other regions. The number of Yakult Ladies and partner retail stores rose steadily, and the high home delivery composition at about 36% of total bottle sales contributed to higher bottle sales.

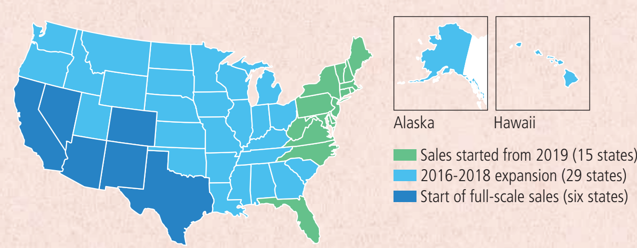
Dairy products Sales
(Thousands of bottles/day)



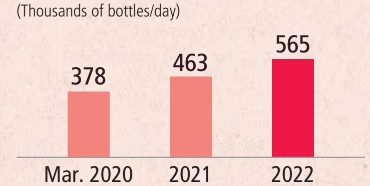
Market Cultivation and Expansion!

Yakult U.S.A. Inc.

Since the full-scale launch in 2007 in six southwest states, we have continued our value dissemination activities for many years to improve understanding of probiotics. We gradually deployed our expertise in cultivating and expanding markets, accumulated in the six southwestern states, to all 50 states (29 states in 2016 - 2018, and 15 states in 2019). We are boosting bottle sales by cultivating in six southwestern states, where sales continue to increase, and by expanding sales channels to 44 other states.



Dairy products Sales
(Thousands of bottles/day)



Operating companies on a recovery track despite the significant impact of COVID-19

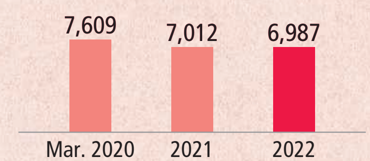
Guangzhou Yakult Co., Ltd., Shanghai Yakult Co., Ltd., Beijing Yakult Co., Ltd., Yakult (China) Corporation

Growth potential remains extraordinary!

Due to the COVID-19 pandemic, consumer behavior shifted from brick-and-mortar stores to e-commerce, and e-commerce bottle sales expanded to 5% of total sales. Conversely, the number of bottle sales decreased year on year due to the impact of the pandemic, which limited sales promotion activities and public relations activities, and of electricity shortages in September 2021.

Looking ahead, we will take advantage of the strength of our sales promotion and public relations activities, which returned to the fiscal 2019 level, and promote business development using both in-person and non-face-to-face approaches. Our marketing population in China is still just over 0.7 billion, out of 1.4 billion nationwide, and the market penetration rate is only about 1%, compared with 3% for Guangzhou Yakult Co., Ltd., which is our benchmark. The Chinese market still enjoys substantial growth potential and is thus a promising market.

Dairy products Sales
(Thousands of bottles/day)

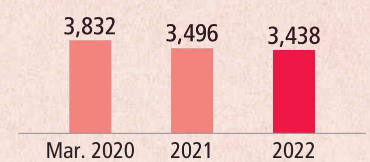


On a recovery trend mainly via home delivery channel!

Yakult S.A. De C.V. (Mexico)

Due to the effects of the economic downturn and the impact of COVID-19 from late 2019, the number of bottles sold continued to decline until the third quarter of fiscal 2021 before turning to a recovery trend in the fourth quarter in 2021. In the home delivery channel, the number of Yakult Ladies decreased due to COVID-19, but efforts to strengthen the channel gradually transformed the newly added Yakult Ladies into a strong sales force, contributing to higher bottle sales. Through the retail store channel, sales promotion activities were limited due to restrictions on customer entry to retail stores because of COVID-19, but these restrictions were gradually eased, creating a promising business environment.

Dairy products Sales
(Thousands of bottles/day)

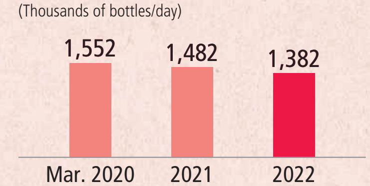


Deployment of the home delivery channel and retail store channel in cities we are focusing on

Yakult S/A Ind. E Com. (Brazil)

Hit by political and economic stagnation, low growth and COVID-19 (with the state of emergency declared in São Paulo in March 2020), the number of bottles sold decreased. In response to inflation, the company revised its product prices once in 2020 and twice in 2021. Going forward, since the state of São Paulo accounts for 70% of bottle sales, we will work to expand to other promising cities.

Dairy products Sales
(Thousands of bottles/day)



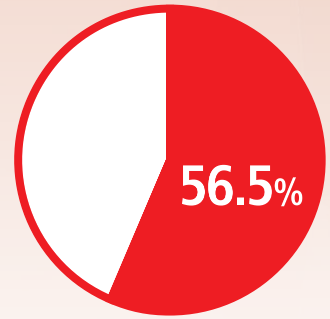
Review of Operations

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

JAPAN

Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on dairy products, our Pharmaceuticals business focuses on 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, 2022, net sales in Japan came to ¥239.8 billion.

Percentage of Net Sales



Net Sales

Food and Beverages


New Yakult *Yakult 400* *Yakult 1000* *Mil-Mil* *Sofuhl*

In dairy products, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult by conducting grassroots value dissemination initiatives in conjunction with advertising campaigns, while also taking measures to prevent COVID-19 infection.

In our home delivery channel, we placed a particular focus on the *Yakult 1000* and *Yakult 400W* fermented milk drinks, conducting value dissemination activities based on evidence. At the same time, we sought to create new customers and encourage existing customers to continue drinking these products through our Yakult Delivery Net online ordering service as well as enhanced information provided via our website. To strengthen our home delivery organization, we expedited efforts to provide convenient working conditions for Yakult Ladies and actively conducted online recruitment activities.

As for the retail store channel, we worked to increase revenue from the *New Yakult* fermented milk drink series, conducting campaigns to encourage families to consume products from the series together, and making use of limited-time packaging designs in order to improve in-store visibility. In product-specific initiatives, we expanded the sales regions for *Yakult 1000* and *Yakult 400W* to the whole of Japan in April and August 2021, respectively. In October 2021, we launched the fermented milk drink *Y1000* nationwide as an offering in the *Yakult 1000* series developed specifically for the retail store channel. We also sought to boost the hard-type yogurt brand *Sofuhl* by launching four limited-time items throughout the year.

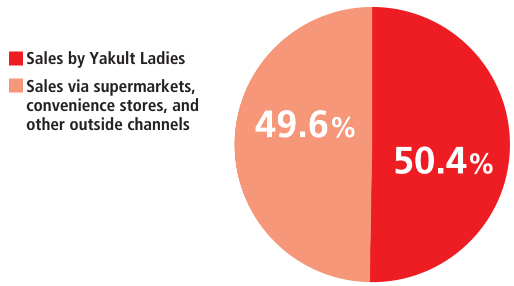
As a result of these and other efforts to bolster sales, the results for dairy products as a whole surpassed those of the previous year. In other beverages, we worked to increase sales through initiatives such as consumer campaigns for our *Toughman* series of energy drinks, but the results for other beverages as a whole remained lower than those of the previous year.

Furthermore, we sought to express our appreciation to everybody who had supported the Tokyo Yakult Swallows baseball team by implementing special initiatives to commemorate the team winning both the Central League and the Japan Series.

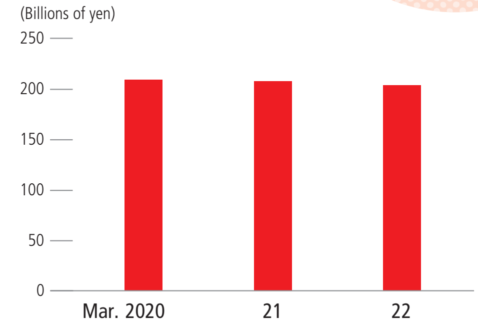
Despite the above efforts, consolidated net sales for the Food and Beverages (Japan) segment declined 1.8% from the previous fiscal year, totaling ¥203.3 billion.

Note that application of the Revenue Recognition Standard had the effect of lowering reported net sales by ¥22.2 billion.

Breakdown of Dairy Products Sales by Channel (volume-based)



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


Live webinar

During the fiscal year under review, as a means of reducing visits to medical institutions during the spread of COVID-19, we made use of online meetings, among other methods, to promote awareness and the proper use of our products, particularly those specializing in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, while medical institutions are increasingly switching to available generic versions in line with government policy, we boosted initiatives to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about it, a Company strength as the developer of the original drug. In addition, we continued with strong promotional activities looking to increase the market penetration and usage rates of the antineoplastic drug *Onivyde*®, for which we have a promotional agreement with Nihon Servier Co., Ltd. In March 2022, we launched *Bortezomib [Yakult]* for Injection 3 mg, a generic version of the antineoplastic drug *Velcade*.

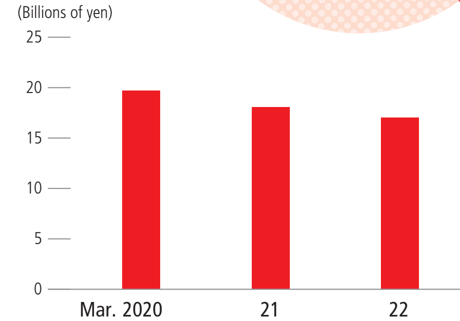
However, our revenue remained virtually unchanged from the previous year due to decreased opportunities to use our products, as the impact of the pandemic prompted a postponement of hospitalizations and operations, a decrease in doctor visits, and other developments. This was compounded by revisions to NHI drug prices in April 2021, which reduced prices for most of Yakult's pharmaceutical products.

In R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor duvelisib [YHI-1702], for which we have an exclusive licensing agreement for development and commercialization in Japan from Secura Bio, Inc. (U.S.), and the HDAC inhibitor resminostat [YHI- 1001], licensed from 4SC AG (Germany). In March 2022, we applied for approval to manufacture and sell duvelisib [YHI- 1702] for the indications of relapsed or refractory chronic lymphocytic leukemia and small lymphocytic lymphoma.

Despite the above efforts, however, consolidated net sales in the Pharmaceuticals segment declined 6.2% to ¥17.0 billion.

Note that application of the Revenue Recognition Standard had the effect of lowering reported net sales by ¥0.7 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 inner and outer 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.

As a specific example of such activities, by October 2021 we had launched two new products from our *Lactdew* series of highly moisturizing basic skin care products, while working to increase points of contact for new customers and encourage continuing regular use. We also worked to enhance customer satisfaction and increase revenue with our release in March 2022 of the high-performance serum *Parabio AC Serum Saj* from our *Parabio* series, which draws on Yakult's lactic acid bacteria fermentation technologies.

However, the results achieved by the cosmetics operation as a whole remained slightly lower than in the previous fiscal year, partly due to the changes in accounting standards among other factors.

Our professional baseball operations felt the effects of COVID-19, particularly in terms of attendance at games, but despite this, buoyed by the support of the fans, the Tokyo Yakult Swallows succeeded in winning both the Central League and the Japan Series. We will continue to work to respond to fans' expectations by maintaining a team worthy of their support, and improving the various fan service engagements.

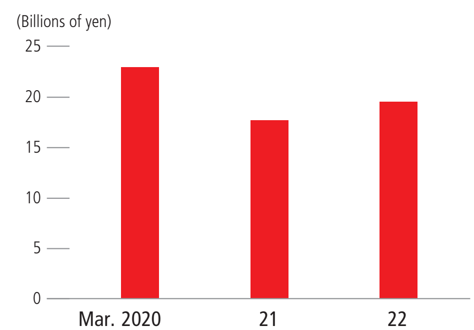
As a result of the above factors, consolidated net sales in the Others segment rose 10.0% from the previous year to ¥19.5 billion.

Note that application of the Revenue Recognition Standard had the effect of lowering reported net sales by ¥0.7 billion.


Lactdew series


Tokyo's Jingu Stadium,home of the Tokyo Yakult Swallows

Net Sales of Others

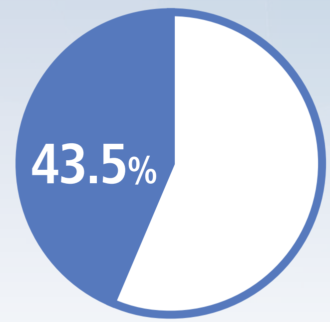


INTERNATIONAL BUSINESS

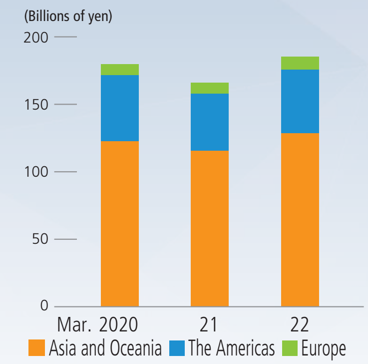
Yakult's operations outside Japan commenced in March 1964 with the establishment of Yakult Taiwan Co., Ltd., and now the manufacture and sale of *Yakult* outside of Japan spans 39 countries and regions centered around 29 companies and one research center, with average daily bottle sales of approximately 31.65 million bottles for the fiscal year ended March 31, 2022.

For the fiscal year ended March 31, 2022, the International Business recorded net sales of ¥185.0 billion.

Percentage of Net Sales



Net Sales



Asia and Oceania

Countries and regions in Asia and Oceania where sales are conducted

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, and Myanmar.

P.T. Yakult Indonesia Persada

Hong Kong Yakult Co., Ltd.

Yakult (China) Corporation

Yakult Vietnam Co., Ltd.

Yakult Middle East FZCO

Yakult (Singapore) Pte., Ltd.

In Asia and Oceania, the fermented milk drink *Yakult* and other products are manufactured and sold by Hong Kong Yakult Co., Ltd., Yakult (Singapore) Pte., Ltd., P.T. Yakult Indonesia Persada, Yakult Australia Pty. Ltd., Guangzhou Yakult Co., Ltd., Yakult (Malaysia) Sdn. Bhd., Shanghai Yakult Co., Ltd., Yakult Vietnam Co., Ltd., and Yakult Danone India Pvt. Ltd, manufactured by Tianjin Yakult Co., Ltd. and Wuxi Yakult Co., Ltd., and sold by Beijing Yakult Co., Ltd. and Yakult (China) Corporation. Yakult Middle East FZCO imports *Yakult* and other products for sale. Yakult Myanmar Co., Ltd. has temporarily suspended its sales and manufacturing activities in light of the political situation, among other considerations.

At Yakult Indonesia Persada, the 30th anniversary campaign and other measures to boost sales, along with steady efforts to enhance the home delivery organization and an increase in the number of stores receiving deliveries resulted in a growth in revenue as well as a record high in average annual bottle sales.

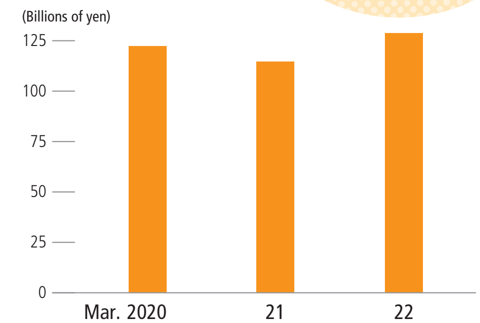
Review of Operations

At Guangzhou Yakult Co., Ltd., Shanghai Yakult Co., Ltd., Beijing Yakult Co., Ltd., and Yakult (China) Corporation, we worked to further reinforce our sales network by increasing the total number of sales offices operated by the four companies to 50 in August 2021. We also sought to bolster our manufacturing capacity by progressing with the construction of Wuxi Plant 2 (Wuxi Yakult Co., Ltd.).

As a result of the above, consolidated net sales in the Food and Beverages (Asia and Oceania) segment rose 11.5% from the previous year to ¥128.2 billion.

Yakult Vietnam Co., Ltd.

Net Sales in Asia and Oceania



The Americas

Countries and regions in the Americas where sales are conducted
Brazil, Mexico, Uruguay, the United States, Canada, and Belize.

Yakult S/A Ind. E Com. (Brazil)

Yakult S.A. De C.V. (Mexico)

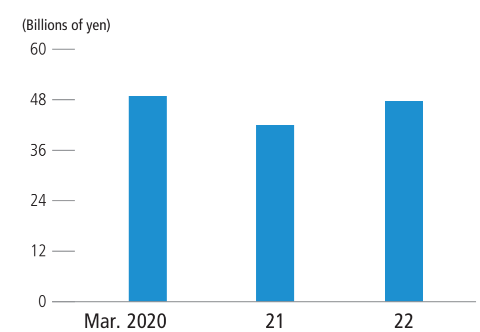
Yakult U.S.A. Inc.

Yakult S/A Ind. E Com. (Brazil)

In the Americas, the fermented milk drink *Yakult* and other products are manufactured and sold by Yakult S/A Ind. E Com. (Brazil), Yakult S.A. De C.V. (Mexico) and Yakult U.S.A. Inc.

At Yakult U.S.A. Inc., sales volume increased steadily, leading to a record number of bottles sold in the fiscal year under review. This was primarily the result of proactive efforts to cultivate new business focused on eastern states, which led to more stores stocking our products.

Net Sales in the Americas



At other companies, we strived to increase revenue by reinforcing the sales networks for both the home delivery and retail store sales channels.

As a result of these efforts, consolidated net sales in the Food and Beverages (The Americas) segment increased 13.2% from the previous year to ¥47.4 billion.

Yakult S.A. De C.V. (Mexico)

Europe

Countries and regions in Europe where sales are conducted
The Netherlands, Belgium, France, the United Kingdom, Germany, Luxembourg, Spain, Ireland, Austria, Italy, Malta, Switzerland, and Denmark.

Shared bottle design used in Europe

Paper carton packaging used in the Netherlands, Belgium, France, Germany, Luxembourg, Spain, Austria, Italy, Malta, and Denmark

Yakult Belgium N.V./S.A.

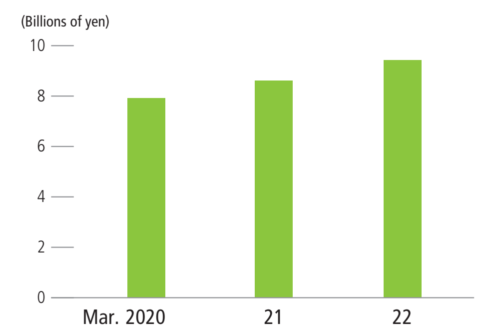
Yakult UK Ltd.

In Europe, the fermented milk drink *Yakult* and other products are manufactured and sold by Yakult Europe B.V., and sold by Yakult Nederland B.V., Yakult Belgium N.V./S.A., Yakult UK Ltd., Yakult Deutschland GmbH, Yakult Oesterreich GmbH, and Yakult Italia S.r.l.

In the European market, where the promotion of probiotics faces strict regulation, we engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products, while aiming for sustainable growth by conducting sales activities tailored to each individual country's market. At Yakult UK Ltd., sales volume increased steadily due to an advertising campaign employing a variety of media launched in September 2021, along with initiatives targeting mass retailers, among other measures.

As a result of these efforts, consolidated net sales in the Food and Beverages (Europe) segment increased 9.9% from the previous year to ¥9.4 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 basic research in life science aimed at developing and applying new ingredients in food, pharmaceuticals, and cosmetics.

The Yakult Central Institute and the Yakult Honsha European Research Center for Microbiology VOF (YHER)

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 realized numerous achievements, starting with the discovery and utilization 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 are: the Administration Department, responsible for managing the Institute; the Research Management Center which is in charge of planning research strategies, promoting domestic and overseas research activities, as well as controlling and communicating information; the Quality Assurance Unit, which was set up as a specialized department in charge of ensuring the validity of our studies, research operations, and research data. Outside of Japan, the Yakult Honsha European Research Center for Microbiology VOF (YHER) was established in Technologiepark in Ghent, Belgium, to accumulate scientific evidence on the benefits of the consumption of probiotic products. By establishing a research base in Europe, an advanced region in the study of microorganisms, our goal is to support global business expansion, not only in Europe but also in the Americas, and the Asia and Oceania region.

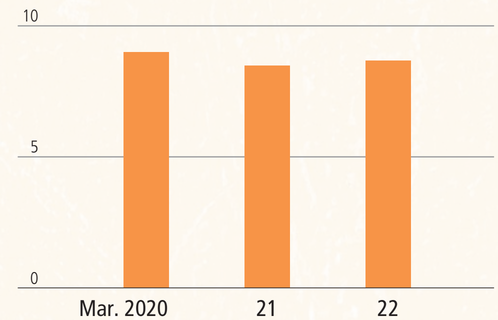
Steps in R&D Activities

Before a product can be marketed, there are a great many steps that need to be taken. The Yakult Central Institute is responsible for the development of 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.

Each product segment concentrates on specific research themes, conducting research and development proprietary to Yakult: the food segment focuses on ingredients which maintain or promote health and contribute to QOL; the pharmaceutical segment focuses on ingredients utilizing the microbiome, which are useful in the medical field; the cosmetics segment focuses on safe and effective ingredients based on dermatology and microbiology.

Research and Development Costs

(Billions of yen)



Organization of the Yakult Central Institute

- **Yakult Central Institute**
  - Quality Assurance Unit
  - Administration Department
  - Research Management Center
  - Basic Research Department
  - Microbiological Research Department
  - Food Research Department
  - Pharmaceutical Research Department
  - Cosmetic Research Department
  - Safety Research Department
  - Analytical Science Department
- **Yakult Honsha European Research Center for Microbiology VOF (YHER)**

Basic Research
•Intestinal microbiota •Biophylaxis •Probiotics •Cancer prevention
•Intestinal immunity •Genomic analysis of microorganisms
•Discovery of yet-unknown intestinal bacteria

↓

Search and Utilization of New Substances

↓

Verifications of Effects and Elucidation of Mechanisms

↓

Product Feasibility Research
Safety, stability, functionality, quality standards, formulation, scalability

↓

Pharmaceuticals | **Foods** | **Cosmetics**

Recent R&D Activities

The habitual consumption of dairy products containing *Lacticaseibacillus paracasei* strain Shirota confirmed to potentially contribute to the stabilization of the intestinal microbiota in the elderly:
— Joint study with the Tokyo Metropolitan Institute of Gerontology

In a joint study conducted with the Tokyo Metropolitan Institute of Gerontology, an epidemiological study of elderly residents of Nakanojo Town, Agatsuma District, Gunma Prefecture was conducted to determine the effect of habitual consumption of dairy products containing *Lacticaseibacillus paracasei* strain Shirota on time-course changes in the intestinal microbiota. Specifically, stool samples were collected from the elderly participants on two consecutive years, and their intestinal microbiota composition was analyzed at the taxonomic "family" level using a next-generation sequencer. Results indicated that while most of the participants had stable intestinal microbiota, significant changes in the intestinal microbiota were observed over the year in approximately 10% of the participants. Furthermore, those who habitually consumed dairy products containing *Lacticaseibacillus paracasei* strain Shirota at least three days per week experienced less changes in their intestinal microbiota over the year than those who consumed these products less than three days per week. The study revealed that habitual consumption of dairy products containing *Lacticaseibacillus paracasei* strain Shirota may contribute to the stabilization of intestinal microbiota in the elderly. Clarifying the mechanism by which dairy products containing *Lacticaseibacillus paracasei* strain Shirota stabilize the intestinal microbiota and clarifying the impact of intestinal microbiota stability on the health of the elderly may pave the way to the realization of a society of health and longevity. The results of the study were published in *Scientific Reports*.

R. Amamoto et al.Yearly changes in the composition of gut microbiota in the elderly, and the effect of lactobacilli intake on these changes. Scientific Reports. 2021,11:12765.

Consumption of synbiotics confirmed to potentially alleviate burden during cancer treatment through improvement of the intestinal environment in patients with esophageal cancer undergoing neoadjuvant chemotherapy:
— Joint study with Nagoya University

In a joint study with Nagoya University, the impact of the consumption of synbiotics on bacterial translocation (BT) due to neoadjuvant chemotherapy in patients with esophageal cancer was verified by a randomized controlled study. Results confirmed that patients who consumed synbiotics (a dairy product containing *Lacticaseibacillus paracasei* strain Shirota, a dairy product containing *Bifidobacterium* breve strain Yakult, and a galactooligosaccharide syrup) every day from seven days before preoperative chemotherapy until the day before operation had a significantly lower incidence of BT compared with patients who did not consume synbiotics. In addition, alleviation of severe gastrointestinal toxicity and improvement of the intestinal environment was observed in patients who consumed synbiotics. This study indicates that the consumption of synbiotics may alleviate the burden during cancer treatment through improvement of the intestinal environment in patients with esophageal cancer undergoing neoadjuvant chemotherapy, and it is expected to be further utilized in the medical field. The results of this study were published in *Clinical Nutrition*.

M. Fukaya et al. Impact of synbiotics treatment on bacteremia induced during neoadjuvant chemotherapy for esophageal cancer. A randomised controlled trial. Clinical Nutriton. 2021, 40(12), 5781-5791.

CSR Activities

As a pioneer of probiotics, Yakult believes that the key to fulfilling our social responsibilities is to apply the principles of Shirota-ism, as passed down from Yakult's founding, in order to realize our corporate philosophy of: "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular."

The Yakult Group's Materiality

Following the advice of independent experts, as well as reports from groups such as the Intergovernmental Panel on Climate Change (IPCC*) and the World Economic Forum (WEF), the Yakult Group (the "Group") has identified six material themes that should be prioritized within the value chain in order to continue contributing to the Sustainable Development Goals (SDGs). Using these themes we will realize our corporate philosophy, and our goal to unite both "People and Planet as One" by establishing strategies and plans that work to improve the sustainability, not only of our own Group, but also that of the planet and society.

Six Material Themes to Achieve Sustainability

- Innovation
- Value co-creation with communities
- Supply chain management
- Climate change
- Plastic containers and packaging
- Water

The Yakult Group Environmental Vision

In March 2021, we formulated *the Yakult Group Environmental Vision*, to be a concrete set of guidelines for the three materiality issues related to the environment, maintaining our course towards the goal of uniting both "People and Planet as One." Our ideal vision for the future is set out in Environmental Vision 2050, which details our plans to achieve net-zero carbon emissions (in scopes 1, 2 and 3) on our way to a value chain with zero environmental impact. To ensure effective progress toward this vision, we have used backcasting to establish both Environmental Targets 2030 and Environmental Actions (2021–2024). The Yakult Group sees society as not just consisting of people, but a complex web which exists between humans, plants, animals, water, soil and air; with the health of each part affecting the health of the rest. It is only when every element of this web is healthy, that society as a whole is healthy. Amidst the risks of climate change, pollution, dwindling resources and a loss of biodiversity, we will use the six materiality principles to plan and strategize in order to create a more sustainable Yakult Group, a more sustainable society, and a more sustainable world. In this way, we can make our corporate philosophy and goal of uniting both "People and Planet as One" a reality.

Please refer to the special website for details of *the Yakult Group Environmental Vision*.

WEB https://www.yakult.co.jp/english/csr/environment/vision/

*The Intergovernmental Panel on Climate Change releases an evaluation report on climate change every 5–6 years. In its 2018 report, "Global Warming of 1.5°C," it detailed the ramifications of a 2°C rise in global temperature, and pointed to the importance of taking immediate action to limit this rise to below 1.5°C.

CSR Topics

Initiatives by the Yakult Ladies

Since 1972, Yakult Ladies have been visiting elderly people who live alone as they make their deliveries, both to make sure that they are well, and to offer some human interaction. This activity began when a Yakult Lady in Koriyama, in Japan's Fukushima Prefecture, heard a story about an elderly person who had passed away in their home, without anybody realizing. Moved by this, she took it upon herself to provide *Yakult* to elderly people living alone in the area, at her own expense. 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 Visits, have spread throughout Japan. As of March 31, 2022, about 2,700 Yakult Ladies pay regular visits to roughly 35,000 elderly people in response to requests from around 120 local governments and other institutions in Japan. Outside Japan, Korea Yakult (hy Co., Ltd.) continuously undertakes activities to verify the safety of elderly persons who are living alone.

White 500 Certification for the Fifth Consecutive Year

Yakult Honsha (the "Company") was selected for the fifth consecutive year as a "White 500" company for outstanding health and productivity management in the large corporation category, a program promoted by the Japanese Ministry of Economy, Trade and Industry, and the Nippon Kenko Kaigi (Japan Health Council). The Company believes that maintaining and promoting the health of its employees is essential to the realization of its corporate philosophy and as part of this we formulated our Statement on Health in 2017. The President and Representative Director serves as the Company's Chief Health Officer, and a department in charge of the promotion of health within the company has been established within the Human Resources Department. The certification was awarded in recognition of the continued implementation of the Yakult Stretch program; a stretching routine performed daily in the workplace, as well as for the implementation of health courses utilizing e-learning, and efforts to combat infectious diseases.

2022
健康経営優良法人
Health and productivity
ホワイト500

Reducing CO_2 Emissions by Around 30% Compared to Fiscal 2018 levels (in Japan, scopes 1 and 2*): Yakult Group Plants in Japan Switched Entirely to the Purchase of Electricity from Renewable Energy Sources

In the Environmental Action Plan (2021–2024), the Yakult Group set the target of reducing Greenhouse Gas (GHG) emissions (in Japan, scopes 1 and 2) by 30% compared to fiscal 2018 levels by 2030, and a number of initiatives have been implemented in pursuit of this goal. As part of this effort, we have switched all electricity purchased through the production process at our domestic plants to power generated by renewable energy sources offered by contracted power companies.

With this shift to renewable energy sources, the Yakult Group will reduce CO_2 emissions at the plants by about 34,800 tons a year in total, which translates to a reduction of about 40% in GHG emissions (in Japan, scopes 1 and 2) compared to fiscal 2018 levels. In addition to the shift to renewable energy sources, the Hyogo Miki Plant will introduce a 900-kW solar power generation system for its own consumption. Together with the 100-kW power produced by its existing system, the plant will generate a total of 1 MW, making it the first megawatt-class solar power generation system for the Yakult Group.

To achieve its targets, the Yakult Group will further promote the introduction of renewable energy and energy saving, and contribute actively to environmental conservation.

*Areas of GHG emissions monitoring:
Regarding the scope of GHG (summary based on the Greenhouse Gas Protocol)
Scope 1: Direct emissions resulting from fuel used in a company's own business activities
Scope 2: Indirect emissions linked to electricity, steam, and heat purchased from an external company

Solar panels at the Hyogo Miki Plant

Corporate Governance

1. Basic Stance

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

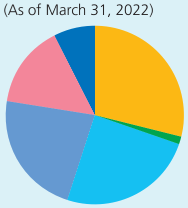
Our corporate philosophy is: "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." In the pursuit of this philosophy, we believe it is important to implement transparent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

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, 2022)



- Japanese financial institutions **28.98%**
- Japanese securities companies **1.44%**
- Other Japanese corporations **24.69%**
- Foreign institutions and individuals **22.65%**
- Japanese individuals and others **15.01%**
- Treasury stock **7.23%**

Major Shareholders

(As of March 31, 2022)

	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust account)	14.14%
Custody Bank of Japan, Ltd. (Trust account)	5.49
Fuji Media Holdings, Inc.	3.80
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.90
Kyoshinkai	2.26
Matsusho Co., Ltd.	2.00
STATE STREET BANK WEST CLIENT-TREATY 505234	1.39
SSBTC CLIENT OMNIBUS ACCOUNT	1.04
JP MORGAN CHASE BANK 385781	1.02
Nippon Life Insurance Company	0.99

Note: In addition to the above, the Company holds 12,374,226 shares (7.23%) 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, two of whom are female. The five members of the Audit & Supervisory Board, which includes three 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 business execution of the directors and executive officers. The Board of Directors holds meetings, in principle, eight times per year, in addition to convening special meetings as required.

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 each outside director.

The five outside directors are listed in the chart below.

(As of June 22, 2022)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Outside Director, Kansai Mirai Financial Group, Inc.; Outside Auditor, the Asahi Shimbun Company; Chairman, Tokyo Woman's Christian University	Mr. Yasuda was appointed on the expectation that he would offer pertinent advice regarding the overall management and appropriately supervise the execution of business, which 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 university professor, consultant and business manager.
Naoko Tobe	Lawyer	Ms. Tobe was appointed on the expectation that she would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on her advanced knowledge and insight and abundant experience as a lawyer.
Katsuyoshi Shinbo	Lawyer; Outside Director, Sumitomo Mitsui Financial Group; Outside Corporate Auditor, Mitsui Chemicals, Inc.	Mr. Shinbo was appointed on the expectation that he would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on his advanced knowledge and insight as a lawyer and experience as an outside officer of another company.
Yumiko Nagasawa	Facilitator of Foster Forum (Association for the Development of High Quality Financial Products); Outside Director, Yamaguchi Financial Group, Inc.; Outside Director, GL Sciences Inc.	Ms. Nagasawa was appointed on the expectation that she would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on her expertise in finance and her experience as an outside officer of another company.
Satoshi Akutsu	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University; Outside Director, Adastria Co., Ltd.	Mr. Akutsu was appointed on the expectation that, based on his many achievements as a marketing professional, he would offer useful advice regarding the Company as a whole, as well as offering objective advice regarding management and appropriate supervision of business execution, contributing to the further reinforcement and enhancement of the management structure.

Note: Mr. Ryuji Yasuda, Ms. Naoko Tobe, Mr. Katsuyoshi Shinbo, Ms. Yumiko Nagasawa, and Mr. Satoshi Akutsu are independent Directors as specified by the Tokyo Stock Exchange.

The Management Policy Council, the Executive Officers Committee, and the Nomination and Compensation Advisory Committee

The Company established the Management Policy Council, members of which include a Representative Director, seven 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 26 executive officers and two senior Audit & Supervisory

Board members, which meets on a weekly basis to facilitate business execution. The committee deliberates on and receives reports regarding 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.

The Nomination and Compensation Advisory Committee was established to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors with respect to matters related to the nomination and compensation of directors. After obtaining the appropriate involvement and advice from the committee, the Board of Directors makes decisions on these matters. The committee consists of three or more members, the majority of whom are independent outside directors, to ensure independence and objectivity.

Audit & Supervisory Board Members

The Company has five Audit & Supervisory Board members, including three outside Audit & Supervisory Board members, one of whom is female. Based on the audit policy and audit plan determined by the Audit & Supervisory Board, the Audit & Supervisory Board members attend meetings of the Board of Directors and other important company meetings, audit the operational execution of the directors and executive officers and monitor/verify whether the accounting auditors are conducting appropriate audits, by examining documents related to decision making and other matters.

In addition, 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 the system of support for outside Audit & Supervisory Board members, the full-time members issue progress reports on a regular basis, and provide the outside members with a range of materials, including those from important company meetings and decision making and audit-related materials.

The three 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 operational, financial and internal control audits, including those of Group companies, both in Japan and overseas. The head of the Auditing Department currently oversees 12 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

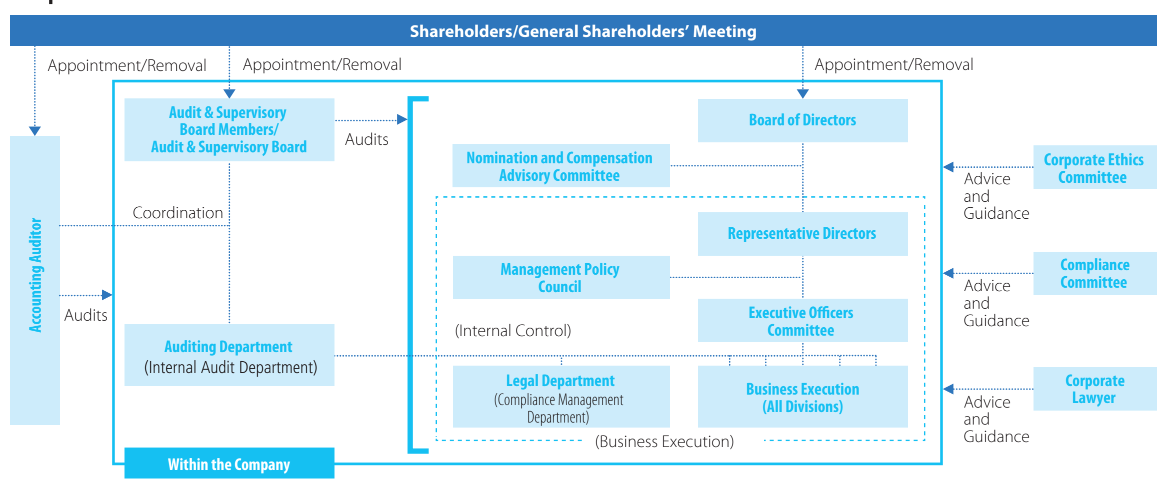
The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its financial statemaents and interanl controls as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu LLC.

(As of June 22, 2022)

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
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.
Seno Tezuka	Certified Public Accountant; Outside Director of Restar Holdings Corporation	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.
Emi Machida	Certified Public Accountant; Outside Auditor of The Nisshin OilliO Group, Ltd.	Ms. Machida was appointed on the expectation that her 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.

Note: Mr. Seno Tezuka and Ms. Emi Machida 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 as necessary 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 resolutions listed below 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.

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

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

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

(2) Internal structure related to timely disclosure

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

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

As standards for executives and workers to properly perform business activities, the Company has established the Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and Code of Practice has 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 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 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 request opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary. Expenses related to obtaining such opinions from these outside experts and other audits are the responsibility of the Company.

Relations Department. In parallel, each department within the Company, pursuant to the Rules for Decision-Making, decides items for disclosure based on prescribed decision-making procedures. Facts and data not vetted in this manner are not publicly disclosed. When making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made regarding 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
Hiroshi Narita

Directors
Hiroshi Wakabayashi
Fumiyasu Ishikawa
Akifumi Doi
Tetsuya Hayashida
Susumu Hirano
Masao Imada
Masanori Ito
Koichi Hirano

Directors (Part-Time)
Ryuji Yasuda (Outside Director)
Naoko Tobe (Outside Director)
Katsuyoshi Shinbo (Outside Director)
Yumiko Nagasawa (Outside Director)
Satoshi Akutsu (Outside Director)
Manabu Naito

Senior Audit & Supervisory Board Members
Hiroshi Yamakami
Hideyuki Kawana

Audit & Supervisory Board Members
Seijuro Tanigawa (Outside Audit & Supervisory Board Members)
Seno Tezuka (Outside Audit & Supervisory Board Members)
Emi Machida (Outside Audit & Supervisory Board Members)

Executive Officers

President and Executive Officer
Hiroshi Narita

Deputy President and Executive Officer
Hiroshi Wakabayashi
Divisional General Manager of Administrative Division

Senior Managing Executive Officers
Fumiyasu Ishikawa
Divisional General Manager of Research & Development 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
Divisional General Manager of International Business Division
Masao Imada
Divisional General Manager of Management Support Division

Managing Executive Officers
Masanori Ito
Divisional General Manager of Pharmaceuticals Business Division
Koichi Hirano
Masanobu Nanno
Masatoshi Nagira
Hideaki Hoshiko
Yasuyuki Suzuki
Shuichi Watanabe
Takao Goto
Hiroyuki Kawabata
Junichi Shimada

Executive Officers
Masahiko Satomi
Akira Kishimoto
Yoshihiro Goto
Masato Nagaoka
Hiroaki Nagaoka
Hiroshi Natsume
Masakazu Seino
Yoshinobu Asakura
Noriyuki Umehara

(As of June 22, 2022)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2022, 2021, 2020, 2019, and 2018

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2018	2019	2020	2021	**2022**	**2022**
For the year:						
Net sales	¥ 401,570	¥ 407,017	¥ 406,004	¥ 385,707	**¥ 415,116**	**$3,402,590**
Selling, general and administrative expenses	186,466	190,064	188,951	183,127	**195,214**	**1,600,113**
Operating income	43,464	45,846	45,675	43,694	**53,202**	**436,084**
Net income attributable to owners of the parent	34,065	34,935	39,736	39,267	**44,918**	**368,179**
Research and development costs	10,208	10,564	8,969	8,488	**8,655**	**70,945**
Capital investments	23,305	29,505	20,631	23,638	**26,093**	**213,874**
Depreciation and amortization	21,532	21,238	22,324	22,114	**23,769**	**194,831**
At the year-end:						
Total assets	¥ 627,032	¥ 618,533	¥ 627,871	¥ 635,102	**¥ 672,856**	**$5,515,210**
Net property, plant and equipment	201,199	200,072	203,996	203,045	**211,157**	**1,730,793**
Total liabilities	240,358	226,254	215,789	195,341	**187,920**	**1,540,330**
Total equity	386,674	392,279	412,082	439,761	**484,936**	**3,974,880**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 207.02	¥ 217.89	¥ 248.04	¥ 244.85	**¥ 280.36**	**$ 2.30**
Total equity	2,194.32	2,229.80	2,330.58	2,523.81	**2,812.63**	**23.05**
Cash dividends applicable to the year	34.00	44.00	46.00	52.00	**72.00**	**0.59**
Financial ratios:						
Return on equity (ROE) (%)	9.8	9.8	10.9	10.1	**10.6**	
Equity ratio (%)	56.2	57.8	59.5	63.8	**66.3**	

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 ¥122 to U.S. $1, the approximate rate of exchange on March 31, 2022.
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, 2022 (the fiscal year under review), the severe economic environment continued due to the impact of the COVID-19 pandemic, but the Japanese economy began to recover as a result of the effects of various policies and an improving trend in overseas economies and personal consumption. Nevertheless, it was necessary to pay close attention to downside risks arising from trends in raw material prices.

Against this backdrop, the Yakult Group (the "Group") promoted awareness and dissemination of probiotics, the foundation of its business, and promoted the superiority of its products. In addition to the expansion of our sales organization, research and development of new products, and the renewal of production facilities, we worked to improve our business performance by actively engaging in our international business and pharmaceuticals business. On a consolidated basis, net sales increased 7.6% from the previous fiscal year, to ¥415.1 billion. Operating income jumped 21.8%, to ¥53.2 billion, while the operating margin rose to 12.8%, up 1.5 percentage points from a year earlier. Net income attributable to owners of the parent increased 14.4%, to ¥44.9 billion.

The Group adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as "Accounting Standard for Revenue Recognition"). This change resulted in a decrease of ¥7.6 billion in net sales with no impact on profits.

SALES, COSTS, EXPENSES, AND EARNINGS

SALES

Net sales rose 7.6%, to ¥415.1 billion.

Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 47.9% of sales, down 2.8 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 43.6% of sales, up 3.0 percentage points. Pharmaceuticals generated 4.0%, down 0.4 percentage points, and Others contributed 4.5%, up 0.2 percentage points.

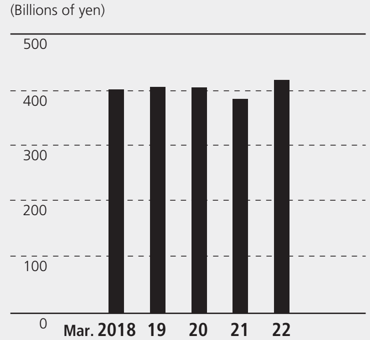
COSTS, EXPENSES, AND EARNINGS

Consolidated cost of sales increased 4.9%, to ¥166.7 billion. As a result, the cost of sales ratio fell 1.0 percentage points, to 40.2%. Gross profit rose 9.5%, to ¥248.4 billion, while the gross profit margin climbed 1.0 percentage points, to 59.8%.

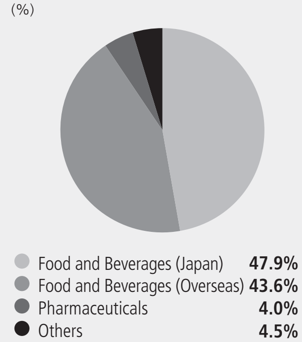
Selling, general and administrative (SG&A) expenses increased 6.6%, to ¥195.2 billion, mainly reflecting higher sales commission and salaries

The SG&A expense ratio fell 0.5 percentage points, to 47.0%. R&D expenses rose ¥0.2 billion year on year, to ¥8.7 billion. As a percentage of net sales, R&D expenses dropped 0.1 percentage points, to 2.1%.

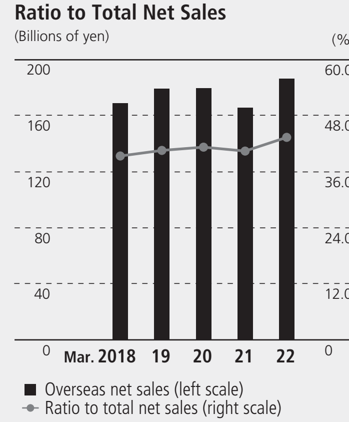
Net Sales



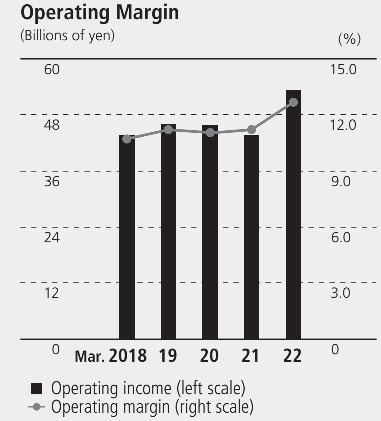
Breakdown of Net Sales (before Eliminations) (Mar. 2022)



Overseas Net Sales/ Ratio to Total Net Sales



Operating Income and Operating Margin



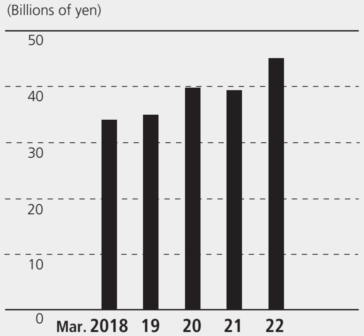
As a result, operating income jumped 21.8%, to ¥53.2 billion, impacted by an increase in currency exchange rate fluctuations amounting to ¥3.2 billion, and the operating margin improved 1.5 percentage points, to 12.8%. Other income—net amounted to ¥16.3 billion, up ¥0.6 billion from a year earlier, due mainly to the recording of equity in earnings of associated companies of ¥6.4 billion, despite the recording of an impairment loss of ¥1.6 billion as an extraordinary loss. Income taxes amounted to ¥20.2 billion. Consequently, net income attributable to owners of the parent increased 14.4%, to ¥44.9 billion, and return on sales rose 0.6 percentage points, to 10.8%.

OVERVIEW BY SEGMENT

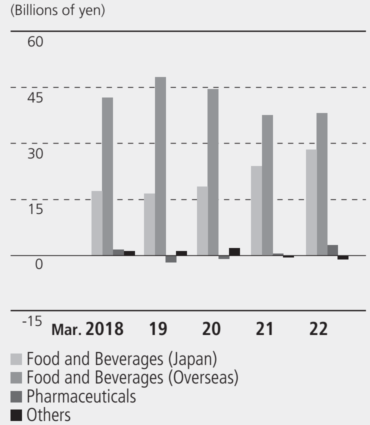
FOOD AND BEVERAGES (JAPAN): In dairy products for the Japanese market, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult and conducting grassroots value dissemination initiatives in conjunction with an advertising campaign, taking measures to prevent the spread of COVID-19.

In our home delivery channel, we placed a particular focus on the *Yakult 1000* fermented milk drink products, and *Yakult 400 W*, as we conducted evidence-based value dissemination activities, leveraged the Yakult Delivery Net online ordering service, and enhanced information provision on the website, to win new customers while encouraging existing ones to continue drinking these products. We also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while actively conducting hiring initiatives using the internet.

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



Operating Income by Business Segment
(Billions of yen)



In the retail store channel, we conducted a campaign to encourage families to drink the fermented milk drink *New Yakult* series. We also worked to boost revenue, taking steps to improve in-store visibility by offering limited-time packages.

In product-specific initiatives, we expanded the sales area nationwide for *Yakult 1000* in April 2021 and *Yakult 400W* in August 2021. Subsequently, in October 2021, we commenced initial sales nationwide of the fermented milk drink *Y 1000*, a product for stores in the *Yakult 1000* series. Furthermore, we launched four limited-time items throughout the year for the hard-type yogurt *Sofuhl*, to revitalize the brand.

As a result of our efforts to strengthen sales, overall sales of dairy products exceeded those of the previous fiscal year.

In beverages, despite efforts to boost revenue, such as the launch of a campaign for the *Toughman* series of energy drinks, sales of beverages as a whole declined from the previous fiscal year.

In addition, the Tokyo Yakult Swallows won the Central league Championship and the Japan Series title, and commemorative measures were implemented to express our gratitude to the fans who supported us.

As a result of the above, consolidated net sales for the Food and Beverages segment (Japan) declined 1.8% from the previous fiscal year, to ¥203.3 billion, while segment profit jumped 18.8%, to ¥28.2 billion.

Due to the adoption of the Accounting Standard for Revenue Recognition, the change resulted in a decrease of ¥22.2 billion in net sales.

FOOD AND BEVERAGES (OVERSEAS): Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). Operations now extend to 39 countries and regions outside Japan and are centered on 29 business bases and one research center. The operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all Yakult products overseas in March 2022 amounted to approximately 32.16 million bottles.

Although the impact of COVID-19 has varied depending on the state of the spread of the infection in countries and regions and the policies and business restriction orders of national and local governments, we have taken measures for each of the orders, and we are conducting sales and production activities in accordance with the instructions of administrative agencies.

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, and China, among others, while also importing *Yakult* and other products for sale in the United Arab Emirates. In Myanmar, sales and production activities have been temporarily suspended due to political and other factors.

In Indonesia, we implemented measures to strengthen sales, including a 30th-anniversary campaign, and boosted revenue due to the steady expansion of our home delivery organization and an increase in the number of retail stores to which we deliver product, resulting in record bottle sales in the fiscal year under review.

In China, we expanded our sales bases to 50 locations in August 2021 to further strengthen our sales structure. We have also been proceeding with the construction of our second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.) to strengthen our production system.

Consolidated net sales in the Food and Beverages (Asia and Oceania) segment rose 11.5% from the previous year, to ¥128.2 billion, and segment profit fell 6.0%, to ¥24.8 billion.

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

In the United States, sales were steady as a result of aggressive expansion of the number of retail stores to which we deliver product, mainly in the eastern part of the country, resulting in record sales in the fiscal year under review. In the rest of the Americas, we worked to boost revenue by reinforcing our sales network in both home delivery and retail channels.

Consolidated net sales in the Food and Beverages (The Americas) segment increased 13.2% from the previous year, to ¥47.4 billion, and segment profit jumped 20.8%, to ¥12.6 billion.

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

In the European 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. In these difficult circumstances, the Yakult companies in each country aimed for sustainable growth by conducting sales activities tailored to their respective markets. In the United Kingdom, sales have been favorable due to the promotion of advertising campaigns through various media and mass merchandiser measures implemented since September 2021.

As a result of the above, consolidated net sales in the Food and Beverages (Europe) segment increased 9.9% from the previous year, to ¥9.4 billion, and segment profit fell 4.0%, to ¥0.6 billion.

PHARMACEUTICALS: During the fiscal year under review, as a way to reduce visits to medical institutions during the spread of COVID-19, we made use of online meetings, among other methods, to promote awareness and the proper use of our products that specialize in the oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, despite the fact that medical institutions are increasingly switching to available generic versions, we took advantage of our ability to provide relevant information on it, which is one of our strengths as the developer of the original drug, to encourage customers to continue choosing *Elplat*. As for the antineoplastic drug *Onivyde*® (liposomal irinotecan), for which we have a promotional agreement with Nihon Servier Co., Ltd., we undertook aggressive promotional activities to penetrate the market and promote its use. In March 2022, we also launched the Bortezomib for Injection 3mg [Yakult], a generic version of the antineoplastic agent *VELCADE*®.

However, our revenue remained at the same level as the previous fiscal year, reflecting decreased opportunities to use our products as the spread of the pandemic prompted a postponement of hospitalizations and operations, a decrease in doctor visits, and other developments. This was compounded by revisions to National Health Insurance (NHI) drug prices in April 2021, which reduced prices for most of Yakult's pharmaceutical products.

In R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor duvelisib [YHI-1702], for which we have an exclusive licensing agreement for development and commercialization in Japan from Secura Bio, Inc. (U.S.), and the HDAC inhibitor resminostat [YHI-1001], licensed from 4SC AG (Germany). As for the duvelisib [YHI-1702], in March 2022 we submitted a marketing application for the treatment of relapsed or refractory chronic lymphocytic leukemia/small lymphocytic lymphoma.

Despite the above efforts, however, net sales in the Pharmaceuticals segment fell to ¥17.0 billion, down 6.2% from the previous fiscal year. Segment profit, however, was ¥2.6 billion (compared with a segment income of ¥0.1 billion in the previous fiscal year).

Due to the adoption of the Accounting Standard for Revenue Recognition, the change resulted in a decrease of ¥0.7 billion in net sales.

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 inner and outer beauty and to boost 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. As one specific example of such efforts, we worked to expand contact points with new customers and promote continuous use by launching two new products in our *Lactdew* series of highly moisturizing basic skin care cosmetics by October 2021. We followed this with the release in March 2022 of *Parabio AC Cream Sai*, a high-performance beauty serum in our *Parabio* series, which incorporates Yakult's lactobacillus fermentation technology, in an effort to boost customer satisfaction and revenue.

Despite the above efforts, however, due to changes in accounting standards and other factors, the results achieved by the cosmetics operation as a whole were slightly lower than in the previous fiscal year.

Meanwhile, our professional baseball operations, including the number of spectators, were impacted by the spread of COVID-19. However, the Tokyo Yakult Swallows won the Central League Championship and the Japan Series title with the support of the fans. To meet the expectations of fans, we will continue to strive to build a beloved team and enhance fan services.

Through these initiatives, consolidated net sales in the Others segment rose 10.0%, to ¥19.5 billion, with a segment loss of ¥0.7 billion (compared with a segment loss of ¥0.1 billion in the previous fiscal year).

Due to the adoption of the Accounting Standard for Revenue Recognition, the change resulted in a decrease of ¥0.7 billion in net sales.

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥672.9 billion, up 5.9% year on year.

Current assets increased ¥33.6 billion, or 12.6%, from the previous fiscal year-end, to ¥300.4 billion, mainly due to an increase in cash and cash equivalents at overseas subsidiaries as a result of yen depreciation.

Net property, plant and equipment rose ¥8.1 billion, to ¥211.2 billion, mainly due to an increase in construction in progress.

Investments and other assets fell ¥4.0 billion, or 2.4%, to ¥161.3 billion, mainly due to an increase in investment securities reflecting higher market value and other factors.

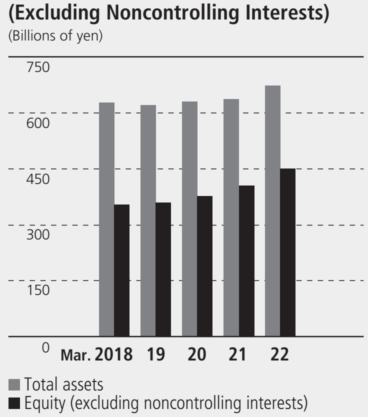
During the fiscal year under review, capital investment rose 10.4%, to ¥26.1 billion.

Total liabilities fell 3.8%, to ¥187.9 billion. The major component of this decrease was a decline of ¥15.6 billion in borrowings (the total of short-term and long-term debt). As a result, the debt-to-equity ratio fell 5.7 percentage points, to 18.1%.

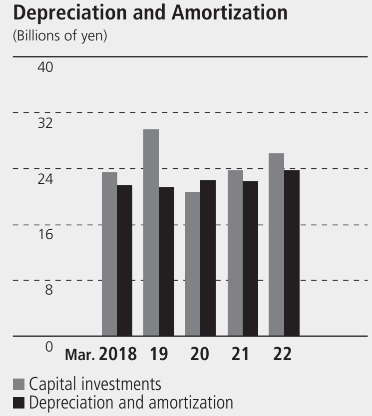
Equity (excluding noncontrolling interests) increased 10.2%, to ¥446.1 billion, from ¥405.0 billion a year earlier. This result was primarily attributable to an increase in foreign currency translation adjustments due to yen depreciation, despite a decline in unrealized gain on available-for-sale securities along with a fall in stock prices.

As a result, the equity ratio improved 2.5 percentage points, to 66.3%. Return on equity (ROE) rose 0.5 percentage points, to 10.6%. Return on assets (ROA) increased 1.2 percentage points, to 8.1%.

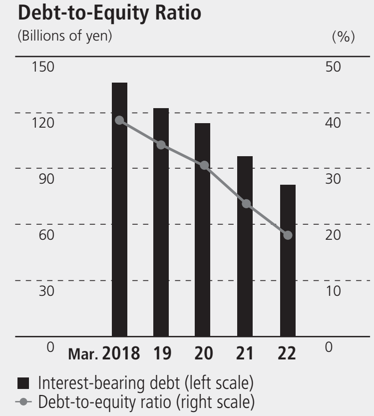
Total Assets and Equity (Excluding Noncontrolling Interests)



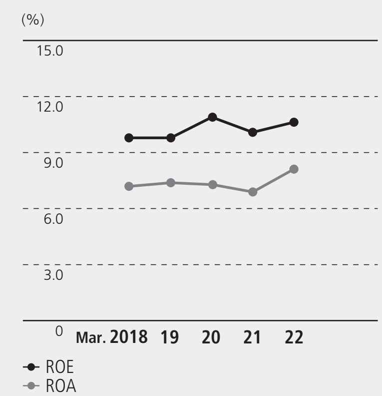
Capital Investments and Depreciation and Amortization



Interest-Bearing Debt and Debt-to-Equity Ratio



ROE and ROA



Note: ROA is calculated based on operating income.

CASH FLOWS

Net cash provided by operating activities rose ¥17.6 billion from the previous fiscal year, to ¥73.4 billion. This primarily resulted from ¥69.5 billion in income before income taxes, up ¥10.1 billion year on year, and decreases in payables and other related liabilities.

Net cash used in investing activities decreased ¥7.7 billion, to ¥11.9 billion. This was mainly attributable to proceeds from withdrawing time deposits (maturities of more than three months) and proceeds from sales of property, plant and equipment, partially offset by an increase in purchases of property, plant and equipment and a decrease in proceeds from sales of investment securities.

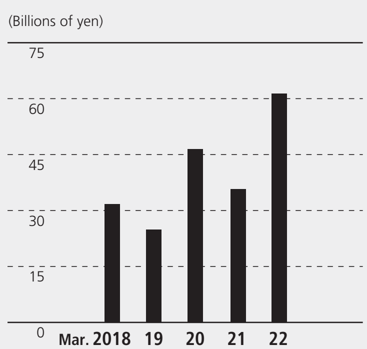
Net cash used in financing activities increased ¥13.9 billion, to ¥45.2 billion. This outlay mainly reflected increases in the purchase of treasury stock and dividends paid.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥150.7 billion, a net increase of ¥28.0 billion from a year earlier.

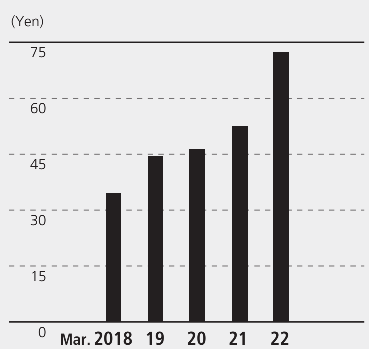
DIVIDENDS

The Company's top priority is to continuously increase dividends, with the total dividend determined by comprehensively taking into account the funding needs for future business expansion and earnings growth, as well as the Company's financial position and business performance for the fiscal year under review.

Free Cash Flow



Dividends



Based on this policy, we decided to pay a total dividend of ¥72.0 per share for the fiscal year ended March 31, 2022, up ¥20.0 from the previous fiscal year. We have already paid an interim dividend of ¥36.0 per share, and the balance of ¥36.0 per share will be distributed to our shareholders as the year-end dividend.

For the fiscal year ending March 31, 2023, we plan to pay an annual dividend of ¥82 per share, an increase of ¥10 from the current fiscal year, to further return profits to shareholders.

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

In dairy products for the Japanese market, we are steadfastly committed to focusing on the *Yakult* series of fermented milk drinks as our most important brand and broadening the recognition of the science behind our proprietary living *Lactobacillus casein* strain Shirota. Concurrently, we will foster brands of high-value-added products and encourage new demand generation through continuous marketing investment and channel measures while responding flexibly to changes in the business environment, to boost sales of dairy products.

Through our home delivery channel, we will continue to promote value dissemination activities for high-value-added products *Yakult 1000* and *Yakult 400 W* and win new customers by leveraging "Yakult Delivery Net," our online home-delivery ordering system. We also aim to strengthen our home delivery organization by promoting the development of a comfortable working environment for Yakult Ladies.

In addition, through our retail store channel, we will aim to boost sales of dairy products centered on the *New Yakult* series by taking measures to meet changes in social environment, consumer awareness and behavior, and foster brand development for our high-value-added product *Y1000*.

In beverages, we will place a particular focus on the *Toughman* series as a key brand with the aim of boosting revenue through marketing investments and other measures.

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 decide on further new overseas expansions after carefully considering the external and internal environment.

PHARMACEUTICALS

Domestic sales are expected to decline due to the revision of the NHI drug price standards that was made in April 2022. In response, we will strive to secure operating income by thoroughly reviewing expenses and improving operational efficiency through close cooperation through organizational integration.

As for our mainstay, the antineoplastic drug *Elplat*, it is expected that medical institutions will continue switching to the generic drug versions going forward. However, in order to achieve our sales targets, we will strive to expand the market by leveraging proposal-based marketing based on the information provision capabilities that we have cultivated since our beginning, as well as our relationships of trust established to date with individuals in the medical industry. As for the antineoplastic drug *Onivyde®* (liposomal irinotecan), for which we have a promotional agreement with Nihon Servier Co., Ltd., we will promote activities aimed at cultivating and acquiring prescriptions to establish it as a standard therapeutic agent and strive to boost revenue.

In R&D, a marketing application for the duvelisib [YHI-1702] was submitted in March 2022 for the treatment of relapsed or refractory chronic lymphocytic leukemia/small lymphocytic lymphoma. We will continue to take appropriate measures, including regulatory reviews, to expedite acquisition of approval and promote the development of other indications. As for HDAC inhibitor resminostat [YHI-1001], we will expedite the filing of marketing approval applications through cooperation with the licensee.

OTHERS

In our cosmetics operations, we will work to help customers realize their inner and outer beauty and to win new customers 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.

In domestic home-visit sales, we will continue to promote the regular use of basic skin-care products through the provision of more personalized services to each customer. We will also work to expand contact points with customers by improving the convenience of purchasing through the internet/mail order.

Overseas, we will continue to work to raise brand awareness and boost revenue in China through the e-commerce shopping site Tmall Global.

In our professional baseball operations, we will continue to take measures to prevent the spread of COVID-19 and work to create an environment where spectators can watch games with peace of mind, and we will strengthen our team to meet the expectations of our fans.

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. In addition, approximately half of sales in Japan are from sales companies that are neither our subsidiaries nor affiliates 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, 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.

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 Natural Disasters, Geopolitical Factors, Etc.

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

Risk of an Epidemic of Infection

The Group does business in countries and regions around the world. If a large-scale infectious disease outbreak such as COVID-19 occurs, domestic and overseas supply chains might be disrupted and consumption negatively affected. To better respond to a crisis, the Group has established a company-wide response system based on the Crisis Management Regulations and is working to improve its production and supply systems. However, the pandemic could have a significant and adverse impact on the Group's business results and financial position if the Group were forced to stop manufacturing or selling its products.

Risks Related to Environmental Issues

The Group operates globally, and its supply chain for raw material procurement also extends worldwide. According to the United Nations' Intergovernmental Panel on Climate Change (IPCC) and other organizations, there is no doubt that global warming is progressing. For the Group, as global warming progresses, there is a risk that adverse effects on dairy cattle and agricultural products will worsen, making it difficult to procure important raw materials. As for water, which is extremely important for its business activities, various risks may arise due to the occurrence of water disasters related to global warming, restrictions on the amount of water that can be extracted as a result of disorderly water use, and water pollution. Accordingly, the Group has formulated its Environmental Vision 2050, the ideal vision for 2050, and has identified three material themes related to the environment: climate change, plastic containers and packaging, and water. In its Environmental Vision, the Group aims to realize a value chain that has zero environmental impact to achieve its goal of uniting both "People and Planet as One." However, failure to implement the Action Plan at a global standard or an increase in response costs could lead to difficulties in sustaining the business and a loss of confidence in the Group, with a significant, adverse impact on business performance and financial position.

Risks Related to Marine Plastic Problems

Plastic containers are used for many products, including the Yakult series, the Group's main products. In addition, to contribute to healthy and enjoyable lives for people around the world, we aim to expand sales of the Yakult series and other products in the years ahead. However, due to growing international concern about marine pollution caused by microplastics, the problem of plastic containers and packaging has gained attention. The Group aims to establish basic technologies for eco-friendly containers and packaging by switching to materials that are easy to recycle, reducing the amount of plastic used in containers and packaging, and reusing plastic packaging materials employed in the production process. If the problems are not addressed appropriately, however, sales of the Yakult series and other products, which are the Group's main products, could be constrained, and legal compliance costs could be incurred, and this might have a significant, adverse impact on the Group's business results.

Risks Related to Human Rights

The Group is aware of the potential for direct and indirect violations of the human rights of various stakeholders in the course of its business and value chain. Therefore, to fulfill its responsibility to respect human rights, the Group will establish and implement a human rights due diligence system based on the Yakult Group Human Rights Policy. However, if risks related to human rights materialize due to forced labor or child labor in the supply chain, health damage caused by environmental pollution, or the transmission of incorrect information regarding health to customers, the occurrence of such issues could have a significant, adverse impact on the Group's businesses, including lawsuits, suspension of operations, and boycotts of products.

Risks Related to Management Strategy and Business Plan

The Group established its long-term vision, Yakult Group Global Vision 2030 in June 2021, and will promote the business to increase corporate value. However, due to the impact of COVID-19, risk factors including the items in this Business Risks, changes in the Group's policy, and changes in the economic situation and business environment, it is possible that the Group may be unable to implement these measures or achieve the targets set out in the plan.

Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries
March 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
ASSETS			
Current assets:			
Cash and cash equivalents (Note 15)	¥ 150,726	¥ 122,767	$ 1,235,459
Time deposits (Notes 8 and 15)	52,216	53,488	427,998
Receivables (Note 15):			
Notes and accounts receivable	47,977	45,787	393,254
Associated companies	5,171	5,069	42,385
Other	2,766	2,910	22,673
Inventories (Note 5)	30,649	27,735	251,221
Other current assets	11,131	9,254	91,236
Allowance for doubtful accounts (Note 15)	(237)	(209)	(1,940)
Total current assets	300,399	266,801	2,462,286
Property, plant and equipment:			
Land (Note 8)	43,085	44,065	353,154
Buildings and structures (Note 8)	180,803	176,574	1,481,990
Machinery, equipment and vehicles	180,412	165,874	1,478,789
Furniture and fixtures	28,685	27,024	235,121
Lease assets (Note 13)	28,061	25,597	230,012
Construction in progress	15,865	9,237	130,041
Total	476,911	448,371	3,909,107
Accumulated depreciation (Note 8)	(265,754)	(245,326)	(2,178,314)
Net property, plant and equipment	211,157	203,045	1,730,793
Investments and other assets:			
Investment securities (Notes 6 and 15)	67,629	80,239	554,335
Investments in and advances to associated companies (Note 15)	73,044	65,327	598,724
Long-term loans	34	42	277
Deferred tax assets (Note 11)	3,822	4,156	31,330
Other assets (Note 9)	16,771	15,492	137,465
Total investments and other assets	161,300	165,256	1,322,131
Total (Note 22)	¥ 672,856	¥ 635,102	$ 5,515,210

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 8 and 15)	¥ 4,822	¥ 15,372	$ 39,525
Current portion of long-term debt (Notes 8, 13, and 15)	8,777	8,841	71,945
Payables (Note 15):			
Notes and accounts payable	26,040	22,729	213,442
Associated companies	132	88	1,086
Other	7,729	7,973	63,349
Income taxes payable	4,324	4,961	35,444
Accrued expenses	25,247	22,610	206,940
Other current liabilities	12,210	10,972	100,081
Total current liabilities	89,281	93,546	731,812
Long-term liabilities:			
Long-term debt (Notes 8, 13, and 15)	67,047	72,006	549,568
Liability for retirement benefits (Note 9)	4,626	4,727	37,922
Asset retirement obligations	1,674	1,636	13,722
Deferred tax liabilities (Note 11)	22,425	20,700	183,812
Other long-term liabilities	2,867	2,726	23,494
Total long-term liabilities	98,639	101,795	808,518
Commitments (Note 13)			
Equity (Notes 10 and 21):			
Common stock— authorized, 700,000,000 shares; issued, 171,045,418 shares in 2022 and 171,045,418 shares in 2021	31,118	31,118	255,063
Capital surplus	41,116	40,938	337,019
Retained earnings	446,332	411,359	3,658,455
Treasury stock—at cost 12,450,484 shares in 2022 and 10,593,453 shares in 2021	(64,396)	(52,726)	(527,835)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	18,327	24,773	150,224
Foreign currency translation adjustments	(24,086)	(48,482)	(197,430)
Defined retirement benefit plans	(2,342)	(2,029)	(19,198)
Total	446,069	404,951	3,656,298
Noncontrolling interests	38,867	34,810	318,582
Total equity	484,936	439,761	3,974,880
Total	¥672,856	¥635,102	$5,515,210

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Net sales (Note 22)	**¥415,116**	¥385,707	**$3,402,590**
Cost of sales (Notes 9, 13, and 18)	**166,700**	158,886	**1,366,393**
Gross profit	**248,416**	226,821	**2,036,197**
Selling, general and administrative expenses (Notes 9, 13, 17, and 18)	**195,214**	183,127	**1,600,113**
Operating income (Note 22)	**53,202**	43,694	**436,084**
Other income (expenses):			
Interest and dividend income	**5,225**	5,734	**42,830**
Interest expense	**(680)**	(759)	**(5,578)**
Foreign exchange gain	**2,417**	2,611	**19,813**
Equity in earnings of associated companies	**6,432**	3,911	**52,722**
Gain on sales of investment securities	**2,399**	3,754	**19,663**
Gain on step acquisitions (Note 19)	**1,181**		**9,680**
Loss on valuation of investment securities	**(2)**	(671)	**(20)**
Loss on impairment (Note 7)	**(1,623)**	(409)	**(13,302)**
Expense related to the novel coronavirus		(1,147)	
Other—net (Note 6)	**928**	2,618	**7,610**
Other income—net	**16,277**	15,642	**133,418**
Income before income taxes	**69,479**	59,336	**569,502**
Income taxes (Note 11):			
Current	**14,925**	15,243	**122,339**
Deferred	**5,272**	602	**43,213**
Total income taxes	**20,197**	15,845	**165,552**
Net income	**49,282**	43,491	**403,950**
Net income attributable to noncontrolling interests	**4,364**	4,224	**35,771**
Net income attributable to owners of the parent	**¥ 44,918**	¥ 39,267	**$ 368,179**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 20):			
Basic net income	**¥ 280.36**	¥ 244.85	**$ 2.30**
Cash dividends applicable to the year	**72.00**	52.00	**0.59**

Diluted net income per share of common stock for 2022 and 2021 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, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Net income	**¥ 49,282**	¥ 43,491	**$ 403,950**
Other comprehensive income (loss) (Note 16):			
Unrealized loss (gain) on available-for-sale securities	**(6,443)**	4,853	**(52,815)**
Foreign currency translation adjustments	**26,315**	(13,017)	**215,698**
Defined retirement benefit plans	**(313)**	1,999	**(2,566)**
Share of other comprehensive income (loss) in associates	**600**	(241)	**4,922**
Total other comprehensive income (loss)	**20,159**	(6,406)	**165,239**
Comprehensive income	**¥ 69,441**	¥ 37,085	**$ 569,189**
Total comprehensive income (loss) attributed to:			
Owners of the parent	**¥ 62,554**	¥ 37,758	**$ 512,740**
Noncontrolling interests	**6,887**	(673)	**56,449**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2022

	Thousands	Millions of yen									
						Accumulated other comprehensive income (loss)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
Balance, March 31, 2020	160,209	¥31,118	¥41,476	¥379,948	¥(54,934)	¥19,950	¥(40,151)	¥(4,028)	¥373,379	¥38,703	¥412,082
Net income attributable to owners of the parent				39,267					39,267		39,267
Change in the parent's ownership interest due to transactions with noncontrolling interests			(1)						(1)		(1)
Cash dividends, ¥52.0 per share				(7,856)					(7,856)		(7,856)
Repurchase of treasury stock	243				(3)				(3)		(3)
Disposal of treasury stock			(537)		2,211				1,674		1,674
Net change in the year						4,823	(8,331)	1,999	(1,509)	(3,893)	(5,402)
Balance, March 31, 2021	160,452	31,118	40,938	411,359	(52,726)	24,773	(48,482)	(2,029)	404,951	34,810	439,761
Net income attributable to owners of the parent				**44,918**					**44,918**		**44,918**
Change in ownership interest in a subsidiary owned by a foreign associated company			**164**						**164**		**164**
Change in the parent's ownership interest due to transactions with noncontrolling interests			**14**						**14**		**14**
Cash dividends, ¥72.0 per share				**(9,945)**					**(9,945)**		**(9,945)**
Repurchase of treasury stock	**(1,857)**				**(11,670)**				**(11,670)**		**(11,670)**
Net change in the year						**(6,446)**	**24,396**	**(313)**	**17,637**	**4,057**	**21,694**
Balance, March 31, 2022	**158,595**	**¥31,118**	**¥41,116**	**¥446,332**	**¥(64,396)**	**¥18,327**	**¥(24,086)**	**¥(2,342)**	**¥446,069**	**¥38,867**	**¥484,936**

	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, 2021	$255,063	$335,555	$3,371,799	$(432,180)	$203,059	$(397,397)	$(16,627)	$3,319,272	$285,328	$3,604,600
Net income attributable to owners of the parent			**368,179**					**368,179**		**368,179**
Change in ownership interest in a subsidiary owned by a foreign associated company		**1,343**						**1,343**		**1,343**
Change in the parent's ownership interest due to transactions with noncontrolling interests		**121**						**121**		**121**
Cash dividends, $0.59 per share			**(81,523)**					**(81,523)**		**(81,523)**
Repurchase of treasury stock				**(95,655)**				**(95,655)**		**(95,655)**
Net change in the year					**(52,835)**	**199,967**	**(2,571)**	**144,561**	**33,254**	**177,815**
Balance, March 31, 2022	**$255,063**	**$337,019**	**$3,658,455**	**$(527,835)**	**$150,224**	**$(197,430)**	**$(19,198)**	**$3,656,298**	**$318,582**	**$3,974,880**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Operating activities:			
Income before income taxes	**¥ 69,479**	¥ 59,336	**$ 569,502**
Adjustments for:			
Income taxes—paid	**(15,595)**	(14,887)	**(127,828)**
Depreciation and amortization (Note 22)	**23,769**	22,114	**194,831**
Loss on Impairment	**1,623**	409	**13,302**
Loss on disposals and sales of property, plant and equipment	**1,607**	235	**13,169**
Equity in earnings of associated companies	**(6,432)**	(3,911)	**(52,722)**
Gain on sales of investment securities	**(2,399)**	(3,696)	**(19,663)**
Loss on valuation of investment securities	**2**	671	**20**
Gain on step acquisitions	**(1,181)**		**(9,680)**
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	**(634)**	1,026	**(5,199)**
Increase in inventories	**(1,218)**	(1,585)	**(9,987)**
Increase (decrease) in payables	**2,276**	(3,240)	**18,654**
Decrease in liability for retirement benefits	**(76)**	(328)	**(620)**
Other—net	**2,170**	(324)	**17,783**
Total adjustments	**3,912**	(3,516)	**32,060**
Net cash provided by operating activities	**73,391**	55,820	**601,562**
Investing activities:			
Transfers to time deposits	**(91,272)**	(88,736)	**(748,130)**
Proceeds from withdrawing time deposits	**97,943**	85,107	**802,811**
Purchases of property, plant and equipment	**(26,725)**	(23,663)	**(219,058)**
Proceeds from sales of property, plant and equipment	**1,654**	434	**13,558**
Purchases of investment securities	**(119)**	(418)	**(971)**
Proceeds from sales of investment securities	**5,913**	7,362	**48,470**
Acquisition of controlling interest in a company	**943**		**7,729**
Other—net (Note 6)	**(213)**	291	**(1,749)**
Net cash used in investing activities	**(11,876)**	(19,623)	**(97,340)**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Financing activities:			
Net decrease in short-term loans	**(10,550)**	(11,900)	**(86,475)**
Proceeds from long-term debt		500	
Payments for settlement of long-term debt	**(10,894)**	(10,437)	**(89,291)**
Repurchase of treasury stock	**(11,480)**	(3)	**(94,095)**
Sales of treasury stock		1,400	
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(6)	
Dividends paid	**(9,934)**	(7,846)	**(81,429)**
Dividends paid to noncontrolling interests	**(2,299)**	(3,154)	**(18,848)**
Other—net		191	
Net cash used in financing activities	**(45,157)**	(31,255)	**(370,138)**
Foreign currency translation adjustments on cash and cash equivalents	**11,601**	(6,736)	**95,092**
Net increase (decrease) in cash and cash equivalents	**27,959**	(1,794)	**229,176**
Cash and cash equivalents, beginning of year	**122,767**	124,561	**1,006,283**
Cash and cash equivalents, end of year	**¥ 150,726**	¥ 122,767	**$1,235,459**

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.

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 ¥122 to U.S. $1, the approximate rate of exchange at March 31, 2022. 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, 2022 include the accounts of the Company and its seventy four (75 in 2021) subsidiaries (together, the "Group").

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

Investments in four (4 in 2021) 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; 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; and 5) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an equity instrument.

(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; 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; and 5) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an equity instrument.

(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	12 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 20 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 classified 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 equity 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) REVENUE RECOGNITION

The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for satisfying performance obligations to transfer the goods or services promised in contracts with customers. The nature of performance obligations for each of the Group's major industry and when such obligations are satisfied are as follows:

In food and beverages business, revenue from the sale of products is recognized at the time the products are delivered to customers as control of products are transferred to customers and performance obligations are satisfied.

In Pharmaceuticals business, revenue is recognized at the time of shipment because the period from the time of shipment of goods or products to the time when control of the goods or products are transferred to customers is the normal period.

(M) RESEARCH AND DEVELOPMENT COSTS
Research and development costs are charged to income as incurred.

(N) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) 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, 2022 and 2021, 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.

(S) 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.

NOTE 3 SIGNIFICANT ACCOUNTING ESTIMATES

Impairment of property, plant and equipment in foreign subsidiaries

(1) Carrying amount

	Millions of yen				Thousands of U.S. dollars	
	2022		2021		**2022**	
Carrying amount of	(Foreign Subsidiaries)	(Consolidated Financial Statements)	(Foreign Subsidiaries)	(Consolidated Financial Statements)	(Foreign Subsidiaries)	(Consolidated Financial Statements)
Land	**¥ 3,216**	**¥43,085**	¥ 2,979	¥44,065	**$ 26,359**	**$353,154**
Buildings and structures (Net)	**35,582**	**84,139**	32,439	84,366	**291,656**	**689,667**
Machinery and vehicles (Net)	**39,142**	**52,965**	38,498	51,336	**320,831**	**434,137**
Lease assets (Net)	**6,978**	**11,447**	6,032	10,545	**57,195**	**93,827**
Construction in progress	**14,600**	**15,865**	7,135	9,237	**119,675**	**130,041**
Others (Net)	**1,818**	**3,656**	1,624	3,496	**14,903**	**29,967**

(2) Information on the significant accounting estimate
The Group operates in 39 countries and regions outside Japan, and built and operates 27 factories, including 20 factories held by subsidiaries in 17 countries and regions. In assessing the recoverability of impairment of property, plant and equipment, the indications of impairment of property, plant and equipment evaluated in each cash-generating unit or asset group basically based on sales area. As a result of evaluation of whether there were any indications of impairment loss and judgment for recognition by each cash-generating unit or asset group in foreign subsidiaries, we recognized the impairment loss in Yakult Myanmar Co., Ltd.

The performance of each foreign subsidiary is affected by many external environmental factors, such as politics, economics, social backgrounds, legal restrictions, natural disasters, and infectious diseases in each operating country and region. In addition, there is a possibility that those foreign subsidiaries, which have recently started their operations, could not achieve their business plans. Such possibility exists when the foreign subsidiaries enter countries or regions especially where probiotics are not recognized because it may take long time for their products to penetrate the markets. As a result, there may be indications of impairment of property, plant and equipment, and there is a possibility that impairment loss of property, plant and equipment is recorded if their planed future cash flows cannot be obtained.

Yakult Myanmar Co., Ltd. has stopped production and sales activities over a year by considering safety of the employees due to unstable political situation and demonstration. As a result, we evaluated that there were indications of an impairment loss and we calculated the fair value of tangible fixed assets of ¥2,898 million after deducting disposal costs as the recoverable amount, and recognized an impairment loss of ¥1,381 million. If the situation becomes worse, there is a possibility of recognizing impairment loss of ¥1,497 million of fixed assets or a part of them in addition.

NOTE 4 ACCOUNTING CHANGE

1. Accounting Standard for Revenue Recognition

Effective April 1, 2021, the Company applied ASBJ Statement No.29, "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30," "Implementation Guidance on Accounting Standard for Revenue Recognition" Issued on March 31, 2020 ("ABSJ Statement No. 29") and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers.

As a result, in food and beverages business in Japan, the Company has changed to a method of recognizing revenue in net amount after determining the role (person or agent) in providing goods or services to customers for materials and equipment sales (recognized as agent transaction) that were previously recognized as revenue in gross amount. The Company has also changed payments to customers such as center fees to mass retailers in food and beverages business in Japan and sales incentives in food and beverages business in Japan, pharmaceuticals business division and other business divisions from conventional selling, general and administrative expenses to a method of reducing sales.

Regarding the application of "Accounting Standard for Revenue Recognition," the Company followed the transitional treatment stipulated in the provision to paragraph 84 of "Accounting Standard for Revenue Recognition," and the Company has applied the new accounting policy from the beginning of the current consolidated fiscal year.

As a result, consolidated net sales for the current consolidated fiscal year decreased by ¥7,618 million, cost of sales decreased by ¥3,944 million, and selling, general and administrative expenses decreased by ¥3,673 million.

There is no impact on operating income, income before income taxes and retained earnings at the beginning of the current consolidated fiscal year.

In addition, in accordance with the transitional treatment stipulated in paragraph 89-3 of "Accounting Standard for Revenue Recognition," there are no notes regarding revenue recognition for the previous consolidated fiscal year.

There is no impact on per-share information.

2. Accounting Standard for Fair Value Measurement

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, hereinafter referred to as the "Accounting Standard for Fair Value Measurement") has been applied from the beginning of the current fiscal year, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Fair Value Measurement, and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc., is applied for the future. This change has no impact on the consolidated financial statements.

In addition, in NOTE 15 "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES," the Company has included the information related to the breakdown of financial instruments by fair value level.

In accordance with the transitional treatment stipulated in paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19)" there are no notes regarding this note for the previous consolidated fiscal year.

NOTE 5 INVENTORIES

Inventories at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Merchandise and finished products	**¥10,312**	¥10,019	**$ 84,529**
Work in process	**2,170**	2,176	**17,787**
Raw materials and supplies	**18,167**	15,540	**148,906**
Total	**¥30,649**	¥27,735	**$251,222**

NOTE 6 INVESTMENT SECURITIES

Investment securities at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Investment securities:			
Equity securities	**¥64,066**	¥76,775	**$525,127**
Trust fund investments and other	**3,563**	3,464	**29,208**
Total	**¥67,629**	**¥80,239**	**$554,335**

The costs and aggregate fair values of investment securities at March 31, 2022 and 2021 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2022				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥37,925**	**¥27,907**	**¥1,766**	**¥64,066**
March 31, 2021				
Securities classified as—				
Available-for-sale:				
Equity securities	¥41,325	¥36,516	¥1,065	¥76,776

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2022				
Securities classified as—				
Available-for-sale:				
Equity securities	**$310,858**	**$228,742**	**$14,473**	**$525,127**

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2022 and 2021, were ¥3,563 million ($29,208 thousand) and ¥3,464 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2022 and 2021, were ¥5,816 million ($47,675 thousand) and ¥7,362 million, respectively. Gross realized gain on these sales for the year ended March 31, 2022 and 2021, computed on the moving-average cost basis, was ¥2,399 million ($19,663 thousand) and ¥3,754 million, respectively. Gross realized loss on these sales for the year ended March 31, 2022 and 2021, computed on the moving-average cost basis, was ¥0 million ($0 thousand) and ¥58 million, respectively.

The valuation loss on available-for-sale equity securities for the year ended March 31, 2022 and 2021, was ¥2 million ($20 thousand) and ¥671 million, respectively.

NOTE 7 LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2022. As a result, the Group recognized an impairment loss of ¥1,623 million ($13,302 thousand) as other expense for Food and Beverages segment (Myanmar), ¥1,381 million ($11,316 thousand), Pharmaceuticals segment, ¥84 million ($693 thousand) and Others segment, ¥158 million ($1,293 thousand) due to continuing operating losses and for idle assets due to decrease of 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, 2022. The recoverable amount of each segment was measured at its fair market value. An impairment loss of ¥409 million was recognized in 2021.

NOTE 8 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisting of bank loans, which include bank overdrafts, at March 31, 2022 and 2021 were ¥4,822 million ($39,525thousand) and ¥15,372 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2022 and 2021 ranged from 0.25% to 0.57% and 0.25% to 0.57%, respectively.

Long-term debt at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Loans from banks and other financial institutions, 0.37% to 1.13% (0.38% to 2.45% in 2021), due serially to 2036:			
Collateralized	**¥ 1,986**	¥ 2,250	**$ 16,277**
Unsecured	**63,730**	68,934	**522,381**
Obligations under finance leases (Note 13)	**10,108**	9,663	**82,855**
Total	**75,824**	80,847	**621,513**
Less current portion	**(8,777)**	(8,841)	**(71,945)**
Long-term debt, less current portion	**¥67,047**	¥72,006	**$549,568**

Annual maturities of long-term debt as of March 31, 2022 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 8,777	$ 71,945
2024	48,036	393,740
2025	6,985	57,258
2026	6,518	53,427
2027	3,527	28,906
2028 and thereafter	1,981	16,237
Total	¥75,824	$621,513

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2022 were as follows:

March 31, 2022	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 10**	**$ 78**
Land	**3,536**	**28,986**
Buildings and structures—net of accumulated depreciation	**1,570**	**12,872**
Total	**¥5,116**	**$41,936**

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 9 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, 2022 and 2021, included the amounts of ¥345 million ($2,835 thousand) and ¥369 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, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at beginning of year	**¥66,579**	¥64,057	**$545,731**
Current service cost	**3,362**	3,465	**27,556**
Interest cost	**551**	444	**4,520**
Actuarial (losses) gains	**(1,085)**	2,780	**(8,895)**
Benefits paid	**(4,009)**	(3,890)	**(32,864)**
Others	**78**	(277)	**641**
Balance at end of year	**¥65,476**	¥66,579	**$536,689**

2. The changes in plan assets for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Balance at beginning of year	**¥64,615**	¥58,178	**$529,633**
Expected return on plan assets	**1,604**	1,737	**13,143**
Actuarial (losses) gains	**(2,083)**	4,540	**(17,070)**
Contributions from the employer	**3,888**	3,771	**31,873**
Benefits paid	**(3,597)**	(3,547)	**(29,485)**
Others	**227**	(64)	**1,857**
Balance at end of year	**¥64,654**	¥64,615	**$529,951**

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
	2022	2021	**2022**
Defined benefit obligations	**¥63,087**	¥64,323	**$ 517,108**
Plan assets	**(64,654)**	(64,615)	**(529,951)**
Total	**(1,567)**	(292)	**(12,843)**
Unfunded defined benefit obligations	**2,389**	2,256	**19,580**
Net liability arising from defined benefit obligations	**¥ 822**	¥ 1,964	**$ 6,737**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Liability for retirement benefits	**¥ 4,281**	¥ 4,358	**$ 35,086**
Asset for retirement benefits	**(3,459)**	(2,394)	**(28,349)**
Net liability arising from defined benefit obligations	**¥ 822**	¥ 1,964	**$ 6,737**

4. The components of net periodic benefit costs for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Service cost	**¥3,362**	¥3,465	**$27,556**
Interest cost	**551**	444	**4,520**
Expected return on plan assets	**(1,603)**	(1,737)	**(13,143)**
Recognized actuarial losses	**400**	1,219	**3,282**
Others	**38**	17	**314**
Net periodic benefit costs	**¥2,748**	¥3,408	**$22,529**

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Actuarial (losses) gains	**¥(451)**	¥2,893	**$(3,700)**
Total	**¥(451)**	¥2,893	**$(3,700)**

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Unrecognized actuarial losses	**¥3,388**	¥2,937	**$27,770**
Total	**¥3,388**	¥2,937	**$27,770**

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2022 and 2021 consisted of the following:

	2022	2021
Bonds	**17%**	13%
Stocks	**19**	20
Cash and Deposits	**26**	33
General accounts	**27**	24
Others	**11**	10
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, 2022 and 2021 are set forth as follows:

	2022	2021
Discount rate	**0.79%**	0.64%
Expected rate of return on plan assets	**2.50**	2.50

NOTE 10 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 11 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, result in a normal effective statutory tax rate of approximately 30.62% and 30.62% for each of the years ended March 31, 2022 and 2021. 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, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Deferred tax assets:			
Pension and severance costs	**¥ 1,300**	¥ 2,209	**$ 10,658**
Tax loss carryforwards	**3,602**	3,873	**29,523**
Accrued bonuses	**1,820**	1,829	**14,918**
Long-lived assets (Impairment loss)	**1,067**	1,321	**8,743**
Others	**7,224**	8,588	**59,214**
Total of tax loss carryforwards and temporary differences	**15,013**	17,820	**123,056**
Less valuation allowance for tax loss carryforwards	**(2,073)**	(1,754)	**(16,993)**
Less valuation allowance for temporary differences	**(1,411)**	(1,489)	**(11,563)**
Total valuation allowance	**(3,484)**	(3,243)	**(28,556)**
Total	**¥ 11,529**	¥ 14,577	**$ 94,500**
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	**¥ 8,121**	¥ 10,927	**$ 66,563**
Undistributed earnings of foreign subsidiaries and associated companies	**16,512**	14,502	**135,344**
Unrealized gain on land held by subsidiaries	**1,390**	1,359	**11,391**
Others	**4,109**	4,333	**33,685**
Total	**¥ 30,132**	¥ 31,121	**$ 246,983**
Net deferred tax liabilities	**¥(18,603)**	¥(16,544)	**$(152,483)**

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, 2022 and 2021 was as follows:

	2022	2021
Normal effective statutory tax rate	**30.62%**	30.62%
Equity in earnings of associated companies	**(2.84)**	(2.02)
Tax exemption	**(1.04)**	(1.57)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**4.66**	2.97
Social expenses not deductible for income tax purposes	**0.54**	0.41
Tax rate differences in foreign subsidiaries	**(4.34)**	(4.45)
Others—net	**1.47**	0.74
Actual effective tax rate	**29.07%**	26.70%

The expiration of tax loss carryforwards , the related valuation allowances and the resulting net deferred tax assets as of March 31, 2022 and 2021 were as follows:

	Millions of yen						
March 31, 2022	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	**¥233**	**¥242**	**¥160**	**¥212**	**¥76**	**¥2,679**	**¥3,602**
Less valuation allowances for tax loss carryforwards	**(219)**	**(242)**	**(156)**	**(212)**	**(76)**	**(1,168)**	**(2,073)**
Net deferred tax assets relating to tax loss carryforwards	**14**	**1**	**4**			**1,511**	**1,529**

	Millions of yen						
March 31, 2021	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	¥105	¥220	¥221	¥162	¥329	¥2,836	¥3,873
Less valuation allowances for tax loss carryforwards	(85)	(184)	(220)	(154)	(198)	(913)	(1,754)
Net deferred tax assets relating to tax loss carryforwards	20	36	1	8	131	1,923	2,119

March 31, 2022	Thousands of U.S. dollars 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	**$1,907**	**$1,984**	**$1,313**	**$1,739**	**$627**	**$21,953**	**$29,523**
Less valuation allowances for tax loss carryforwards	**(1,793)**	**(1,982)**	**(1,279)**	**(1,739)**	**(627)**	**(9,573)**	**(16,993)**
Net deferred tax assets relating to tax loss carryforwards	**114**	**2**	**34**			**12,380**	**12,530**

NOTE 12 REVENUE

(1) INFORMATION DISAGGREGATED REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenues from contracts with customers on a disaggregated basis are as described in "NOTE 22 (SEGMENT INFORMATION)."

(2) BASIC INFORMATION TO UNDERSTAND REVENUE FROM CONTRACTS WITH CUSTOMERS

The main businesses of the Group are Food and beverages business and Pharmaceuticals business.

In Food and beverages business, when merchandise and finished products are delivered, profits are recognized, because at that point, control of the merchandise and finished products are transferred to customers and performance obligations are satisfied. Regarding the profit from that sales, mainly in the home delivery department, the selling price at the time the merchandise and finished products are delivered is used, and in the mass retailer, etc., the selling price promised in the contract with a customer is used, and they are measured by the amount after deducting the amount paid to a customer such as the sales incentive and the center fee.

Regarding sales of materials and equipment in Food and beverages business, the Company determines that the role in providing goods or services to customers corresponds to agency transactions, and recognizes the revenue in net amounts.

In Pharmaceuticals business, revenue is recognized at the time of shipment because the period from the time of shipment of merchandise and finished products to the time when control of the merchandise and finished products are transferred to customers is the normal period. Revenues from such sales are measured at the selling price promised in the contract with a customer, after deducting sales incentives. The promised amount is paid in about one month in the Food and beverages business and in about four months in the Pharmaceuticals business from the time when the performance obligations are satisfied, which does not include the significant financial elements.

In addition, there are no transactions or significant contract balances that have significant residual performance obligations, and no material changes in the opening and closing balances of receivables from contracts with customers and contract liabilities.

NOTE 13 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	
	2022		**2022**	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥ 3,360**	**¥155**	**$27,539**	**$1,272**
Due after one year	**6,748**	**213**	**55,316**	**1,742**
Total	**¥10,108**	**¥368**	**$82,855**	**$3,014**

	Millions of yen	
	2021	
	Finance leases	Operating leases
Due within one year	¥ 3,373	¥228
Due after one year	6,290	170
Total	¥ 9,663	¥398

NOTE 14 RELATED PARTY DISCLOSURES

Transactions of the Company with related parties that are owned by directors, Audit & Supervisory Board members, and their close relatives for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Sales	**¥3,970**	¥4,029	**$32,538**
Sales discounts and rebates	**96**	70	**786**
Collection of loans			
Rent of vending machines	**28**	30	**226**
Temporary receipts	**1,893**	1,875	**15,519**
Subsidy of sales expenses	**10**	19	**80**

The balances due to or from these related parties at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Notes and accounts receivable	**¥981**	¥897	**$8,044**
Other receivables	**8**	7	**64**
Other payables	**25**	9	**202**
Accrued expenses	**5**	5	**43**
Other long-term liabilities	**27**	27	**225**

NOTE 15 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, 2022			
Investment securities	**64,066**	**64,066**	
Total	**¥322,702**	**¥322,702**	

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2022			
Long-term debt (excluding obligations under finance leases)	**65,716**	**65,757**	**¥41**
Total	**¥104,439**	**¥104,480**	**¥41**

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2021			
Investment securities	76,775	76,775	
Total	¥306,602	¥306,602	

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2021			
Long-term debt (excluding obligations under finance leases)	71,184	71,245	¥61
Total	¥117,346	¥117,407	¥61

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2022			
Investment securities	**525,127**	**525,127**	
Total	**$2,645,100**	**$2,645,100**	

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2022			
Long-term debt (excluding obligations under finance leases)	**538,657**	**538,993**	**$336**
Total	**$ 856,060**	**$ 856,396**	**$336**

Cash and cash equivalents, Time deposits, Receivables, Payables and Short-term borrowings

The fair values of cash and cash equivalents, time deposits, receivables, payables and short-term borrowings are not disclosed because their maturities are short and the carrying values approximate fair value.

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 6.

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
	2022	2021	**2022**
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies	**¥76,607**	¥68,791	**$627,932**

(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, 2022				
Cash and cash equivalents	**¥150,726**			
Time deposits	**52,216**			
Receivables	**55,914**			
Total	**¥258,856**			

	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, 2021				
Cash and cash equivalents	¥122,767			
Time deposits	53,488			
Receivables	53,766			
Total	¥230,021			

	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, 2022				
Cash and cash equivalents	**$1,235,459**			
Time deposits	**427,998**			
Receivables	**458,312**			
Total	**$2,121,769**			

(6) FINANCIAL INSTRUMENTS CATEGORIZED BY FAIR VALUE HIERARCHY

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of yen			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Investment securities:				
Others	**¥64,066**			**¥64,066**
Total	**¥64,066**			**¥64,066**

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Investment securities:				
Others	**$525,127**			**$525,127**
Total	**$525,127**			**$525,127**

(2) The financial assets and liabilities other than the financial assets and liabilities measured in the consolidated balance sheet

	Millions of yen			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Long-term debt (Less current portion)		**¥65,757**		**¥65,757**
Total liabilities		**¥65,757**		**¥65,757**

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
March 31, 2022				
Long-term debt (Less current portion)		**$538,993**		**$538,993**
Total liabilities		**$538,993**		**$538,993**

Note: The evaluation technique used to calculate the fair value and the inputs related to the calculation of the fair value

Investment securities

All investment securities are listed securities and are evaluated by the market price. Listed securities are traded in active markets, so their fair value is classified as Level 1 fair value.

Long-term debt (Less current portion)

The fair value of long-term debt is calculated by the present value of the total amount of principal and interest discounted by the interest rate obtained by adding the credit spread to an appropriate index such as the yield of government bonds, and the fair value is classified as Level 2 fair value.

NOTE 16 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Unrealized gain on available-for-sale securities:			
(Loss) gain arising during the year	**¥ (6,892)**	¥ 10,020	**$ (56,490)**
Reclassification adjustments to profit or loss	**(2,396)**	(3,025)	**(19,643)**
Amount before income tax effect	**(9,288)**	6,995	**(76,133)**
Income tax effect	**2,845**	(2,142)	**23,318**
Total	**¥ (6,443)**	¥ 4,853	**$ (52,815)**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥26,315**	¥(13,017)	**$215,698**
Total	**¥26,315**	¥(13,017)	**$215,698**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥ (852)**	¥ 1,674	**$ (6,981)**
Reclassification adjustments to profit or loss	**401**	1,218	**3,281**
Amount before income tax effect	**(451)**	2,892	**(3,700)**
Income tax effect	**138**	(893)	**1,134**
Total	**¥ (313)**	¥ 1,999	**$ (2,566)**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Share of other comprehensive loss in associates:			
Gain (loss) arising during the year	**¥ 600**	¥ (241)	**$ 4,922**
Total	**¥ 600**	¥ (241)	**$ 4,922**
Total other comprehensive income (loss)	**¥20,159**	¥ (6,406)	**$165,239**

NOTE 17 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Advertising	**¥17,459**	¥17,139	**$143,109**
Sales subsidies	**7,085**	7,231	**58,077**
Freight expense	**13,378**	14,646	**109,659**
Sales commission	**28,357**	25,484	**232,438**
Salaries	**47,354**	43,289	**388,148**
Provision for bonuses	**4,062**	3,869	**33,297**
Net periodic benefit costs	**2,102**	2,821	**17,230**
Depreciation and amortization	**4,564**	4,525	**37,406**
Research and development	**8,617**	8,450	**70,635**

NOTE 18 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,655 million ($70,945 thousand) and ¥8,488 million for the years ended March 31, 2022 and 2021, respectively.

NOTE 19 OTHER INCOME

Gain on step acquisitions

This gain occurred when Toyama Yakult Co., Ltd., our affiliated company, became a consolidated subsidiary due to an increase in the shareholders ratio.

NOTE 20 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2022 and 2021 is as follows:

Diluted net income per share for the years ended March 31, 2022 and 2021 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, 2022				
Basic EPS:				
Net income available to common shareholders	**¥44,918**	**160,217**	**¥280.36**	**$2.30**

	Millions of yen	Thousands of shares	Yen
	Net income attributable to owners of the parent	Weighted-average shares	EPS
Year ended March 31, 2021			
Basic EPS:			
Net income available to common shareholders	¥39,267	160,373	¥244.85

NOTE 21 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2022 was approved at the Company's Board of Directors' meeting held on May 13, 2022:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥36.00 ($0.30) per share	**¥5,712**	**$46,821**

NOTE 22 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)."

Intersegments or transfers are based on prevailing market prices.

As described in "NOTE 4 (ACCOUNTING CHANGE)," the Company applied"Accounting Standard for Revenue Recognition" in the current consolidated fiscal year and changed the methods of measurement for the amount of sales for each reportable segment.

As a result of change, the sales for each reportable segment decreased to ¥22,203 million ($181,997 thousand) for food and beverages in Japan, to ¥702 million ($5,754 thousand) for Pharmaceuticals and to ¥724 million ($5,936 thousand) for others in the current consolidated fiscal year, compared with the previous method. There is no impact on income of each segment.

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

Millions of yen

2022

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥195,725	¥47,388	¥128,199	¥ 9,414	¥16,993	¥17,397		¥415,116
Intersegment sales or transfers	7,568					2,076	¥ (9,644)	
Total	203,293	47,388	128,199	9,414	16,993	19,473	(9,644)	415,116
Segment profit (loss)	28,244	12,555	24,809	623	2,634	(746)	(14,917)	53,202
Segment assets	190,151	85,858	272,381	10,867	8,498	16,159	88,942	672,856
Other:								
Depreciation and amortization	10,716	1,847	9,749	442	24	443	548	23,769
Investment in associates			71,255					71,255
Increase in property, plant and equipment and intangible assets	9,253	2,329	15,085	186	108	324	538	27,823

Thousands of U.S. dollars

2022

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	$1,604,305	$388,428	$1,050,812	$77,162	$139,285	$142,598		$3,402,590
Intersegment sales or transfers	62,034					17,019	$(79,053)	
Total	1,666,339	388,428	1,050,812	77,162	139,285	159,617	(79,053)	3,402,590
Segment profit (loss)	231,504	102,909	203,352	5,106	21,593	(6,111)	(122,269)	436,084
Segment assets	1,558,612	703,750	2,232,635	89,074	69,655	132,448	729,036	5,515,210
Other:								
Depreciation and amortization	87,835	15,136	79,908	3,625	198	3,635	4,494	194,831
Investment in associates			584,060					584,060
Increase in property, plant and equipment and intangible assets	75,844	19,091	123,643	1,524	887	2,658	4,410	228,057

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥9,447 million ($77,432 thousand) of corporate expense that is not allocated to each segment.The corporate expense is the administrative expense of the parent company, which is not attributed to each reportable segment. The Company changed the corporate expense to allocate a portion to each reportable segment based on the company's long vision in this year. As a result, each segment profit of food and beverages in Japan, in The Americas, in Asia and Oceania and in Europe decreased ¥2,234 million ($18,315 thousand), ¥333 million ($2,733 thousand), ¥1,087 million ($8,912 thousand) and ¥75 million ($618 thousand), respectively, and the adjustment (the corporate expense) decreased ¥3,730 million ($30,578 thousand).

2. Reconciliation in segment assets mainly consists of ¥95,308 million ($781,211 thousand) of corporate assets that is not allocated to each segment.

3. Reconciliation in depreciation consists of ¥548 million ($4,494 thousand) of depreciation of the head office.

4. Reconciliation in capital expenditure consists of ¥538 million ($4,410 thousand) of capital expenditure of the head office.

Millions of yen

2021

	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥186,519	¥41,878	¥114,966	¥8,564	¥18,123	¥15,657		¥385,707
Intersegment sales or transfers	20,533					2,047	¥(22,580)	
Total	207,052	41,878	114,966	8,564	18,123	17,704	(22,580)	385,707
Segment profit (loss)	23,767	10,390	26,384	649	191	(142)	(17,545)	43,694
Segment assets	183,236	74,196	237,743	10,159	12,881	15,828	101,059	635,102
Other:								
Depreciation and amortization	9,739	1,751	8,637	480	205	388	914	22,114
Investment in associates			63,234					63,234
Increase in property, plant and equipment and intangible assets	11,193	915	11,475	486	177	586	958	25,790

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,761 million of corporate expense that is not allocated to each segment.

2. Reconciliation in segment assets mainly consists of ¥107,986 million of corporate assets that is not allocated to each segment.

3. Reconciliation in depreciation consists of ¥914 million of depreciation of the head office.

4. Reconciliation in capital expenditure consists of ¥958 million of capital expenditure of the head office.

(4) INFORMATION ABOUT GEOGRAPHICAL AREAS

a. Sales

	Millions of yen				
	2022				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥227,910	**¥47,399**	**¥130,393**	**¥9,414**	**¥415,116**

	Millions of yen				
	2021				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥218,428	¥41,888	¥116,826	¥8,565	¥385,707

	Thousands of U.S. dollars				
	2022				
	Japan	The Americas	Asia and Oceania	Europe	Total
	$1,868,117	**$388,517**	**$1,068,794**	**$77,162**	**$3,402,590**

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

b. Property, plant and equipment

	Millions of yen				
	2022				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥109,821	**¥14,786**	**¥83,933**	**¥2,617**	**¥211,157**

	Millions of yen				
	2021				
	Japan	The Americas	Asia and Oceania	Europe	Total
	¥114,336	¥13,294	¥72,844	¥2,571	¥203,045

	Thousands of U.S. dollars				
	2022				
	Japan	The Americas	Asia and Oceania	Europe	Total
	$900,174	**$121,196**	**$687,973**	**$21,450**	**$1,730,793**

(5) LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

March 31, 2022

	Millions of yen							
	2022							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
			¥1,381		**¥84**	**¥158**		**¥1,623**

	Thousands of U.S. dollars							
	2022							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
			$11,316		**$693**	**$1,293**		**$13,302**

March 31, 2021

The detail was omitted for an immaterial matter.

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Yakult Honsha Co., Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2022, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Member of
Deloitte Touche Tohmatsu Limited

Determination of Indications of Impairment and Reasonableness of Recording Impairment Loss of Property, Plant and Equipment in Foreign Subsidiaries	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Note 3 to the consolidated financial statements "Significant Accounting Estimates," the Group operates in 39 countries and regions outside Japan. The Group built and operates 27 factories, including 20 factories held by subsidiaries, and has production facilities in 17 countries and regions. The total amount of property, plant and equipment recorded by foreign subsidiaries is ¥101,336 million out of ¥211,157 million of the Group's property, plant and equipment as of March 31, 2022, which represented approximately 15.1% of the Group's consolidated total assets. The performance of each foreign subsidiary is affected by many external environmental factors, such as politics, economics, social backgrounds, legal restrictions, natural disasters, and infectious diseases in each operating country and region. In addition, there is a possibility that those foreign subsidiaries, which have recently commenced their operations, would not achieve their business plans. Such possibility exists when the foreign subsidiaries enter countries or regions especially where probiotics are not recognized because it may take a long time for their products to penetrate the markets. As a result, there may be indications of impairment of property, plant and equipment. In addition, when an indication of impairment is identified, and the recoverable amount estimated based on International Financial Reporting Standards ("IFRS") or fair value estimated based on generally accepted accounting principles in the United States of America ("US-GAAP") of property, plant and equipment is less than the carrying amount, the carrying amount is reduced to the recoverable amount or fair value, and the reduction in carrying amount is recorded as impairment loss.	We performed the following audit procedures, among others, to assess the Company's determination of whether there were any indications of impairment of property, plant and equipment in each foreign subsidiary: <u>Evaluation of Internal Controls</u> • We evaluated the design and operating effectiveness of the Company's internal controls over the determination of impairment indicators of property, plant and equipment in each foreign subsidiary, especially including the process to test and approve the reasonableness of whether cash-generating units or an asset group based on sales areas were identified in accordance with IFRS or US-GAAP and the process to identify whether there were any indications of impairment with collected local information. <u>Evaluation of Reasonableness of Judgment regarding Indications of Impairment of Property, Plant and Equipment</u> • Based on the Company's result of determination of impairment, we tested whether any indications of impairment of the property, plant and equipment were identified by analyzing trends of sales, operating incomes, and other information of each cash-generating unit or asset group. • We made inquiries of management and inspected related documents to determine whether each foreign subsidiary prepared the business plan for the following years based on the local condition and its historical financial result, and whether the Company evaluated the reasonableness of its business plan. Furthermore, we evaluated the reasonableness of various assumptions included in the prepared business plan by comparing them with the historical results, etc. • For foreign subsidiaries with significant amounts of property, plant and equipment, we obtained an understanding of the situations surrounding the foreign subsidiaries as well as we evaluated the reasonableness of the Company's determination of indications of impairment of property, plant and equipment under IFRS or US-GAAP with the assistance of the auditors of the subsidiaries.

Each foreign subsidiary's financial statements is prepared in accordance with either IFRS or US-GAAP and the consolidated financial statements are prepared based on the financial statements of these foreign subsidiaries. Furthermore, Yakult Honsha Co., Ltd. (the "Company") evaluates whether there are any indications that property, plant and equipment of foreign subsidiaries may be impaired by each cash-generating-unit (IFRS) or asset group (US-GAAP). The Company identified an indication of impairment of property, plant and equipment of Yakult Myanmar Co., Ltd. ("Yakult Myanmar") in the current consolidated fiscal year, and recorded impairment loss of ¥1,381 million. Under IFRS, the recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. The recoverable amount of property, plant and equipment held by Yakult Myanmar was calculated by using the fair value less costs of disposal. We identified the determination of indications of impairment and reasonableness of recording impairment loss of property, plant and equipment in foreign subsidiaries as a key audit matter because of the following: • The total amount of each foreign subsidiary's property, plant and equipment is significant. • There is a risk that indications of impairment might not be identified due to a wide range of internal and external factors affecting the business activities of the foreign subsidiaries located in many countries and regions where they operate as described above. • When an indication of impairment is identified, the recoverable amount or fair value is estimated using future cash flow based on the business plan of each foreign subsidiary for the following fiscal years. The estimation of the recoverable amount or fair value and the selection of the estimation method involves management judgment and requires a high degree of expertise.	As a result of the Company's determination above, indications of the impairment loss of property, plant and equipment of Yakult Myanmar were identified, and an impairment loss was recorded. We evaluated the reasonableness of the amount of the impairment loss by performing the following procedures, among others: <u>Testing the Reasonableness of the Amount of Impairment Loss</u> • For the Company's estimation of the recoverable amount, we assessed the competence, capability, and objectivity of the management's external specialists, which were utilized to estimate the recoverable amount by the Company. • We evaluated the estimation method and the reasonableness of the recoverable amount estimated with the assistance of our valuation specialists. • We inspected whether the future cash flow used for calculating the value in use was based on the business plan for the following fiscal years which the Company used for the determination of impairment indicators. • We evaluated the reasonableness of the judgment behind the Company's calculation of the recoverable amount, which was calculated fair value less costs of disposal. • We tested the reasonableness of the amount of impairment loss by comparing the carrying amount of property, plant and equipment of Yakult Myanmar with the recoverable amount.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2022

Global Network

OVERSEAS OPERATIONS AND RESEARCH AND DEVELOPMENT INSTITUTE

(As of March 31, 2022)

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 (hy 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
Guangzhou Yakult Co., Ltd.	June 2002	Guangzhou
Yakult (Malaysia) Sdn. Bhd.	February 2004	Shah Alam
Shanghai Yakult Co., Ltd.	May 2005	Shanghai
Beijing Yakult Co., Ltd.	June 2006	Beijing
Yakult (China) Corporation	April 2007	Shanghai
Yakult Vietnam Co., Ltd.	September 2007	Ho Chi Minh
Yakult Danone India Pvt. Ltd.	January 2008	New Delhi
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 Nederland B.V.	April 1994	Amstelveen
Yakult Belgium N.V./S.A.	April 1995	Brussels
Yakult Europe B.V.	March 1996	Almere, The Netherlands
Yakult UK Ltd. • Ireland Branch	April 1996	London
Yakult Deutschland GmbH	April 1996	Neuss
Yakult Oesterreich GmbH	December 2005	Vienna
Yakult Italia S.r.l.	February 2007	Milan
Yakult Honsha European Research Center for Microbiology VOF (YHER)	May 2005	Ghent, Belgium

Note: Other countries and regions where sales are conducted: Brunei, France, Luxembourg, Spain, Uruguay, Canada, Belize, Malta, Switzerland, Oman, Bahrain, Qatar, Kuwait, and Denmark

Corporate Data

(As of March 31, 2022)

CORPORATE NAME	YAKULT HONSHA CO., LTD.
DATE FOUNDED	1935
DATE INCORPORATED	April 9, 1955
HEAD OFFICE	10-30, Kaigan, 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	29,273 (Consolidated)
NUMBER OF ISSUED SHARES	171,045,418
NUMBER OF SHAREHOLDERS	31,642*

*Including shareholders who own shares of less than one unit

OFFICES

One head office, One institute, Five branches, Seven plants

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

Branches

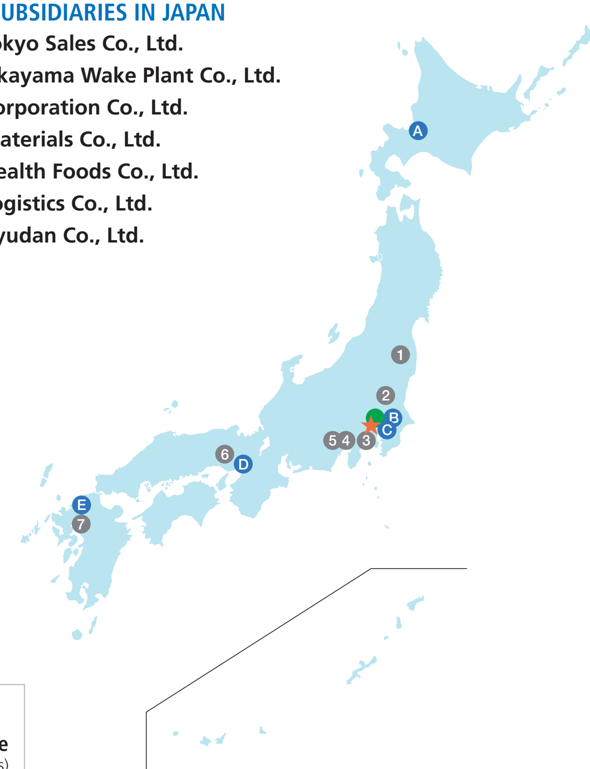
- Ⓐ **Hokkaido Branch**
- Ⓑ **East Japan Branch**
- Ⓒ **Metropolitan Branch**
- Ⓓ **Central Japan Branch**
- Ⓔ **West Japan Branch**

Plants

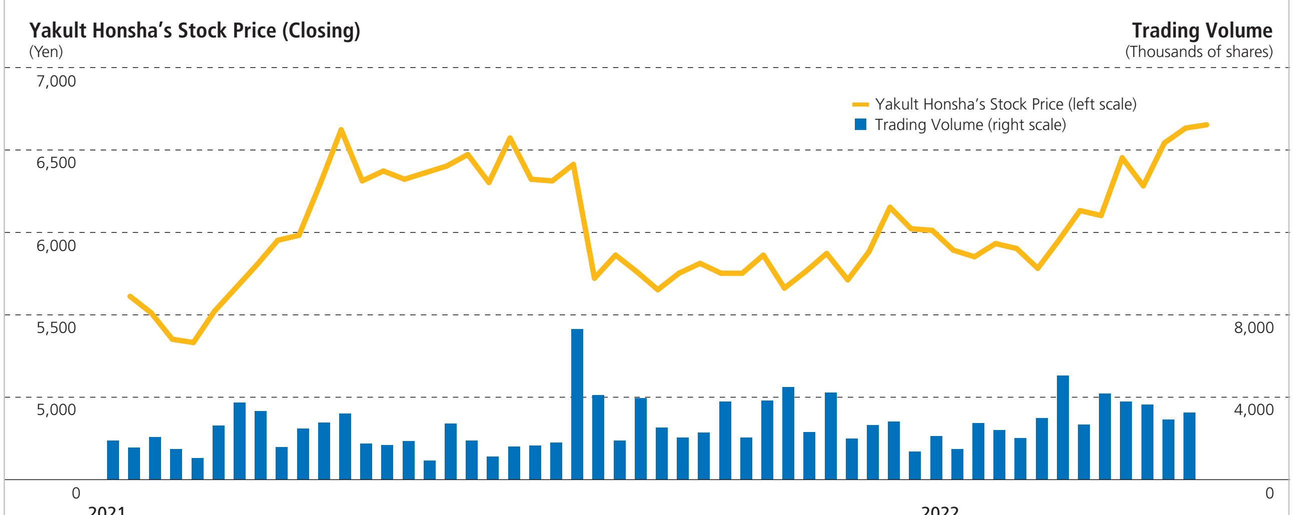
- ❶ **Fukushima Plant**
- ❷ **Ibaraki Plant**
- ❸ **Shonan Cosmetics Plant**
- ❹ **Fuji Susono Plant**
- ❺ **Fuji Susono Pharmaceuticals Plant**
- ❻ **Hyogo Miki Plant**
- ❼ **Saga Plant**

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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