

Consolidated Financial Results for the 2nd Quarter ended September 30, 2018

(Japanese Generally Accepted Accounting Principles)

November 9, 2018

Name of company	Yakult Honsha Co., Ltd.		
Stock exchange listing	First section in Tokyo Stock Exchange		
Code number	2267		
URL	https://www.yakult.co.jp/		
Representative	President and Representative	Takashige Negishi	
	Director		
Contact person	Executive officer	Shuichi Watanabe	TEL (03) 3574 - 8960
Scheduled date of filing Statutory quarterly financial report	November 13, 2018		
Scheduled date of payment of dividends	December 6, 2018		
Preparation of support documentation of results : Yes			
Holding of briefing for analysts and institutional investors : Yes			

(Figures less than 1 million yen have been rounded down)

1. Consolidated financial results for the 2nd quarter of FY2018, ended September 30, 2018 (April 1, 2018 - September 30, 2018)

(1) Consolidated Financial Results (Accumulated) (Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
2Q FY2018	203,507	2.9	23,795	4.3	29,515	9.9	21,315	19.2
2Q FY2017	197,728	4.6	22,806	21.7	26,860	13.0	17,878	19.5

Note - Comprehensive income for 2Q FY2018 11,867 million yen(-57.2%), 2Q FY2017 27,728 million yen(-%)

	Basic earnings per Share		Diluted earnings per Share	
	yen		yen	
2Q FY2018	132.85		—	
2Q FY2017	108.12		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
2Q FY2018	628,802	393,180	57.0
FY2017	627,031	386,674	56.2

Ref - Equity for 2Q FY2018 358,731 million yen, FY 2017 352,178 million yen

2. Dividends

(Base date)	Dividends per Share				
	1Q	2Q	3Q	Year End	Total
	yen	yen	yen	yen	yen
FY2017	—	17.00	—	17.00	34.00
FY2018	—	20.00			
FY2018(Forecast)			—	20.00	40.00

Note - Revision of the latest dividend forecast:No

3. Forecast for consolidated financial results for FY 2018 (April 1, 2018 - March 31, 2019)

(Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Basic earnings per Share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Annual	418,000	4.1	48,000	10.4	58,500	10.3	39,000	14.5	243.39

Note - Revision of the latest financial forecast:Yes

※Notes

(1) Changes in important subsidiaries during the period:No

(2) Adoption of simplified and specified accounting procedure:Yes

Note - Details are stated on p. 9.under "(3) Notes on Quarterly Consolidated Financial Statements"

(3) Change in accounting policies and estimates, correction of prior period error

(a) Change in accounting policy with revision of accounting standard:Yes

(b) Change in account policy other than (a):No

(c) Changes in accounting estimate:No

(d) Correction of prior period error:No

(4) Shares issued (common stock)

(a) Number of shares issued (Including treasury stocks)

2Q FY2018	171,045,418	FY2017	171,045,418
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(b) Number of treasury stocks

2Q FY2018	10,808,559	FY2017	10,549,711
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(c) Weighted average of number of shares

2Q FY2018	160,452,412	2Q FY2017	165,361,078
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*These consolidated financial results are not subjected to audit by our auditor.

※Explanation for the appropriate use of the financial forecast and the other comments

Note concerning statements about the future, etc.

The statements about the future, including earnings projections, included in this report are based on information currently available and certain assumptions considered reasonable, which do not guarantee the achievement of such projected results. Actual results may vary considerably from these projections due to a range of factors.

Assumptions on which the forecast is based and notes on the use of the forecast are stated on p. 4 under "Disclaimer on Future Outlook including Consolidated Financial Results Forecast."

Procedure for obtaining supplementary information on financial results

We plan to hold a briefing (conference call) for analysts and institutional investors on November 9, 2018.

Materials used in the briefing will be posted on the company's website.

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1. Qualitative Information Regarding Quarterly Consolidated Business Results

(1) Business Performance Overview

1 Performance Overview

During the second quarter of the fiscal year ending March 31, 2019, the Japanese economy continued on a moderate recovery trend amid continued improvements in the income environment, but the need to be mindful of the potential impact of volatility in the global economy and the financial and capital markets remains.

Against this background, the Yakult Group (the “Group”) worked to build awareness and understanding of the probiotics that constitute the bedrock of our operations, while striving to communicate the superiority of our products. The Group also sought to improve its performance by enhancing its sales organization, developing new products, upgrading its production facilities, and actively engaging in its international and pharmaceutical businesses.

As a result of these efforts, the consolidated net sales for the second quarter of this fiscal year rose 2.9% from the same period of the previous year to 203,507 million yen. Operating profit increased 4.3% to 23,795 million yen, while ordinary profit climbed 9.9% to 29,515 million yen. Profit attributable to owners of parent increased 19.2% to 21,315 million yen.

2 Overview by Segment

Food and Beverages (Japan)

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

Through our home delivery channel, we strived to create new customers for our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT* while also encouraging existing customers to continue drinking these products. Since last year we have been gradually expanding the area served by Yakult Delivery Net, a service which allows customers to place product orders online. The service became nationwide from September and we have stepped up efforts to create points of contact with new customers. We also aimed to enhance our home delivery organization by improving the working environment for Yakult Ladies, while continuing with hiring initiatives.

In our retail store channel, we implemented activities by promotion staff to disseminate the value of our products to customers, and in July we held the “2018 Pro Baseball Support Fair” with special Tsubakuro themed 10-bottle packs of the fermented milk drinks *New Yakult* and *New Yakult Calorie Half* in an effort to increase sales.

In addition, we ran TV commercials for the *Mil-Mil* fermented milk series and the drinkable yogurt *Joie*. We also redesigned the packages of the *Mil-Mil* series in September and ran a consumer campaign for *Joie*, complete with original goods featuring Disney designs from July to September in a bid to further invigorate the brand.

Regarding juices and other beverages, we strove to increase sales of the *Tough-Man* series and *Mineral Charge* during a record heat wave.

As a result, consolidated net sales for the food and beverages segment (Japan) increased 4.4% from the same period of the previous fiscal year, totaling 111,078 million yen.

Food and Beverages (Overseas)

Yakult’s operations outside of 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 37 countries and regions centered around 28 companies and one research center with average daily bottle sales of approximately

33.46 million bottles as of September 2018.

i. The Americas

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

We strengthened the structure within the sales channels of each country in an effort to increase sales.

Despite this, however, consolidated net sales in the food and beverages (The Americas) segment declined 1.6% to 24,777 million yen.

ii. Asia and Oceania

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

In Myanmar, we are proceeding with preparations for the manufacture and sale of *Yakult*.

As a result of the above, consolidated net sales in the food and beverages (Asia and Oceania) segment rose 17.0% from the same period of the previous year to 58,417 million yen.

iii. 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 have engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products. Amidst a difficult sales environment, Yakult companies in each country worked to achieve sustainable growth by engaging in sales activities tailored to their respective markets.

As a result, consolidated net sales in the food and beverages (Europe) segment rose 11.3% from the same period of the previous year to 4,541 million yen.

Pharmaceuticals

During the quarter under review, we promoted the awareness and proper use of our products that specialize in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, we proactively conducted presentations for medical professionals in order to maintain and grow our market share. Although medical institutions are increasingly switching to the generic versions of *Elplat*, we boosted initiatives to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about the drug, a Company strength as the developer of the original drug, as well as the trust we have gained with medical professionals. Regarding the antineoplastic drug *ZALTRAP®*, which we are jointly promoting with Sanofi S.A, we endeavored to proactively provide information in order to advance market penetration in the colorectal cancer field. In addition, we worked to expand sales channels for our core generic products including antineoplastic metabolite *Gemcitabine Yakult*. Despite these efforts, revenue was significantly impacted by a decline in the price of most of our pharmaceutical products in accordance with the revisions made to the NHI Drug Price Standards in April.

As for research and development, in September we obtained approval for the additional indication of small intestine cancer with respect to our products, *Elplat* and the folinic acid *Levofolinate [Yakult]*. The Evaluation Committee on Unapproved or Off-Labeled Drugs with High Medical Needs, part of the Japanese Ministry of Health, Labour and Welfare, determined that there was a high medical need for the

additional indication of both of these products and so Yakult accordingly submitted the Application with Public Knowledge. In addition, we promoted the clinical development of pipeline products such as the PI3K inhibitor *Duvelisib*, for which we concluded an exclusive licensing agreement for the Japanese development and commercialization with Verastem Oncology (U.S.) in June and the HDAC inhibitor *Resminostat* introduced from 4SC AG (Germany). Through these efforts, we aim to further strengthen our position in oncology and related fields.

As a result, consolidated net sales in the Pharmaceuticals segment declined 16.2% to 11,100 million yen.

Others

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

In our cosmetics operations, we continued to conduct home visit-based sales initiatives to consult with customers regarding our basic skin care products, centered on our core brands *Parabio*, *Revecy*, and *Revecy White*. As part of these initiatives, we focused on expanding our base of loyal customers by communicating the value of our proprietary moisturizing agent *S.E. (Shirota Essence)*, derived from our long history of research on lactic acid bacteria since the Company's foundation.

Furthermore, in the second quarter, we worked to improve customer satisfaction and increase sales by providing season-specific products and services through sales activities themed around "moisturization in the summer" using *Yakult Skin Clear Liquid* and *Lactdew S.E. Lotion*.

In our professional baseball operations, we were working to boost attendance at Tokyo's Jingu Stadium and expand our sales through proactive fan engagement including diverse events and promotions, as well as active information dissemination.

As a result, consolidated net sales in the "Others" segment rose 1.8% to 10,829 million yen.

Sales figures for each segment do not include consumption tax, etc.

N.B.: Consolidated sales for each segment include inter-segment sales.

(2) Financial Position

Total assets at the end of the second quarter of FY2018 increased 1,771 million yen from the previous fiscal year end to 628,802 million yen.

Net assets increased 6,506 million yen from the previous fiscal year end to 393,180 million yen. This primarily reflected an increase in the valuation difference on available-for-sale securities due to rising share prices, in addition to an increase in retained earnings resulting mainly from profit attributable to owners of parent, despite a decrease in foreign currency translation adjustments caused by the yen's appreciation.

The shareholders' equity ratio rose 0.8 percentage points from the previous fiscal year end, to 57.0%.

(3) Disclaimer on Future Outlook including Consolidated Financial Results Forecast

With regard to the earnings forecasts mentioned above, we revised the full-year consolidated earnings forecasts announced on May 10, 2018 based on several factors including business performance during the second quarter and the recent business environment.

The consolidated earnings forecasts mentioned above is based on information available as of the date of this announcement. Actual results may differ from the forecasts due to various factors that may arise in the future.

2. Quarterly Consolidated Financial Statements and Relevant Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Year-End FY2017 (March 31, 2018)	2Q FY2018 (September 30, 2018)
Assets		
Current Assets		
Cash and Deposits	151,788	149,486
Notes and Accounts receivable-trade	56,479	60,477
Merchandise and Finished goods	9,089	9,844
Work in process	2,449	2,388
Raw materials and supplies	16,598	16,895
Others	9,129	10,003
Allowance for doubtful accounts	(254)	(241)
Total Current Assets	245,281	248,854
Non-Current Assets		
Property, plant and equipment		
Buildings and structures (net)	87,387	84,449
Others (net)	113,811	113,371
Total Property, plant and equipment	201,198	197,820
Intangible assets		
Software	3,050	2,784
Others	2,676	2,683
Total Intangible assets	5,727	5,467
Investments and other assets		
Investment securities	163,591	164,912
Others	11,361	11,864
Allowance for doubtful accounts	(129)	(116)
Total Investments and other assets	174,823	176,660
Total Non-Current Assets	381,749	379,948
Total Assets	627,031	628,802

(Millions of yen)

	Year-End FY2017 (March 31, 2018)	2Q FY2018 (September 30, 2018)
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	29,528	30,057
Short-term loans payable	41,643	40,663
Current portion of long-term loans payable	45,570	45,569
Income taxes payable	3,404	4,420
Provision for bonuses	5,840	6,735
Others	35,812	30,834
Total Current Liabilities	161,800	158,281
Non-Current Liabilities		
Long-term loans payable	41,898	39,318
Provision for directors' retirement benefits	395	364
Net defined benefit liability	5,346	4,974
Asset retirement obligations	966	937
Others	29,949	31,746
Total Non-Current Liabilities	78,557	77,340
Total Liabilities	240,357	235,622
Net Assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,528	41,641
Retained earnings	318,580	337,324
Treasury shares	(52,322)	(54,731)
Total Shareholders' equity	338,903	355,352
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,215	37,425
Foreign currency translation adjustment	(20,721)	(33,044)
Remeasurements of defined benefit plans	(1,218)	(1,001)
Total Accumulated other comprehensive income	13,274	3,379
Non-controlling interests	34,495	34,448
Total Net Assets	386,674	393,180
Total Liabilities and Net Assets	627,031	628,802

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

2Q FY2018

(Millions of yen)

	2Q FY2017 (April 1, 2017 to September 30, 2017)	2Q FY2018 (April 1, 2018 to September 30, 2018)
Net Sales	197,728	203,507
Cost of Sales	83,965	85,448
Gross Profit	113,763	118,058
Selling, general and administrative expenses	90,957	94,262
Operating Profit	22,806	23,795
Non-operating Income		
Interest income	1,864	2,091
Dividend income	1,073	1,118
Share of profit of entities accounted for using equity method	2,418	2,151
Others	945	1,262
Total Non-operating income	6,301	6,623
Non-operating expenses		
Interest expenses	315	364
Commission fee	16	329
Foreign exchange losses	1,544	-
Others	371	210
Total Non-operating expenses	2,247	904
Ordinary Profit	26,860	29,515
Extraordinary Income		
Gain on sales of non-current assets	71	46
Gain on sales of investment securities	-	1,632
Others	1	543
Total Extraordinary Income	72	2,223
Extraordinary losses		
Loss on sales of non-current assets	13	24
Loss on retirement of non-current assets	85	90
Others	0	9
Total Extraordinary losses	99	124
Profit before income taxes	26,833	31,613
Income taxes	6,856	7,738
Profit	19,977	23,875
Profit attributable to non-controlling interests	2,099	2,559
Profit attributable to owners of parent	17,878	21,315

Quarterly Consolidated Statement of Comprehensive Income

2Q FY2018

(Millions of yen)

	2Q FY2017 (April 1, 2017 to September 30, 2017)	2Q FY2018 (April 1, 2018 to September 30, 2018)
Profit	19,977	23,875
Other comprehensive income		
Valuation difference on available-for-sale securities	6,509	2,322
Foreign currency translation adjustment	842	(14,446)
Remeasurements of defined benefit plans	374	217
Share of other comprehensive income of entities accounted for using equity method	24	(101)
Total Other comprehensive income	7,751	(12,007)
Comprehensive income	27,728	11,867
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	24,813	11,538
Comprehensive income attributable to non-controlling interests	2,915	329

(3) Notes on Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

None.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

None.

(Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements)

Calculation of Tax Expenses

Tax expenses for the Company and its consolidated subsidiaries in Japan are calculated by multiplying income before income taxes for the second quarter under review by the reasonably estimated effective tax rate after applying tax effect accounting to the income before income taxes for the current consolidated fiscal year, including the second quarter under review.

In addition, income taxes—deferred are included in income taxes.

(Changes in Accounting Policies)

The Company's consolidated subsidiaries outside Japan began preparing their financial statements based on IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) from the first quarter of the current fiscal year.

This change had minimal effect on the Company's consolidated quarterly financial statements.

(Additional Information)

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Corporate Accounting Standards Application Guidelines No. 28, February 16, 2018) to its accounting from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets are stated under investments and other assets, while deferred tax liabilities are stated under fixed liabilities.

(Segment Information)

I Sales and profit (loss) in each reportable segment during the second quarter of fiscal 2017 (April 1 to September 30, 2017)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Sales				
Sales to external customers	95,962	25,170	49,917	4,080
Intersegment sales or transfers	10,399	—	—	—
Total	106,361	25,170	49,917	4,080
Segment profit (loss)	9,896	6,136	13,237	390

	Pharmaceuticals	Others	Adjustments	Consolidated results
Sales				
Sales to external customers	13,246	9,351	—	197,728
Intersegment sales or Transfers	—	1,282	(11,682)	—
Total	13,246	10,633	(11,682)	197,728
Segment profit (loss)	1,682	600	(9,138)	22,806

Note: Adjustments are as follows:

- (1) The (9,138 million) yen of adjustment in segment profit (loss) includes (6,653 million) yen of corporate expense that is not allocated to each segment. Company-wide costs include expenses of administrative divisions of the Company, such as the General Affairs Department, that cannot be attributed to any specific reportable segments.
- (2) Segment profits are adjusted with operating profit under the quarterly consolidated statements of profit.
- (3) Countries/regions belonging to each geographic segment outside Japan.

- | | | |
|--------------------|---------|--|
| 1 The Americas | • • • • | Mexico, Brazil, United States of America |
| 2 Asia and Oceania | • • • • | Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar |
| 3 Europe | • • • • | Netherlands, United Kingdom, Germany, Belgium, Austria, Italy |

II Sales and profit (loss) in each reportable segment during the second quarter of fiscal 2018 (April 1, 2018 – September 30, 2018)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Sales				
Sales to external customers	95,110	24,777	58,417	4,541
Intersegment sales or Transfers	15,968	—	—	—
Total	111,078	24,777	58,417	4,541
Segment profit (loss)	9,348	6,552	17,347	515

	Pharmaceuticals	Others	Adjustments	Consolidated results
Sales				
Sales to external customers	11,100	9,560	—	203,507
Intersegment sales or transfers	—	1,269	(17,237)	—
Total	11,100	10,829	(17,237)	203,507
Segment profit (loss)	(1,456)	651	(9,163)	23,795

Note: Adjustments are as follows:

- (1) The (9,163 million) yen of adjustment in segment profit (loss) includes (6,632 million) yen of corporate expense that is not allocated to each segment. Company-wide costs include expenses of administrative divisions of the Company, such as the General Affairs Department, that cannot be attributed to any specific reportable segments.
- (2) Segment profits are adjusted with operating profit under the quarterly consolidated statements of profit.
- (3) Countries/regions belonging to each geographic segment outside Japan.

1 The Americas	• • • •	Mexico, Brazil, United States of America
2 Asia and Oceania	• • • •	Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar
3 Europe	• • • •	Netherlands, United Kingdom, Germany, Belgium, Austria, Italy