

Consolidated Financial Results for the 3rd Quarter ended December 31, 2018
(Japanese Generally Accepted Accounting Principles)

January 31, 2019

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	February 13, 2019		
Scheduled date of payment of dividends	—		
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 3rd quarter of FY2018, ended December 31, 2018 (April 1, 2018 - December 31, 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	%
3Q FY2018	315,090	2.0	40,884	2.4	49,295	2.3	34,235	4.5
3Q FY2017	308,964	6.1	39,930	21.7	48,175	16.8	32,753	22.3

(Note) Comprehensive income for 3Q FY2018 20,669 million yen(-61.5%) 3Q FY2017 53,646 million yen(-%)

	Basic earnings per Share	Diluted earnings per Share
	yen	yen
3Q FY2018	213.48	—
3Q FY2017	198.07	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
3Q FY2018	639,003	398,860	56.6
FY2017	627,031	386,674	56.2

(Ref.) Equity for 3Q FY2018 361,505 million yen 3Q FY 2017 352,178 million yen

2. Dividends

(Base date)	Dividends per Share				
	1st Qrt.	2nd Qrt.	3rd Qrt.	Year End	Total
	yen	yen	yen	yen	yen
FY2017	—	17.00	—	17.00	34.00
FY2018	—	20.00	—		
FY2018(Forecast)				24.00	44.00

(Note) Revision of the latest dividend forecast : Yes

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	243.41

(Note) Revision of the latest financial forecast : No

※Note

(1)Changes of 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 to Quarterly Consolidated Financial Statements"

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

①Change in accounting policy with revision of accounting standard:Yes

②Change in account policy other than ①:No

③Changes in accounting estimate:No

④Correction of prior period error:No

(4)Shares issued (common stock)

①Number of shares issued (Including treasury stocks)

3Q FY2018	171,045,418	FY2017	171,045,418
-----------	-------------	--------	-------------

②Number of treasury stocks

3Q FY2018	10,819,489	FY2017	10,549,711
-----------	------------	--------	------------

③Weighted average of number of shares

3Q FY2018	160,368,504	3Q FY2017	165,360,939
-----------	-------------	-----------	-------------

※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 January 31, 2019.

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

Table of Contents

1. Qualitative Information Regarding Quarterly Consolidated Business Results	2
(1) Business Performance Overview	2
(2) Financial Position	4
(3) Disclaimer on Future Outlook Including Consolidated Financial Results Forecast	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statement of Income and comprehensive income	7
Quarterly Consolidated Statement of Income	7
Quarterly Consolidated Statement of comprehensive income	8
(3) Notes to Quarterly Consolidated Financial Statements	9
(Going Concern)	9
(Significant Changes in the Amount of Shareholders' Equity)	9
(Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements)	9
(Change in Accounting Policies)	9
(Additional Information)	9
(Segment Information)	10

1. Qualitative Information Regarding Quarterly Consolidated Business Results

(1) Business Performance Overview

1 Performance Overview

During the third 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 third quarter of this fiscal year rose 2.0% from the same period of the previous year to 315,090 million yen. Operating profit increased 2.4% to 40,884 million yen, while ordinary profit climbed 2.3% to 49,295 million yen. Profit attributable to owners of parent increased 4.5% to 34,235 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. In addition we stepped up efforts to create points of contact with new customers through Yakult Delivery Net, the online home-delivery ordering system which commenced nationwide operation in September of last year. We also aimed to enhance our home delivery organization by improving the working environment for Yakult Ladies, while continuing with hiring initiatives.

In the retail store channel, we worked to increase sales with the “Experience it yourself! Yakult Campaign”, which ran from October to the end of December 2018 while also introducing Christmas package designs for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, between November and December. Furthermore, in October of last year, we updated the package design for the fermented milk drink *Synbiotics Yakult W* and ran TV commercials in an effort to strengthen sales, with a focus on convenience stores.

In product specific initiatives, we conducted activities to promote the consumption of the *Mil-Mil* fermented milk series upon the release of a new package design in September of last year which led to an invigoration of dairy products overall.

As for juices and other beverages, we strove to increase sales through sales promotion measures, with a focus on *Toughman* nutritional drinks.

As a result, consolidated net sales for the food and beverages segment (Japan) increased 3.4% from the same period of the previous fiscal year, totaling 165,256 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

26.93 million bottles as of December 2018.

The average number of bottles sold per day from January to December 2018, the fiscal period for overseas business sites, came to approximately 31.13 million bottles.

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 2.6% to 37,002 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 12.5% from the same period of the previous year to 95,147 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 8.6% from the same period of the previous year to 6,605 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 2018.

As for research and development, in September 2018 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* (Verastem Oncology was granted FDA approval in September of last year in the United States), for which we concluded an exclusive licensing agreement for the Japanese development and commercialization with Verastem Oncology (U.S.) in June 2018 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 16.5% to 16,920 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 worked to realize "internal and external beauty" for our customers and increase the number of regular users of our cosmetics through activities focused on disseminating the value of our original moisturizing agent, *S.E. (Shirota Essence)*, which is the result of our extensive research on lactic acid bacteria since our foundation.

Concretely, 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*. In November of last year, in an effort to increase sales, we updated and launched "*BECYCLE Lift Repair Essence*," a serum which contains our original moisturizing agent, born of our research on *Bifidobacteria*, which imbues skin with renewed firmness and elasticity.

In our professional baseball operations, we expanded number of attendees through proactive fan engagement including diverse events and promotions at Tokyo's Jingu Stadium, as well as active information dissemination.

As a result, consolidated net sales in the "Others" segment rose 3.6% to 18,190 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 third quarter of FY2018 increased 11,971 million yen from the previous fiscal year end to 639,003 million yen.

Net assets increased 12,186 million yen from the previous fiscal year end to 398,860 million yen.

This rise was primarily attributable to an increase in retained earnings, mainly reflecting profit attributable to owners of parent, despite a decrease in foreign currency translation adjustments resulting from a strong yen and a decline in the valuation difference on available-for-sale securities accompanying lower stock prices.

The equity to asset ratio rose 0.4 percentage points from the end of the previous fiscal year, to 56.6%.

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

The above forecast is based on certain information available to management at the time of announcement. Actual operating results may differ from these projections due to various factors in the future.

With regards to earnings forecasts, basic earnings per share were affected by changes in treasury stock but other earnings forecasts have remained unchanged since the announcement on November 9, 2018.

2. Quarterly Consolidated Financial Statements and Notes
 (1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Fiscal year 2017 As of March 31, 2018	Current period As of December 31, 2018
Assets		
Current Assets		
Cash and Deposits	151,788	168,960
Notes and Accounts receivable-trade	56,479	61,627
Merchandises and Finished goods	9,089	8,454
Work in process	2,449	2,439
Raw materials and supplies	16,598	19,134
Others	9,129	8,946
Allowance for doubtful accounts	(254)	(284)
Total Current Assets	245,281	269,278
Non-Current Assets		
Property, plant and equipment		
Buildings and structures (net)	87,387	85,536
Others (net)	113,811	114,322
Total Property, plant and equipment	201,198	199,859
Intangible assets		
Software	3,050	2,721
Others	2,676	2,580
Total Intangible assets	5,727	5,302
Investments and other assets		
Investment securities	163,591	152,384
Others	11,361	12,293
Allowance for doubtful accounts	(129)	(114)
Total Investments and other assets	174,823	164,563
Total Non-Current Assets	381,749	369,724
Total Assets	627,031	639,003

Yakult Honsha Co., Ltd. (2267) Financial Report for the 3rd Quarter of FY2018 ended December 31, 2018

(Millions of yen)

	Fiscal year 2017 As of March 31, 2018	Current period As of December 31, 2018
Liabilities		
Current Liabilities		
Notes and accounts payable-trade	29,528	30,544
Short-term loans payable	41,643	49,129
Current portion of long-term loans payable	45,570	45,565
Income taxes payable	3,404	5,324
Provision for bonuses	5,840	3,758
Others	35,812	33,542
Total Current Liabilities	161,800	167,864
Non-Current Liabilities		
Long-term loans payable	41,898	37,925
Provision for directors' retirement benefits	395	379
Net defined benefit liability	5,346	4,954
Asset retirement obligations	966	938
Others	29,949	28,079
Total Non-Current Liabilities	78,557	72,277
Total Liabilities	240,357	240,142
Net Assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,528	41,749
Retained earnings	318,580	347,040
Treasury shares	(52,322)	(54,833)
Total Shareholders' equity	338,903	365,075
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,215	27,254
Foreign currency translation adjustment	(20,721)	(29,932)
Remeasurements of defined benefit plans	(1,218)	(891)
Total Accumulated other comprehensive income	13,274	(3,569)
Non-controlling interests	34,495	37,355
Total Net Assets	386,674	398,860
Total Liabilities and Net Assets	627,031	639,003

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Previous period From April 1, 2017 to December 31, 2017	Current period From April 1, 2018 to December 31, 2018
Net Sales	308,964	315,090
Cost of Sales	130,951	131,249
Gross Profit	178,012	183,840
Selling, general and administrative expenses	138,082	142,956
Operating Profit	39,930	40,884
Non-operating Income		
Interest income	2,886	3,268
Dividend income	1,712	1,793
Share of profit of entities accounted for using equity method	4,595	3,464
Others	1,431	1,551
Total Non-operating income	10,626	10,078
Non-operating expenses		
Interest expenses	474	545
Commission fee	24	337
Foreign exchange losses	1,303	463
Others	579	319
Total Non-operating expenses	2,381	1,667
Ordinary Profit	48,175	49,295
Extraordinary Income		
Gain on sales of non-current assets	130	83
Gain on sales of investment securities	660	1,670
Others	1	543
Total Extraordinary Income	791	2,298
Extraordinary losses		
Loss on sales of non-current assets	17	30
Loss on retirement of non-current assets	213	184
Others	0	16
Total Extraordinary losses	231	230
Profit before income taxes	48,735	51,363
Income taxes	12,400	13,220
Profit	36,334	38,142
Profit attributable to non-controlling interests	3,580	3,907
Profit attributable to owners of parent	32,753	34,235

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous period From April 1, 2017 to December 31, 2017	Current period From April 1, 2018 to December 31, 2018
Profit	36,334	38,142
Other comprehensive income		
Valuation difference on available-for-sale securities	11,485	(7,848)
Foreign currency translation adjustment	5,170	(9,690)
Remeasurements of defined benefit plans	560	327
Share of other comprehensive income of entities accounted for using equity method	95	(261)
Total Other comprehensive income	17,311	(17,473)
Comprehensive income	53,646	20,669
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	48,719	17,508
Comprehensive income attributable to non-controlling interests	4,927	3,160

(3) Notes to Quarterly Consolidated Financial Statements

(Going Concern)

None

(Significant Changes in the Amount of Shareholders' Equity)

None

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

Calculation of income tax expense

Tax expenses for the Company and its consolidated subsidiaries in Japan are calculated by multiplying income before income taxes for the third 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 third 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 or loss in each reportable segment during the third quarter of FY2017
(April 1 to December 31, 2017)

(Millions of yen)

	Food and Beverages			
	(Japan)	(The Americas)	(Asia Oceania)	(Europe)
Sales				
Sales to external customers	144,395	38,009	84,553	6,080
Intersegment sales or transfers	15,475	—	—	—
Total	159,871	38,009	84,553	6,080
Segment profit or loss (loss)	13,949	9,059	25,156	585

	Pharmaceuticals	Others	Adjustments	Consolidated results
Sales				
Sales to external customers	20,264	15,661	—	308,964
Intersegment sales or transfers	—	1,899	(17,375)	—
Total	20,264	17,560	(17,375)	308,964
Segment profit or loss (loss)	2,747	1,671	(13,240)	39,930

(Note)

1. "Adjustments" are as follows.

The (13,240 million) yen of adjustment in segment profit or loss includes (9,666 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 Oceania Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar

(3)Europe Netherland, United Kingdom, Germany, Belgium, Austria, Italy

II Sales and profit or loss in each reportable segment during the third quarter of FY2018
(April 1 to December 31, 2018)

(Millions of yen)

	Food and Beverages			
	(Japan)	(The Americas)	(Asia Oceania)	(Europe)
Sales				
Sales to external customers	143,094	37,002	95,147	6,605
Intersegment sales or transfers	22,162	—	—	—
Total	165,256	37,002	95,147	6,605
Segment profit or loss (loss)	12,531	9,647	30,814	563

	Pharmaceuticals	Others	Adjustments	Consolidated results
Sales				
Sales to external customers	16,920	16,320	—	315,090
Intersegment sales or transfers	—	1,869	(24,032)	—
Total	16,920	18,190	(24,032)	315,090
Segment profit or loss (loss)	(1,244)	1,786	(13,214)	40,884

(Note)

1. "Adjustments" are as follows.

The (13,214 million) yen of adjustment in segment profit or loss includes (9,681 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 Oceania Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar

(3) Europe Netherland, United Kingdom, Germany, Belgium, Austria, Italy