

# Yakult



## How do we ensure the sustainable growth of *Yakult* as a **global brand**?





# Growing from Our Roots

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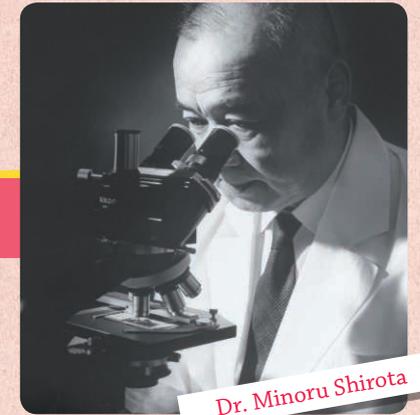
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### Forward-Looking Statements

Statements contained in the Annual Report 2020 regarding business results for fiscal 2020 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*.



Dr. Minoru Shirota

## In the nearly 90 years since then,

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

## As a probiotics\* pioneer,

we help to protect people's health in 40 countries and regions, including Japan, as of September 30, 2020. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceutical business, in which we handle anticancer drugs, as well as a cosmetics business.

\* Probiotics: Live microorganisms that provide health benefits by improving the balance of intestinal microbiota. Defined at present by the FAO/WHO as "live microorganisms which when administered in adequate amounts confer a health benefit on the host."

# The Sources of Yakult's Strength

Yakult has three unique sources of strength:

## Product Power:

In the 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 part in the fields of pharmaceuticals and cosmetics as well.



## The Yakult Lady System:

Everywhere Is Local



Yakult's products are offered through two channels, home delivery sales and retail store 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.

Preventive medicine

Shirota-ism

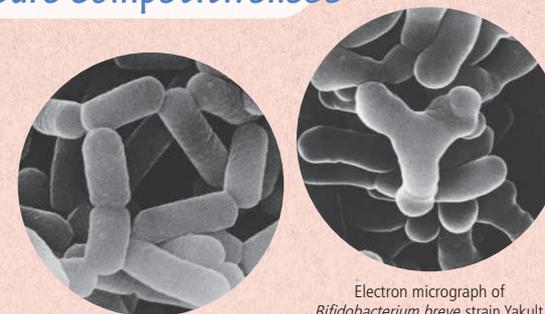
A price anyone can afford

A healthy intestinal tract leads to a long life

## Dynamic R&D:

The Wellspring of Future Competitiveness

For Yakult, R&D activities vitally underpin its ability to create products that promote good health, today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying new ingredients in food, pharmaceuticals, cosmetics and other areas.



Electron micrograph of *Lactobacillus casei* strain Shirota

Electron micrograph of *Bifidobacterium breve* strain Yakult

# Yakult Consumption around the World

# Taking Good Health Global

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

## THE AMERICAS

### Brazil



1,552  
Thousands of bottles/day

### United States



378  
Thousands of bottles/day

### Mexico



3,832  
Thousands of bottles/day

### United Kingdom



194  
Thousands of bottles/day

### The Netherlands



160  
Thousands of bottles/day

### Austria



10  
Thousands of bottles/day

### Germany



75  
Thousands of bottles/day

### Belgium



78  
Thousands of bottles/day

### Italy



95  
Thousands of bottles/day

## EUROPE

## Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries  
March 31, 2020, 2019, 2018, 2017 and 2016

	Millions of yen					Thousands of U.S. dollars (Note 2) 2020
	2016	2017	2018	2019	2020	2020
<b>For the year:</b>						
Net sales	¥390,412	¥378,308	¥401,570	¥407,017	¥406,004	\$3,759,297
Operating income	40,057	37,282	43,464	45,846	45,675	422,918
Net income attributable to owners of the parent	28,843	30,155	34,065	34,935	39,736	367,920
<b>At the year-end:</b>						
Total assets	¥577,535	¥585,741	¥627,032	¥618,533	¥627,871	\$5,813,621
Total liabilities	212,070	208,860	240,358	226,254	215,789	1,998,043
Total equity	365,465	376,881	386,674	392,279	412,082	3,815,578
<b>Financial ratio:</b>						
Return on equity (ROE) (%)	8.8	8.9	9.8	9.8	10.9	
	Yen					U.S. dollars (Note 2)
<b>Per share of common stock:</b>						
Basic net income	¥ 174.54	¥ 182.39	¥ 207.02	¥ 217.89	¥ 248.04	\$ 2.30
Total equity (Note 3)	2,007.73	2,077.29	2,194.32	2,229.80	2,330.58	21.58
Cash dividends applicable to the year	50.00	32.00	34.00	44.00	46.00	0.43

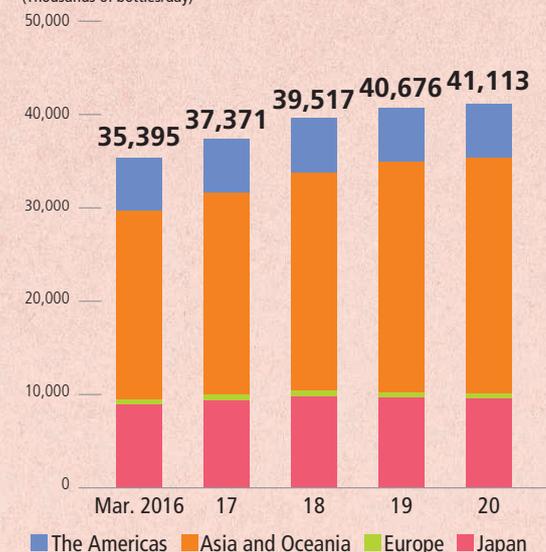
Notes: 1. Figures are rounded to the nearest million.

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 ¥108 to U.S.\$1, the approximate rate of exchange at March 31, 2020.

3. Noncontrolling interests are not included in equity on process of calculation.

## Sales Volume by Region

(Thousands of bottles/day)



### South Korea



**3,092**  
Thousands of bottles/day

### Middle East



**18**  
Thousands of bottles/day

### Singapore



**224**  
Thousands of bottles/day

### Indonesia



**6,366**  
Thousands of bottles/day

### India



**238**  
Thousands of bottles/day

### Thailand



**2,185**  
Thousands of bottles/day

### China



**7,609**  
Thousands of bottles/day

Breakdown is as follows:

- Guangzhou 2,916
- Shanghai 559
- Beijing 426
- Other areas of China 3,709

### Taiwan



**673**  
Thousands of bottles/day

### Hong Kong



**513**  
Thousands of bottles/day

### Vietnam



**529**  
Thousands of bottles/day

## ASIA AND OCEANIA

### Malaysia



**350**  
Thousands of bottles/day

### Myanmar



**5**  
Thousands of bottles/day

### Australia



**252**  
Thousands of bottles/day

### The Philippines



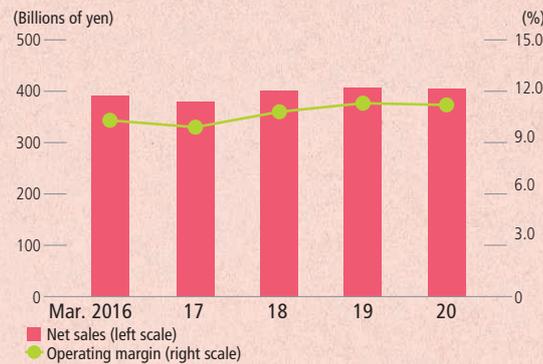
**3,196**  
Thousands of bottles/day

### Japan

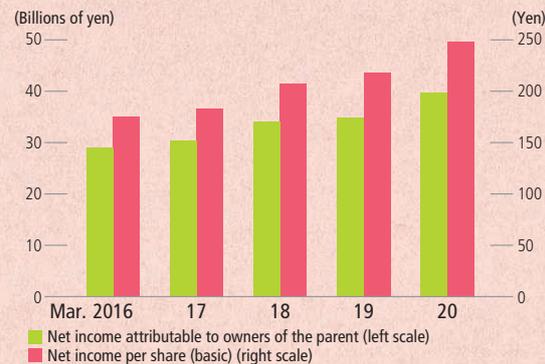


**9,488**  
Thousands of bottles/day

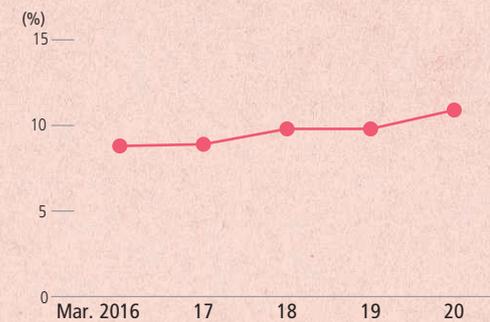
### Net Sales and Operating Margin



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



### ROE



## To Our Shareholders



*Takashige Negishi*

**Takashige Negishi**

*President and Representative Director*

# With the coronavirus rampaging across the globe, we are filled with a renewed determination to fulfill the social mission we have held since our foundation: to deliver good health to people around the world.

Since January 2020, the outbreak of the coronavirus (COVID-19) pandemic has had a serious impact on the global economy, as well as our business activities, both in Japan and overseas have also been significantly impacted. Fortunately, however, *Yakult* has been recognized as an essential product in multiple countries, allowing production to continue at almost all of our overseas facilities. We have therefore been able to carry on with production and delivery to stores—primarily mass retailers—even in regions where lockdowns and other restrictions have been imposed. In the Philippines, however, household isolation measures were enacted across a broad geographic area encompassing the whole of Luzon Island, where the capital of Manila is located. All residents were prohibited from going out, and public transport was halted. Consequently,

although employees at our plant in the region usually work a three-shift system, we were forced to reduce operations to a single shift for some time. Concurrently, in our home delivery segment, we had to suspend the activities of Yakult Ladies in China and Indonesia, among other countries.

Against this backdrop, for the fiscal year ended March 31, 2020, our net sales came to ¥406.0 billion, and operating income amounted to ¥45.7 billion, delivering results that were broadly on a par with those of the prior fiscal year.

We announced a consolidated results forecast for the fiscal year ending March 31, 2021 of ¥411.0 billion in net sales, ¥47.0 billion in operating income, ¥37.0 billion in profit attributable to owners of the parent, and ¥230.95 in net income per share. This forecast is based on the assumption that our mainstay food and beverages segment will not

be significantly impacted by the coronavirus either in Japan or overseas.

The potential effects of a second and third wave of infection cannot be overlooked and introduce uncertainty into the future outlook. Moreover, the situation varies significantly from country to country. Nonetheless, the Yakult Group is determined once again to fulfill its social mission to deliver the irreplaceable joy of good health to people around the world, which represents the value of our existence as a company. We will continue to contribute to the health and happiness of people across the globe by pursuing excellence in life science in general and our research and experience in microorganisms in particular.

September 2020

# Interview with the President

Reflecting on the Fiscal Year Ended March 31, 2020

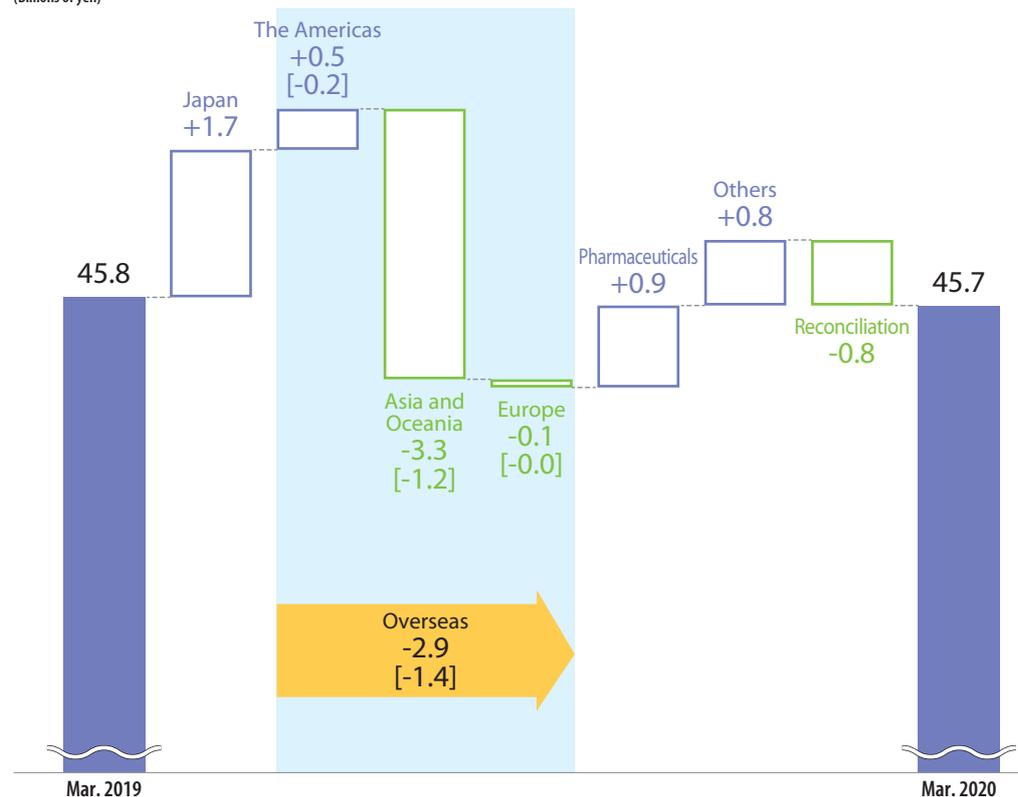
**Q** Please summarize the business results for the fiscal year ended March 31, 2020.

**A** Sales and all stages of profit were broadly on a par with those of the prior fiscal year, and the efficiency in generating profits improved.

During the fiscal year under review, we posted net sales and profit metrics that were broadly on a par with those of the prior fiscal year, while achieving higher efficiency in generating profits.

The overseas food and beverage business saw growth in sales due to a rise in bottle sales along with the effects of price adjustments, especially in Asia, as well as a decline in profits due to foreign exchange effects and higher expenses. In Japan, we experienced lower sales reflecting a reaction to increased production equipment sales in the prior fiscal year and higher profits reflecting mainly the introduction of new products such as *Yakult 1000*. In the pharmaceuticals business, sales and profits declined due mainly to revision of the NHI drug prices and lower R&D expenses, respectively. In terms of the efficiency in generating profits across the entire business, ROE and ROA improved 1.1 percentage points to 10.9% and 0.2 percentage point to 9.4%, respectively.

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



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

# Overseas Food and Beverages

## Strategy and Initiatives for the Fiscal Year Ending March 31, 2021

### Targets

### Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2021

- Net sales: **¥411.0 billion**
- Operating income: **¥47.0 billion**
- Net income attributable to owners of the parent: **¥37.0 billion**
- Net income per share: **¥230.95**

**Q** Please discuss the initiatives you plan to implement in the overseas food and beverage business in the fiscal year ending March 31, 2021.

**A** By increasing the number of bottles sold, we will enhance the value of the Yakult brand, encourage consumers to experience probiotics, and revitalize the market.

In the overseas beverage and food business, average daily sales (in terms of overseas volume from January to December 2019) rose 1.6% from the prior year to 31,624 thousand bottles. For the effects of the coronavirus, please see page 5. The situation in specific countries is detailed below.

First, I would like to focus on Indonesia, one of the markets that drives sales volume in the Asia and Oceania region. Sales were continuing to grow steadily at the beginning of 2020, but on March 20 the provincial government of the capital city of Jakarta declared a state of emergency. As a result, in April approximately 2,000 Yakult Ladies in Jakarta and its suburbs had to suspend their sales activities.

It has long been noted that the home delivery system operated by Yakult Ladies is a key driver of our results in Indonesia. It is a business model unique to Yakult, and we regard every single Yakult Lady as a vital asset within our company. For the Yakult Ladies who had to suspend their sales activities due to the spread of the coronavirus, therefore, we offered compensation for absence from work, as well as support

for physical and mental health as well as other assistance. We are supporting them as best we can, with the hope that they will return to work once this situation abates. We believe that, as the Yakult Ladies resume their sales activities, they will be able to make up for the shortfall during this time.

We are currently taking similar steps in other countries.

In Vietnam, where the government issued a request for people to stay home, sales results have remained favorable, with employees and Yakult Ladies resuming near-normal operations despite the effects of the closure of schools and restaurants with whom we have a relationship.

In China, where our sales saw a steady recovery in March, we established three new sales offices and began operations. In July we opened branches in Hengyang and Wuhu, under Yakult (China) Co., Ltd, followed by a branch in Zhaoqing that opened in August, under Guangzhou Yakult Co., Ltd.

By establishing these three sales offices, we will further enhance the visibility and presence of *Yakult* products in retail stores, and we will further highlight the value of *Lactobacillus*

*casei* strain Shirota and communicate the importance of the continued consumption of *Yakult* products. Through these measures, we seek to boost the understanding of our products among customers in regions where we already operate.

Yakult's operating environment in China has changed significantly, as purchasing behavior shifts from in-store shopping to e-commerce, and competing products continue to emerge as local dairy industry manufacturers bring new dairy products to market. Meanwhile, it has been reported that during the spread of the coronavirus the National Health Commission of the People's Republic of China recommended the consumption of dairy products.

Given these circumstances, we are starting to consider the release of high-value-added *Yakult* products as a way to enhance the value of the *Yakult* brand and encourage consumers to experience probiotics. We will also consider releasing high-value-added *Yakult* products in the United States and European countries.

## Interview with the President



**Q** Please explain the initiatives that you plan to take in the pharmaceuticals business during the fiscal year ending March 31, 2021.

**A** We will boost sales revenue by actively pursuing alliances with other companies and continuing to launch new generic drugs.

As to the pharmaceutical business, with the radical reform to drug pricing system underway in Japan<sup>\*1</sup>, the environment for the pharmaceuticals business remains severe and challenging, and unfortunately we anticipate segment loss again during the fiscal year ending March 31, 2021. However, the sales of anticancer drugs—an area in which we excel—requires experiences, and we believe that the number of occasions which require Yakult's role and activities based on the experiences will continue to rise. This is why, for our leading product *Elplat*, we will be making the most of our medical representative organization, one of our key assets, and we redouble our efforts to provide information on the latest treatments and proper use, for benefit of the patients.

In October 2019 we entered into a promotion agreement with Nihon Servier Co., Ltd. for the antineoplastic drug *Onivyde*<sup>®</sup>, and on March 25, 2020, the marketing authorization approval

was granted to *Onivyde*<sup>®</sup> for the indication of metastatic pancreatic cancer after disease progression following prior chemotherapy. This was followed by the launch of sales on June 1, 2020. We will move promptly to promote proper use of *Onivyde*<sup>®</sup>, alongside *Elplat*.

During the fiscal year ending March 31, 2021, we will boost sales revenue by actively pursuing alliances with other companies and continuing to launch new generic drugs.

<sup>\*1</sup> It is one of political measures established by the Japanese government to save rise of the national medical costs, for the purpose of maintaining the universal health insurance and pension systems. It includes the annual (every year) revision of drug price, the market expansion re-pricing, revision for the price of long-term listed drugs, etc.



Pharmaceuticals  
Business

## Domestic Food and Beverage Business



**Q** Please explain the planned initiatives for the domestic food and beverage business in the fiscal year ending March 31, 2021.

**A** By expanding the sales regions for high-value-added products, we will encourage even more customers to experience product benefits, and increase sales volume.

In April 2020, a state of emergency was declared within Japan. We responded in line with local government requests for people to stay home, paying particular attention to the health and safety of customers and employees in our home delivery segment. In specific terms, we suspended deliveries by Yakult Ladies in some densely populated urban areas, while adopting alternative delivery methods that avoided direct contact in cases of customers who still required deliveries, such as providing a special cooler box in which to leave deliveries. We also sold products at Yakult centers (the sites from which Yakult Ladies operate).

In the direct sales segment, which is primarily retail store-based, demand for yogurts and fermented milk drinks at general merchandise stores and supermarkets increased nationwide. In contrast to this, however, the closure of elementary and junior

high schools resulted in a halt to the delivery of products for school lunches, while the suspension of businesses and offices led to significantly reduced demand for vending machine products, a trend which had continued for the two months.

The following is an overview of the products we will be focusing on as we develop our business during the fiscal year ending March 31, 2021.

In October 2019, we released *Yakult 1000* in Tokyo and the six other prefectures of the Kanto region, and sales have exceeded targets. For the current fiscal year, we are about to launch sales of this product via the home delivery channel across the entire Hokkaido and Tohoku regions, as well as in Shizuoka, Yamanashi, Nagano, and Niigata prefectures from August 31, 2020. Work to establish the requisite production capacity is underway.

Furthermore, we are extending the sales regions for *Yakult 400W*, which we launched in the Kyushu region via the home delivery channel in January 2020. In April we extended sales to all of the Chugoku and Shikoku regions, along with part of the Kinki region, and in June we expanded across the entire Kinki region, as well as all of Aichi, Gifu, Ishikawa and Toyama prefectures.

*Yakult 1000* and *Yakult 400W* are both products of our research, and each is firmly supported by reliable scientific evidence. By extending the sales regions for these high-value-added products, we hope to give even more customers the opportunity to experience their benefits.



# How do we ensure the sustainable growth of *Yakult* as a global brand?

## The secret lies in "Creating **Loyal Customers.**"

We have achieved steady growth as a global brand by helping customers to understand the value and effectiveness of *Lactobacillus casei* strain Shirota through the three key steps: "understand," "continue," and "experience," and through these steps we continue "creating loyal customers." This article looks into this process, with a focus on the three key steps.

**Creation of loyal customers**

Across **40 countries and regions** (including Japan)

Customers become loyal fans in three steps

### 1 Understand



Helping customers understand the value of *Lactobacillus casei* strain Shirota.

### 2 Continue



Having customers continue consuming *Yakult*\* products regularly.

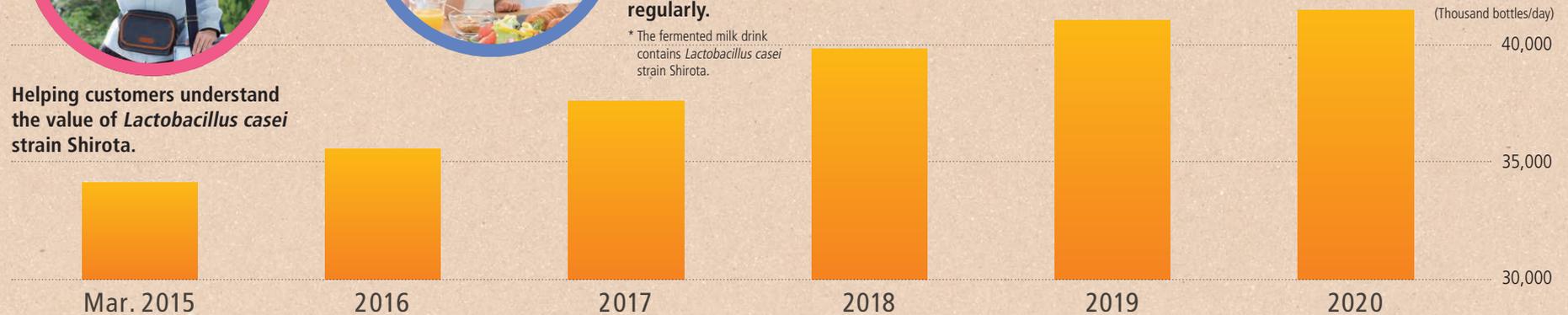
\* The fermented milk drink contains *Lactobacillus casei* strain Shirota.

### 3 Experience



Helping customers experience the value (health benefits) of *Lactobacillus casei* strain Shirota.

More than **40 million bottles/day** worldwide



# 1

## Understand

**Helping customers understand the value of *Lactobacillus casei* strain Shirota.**

### Achieved by utilizing:

- (i) Vast accumulation of scientific evidence
- (ii) Activities to communicate the value of *Lactobacillus casei* strain Shirota via Yakult Ladies, plant tours, and guest lectures

## Communicate the value and effectiveness of *Lactobacillus casei* strain Shirota based on scientific evidence

### Promoting Face-to-Face, Grassroots Awareness-Raising Activities, Globally

When Yakult, our fermented milk drink containing *Lactobacillus casei* strain Shirota, was first put on sale in 1935, there was no other product with the revolutionary idea of furthering preventive medicine through the consumption of live microorganisms. So, naturally, our activities had to begin with explaining to customers the value and effectiveness of *Lactobacillus casei* strain Shirota, and helping them to understand this new concept. And this basic approach has remained unchanged to the present day. We aim to always provide as many customers as possible with timely access to the ever growing research results and evidence we have accumulated, as well as to the steadily advancing knowledge of life science, striving daily to achieve this by furthering the knowledge of our Yakult Ladies and employees through our systematic education system, and promoting grassroots awareness-raising activities globally. Specifically, in addition to the daily work done through home delivery by Yakult Ladies and the in-store daily activities of sales staff, we also focus on dispatching guest lecturers to schools, holding health-related lectures open to the public, and conducting plant tours (see page 24), as well as sharing information with opinion leaders including doctors, nurses, registered dietitians, pharmacists, and probiotics researchers.

### How we enhance customers' understanding



#### Research and development capability

Unparalleled R&D capability allowing for the accumulation of vast scientific evidence

#### Human resources development capability

To foster staff who can convey the "Value"

#### Conveying value directly

To promote customers' understanding based on a face-to-face, grassroots approach

#### Starting point

**Intestinal microbiota research**  
Intestinal bacteria are divided into beneficial bacteria and harmful bacteria, both of which are deeply connected with health.

#### Further research

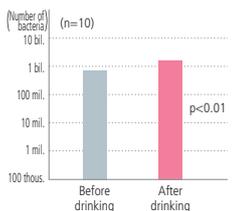
The accumulation of evidence as a result of the strengthening and culturing of *Lactobacillus casei* strain Shirota

#### Research advancement

*Lactobacillus casei* strain Shirota helps increase the beneficial bacteria and decrease the harmful bacteria in the intestines.

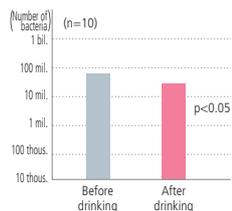
#### Increase in beneficial bacteria

**Bifidobacteria in the intestines**  
Bacteria per gram of stool



#### Decrease in harmful bacteria

**Enterobacteriaceae in the intestines**  
Bacteria per gram of stool



Nagata S, et al. (2011) (Modified)

#### Front line

#### The Gut-Brain Axis

There is a close connection between the gut and the brain, and intestinal bacteria are associated with stress.

#### Achievement

**Yakult 1000 launched (Japan)**



**Yakult Lady training**  
(Indonesia)

**Classes and seminars**  
for Yakult Ladies and employees



**Guest lecturers**  
(Japan)



**Health-related lectures**  
(Brazil)



**Plant tours**  
(Almere Plant, the Netherlands)

**Sharing information with opinion leaders**  
including doctors, nurses, registered dietitians, pharmacists, probiotics researchers, etc.

2

# Continue

Having customers continue consuming Yakult products regularly

Achieved by utilizing:

- (i) Brand image of health
- (ii) The Yakult bottle

## Whoever. Whenever. Wherever. Creating an environment which facilitates continued consumption

### Even the Yakult Bottle Supports Continued Consumption

In order to allow customers to experience the value and the effectiveness of *Lactobacillus casei* strain Shirota, we strive to create an environment to facilitate continued consumption, whoever, whenever, wherever that may be. Our sales include both home delivery and retail store sales, as well as online sales in certain countries including Japan, in order to maximize points of customer contact (contact points). The products are designed to encourage customers to continue regular consumption, as opposed to drinking a large amount at one time, and by adopting a bottle size of 65 ml to 100 ml, daily consumption never becomes tiresome or too much. To further reinforce their daily consumption, the products are sold at a price anyone can afford, in order to allow as many people as possible to benefit from their continued consumption. Moreover, the Yakult bottle has become more than simply a liquid container, but is seen by customers around the world as a symbol of the Yakult brand, embodying health, and quality. It is even a registered three-dimensional trademark, something not granted to just any drink container, in the United States, many countries in Europe, and other countries and regions around the world. This is a major advantage for us in raising brand awareness.

### Available Anywhere, Anytime

#### Advertising and PR



Billboards

Rousing Consumers' Interest

#### In stores



Salesperson at supermarket

#### Via home delivery (at home)



Home delivery by Yakult Lady

#### Online



Yakult Delivery Net

Focus on points where we can intersect with the lifestyles of health-conscious consumers, including online



# 3

## Experience

Helping customers experience the value (health benefits) of *Lactobacillus casei* strain Shirota.

### Achieved by utilizing:

- (i) Presence in 40 countries and regions (including Japan)
- (ii) Potential for growth in bottle sales

Through our work to perfect the three steps to creating loyal customers since our founding, we have continued to expand in a global market with ever more growth potential

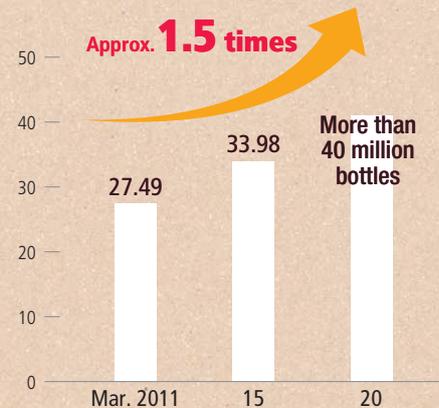
### We Are Ready to Enter a Global Growth Phase

Since our foundation, Yakult has worked on perfecting the three steps to “creating loyal customers” and to expand the network of loyal customers globally. Average daily bottle sales are now more than 40 million, 1.5 times greater than 10 years ago. We do business in 40 countries and regions including Japan, but our global expansion has not yet reached its full potential. In fiscal 2019, our marketing population is about 2.38 billion, or about 30% of the world population, and our market penetration ratio (sales results as a percentage of marketing population) is 1.72% worldwide, a much lower level than we see in Mexico (4.04%) or Guangzhou (3.45%) in China. We will strive to maintain this growth trend and expand the network of loyal customers in the high growth potential global market to deliver good health to as many people as possible around the world.

## Cultivate loyal customers by facilitating people in understanding, continuing, and experiencing *Yakult*

### Global *Yakult* Bottle Sales

(Millions of bottles/day)



### Customer Experiences Summarized in Health Claims

By understanding the value and effectiveness of *Yakult*, continuing to consume it, and directly experiencing that value and effectiveness, customer loyalty to *Yakult* is further solidified. This is shown in the sales results on the left. We listen to the feedback from our customers, and understand that the majority of their experiences can be summarized into the health claims below:

- Japan: *Lactobacillus casei* strain Shirota in *Yakult* reaches the intestinal tract alive and works to increase the beneficial bacteria and decrease the harmful bacteria, improving the intestinal environment and regulating the overall condition of the intestinal tract.
- Overseas (Switzerland): *Yakult* contributes to the normal functioning of the intestine by improving stool consistency and reducing transit time.

### Global Market Potential

#### World Population Coverage

193 countries  
7.89 billion people  
(United Nations member states)

#### Marketing population

2.38 billion people  
Present in 40 countries and regions (including Japan)

#### Market penetration rate

(As of March 31, 2020)

- World average: **1.72%**
- Mexico: **4.04%**
- Guangzhou (China): **3.45%**

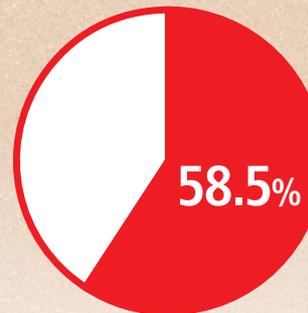
# Review of Operations

# Japan

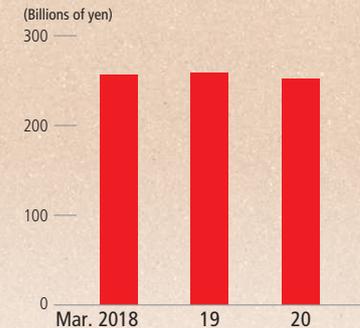
Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing Yakult into a specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our "Others" business segment. For the fiscal year ended March 31, 2020, net sales in Japan came to ¥252.0 billion.

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

Percentage of Net Sales (%)



Net Sales



## Food and Beverages



New Yakult



Yakult 400



Joie



Mil-Mil



Sofuhl



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

Through our home delivery channel, we strived to encourage consumption of the fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, we stepped up efforts to create points of

contact for new customers through an advertising campaign for Yakult Delivery Net, our online home-delivery ordering system. We also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while continuing with hiring initiatives.

In the retail store channel, we conducted value dissemination initiatives with a focus on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*, through sampling led by

promotion staff. We also worked to increase revenue, taking steps to improve in-store visibility of *New Yakult Calorie Half* by revamping its design in October 2019.

In product specific initiatives, we commenced initial sales of the fermented milk drink *Yakult 1000* in Tokyo and the six other prefectures of the Kanto region in October 2019. In conjunction with an advertising campaign, we pursued initiatives to encourage consumption of *Yakult 1000*, which can relieve stress

in situations that cause temporary mental stress, and improve sleep quality. Subsequently, in January 2020, we commenced initial sales of the fermented milk drink *Yakult 400W* in the Kyushu region.

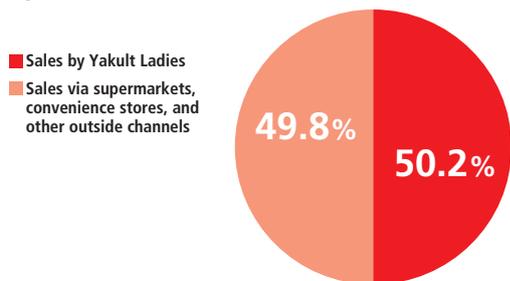
*Yakult 400W*, a product in our mainstay Yakult 400 series, enables our living *Lactobacillus casei* strain Shirota to be consumed together with galacto-oligosaccharides, which increase lactic acid bacteria in the digestive tract.

In other beverages, we sought to boost revenue, focusing primarily on our *Toughman* series and other health drinks. Initiatives included implementing a customer campaign in conjunction with advertising for *Tough-Man Refresh*.

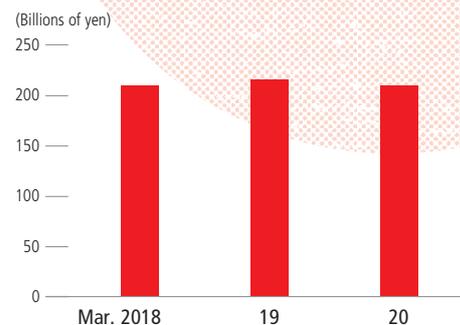
Despite these efforts to bolster sales, however, results were below the previous year's figures.

Consequently, consolidated net sales for the Food and Beverages segment (Japan) declined 2.6% from the previous fiscal year, totaling ¥209.4 billion.

### Breakdown of Probiotic Products Sales by Channel (%)



### Net Sales of Food and Beverages



## Pharmaceuticals



Campto 40mg for I.V. Infusion



Elplat I.V. Infusion Solution 100mg



Gemcitabine for I.V. Infusion 200mg Yakult

In the Pharmaceuticals, we pursued activities for promoting awareness and proper use of our products that specialize in oncology field, such as chemotherapy and after-operation auxiliary chemotherapy lowering the recurrence rate of cancer and improving the survival rate.

As for our leading product, the antineoplastic drug *Elplat*, we proactively conducted lecture/seminar meetings targeting medical professionals in order to maintain our market share. Although medical institutions are increasingly switching to generic versions of *Elplat*, we boosted activities to encourage

customers to continue choosing *Elplat* by leveraging our ability to provide relevant information as well as the relationships of trust we have built up with medical professionals, which are our strength as the original drug developer in Japan. At the same time, we sought to expand sales channels for our core generic



## Review of Operations

product, the antimetabolite antineoplastic drug *Gemcitabine* [*Yakult*] and other products. Further, we also worked to promote swift market penetration, and to increase revenue, for the anti-neoplastic drugs *Capecitabine Tablets* [*Yakult*] and *Gefitinib Tablets* [*Yakult*] which were launched in June 2019. However, the revision of National Health Insurance drug price standards that accompanied the increase in Japan's consumption tax rate resulted in price reduction for most of our pharmaceutical products, and it had a big impact on our revenue.

Further, as for the antineoplastic drug *Onivyde*<sup>®</sup> (liposomal irinotecan) which we entered into an agreement with Nihon Servier Co., Ltd. for the promotion in Japan in October 2019,

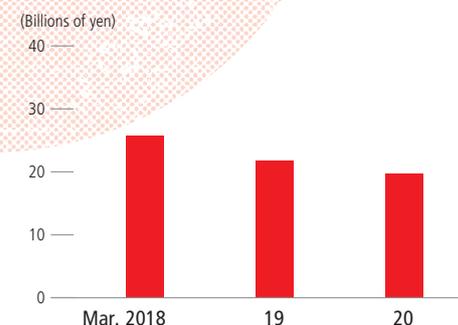
Nihon Servier has obtained marketing authorization approval for *Onivyde*<sup>®</sup> in March 2020.

Meanwhile, in R&D, we continued to proceed with the clinical development of our pipeline programs such as PI3K inhibitor duvelisib [YHI-1702] for which we concluded an exclusive licensing agreement for the development and commercialization in Japan with Verastem, Inc. (U.S.) and HDAC inhibitor resminostat [YHI-1001] which was in-licensed from 4SC AG (Germany).

Through these efforts, we aim to further strengthen our position in oncology field.

As a result, net sales in the Pharmaceuticals segment was ¥19.7 billion, declined by 9.3% from the previous fiscal year.

### 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 one specific example of such efforts, in July 2019 we

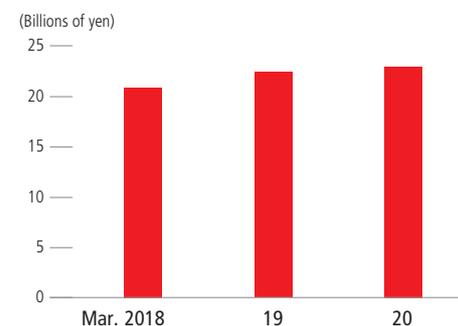
released a revamped version of our *Lactdew* series of highly moisturizing basic skin care products, at the same time conducting proactive advertising including a television commercial to boost brand recognition for products in the series. We also sought to increase customer satisfaction and boost sales, releasing the *Parabio AC* special program set in November 2019 and *Crystance White Repair Essence*, a medicated lightening serum, in March 2020.

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

In our professional baseball operations, attendance at Tokyo's Jingu Stadium increased as a result of proactive fan engagement that included diverse events and promotions at the stadium as well as active information dissemination.

As a result, consolidated net sales in the Others segment rose 2.1% to ¥22.9 billion.

### Net Sales of Others



Lactdew series

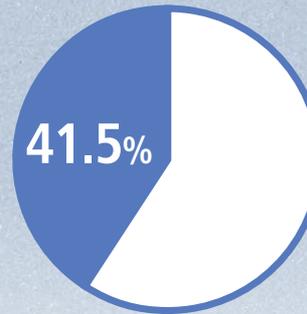


Tokyo's Jingu Stadium filled with Tokyo Yakult Swallows fans

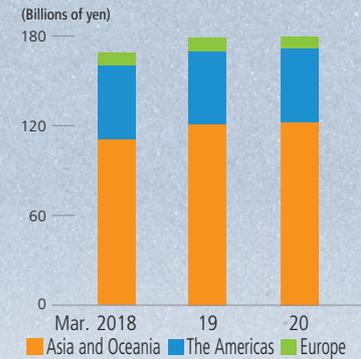
# International Business

Yakult's operations outside Japan commenced in March 1964 with the establishment of Yakult Taiwan Co., Ltd. Today 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 31.62 million bottles as of March 2020. For the fiscal year ended March 31, 2020, the International Business recorded net sales of ¥179.0 billion.

Percentage of Net Sales (%)



Net Sales



## Asia and Oceania

Taiwan, Hong Kong, Thailand, South Korea, the Philippines, Singapore, Brunei, Indonesia, Australia, China, Malaysia, New Zealand, Vietnam, India, the United Arab Emirates, Oman, Bahrain, Qatar, Kuwait, Myanmar



Indonesia



Hong Kong



China



Vietnam



United Arab Emirates



China

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, Myanmar, and China, among others, while also importing *Yakult* and other products for sale

in the United Arab Emirates (UAE), among other nations.

In China we further reinforced our sales network by increasing the number of sales offices across the entire country to 46 in June 2019. In addition, we are continuing

preparations to start the construction of Wuxi Plant 2 (Wuxi Yakult Co., Ltd.) to cater to future increases in demand resulting from the expansion of our sales area and deeper cultivation of the market.

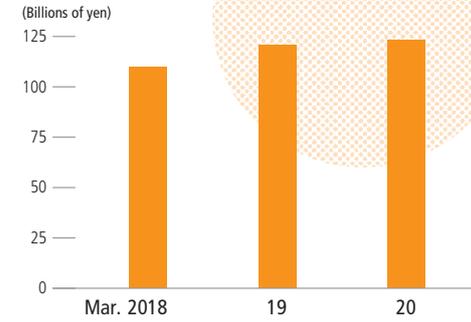
# Review of Operations

In Myanmar, we started manufacture and sales of *Yakult* in August 2019. As a result of the above, consolidated net sales in the Food and Beverages (Asia and Oceania) segment rose 1.3% from the previous year to ¥122.3 billion.



Vietnam

## Net Sales in Asia and Oceania



## The Americas

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



Brazil



Mexico



United States

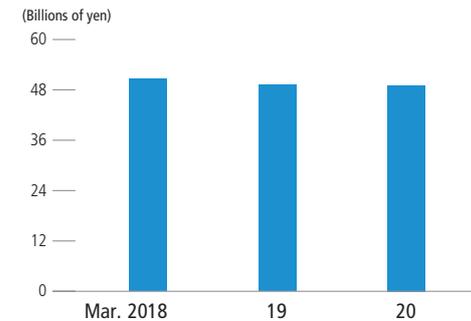


United States

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, and the United States. In the United States, we started sales on

the East Coast in July 2019 and expanded our sales area to cover the whole of the country.

## Net Sales in the Americas



Despite these initiatives, consolidated net sales in the Food and Beverages (The Americas) segment decreased 0.3% from the previous year to ¥48.7 billion.



Brazil

Belgium



## Europe

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



Shared bottle design used in Europe



Paper carton packaging used in the Netherlands, Belgium, Luxembourg, and France



United Kingdom

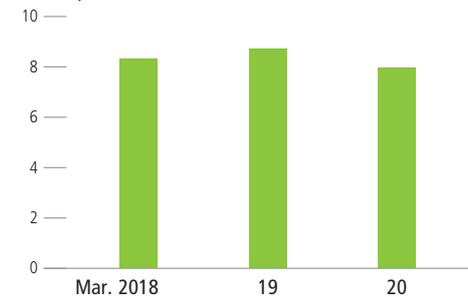
In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

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

Despite these efforts, consolidated net sales in the Food and Beverages (Europe) segment declined 8.4% from the previous year to ¥7.9 billion.

### Net Sales in Europe

(Billions of yen)



# Research and Development

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

## The Yakult Central Institute and the Yakult Honsha European Research Center for Microbiology 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 recorded numerous achievements, starting with the discovery and use of lactic acid bacteria with high levels of functionality.

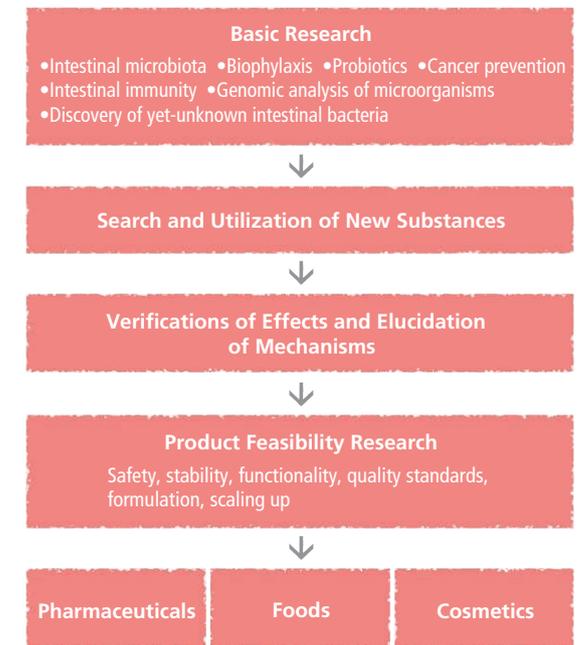
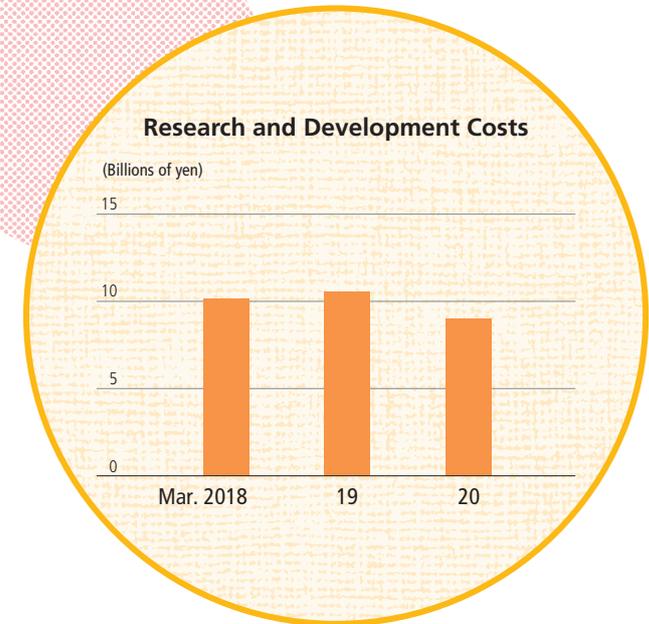
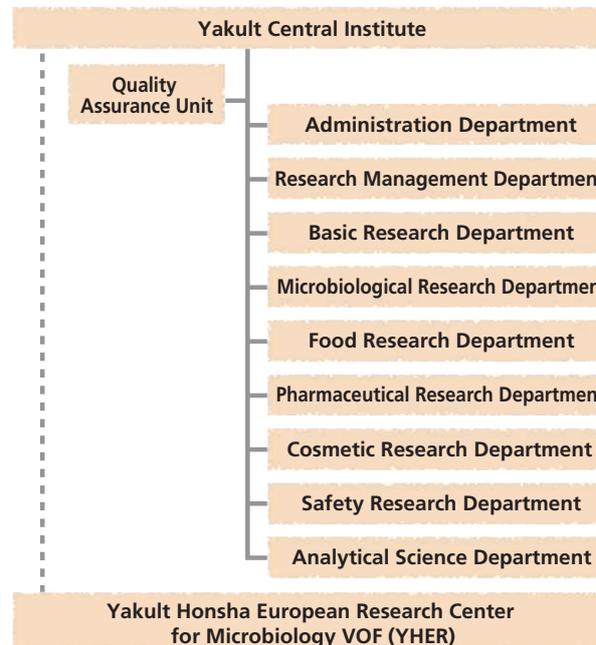
The Yakult Central Institute consists of seven separate research departments, each with their own research function and state-of-the-art research facilities. Supporting the work of the research departments is: the Administration Department, responsible for managing the Institute; the Research Management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

## Steps in R&D Activities

Before a product can be completed there are a great many steps that need to be taken. The Yakult Central Institute is responsible for the development of the functional ingredients, which proceeds in three steps: basic research, ingredient development research, and

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

## Organization of the Yakult Central Institute



## Recent R&D Activities

### **Intake of dairy products containing *Lactobacillus casei* strain Shirota in combination with habitual physical activity helps reducing the risk of constipation in the elderly** **Joint research with the Tokyo Metropolitan Institute of Gerontology**

In joint epidemiological research with the Tokyo Metropolitan Institute of Gerontology, we have examined effects upon the constipation risk of the intake frequency of fermented milk products containing *Lactobacillus casei* strain Shirota and the quantity of habitual physical activity in elderly Japanese living in Nakanojo town, Gunma Prefecture. As a result, elderly people who frequently consume dairy products containing *Lactobacillus casei* strain Shirota (particularly  $\geq 6$  days per week) and elderly people that walk more than 7,000 steps per day showed a lower risk of constipation than peers. It also indicated that the combination of these two habits was more effective on the improvement of bowel movement. The research suggests that the combination of frequent intakes of dairy products containing *Lactobacillus casei* strain Shirota with habitual physical activity may provide an effective way for the elderly to prevent constipation. The study was published in *Frontiers in Microbiology*.

### **Continuous intake of fermented milk drinks containing *Lactobacillus casei* strain Shirota may help prevent infections in the elderly** **Joint research with the Kanagawa Institute of Technology**

In joint research conducted with the Kanagawa Institute of Technology, elderly residents in nursing facilities were continuously administered fermented milk drinks containing *Lactobacillus casei* strain Shirota for six months, including winter when there is a higher risk of viral infection. As a result, it was confirmed that the total number of days with fever and the number of days the fever persisted during administration were significantly less in the group continuously administered fermented milk drinks versus the control group continuously administered a placebo without lactic acid bacteria. The research suggests that continuous intake of fermented milk drinks containing *Lactobacillus casei* strain Shirota may provide an effective way for the elderly to prevent infections. The study was published in *Bioscience of Microbiota, Food and Health*.



# CSR Activities

As a probiotics pioneer, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy, which states, “We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.” This is accomplished through the principles of Shirota-ism, which we have followed since the Company’s foundation. During the fiscal year ended March 31, 2017 (fiscal 2016), we formulated key themes for our CSR Action Plan in accordance with the core objectives of ISO 26000, and have set out concrete action targets and put them into practice since fiscal 2017. As a measure to respond to global developments in CSR, we are promoting CSR activities while incorporating the Sustainable Development Goals (SDGs) and environmental, social, and governance (ESG) investment into our system of activities.



## Yakult’s Three Key Areas of CSR and Their Connection to the SDGs

The Yakult Group conducts business activities based on its 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.” Furthermore, believing that everything on the Earth must be healthy, from water, soil and air to plants and animals including people, we established our corporate slogan—“In order for people to be healthy, everything around them must also be healthy.” We have also operated our business based on our firm conviction that we should support solving local issues and establish trust with local communities. Against this backdrop, we have defined our three key areas of CSR: health, local communities, and the environment.



## Health



### Dispatching Guest Lecturers / Health-Related Lectures

The Yakult Group not only delivers products to customers but also seeks to benefit local communities through the active provision of health-related information. In 2020, for the second consecutive year, these activities were recognized as a form of food and nutrition education and we were certified as a Company or Organization Promoting Food and Nutrition Education by the Japanese Society of Shokuiiku.

Our branches and marketing companies in each region of Japan dispatch guest lecturers to elementary schools and other locations, where they use scale models and other instructional tools to provide easy-to-understand information about the important role of the intestines and the importance of a lifestyle conducive to good bowel functions. This initiative has won a great deal of esteem and, in 2015, received an Honorable Mention from the Judging Committee of the Awards for Companies Promoting Experience-Based Learning Activities for Youth sponsored by the Ministry of Education, Culture, Sports, Science and Technology (MEXT).

In fiscal 2019, the Group conducted about 4,100 guest lectures for more than 280,000 participants nationwide. Guest lectures are also being held outside Japan, particularly in countries such as Indonesia, the Philippines, Mexico, and China. In fiscal 2019, there were a total of about 51,700 lectures given to roughly 3,880,000 participants.

In addition, health-related lectures are given mainly by marketing company employees in each region at Yakult centers (Yakult Lady sales hubs) and community facilities, and address a broad range of topics including the importance of the intestines, probiotics, and seasonal ailments. Recently the scope of these activities was extended to our business partners (such as chain stores and school lunch contractors), and nutrition consultations are now being offered in addition to health-related lectures.



Health-related lecture at P.T. Yakult Indonesia Persada

## Local communities

### Initiatives by the Yakult Ladies

Since 1972, Yakult Ladies have been visiting elderly people living alone as they make their deliveries, both to confirm that they are safe and to spend some time chatting with them. This activity began when a Yakult Lady in Koriyama, in Japan's Fukushima Prefecture, took it upon herself to provide Yakult products to elderly people living alone, at her own expense, after hearing the sad news of one such person who had died unnoticed. Her initiative resonated with both the local Yakult marketing company and social workers in the region, and further moved many local governments to take action. As a result, these visits by Yakult Ladies, known as Courtesy Visit Activities, have spread throughout Japan.



As of March 31, 2020, about 2,700 Yakult Ladies pay regular visits to roughly 37,000 elderly people in response to requests from around 125 local governments and other institutions in Japan. Outside Japan, Korea Yakult Co., Ltd. continuously undertakes activities to verify the safety of about 30,000 elderly persons who are living alone. In fiscal 2018 they were recognized by the Ministry of Health and Welfare of the Republic of Korea for their many years of service to the community.



## Environment

### Contributing to the Realization of a Sustainable Environment: The Yakult Basic Policy on the Environment

Yakult Honsha established an organization for environmental measures in 1991 and enacted the Yakult Basic Policy on the Environment for the entire Yakult Group in 1997. We have also set out our environmental philosophy, which reads, "Yakult understands that protecting the earth's environment is one of the most important aspects of coexistence with society, and it is committed to considering the need to protect the environment in all of its corporate activities." In addition, we have specified an environmental action agenda made up of seven provisions, including "We shall promote the reduction of environmental burdens considering not only the environment but also biodiversity, for all business activities."

In accordance with the Basic Policy on the Environment, we have



drafted new versions of the Yakult Environmental Action Plan at three-year intervals, or as close as possible, since fiscal 2001, and all of the Yakult Group's business units have been moving ahead with measures to reduce the Group's environmental impact.

### Yakult Sustainable Ecology 2020

Yakult has framed its image for its long-term environment activities in the form of Yakult Sustainable Ecology 2020. This describes the future vision of Yakult in terms of three elements, including the realization of a low-carbon society (response to climate change), efficient use of resources, and efforts to preserve biodiversity, and emphasizes coexistence with stakeholders and the development of a sustainable society.

Notably, Yakult Europe B.V. has switched to paper carton packaging in some countries instead of plastic shrink film. This has reduced the use of plastic film by approximately 12,441 kilograms per year.

#### Realization of a low-carbon society

Actively work to reduce greenhouse gas emissions and strive to realize a low-carbon society.

#### Efficient use of resources

Promote resource recycling and efficient use of resources by applying the "3Rs" (reduce, reuse, and recycle).

#### Efforts to preserve biodiversity

Grasp the relationship between business activities and biodiversity, and work to preserve biodiversity.

# Corporate Governance

## 1. Basic Stance

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

Our corporate philosophy is “We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.” In pursuing this philosophy, we believe it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management organization and decision-making processes. Corporate governance at the Company is also underpinned by the “company with Audit & Supervisory Board Members” system.

## 2. Capital Composition

The distribution of ownership among shareholders (on a number of shares basis) and major shareholders is as follows:

### Distribution of Ownership Among Shareholders

(As of March 31, 2020)



### Major Shareholders

(As of March 31, 2020)

Shareholder	Percentage of total shares issued
Danone Probiotics Pte. Ltd.	6.20%
The Master Trust Bank of Japan, Ltd. (Trust account)	5.37
Japan Trustee Services Bank, Ltd. (Trust account)	4.22
Fuji Media Holdings, Inc.	3.80
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.90
Kyoshinkai	2.22
Matsusho Co., Ltd.	2.00
Japan Trustee Services Bank, Ltd. (Trust account 5)	1.65
Kirin Beverage Company, Limited	1.44
Mizuho Bank, Ltd.	1.28

Note: In addition to the above, the Company holds 10,550,738 shares (6.17%) of its own shares.

## 3. Governing Bodies, Organizational Operations and Operational Execution

### Board of Directors

The Board of Directors is composed of 15 members, including five outside directors, one of whom is female. The 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 by directors and executive officers. The Board of Directors

holds meetings, in principle, seven times per year, in addition to convening special meetings as required.

The Company introduced the Executive Officer System in June 2011. This system strengthens the decision making of the Board of Directors and business supervision functions and clarifies responsibilities for business execution, thereby increasing the efficiency of these functions.

As a system of support for outside directors, the General Affairs Department functions as the secretariat for the Board of Directors, and serves in this capacity as a point of contact for all Company directors, including outside directors.

The five outside directors are listed in the chart below.

(As of June 24 2020)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
<b>Ryuji Yasuda</b>	Specially approved visiting Professor, Graduate School of Management, Hitotsubashi University; Outside Director, ORIX Corporation; Outside Director, Benesse Holdings, Inc.; Outside Director, Kansai Mirai Financial Group, Inc.; Outside Auditor, the Asahi Shimbun Company; Chairman, Tokyo Woman's Christian University	Mr. Yasuda was appointed on the expectation that he would offer pertinent advice regarding the overall management of the Company that would further strengthen and enrich its management structure based on the expertise in business strategy he has accumulated over the years in wide-ranging positions including those of university professor, consultant and business manager.
<b>Masayuki Fukuoka</b>	Honorary Professor, Faculty of Law, Hakuoh University; specially approved visiting Professor, Tohoku Fukushi University	Mr. Fukuoka was appointed on the expectation that he would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure based on his expertise and experience as a university professor of political science studies.
<b>Norihito Maeda</b>	President of Yakult Kanagawa Tobu Sales Co., Ltd.	Mr. Maeda, the president of a Yakult sales company, was appointed on the expectation that he would continue to make a significant contribution to the development of the entire Yakult Group as he has offered a range of advice to improve customer services based on market conditions, leveraging his management experience at a Yakult sales company.
<b>Pascal Yves De Petrini</b>	Senior Advisor, Danone Asia; Non-Executive Director, China Mengniu Dairy Co., Ltd.	Mr. Petrini was appointed on the expectation that he would offer pertinent advice from a broad perspective regarding overall management, which would lead to further strengthening and enhancement of the management structure based on his abundant management experience in foreign companies.
<b>Naoko Tobe</b>	Lawyer	Ms. Tobe was appointed on the expectation that she would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure, based on her abundant experience as a lawyer.

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

### The Management Policy Council and the Executive Officers Committee

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

management policies and measures as well as business operations.

The Company also established the Executive Officers Committee, comprised of 24 executive officers and two senior Audit & Supervisory Board Members, which meets on a weekly basis in principle to facilitate business execution. The Executive Officers Committee deliberates and receives reports relating to the full range of major business duties. It ensures close information sharing among the executive officers and adopts resolutions on matters stipulated by the Rules for Approval.

## Audit & Supervisory Board Members

The Company has five Audit & Supervisory Board Members, including three outside Audit & Supervisory Board Members. Based on the audit policy, audit plan and division of duties 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. The Audit & Supervisory Board Members strive to enhance the effectiveness of their audits by forging close ties with the Internal Audit Department and the accounting auditor. At the same time, the Audit & Supervisory Board Members monitor and verify that the accounting auditor conducts audits appropriately.

The system of support for the outside Audit & Supervisory Board members consists of two staff assigned exclusively to the Audit & Supervisory Board Members that function as the secretariat for the board. Furthermore, the Audit & Supervisory Board convenes prior to meetings of the Board of Directors and other important meetings to discuss the proposed agenda for the meetings, and to share information gathered from materials provided by relevant department and division heads, as well as information gained from explanations received firsthand and by other means. Furthermore, with respect to systems for conveying information to outside Audit & Supervisory Board Members, the full-time Audit & Supervisory Board Members issue progress reports on a regular basis, and provide the outside Audit & Supervisory Board Members with a range of materials, including those from important company meetings and decision making and audit-related materials.

The 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 in Japan and overseas. The head of the Auditing Department currently oversees a 13-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

## Accounting Auditor

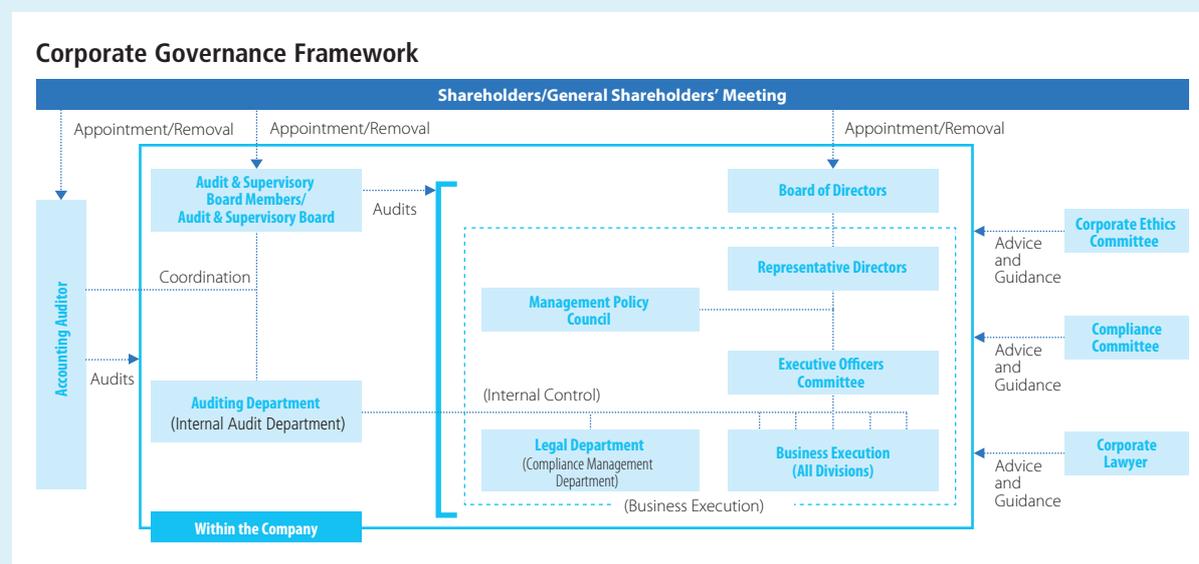
The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the

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

(As of June 24, 2020)

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
<b>Seijuro Tanigawa</b>	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.
<b>Seno Tezuka</b>	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.
<b>Emi Machida</b>	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.



## 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 following resolutions on basic policies regarding building internal control systems after reconfirming the current situation at the Company in relation to the development of internal control systems.

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

## 5. Other Corporate Governance Systems

### (1) Basic approach regarding timely disclosure

• With respect to information disclosure, especially in a timely manner, in the Yakult Code of Ethics and Code of Practice, the Company makes the following commitment: "The Company will actively disclose all relevant information to all stakeholders, including our customers, shareholders, employees, business partners, local communities, industry groups, government, 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 is disclosing information in a timely manner.

### (2) Internal structure related to timely disclosure

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

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

As standards for executives and workers to properly perform business activities, the Company has established the Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and Code of Practice have been distributed to all persons concerned, aiming to familiarize them with the details of the codes. At the same time, the Company is continuously offering in-house training programs regarding compliance.

In addition, a meeting of the Compliance Committee, which consists of external knowledgeable persons, is held on a regular basis to receive advice regarding the development of the Company's compliance system.

Furthermore, the Company has established an "internal reporting system," aiming to improve the self-cleaning functions by which it detects its own violations of law and takes corrective actions.

In addition, the Company will resolutely block and repudiate anti-social forces that pose a threat to business activities. We will also maintain a close relationship with the police under normal circumstances. At the same time, we will endeavor to supervise transactions through the Corporate Ethics Committee, which consists of external experts as the main committee members, and will tackle any unreasonable claims organizationally and take all possible legal measures.

#### **ii) Systems regarding preservation and management of information related to the performance of duties by directors**

Minutes of general shareholders meetings and Board of Directors meetings are preserved properly in accordance with law.

In addition, in line with the Rules for Handling Documents, information related to the performance of duties by directors is recorded and preserved in documents or electromagnetic media (hereinafter referred to as "documents and other media").

Directors and Audit & Supervisory Board Members can look through the minutes and the documents and other media at any time.

Furthermore, the Rules for Handling Documents include rules regarding maintaining confidentiality and we are taking preventive measures against information leakage.

#### **iii) Rules and other systems regarding the management of risks for losses**

The Administrative Division plays a central role in supervising the conditions of cross-sectional risk and making company-wide responses. The department concerned handles the management of risks related to the operations of each department.

In addition, to respond to crises that appear suddenly, there are the Risk Management Rules, which include a rule to have the Company's President or divisional managers serve as the head of various task forces set up in accordance with the details of crisis situations.

Furthermore, to provide safe products to customers and establish a quality assurance system, the Quality Assurance Committee has been established and its meetings are being held. In addition, the Food & Beverages Quality Assurance Department has

been established as an independent department to carry out exclusive company-wide supervisory operations related to food quality assurance.

#### **iv) Systems to ensure that the performance of duties by directors is efficient**

The Company has introduced the Executive Officer System to strengthen the functions of the Board of Directors to make decisions and supervise as well as to define the responsibilities in executing operations, and ultimately to improve the efficiency of these functions.

In addition, the Company's decision-making methods are stipulated in the Rules for Decision-Making, aiming to make decisions in line with the level of importance. At the same time, a management policy meeting and the Executive Officers Committee are held every week in principle, aiming to speed up decision making.

Moreover, to carry out business operations efficiently, the organizational structure of the Company and its management standards are stipulated in the Organization Rules and the Table of Division of Duties.

#### **v) Systems to ensure that operations at the corporate group consisting of the Company and subsidiaries are appropriate**

The Company seeks to ensure that operations at its subsidiaries are appropriate and efficiently executed by sending its executives or employees to the subsidiaries and having them serve as executives of the subsidiaries.

In addition, the Rules for the Management of Affiliates and the Rules for the Management of Overseas Operations include provisions to require the subsidiaries and affiliates to obtain advance approval and provide reports. At the same time, the Auditing Department, which is the Company's internal auditing department, carries out audits.

Furthermore, the Company has secured the appropriate operations throughout the Group by drawing up the Group's strategies and targets in the medium-term management plan as well as establishing an internal support system by setting up a department in charge of the management of the subsidiaries, in addition to implementing training and education programs for its subsidiaries. At the same time, the Rules for Risk Management include provisions to respond to any crisis that suddenly occurs throughout the Group.

#### **vi) Matters regarding employees who support the duties of Audit & Supervisory Board Members in cases in which Audit & Supervisory Board Members make a request to assign such employees**

Employees who have a thorough knowledge of the Company's business operations and can properly support the duties of Audit & Supervisory Board Members serve as full-time staff members who support Audit & Supervisory Board Members. In terms of the organizational structure, the staff members serve as "auditing officers" and are independent of the Auditing Department, which is an internal auditing department. They carry out operations under the direct supervision of Audit & Supervisory Board Members.

#### **vii) Matters regarding the independence of employees who support the duties of Audit & Supervisory Board Members, who are mentioned in the previous item, from directors, and systems to ensure the effectiveness of instructions given to these employees by Audit & Supervisory Board Members**

To secure the independence and effectiveness of instructions of full-time employees who support the duties of Audit & Supervisory Board Members from directors, such employees do not belong to any department in the organization and are not under the supervision of directors.

In addition, full-time Audit & Supervisory Board Members directly evaluate the performance of such employees to respect their independence.

#### **viii) Systems for directors and employees to provide reports to Audit & Supervisory Board Members and other systems regarding reports provided to Audit & Supervisory Board Members**

Audit & Supervisory Board Members attend Board of Directors meetings and other important meetings and read minutes of such meetings on an as-needed basis. In addition, Audit & Supervisory Board Members confirm the details of important requests. There is a system in which Audit & Supervisory Board Members can be apprised of the details of such requests.

Furthermore, reports regarding the results of internal audits of the Company and subsidiaries are provided to Audit & Supervisory Board Members on a regular basis. The Rules for Audits by Audit & Supervisory Board Members also stipulate that Audit & Supervisory Board Members can request directors to provide business reports and request related departments, subsidiaries, and other parties to provide reports if necessary.

#### **ix) Systems to ensure that reporting parties do not receive unfair treatment as a result of such reports**

The Company prohibits any retaliation against the directors and employees who provide reports to Audit & Supervisory Board Members as a result of such reports. At the same time, the Rules for the Internal Reporting System include provisions to prohibit any other actions or behavior that infringe the whistleblower's rights.

#### **x) Other systems to ensure that audit operations of Audit & Supervisory Board Members are carried out effectively**

The Rules for Audits by Audit & Supervisory Board Members ensure that Audit & Supervisory Board Members effectively exercise the authority to "attend Board of Directors meetings and other important meetings," "ask for explanations in cases of failure to attend meetings and read minutes and documents," "read documents necessary to investigate business conditions and request related departments to provide reports," and "request subsidiaries and affiliates to provide reports and investigate business and asset conditions."

In addition, they can hear opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary. Expenses related to hearing such opinions from these outside experts and other audits are the responsibility of the Company.

# Management Members

Relations Department. In parallel, each department within the Company, pursuant to the Rules for Decision-Making, decides items for disclosure based on prescribed decision-making procedures. Facts and data not vetted in this manner are not publicly disclosed. When making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made of the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination: the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.

- The Company is listed on the Tokyo Stock Exchange (TSE). Any information from the Company marked for timely disclosure is registered on TDnet, a system for timely disclosure provided by the TSE. The registration of information for timely disclosure and responses to inquiries from TSE personnel are conducted by the General Affairs Department, the body responsible for coordinating timely disclosure. Following registration, information targeted for timely disclosure is quickly transmitted simultaneously to all relevant media outlets, with related materials disclosed at the same time on the Company's website.

### (3) Check functions to mitigate risks associated with the improper execution of timely disclosure

- The Company has considered a variety of risk scenarios, including those in which information marked for timely disclosure is inadvertently overlooked; information is prematurely disclosed; and data pertaining to sudden crises are not promptly disclosed. A single department, the General Affairs Department, which is responsible for coordinating timely disclosure, acquires and shares information about the criteria for determining the necessity of timely disclosure, and checks information pertaining to final decisions made internally, as well as primary information when sudden crises and incidents arise. This configuration allows check functions to work and enables timely disclosure without any omissions.

## Board of Directors and Audit & Supervisory Board Members

### President and Representative Director Takashige Negishi

#### Directors

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

#### Directors (Part-Time)

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

#### Senior Audit & Supervisory Board Members

Hiroshi Yamakami  
Hideyuki Kawana

#### Audit & Supervisory Board Members (Outside Auditors)

Seijuro Tanigawa  
Seno Tezuka  
Emi Machida

## Executive Officers

### President and Executive Officer Takashige Negishi

#### Senior Managing Executive Officers

Hiroshi Narita  
*Divisional General Manager of International Business Division*  
*Divisional General Manager of Management Support Division*  
Hiroshi Wakabayashi  
*Divisional General Manager of Administrative Division*  
Fumiyasu Ishikawa  
*Divisional General Manager of Research & Development Division*

#### Managing Executive Officers

Masanori Ito  
*Divisional General Manager of Pharmaceuticals Business Division*  
Akifumi Doi  
*Divisional General Manager of Production Division*  
Tetsuya Hayashida  
*Divisional General Manager of Food and Beverages Division*  
*Divisional General Manager of Cosmetics Business Division*  
Susumu Hirano  
Masao Imada  
Koichi Hirano  
Masanobu Nanno  
Masatoshi Nagira  
Hideaki Hoshiko

#### Executive Officers

Yasuyuki Suzuki  
Masahiko Satomi  
Shuichi Watanabe  
Akira Kishimoto  
Takao Goto  
Hiroyuki Kawabata  
Junichi Shimada  
Yoshihiro Goto  
Masato Nagaoka  
Hiroaki Nagaoka  
Hiroshi Natsume

(As of June 24, 2020)

# Financial Section

## Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries  
Years ended March 31, 2020, 2019, 2018, 2017, and 2016

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2016	2017	2018	2019	2020	2020
<b>For the year:</b>						
Net sales .....	¥ 390,412	¥ 378,308	¥ 401,570	¥ 407,017	¥ 406,004	\$3,759,297
Selling, general and administrative expenses.....	178,744	177,053	186,466	190,064	188,951	1,749,542
Operating income .....	40,057	37,282	43,464	45,846	45,675	422,918
Net income attributable to owners of the parent.....	28,843	30,155	34,065	34,935	39,736	367,920
Research and development costs .....	12,678	10,549	10,208	10,564	8,969	83,046
Capital investments .....	27,403	23,365	23,305	29,505	20,631	191,030
Depreciation and amortization .....	24,365	22,661	21,532	21,238	22,324	206,706
<b>At the year-end:</b>						
Total assets.....	¥ 577,535	¥ 585,741	¥ 627,032	¥ 618,533	¥627,871	\$5,813,621
Net property, plant and equipment.....	201,799	198,299	201,199	200,072	203,996	1,888,854
Total liabilities.....	212,070	208,860	240,358	226,254	215,789	1,998,043
Total equity .....	365,465	376,881	386,674	392,279	412,082	3,815,578
Yen						
<b>Per share of common stock:</b>						
Basic net income .....	¥ 174.54	¥ 182.39	¥ 207.02	¥ 217.89	¥ 248.04	\$ 2.30
Total equity (Note 3).....	2,007.73	2,077.29	2,194.32	2,229.80	2,330.58	21.58
Cash dividends applicable to the year .....	50.00	32.00	34.00	44.00	46.00	0.43
<b>Financial ratios:</b>						
Return on equity (ROE) (%) .....	8.8	8.9	9.8	9.8	10.9	
Equity ratio (%).....	57.5	58.6	56.2	57.8	59.5	

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 ¥108 to U.S. \$1, the approximate rate of exchange on March 31, 2020.

3. Noncontrolling interests are not included in equity for the calculation.

### Financial Section

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# Management's Discussion and Analysis

## OVERVIEW

During the fiscal year ended March 31, 2020, fluctuations were observed in the global economy and consumer confidence following the consumption tax hike, but the Japanese economy continued to show signs of a moderate recovery, as the income environment continued to improve. However, due to the spread of the new coronavirus infection since January 2020, the outlook is expected to remain bleak.

Against this background, the Yakult Group (the "Group") worked to build awareness and understanding of the probiotics that constitute the bedrock of its operations, while striving to communicate the superiority of its products. (Probiotics are the living microorganisms that provide health benefits by improving the balance of intestinal flora.) The Group also sought to improve its performance by shoring up its sales organization, developing new products, upgrading its production facilities, and vigorously enhancing its international business and pharmaceuticals business.

As a result of these efforts, on a consolidated basis net sales decreased 0.2% from the previous fiscal year, to ¥406.0 billion. Operating income declined 0.4%, to ¥45.7 billion, while the operating margin fell to 11.2%, down 0.1 percentage point from a year earlier. Net income attributable to owners of the parent climbed 13.7%, to ¥39.7 billion.

## SALES, COSTS, EXPENSES, AND EARNINGS

### SALES

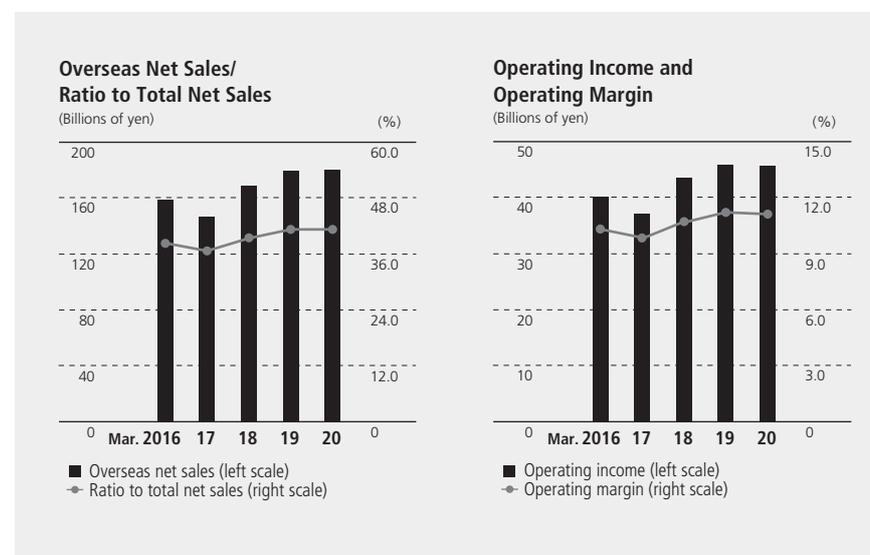
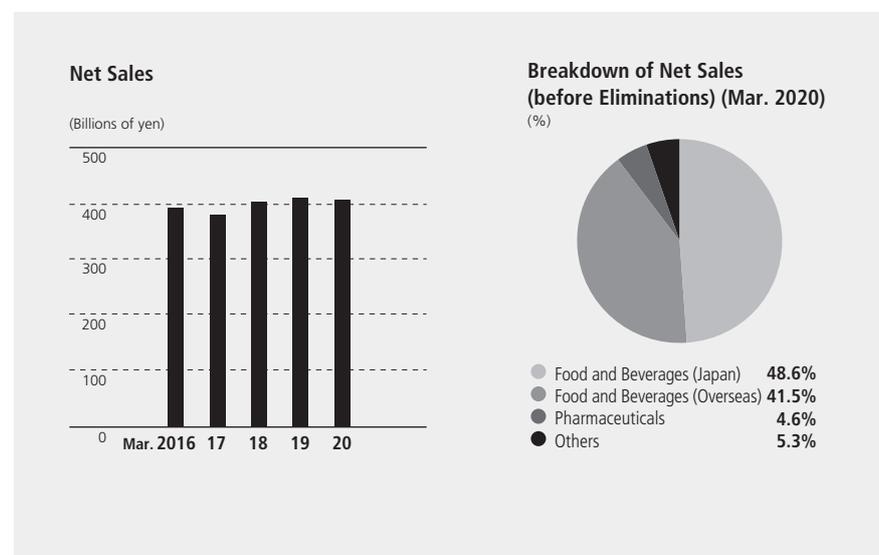
Net sales fell 0.2%, to ¥406.0 billion.

Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 48.6% of sales, down 0.5 percentage point from the previous fiscal year. Food and Beverages (Overseas) accounted for 41.5% of sales, up 0.7 percentage points. Pharmaceuticals generated 4.6%, down 0.4 percentage point, and Others contributed 5.3%, up 0.2 percentage point.

### COSTS, EXPENSES, AND EARNINGS

Consolidated cost of sales increased 0.2%, to ¥171.4 billion. As a result, the cost of sales ratio rose 0.2 percentage points, to 42.2%. Gross profit fell 0.5%, to ¥234.6 billion, and the gross profit margin declined 0.2 percentage point, to 57.8%.

Selling, general and administrative (SG&A) expenses decreased 0.6%, to ¥189.0 billion. This decrease resulted mainly from lower sales promotion expenses. The SG&A expense ratio fell 0.2 percentage point, to 46.5%. R&D expenses decreased ¥1.6 billion year on year, to ¥9.0 billion. As a percentage of net sales, R&D expenses declined 0.4 percentage point, to 2.2%.



As a result, operating income decreased 0.4%, to ¥45.7 billion, impacted by a decline in currency exchange rate fluctuations amounting to ¥1.5 billion, and the operating margin edged down 0.1 percentage point, to 11.2%.

Other income—net amounted to ¥13.1 billion, up ¥3.1 billion from a year earlier, due mainly to an increase in equity in earnings of associated companies and a decrease in loss on impairment.

Income taxes amounted to ¥13.9 billion.

Consequently, net income attributable to owners of the parent increased 13.7%, to ¥39.7 billion, and return on sales rose 1.2 percentage point, to 9.8%.

## 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 actively conducted grass-roots value dissemination initiatives utilizing scientific evidence.

Through our home delivery channel, we worked to encourage existing customers to continue drinking our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, we stepped up efforts to create a point of contact for new customers through advertisement for "Yakult Delivery Net," the online home-delivery ordering system. We

also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while continuing hiring initiatives.

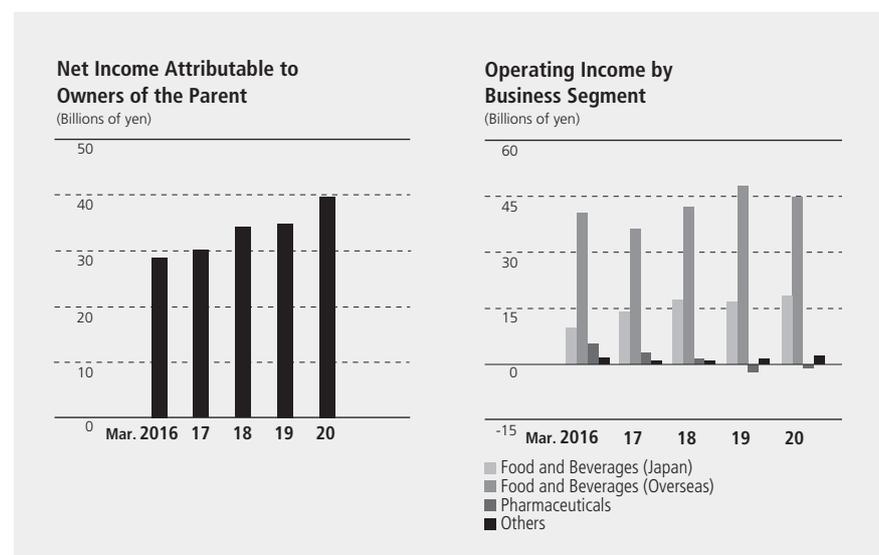
In the retail store channel, we promoted value dissemination initiatives focused on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half* through free tasting and sales in-store activities by our promotional staff, while in October 2019 we updated the package design of *New Yakult Calorie Half* to improve in-store visibility and increase sales.

In product-specific initiatives, in October 2019 we introduced *Yakult 1000*, a fermented milk drink, in Tokyo and six other prefectures in the Kanto region, which helps to mitigate the stress of temporary mentally stressful conditions and also improves the quality of sleep (depth and feeling of refreshment), and we took steps to promote the consumption of *Yakult 1000* through an advertising campaign. Furthermore, in January 2020 we introduced *Yakult 400W*, a fermented milk drink, as part of the *Yakult 400* series, our mainstay product series, starting in the Kyushu region. This product enables the consumption of *Lactobacillus casei strain Shirota*, which reaches the intestine alive, together with galacto-oligosaccharides, which increase lactic acid bacteria in the intestine.

In beverages, we aimed to boost sales mainly of our health drinks, such as our mainstay brand the *Toughman* series, by running the consumer campaign in conjunction with an advertisement for *Tough-Man Refresh*.

Despite these efforts to strengthen sales, the results were lower than in the previous fiscal year.

Net sales in the Food and Beverages business decreased to ¥209.4 billion, down 2.6% from the previous fiscal year, while segment profit rose 10.8%, to ¥18.2 billion.



**FOOD AND BEVERAGES (OVERSEAS):** Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 39 countries and regions outside Japan, and are centered on 29 business bases and one research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all *Yakult* products overseas in March 2020 amounted to approximately 30.61 million bottles.

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, Myanmar, China, and other countries, besides importing and selling *Yakult* and other products in the United Arab Emirates. In China, we further strengthened our sales structure by expanding our sales bases to 46 locations in June 2019. We are also preparing to start construction of our second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.) to meet higher demand accompanying future expansion of sales areas and cultivation of the market. In Myanmar, we commenced production and sales of *Yakult* in August 2019.

Net sales in Asia and Oceania rose to ¥122.3 billion, up 1.3%, from the previous fiscal year, and segment profit decreased 9.4%, to ¥31.9 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, we began sales in the eastern United States in July 2019 and expanded the sales area to the entire United States.

Net sales in the Americas decreased to ¥48.7 billion, down 0.3%, from the previous fiscal year, while segment profit increased 4.4%, to ¥12.4 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. Under these circumstances, the Yakult companies in each country aimed for sustainable growth by conducting sales initiatives tailored to their respective markets.

Net sales in Europe decreased to ¥7.9 billion, down 8.4% from the previous fiscal year, while segment profit dropped 35.9%, to ¥0.3 billion.

**PHARMACEUTICALS:** We engaged in dissemination and other activities recommending the proper use of our products, with a focus on oncology and related fields.

As for our leading product, the antineoplastic drug *Elplat*, we actively conducted lecture/seminar meeting targeting medical professionals in order to maintain market share. Although medical institutions are increasingly switching to the generic drug versions of *Elplat*, we boosted activities to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information, as well as relationships of trust we have built up with medical professionals, which are our strength as the original drug developer in Japan. We also worked to expand sales channels for our core generic products such as antineoplastic metabolite *Gemcitabine [Yakult]*. In addition, we sought to boost sales by promoting activities to achieve quick market penetration for antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]*, which were launched in June 2019. However, the revision of the NHI Drug Price Standards accompanying the consumption tax hike resulted in a decline in the price of most of our products, and this had a large impact on our revenue. As for an antineoplastic agent Onivyde® (liposomal irinotecan) for which we concluded a promotion agreement in Japan with Nihon Servier Co., Ltd. in October 2019, the contract partner obtained manufacturing and marketing approval in March 2020.

Meanwhile, in R&D, we actively proceeded with planned clinical development of our pipeline programs, including the PI3K inhibitor duvelisib [YHI-1702], for which we concluded an exclusive license agreement for development and commercialization in Japan with Verastem Oncology, Inc. (the United States), and HDAC inhibitor resminostat [YHI-1001], in-licensed from 4SC AG (Germany). Through these efforts, we aim to further strengthen our position in cancer prevention and treatment.

Net sales in the Pharmaceuticals segment fell 9.3%, to ¥19.7 billion, and the segment loss was ¥0.8 billion.

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

In our cosmetics operations, we worked to help customers realize their "internal and external beauty" and to increase the number of regular users of our cosmetics. We did this 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.

Our specific initiative involved an effort to revamp and release our *LACTDEW* series of highly moisturizing basic skin-care products in July 2019. We also sought to raise product recognition through aggressive advertising campaigns, including TV commercials. Additionally, we launched both *Parabio AC Special Program Set* in November 2019 and *CRYSTANCE White Repair Essence*, a medicated whitening beauty essence, in March 2020, aiming to increase customer satisfaction and boost sales.

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

In our professional baseball operations, diverse events and promotions took place at Tokyo's Jingu Stadium in conjunction with active information dissemination. As a result of this active fan service, attendance at the stadium rose from the previous fiscal year.

As a result, net sales in the Others segment increased 2.1%, to ¥22.9 billion, and segment profit jumped 73.6%, to ¥2.0 billion.

## FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥627.9 billion, up 1.5% year on year.

Current assets increased ¥18.2 billion, or 7.3%, from the previous fiscal year-end, to ¥265.8 billion, principally due to an expansion of ¥19.2 billion in cash and cash equivalents resulting from proceeds from withdrawing time deposits.

Net property, plant and equipment rose ¥3.9 billion, to ¥204.0 billion, mainly due to purchases of property, plant and equipment through the expansion of production facilities.

Investments and other assets fell ¥12.8 billion, or 7.5%, to ¥158.1 billion, mainly due to a drop in investment securities reflecting lower market value and other factors.

During the fiscal year under review, capital investment fell 30.1%, to ¥20.6 billion.

Total liabilities fell 4.6%, to ¥215.8 billion. The major component of this decrease was a decline of ¥8.2 billion in borrowings (the total of short-term and long-term debt). As a result, the debt-to-equity ratio fell 3.7 percentage point, to 30.5%.

Equity (excluding noncontrolling interests) increased 4.5%, to ¥373.4 billion, from ¥357.3 billion a year earlier. This result was primarily due to growth in retained earnings reflecting higher net income attributable to owners of the parent despite a decline in unrealized gain on available-for-sale securities due to a drop in stock prices and a decline in unrealized gain on available-for-sale securities due to the strong yen.

As a result, the equity ratio rose 1.7 percentage points, to 59.5%. Return on equity (ROE) improved 1.1 percentage point, to 10.9%. Return on assets (ROA) decreased 0.1 percentage point, to 7.3%.

## CASH FLOWS

Net cash provided by operating activities rose ¥0.7 billion from the previous fiscal year, to

¥62.8 billion. The increase in net cash provided resulted primarily from ¥58.7 billion in income before income taxes and ¥22.3 billion in depreciation and amortization, which was partly offset by ¥14.2 billion in income taxes paid.

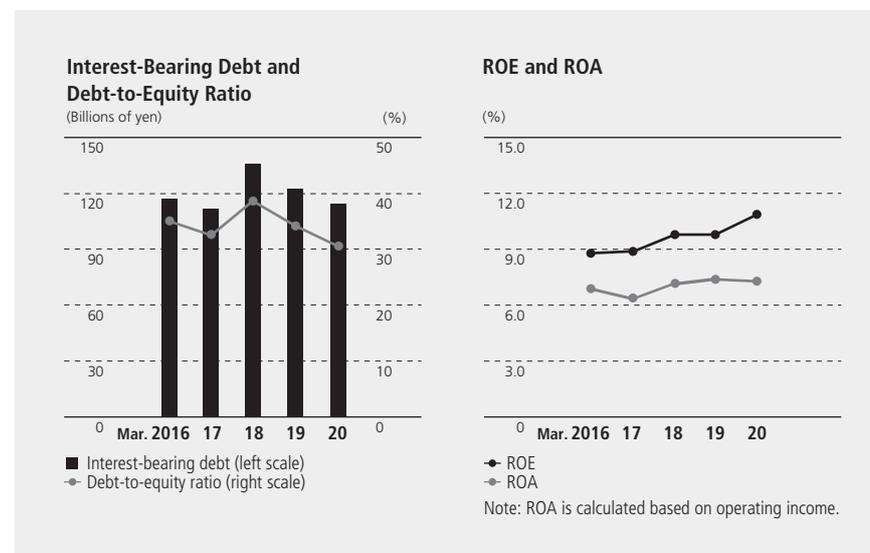
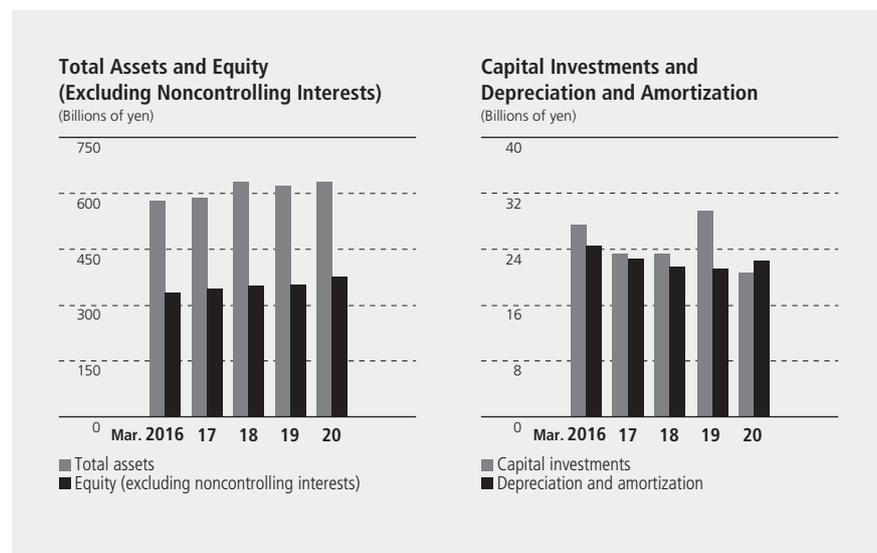
Net cash used in investing activities declined ¥21.0 billion, to ¥16.1 billion. Cash was mainly used for purchases of property, plant and equipment, specifically for the expansion of new production facilities, which was partly offset by proceeds from withdrawing time deposits.

Net cash used in financing activities increased ¥2.7 billion, to ¥25.6 billion. This outlay mainly reflected the payments for settlement of long-term and short-term debt and the payment of dividends.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥124.6 billion, a net increase of ¥21.4 billion from a year earlier.

## DIVIDENDS

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



Based on this policy, we decided to pay a total dividend of ¥46.0 per share, up ¥2.0 from the previous fiscal year, to continuously increase the return to shareholders. We have already declared and paid an interim dividend of ¥23.0 per share, and the balance of ¥23.0 per share will be distributed to our shareholders as the year-end dividend.

For the fiscal year ending March 31, 2021, we plan to raise the annual dividend by ¥2.0, to ¥48.0, in an effort to provide shareholders with stable and continuous dividends and enhance shareholder return as part of the policy described above.

## FORWARD LOOKING STATEMENT

### FOOD AND BEVERAGES

In dairy products for the Japanese market, Yakult is steadfastly committed to focusing on the *Yakult* series of fermented milk drinks as its most important brand and broadening the recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota, and to strive to nurture the *Yakult 1000* and *Yakult 400W* brands, to activate all dairy products.

Through our home delivery channel, we will work to conduct our value dissemination initiative utilizing scientific evidence for the *Yakult 400* series including *Yakult 400W* and step up efforts to create a point of contact for new customers by leveraging "Yakult Todokete Net," the online home-delivery ordering system. In addition, through our retail

store channel we will aim to further increase the brand value of *New Yakult* and *New Yakult Calorie Half* through free tasting and sales in-store activities by our promotional staff.

In beverages, we will strengthen sales for health drinks mainly by updating the *Toughman* series, our core brand, aiming at sales expansion.

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

Outside Japan, at existing business offices, we will further expand business, enhance our financial strength and raise profitability. With respect to the offices located particularly in Vietnam, India, China, the United States and the Middle East, we will promote both the strengthening of management bases and business growth.

We will decide on further new overseas expansions after carefully considering our internal environment.

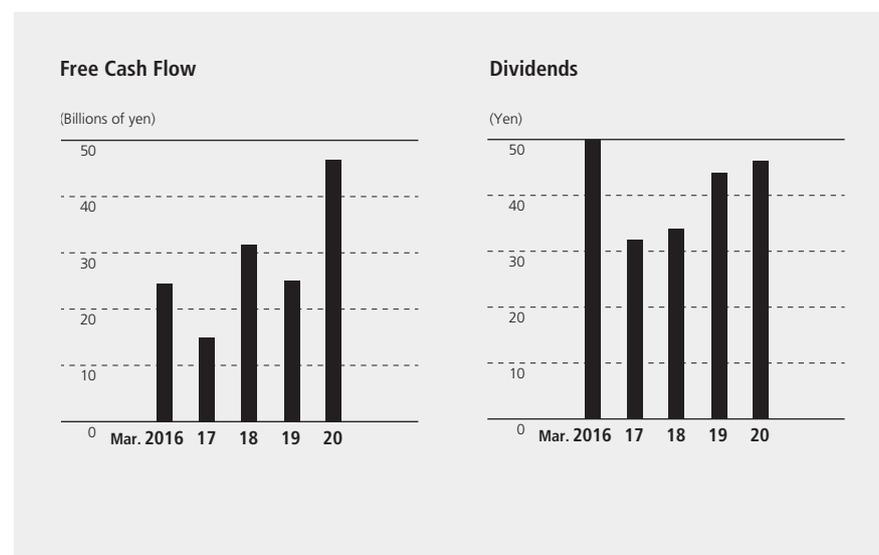
### PHARMACEUTICALS

In Japan, we project a decrease in sales reflecting a drop in drug prices due to the revision of the NHI Drug Price Standards that took place in April 2020. As for our mainstay, the antineoplastic drug *Elplat*, it is inevitable that medical institutions will continue switching to the generic drug versions going forward. However, drawing on our proposal-based marketing, based on information provision capabilities that we have cultivated since our beginning in addition to our relationships of trust established to date with individuals in the medical industry, we will work to develop market expansion and ensure sales targets. In addition, we will continue to promote a market penetration for the antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]* that were launched in June 2019, in order to boost sales.

Meanwhile, in R&D, we are promoting new drug development both in Japan and abroad while rapidly assessing the introduction of drugs to strengthen our pipelines. We will also actively develop new generic drugs for cancer and related fields.

### OTHERS

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



We will also work to promote the regular use of our product series by having customer experience the use of basic skin-care products and provide counseling services close to each customer, to improve customer satisfaction and drive sales growth in our cosmetic operations.

Meanwhile, in our professional baseball operations, the opening of the 2020 season of official games has been delayed due to the spread of the new coronavirus infection, but we will continue to work to create an environment where spectators can watch games with peace of mind and 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. Most of the sales companies (some are represented by a director of the Company) are neither our subsidiaries nor affiliate companies and have no capital relationship with the Company. In the event that we are unable to maintain a good relationship between sales companies and the Company, and Yakult Ladies and their sales companies, or to secure appropriate human resources, including Yakult Ladies, such trends could pose a serious problem to the sale of the Group's products and have a significant adverse impact on the Group's business results and financial condition.

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

In principle, our subsidiaries conduct all the operations from manufacturing to sales in the Overseas Food and Beverages business, except in certain countries and regions where our affiliate companies conduct business. While the importance of home delivery channels depends on countries and regions, the Group's business in countries, such as Thailand, South Korea, Indonesia, and Mexico, depends largely on the Yakult Lady home delivery system. In the

event that the Group is unable to manage local affiliate companies properly, maintain good relationships with Yakult Ladies, or secure appropriate human resources, including Yakult Ladies, needed for the cultivation and expansion of overseas businesses, such trends could have a significant adverse impact on the Group's business results and financial condition.

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

### ***Risks Pertaining to Increases in Raw Material Prices and Labor Costs***

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

### ***Risks Accompanying the Pharmaceutical Business***

#### (1) Risks of dependency on specific products

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

#### (2) Risks of new drug development

The Group undertakes R&D activities aimed at launching new drugs. However, marketing

of ethical drugs is allowed only when they are approved through rigorous investigations of efficacy and safety, as stipulated by the competent authorities.

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

(3) Risks accompanying patent expirations

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

(4) Risks of drug price reduction measures

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

### **Risks of Deterioration of the "Yakult" Brand**

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

### **Risks in Intellectual Property Rights**

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

may be required to recall, terminate manufacturing and sales of relevant products, or pay compensation for damages, or royalties.

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

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

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

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

### **Risks Related to Currency Fluctuations**

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

### **Risks in Investment Securities**

The Group holds investment securities, including specified equity securities, mainly for forming cooperative relationships in business. Fluctuations in market prices of marketable

listed stocks, and so forth, of the aforementioned securities could have an adverse impact on the Group's financial condition. Moreover, a significant decline in book values of the investment securities we hold could have a significant adverse impact on the Group's business results due to the recording of impairment losses, etc.

#### ***Risks in Interest-Bearing Debt***

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

#### ***Risks Related to Information Systems and Information Security***

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

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

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

#### ***Risks Related to Management Strategy and Business Plan***

The Group has strived to enhance corporate value in line with its Long-Term Vision "Yakult Vision 2020," established in January 2011. Taking into account the changes in the business environment since then, the Group announced "Yakult Vision 2020, Phase III (2017–2020)" in May 2017, in which the Group defined the third phase of the long-term vision (from 2017 to 2020) as a "transformation period for enabling continuous

growth" and redefined quantitative objectives for the period. The Group has conducted various measures accordingly. The global average volume of our dairy products sales, our management benchmark, includes the volume of sales of affiliate companies accounted for by the equity method.

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

In addition to the aforementioned, the Group faces a range of other risks. The Group is aware of these risks, however, and strives to mitigate or avoid their occurrence.

# Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries  
March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Note 11).....	¥ 124,561	¥ 103,171	\$ 1,153,344
Time deposits (Notes 5 and 11).....	51,077	53,313	472,937
Receivables (Note 11):			
Notes and accounts receivable.....	47,327	48,464	438,205
Associated companies.....	5,010	4,963	46,388
Other.....	1,628	2,163	15,076
Inventories (Note 3).....	28,772	29,114	266,408
Other current assets.....	7,682	6,712	71,131
Allowance for doubtful accounts (Note 11).....	(250)	(262)	(2,314)
Total current assets.....	265,807	247,638	2,461,175
<b>Property, plant and equipment:</b>			
Land (Note 5).....	44,294	44,415	410,127
Buildings and structures (Note 5).....	174,174	165,641	1,612,722
Machinery, equipment and vehicles.....	163,974	151,994	1,518,284
Furniture and fixtures.....	26,674	25,899	246,982
Lease assets (Note 9).....	24,577	17,406	227,563
Construction in progress.....	5,154	17,469	47,725
Total.....	438,847	422,824	4,063,403
Accumulated depreciation (Note 5).....	(234,851)	(222,752)	(2,174,549)
Net property, plant and equipment.....	203,996	200,072	1,888,854
<b>Investments and other assets:</b>			
Investment securities (Notes 4 and 11).....	77,033	94,697	713,272
Investments in and advances to associated companies (Note 11)....	62,747	60,609	580,992
Long-term loans.....	69	96	640
Deferred tax assets (Note 8).....	4,908	2,561	45,442
Other assets (Note 6).....	13,311	12,860	123,246
Total investments and other assets.....	158,068	170,823	1,463,592
<b>Total (Note 17).....</b>	<b>¥ 627,871</b>	<b>¥ 618,533</b>	<b>\$ 5,813,621</b>

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Notes 5 and 11).....	¥ 27,272	¥ 34,598	\$ 252,518
Current portion of long-term debt (Notes 5, 9, and 11).....	9,004	7,532	83,373
Payables (Note 11):			
Notes and accounts payable.....	26,210	27,984	242,687
Associated companies.....	100	74	928
Other.....	9,667	9,871	89,506
Income taxes payable.....	4,431	3,985	41,021
Accrued expenses.....	22,650	22,562	209,723
Other current liabilities.....	9,729	8,850	90,086
Total current liabilities.....	109,063	115,456	1,009,842
<b>Long-term liabilities:</b>			
Long-term debt (Notes 5, 9, and 11).....	77,677	80,056	719,228
Liability for retirement benefits (Note 6).....	6,768	5,856	62,668
Asset retirement obligations.....	1,677	982	15,527
Deferred tax liabilities (Note 8).....	17,528	21,075	162,298
Other long-term liabilities.....	3,076	2,829	28,480
Total long-term liabilities.....	106,726	110,798	988,201
<b>Commitments (Note 9)</b>			
<b>Equity (Notes 7 and 15):</b>			
Common stock—			
authorized, 700,000,000 shares;			
issued, 171,045,418 shares in 2020 and			
171,045,418 shares in 2019.....	31,118	31,118	288,126
Capital surplus.....	41,476	41,743	384,034
Retained earnings.....	379,948	347,741	3,518,039
Treasury stock—at cost			
10,836,662 shares in 2020 and 10,819,582 shares in 2019....	(54,934)	(54,834)	(508,644)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities.....	19,950	30,465	184,727
Foreign currency translation adjustments.....	(40,151)	(36,305)	(371,766)
Defined retirement benefit plans.....	(4,028)	(2,656)	(37,297)
Total.....	373,379	357,272	3,457,219
Noncontrolling interests.....	38,703	35,007	358,359
Total equity.....	412,082	392,279	3,815,578
<b>Total.....</b>	<b>¥627,871</b>	<b>¥618,533</b>	<b>\$5,813,621</b>

## Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries  
Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Net sales</b> (Note 17) .....	<b>¥406,004</b>	¥407,017	<b>\$3,759,297</b>
Cost of sales (Notes 6, 9, and 14).....	<b>171,378</b>	171,107	<b>1,586,837</b>
<b>Gross profit</b> .....	<b>234,626</b>	235,910	<b>2,172,460</b>
Selling, general and administrative expenses (Notes 6, 9, 13, and 14) .....	<b>188,951</b>	190,064	<b>1,749,542</b>
<b>Operating income</b> (Note 17).....	<b>45,675</b>	45,846	<b>422,918</b>
Other income (expenses):			
Interest and dividend income .....	<b>7,533</b>	6,562	<b>69,755</b>
Interest expense .....	<b>(876)</b>	(728)	<b>(8,110)</b>
Foreign exchange (loss) gain.....	<b>(282)</b>	576	<b>(2,611)</b>
Equity in earnings of associated companies .....	<b>5,066</b>	3,558	<b>46,904</b>
Gain on sales of investment securities .....	<b>2,502</b>	2,204	<b>23,163</b>
Loss on valuation of investment securities .....	<b>(996)</b>		<b>(9,225)</b>
Loss on impairment.....	<b>(457)</b>	(4,187)	<b>(4,232)</b>
Other—net (Note 4) .....	<b>563</b>	1,971	<b>5,216</b>
Other income—net .....	<b>13,053</b>	9,956	<b>120,860</b>
<b>Income before income taxes</b> .....	<b>58,728</b>	55,802	<b>543,778</b>
Income taxes (Note 8):			
Current.....	<b>14,675</b>	15,241	<b>135,882</b>
Deferred .....	<b>(786)</b>	379	<b>(7,278)</b>
Total income taxes.....	<b>13,889</b>	15,620	<b>128,604</b>
<b>Net income</b> .....	<b>44,839</b>	40,182	<b>415,174</b>
Net income attributable to noncontrolling interests.....	<b>5,103</b>	5,247	<b>47,254</b>
<b>Net income attributable to owners of the parent</b> .....	<b>¥ 39,736</b>	¥ 34,935	<b>\$ 367,920</b>
<b>Per share of common stock</b> (Note 16):			
Basic net income.....	<b>¥ 248.04</b>	¥ 217.89	<b>\$ 2.30</b>
Cash dividends applicable to the year.....	<b>46.00</b>	44.00	<b>0.43</b>

Diluted net income per share of common stock for 2020 and 2019 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, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Net income</b> .....	<b>¥ 44,839</b>	¥ 40,182	<b>\$ 415,174</b>
<b>Other comprehensive income (loss)</b> (Note 13):			
Unrealized loss on available-for-sale securities .....	<b>(10,540)</b>	(4,652)	<b>(97,596)</b>
Foreign currency translation adjustments.....	<b>(3,849)</b>	(17,540)	<b>(35,639)</b>
Defined retirement benefit plans .....	<b>(1,372)</b>	(1,436)	<b>(12,706)</b>
Share of other comprehensive income in associates ...	<b>(51)</b>	(282)	<b>(469)</b>
<b>Total other comprehensive income (loss)</b> .....	<b>(15,812)</b>	(23,910)	<b>(146,410)</b>
<b>Comprehensive income</b> .....	<b>¥ 29,027</b>	¥ 16,272	<b>\$ 268,764</b>
Total comprehensive income (loss) attributed to:			
Owners of the parent.....	<b>¥ 24,002</b>	¥ 13,284	<b>\$ 222,241</b>
Noncontrolling interests .....	<b>5,025</b>	2,988	<b>46,523</b>

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries  
Year ended March 31, 2020

	Thousands	Millions of yen									
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Noncontrolling interests	Total equity
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
<b>Balance, March 31, 2018</b> .....	160,496	¥31,118	¥41,528	¥318,580	¥(52,322)	¥35,215	¥(20,722)	¥(1,219)	¥352,178	¥34,496	¥386,674
Net income attributable to owners of the parent .....				34,935					34,935		34,935
Cumulative effects of changes in accounting policies .....				157		(118)			39		39
Change in the parent's ownership interest due to transactions with noncontrolling interests .....			244						244		244
Cash dividends, ¥44.0 per share .....				(5,931)					(5,931)		(5,931)
Repurchase of treasury stock .....	(270)				(2,913)				(2,913)		(2,913)
Disposal of treasury stock .....			(29)		401				372		372
Net change in the year .....						(4,632)	(15,583)	(1,437)	(21,652)	511	(21,141)
<b>Balance, March 31, 2019</b> .....	160,226	31,118	41,743	347,741	(54,834)	30,465	(36,305)	(2,656)	357,272	35,007	392,279
Net income attributable to owners of the parent .....				<b>39,736</b>					<b>39,736</b>		<b>39,736</b>
Change in ownership interest in a subsidiary owned by a foreign associated company .....			(236)						(236)		(236)
Change in the parent's ownership interest due to transactions with noncontrolling interests .....			7		16				23		23
Cash dividends, ¥46.0 per share .....				(7,529)					(7,529)		(7,529)
Repurchase of treasury stock .....	(17)				(289)				(289)		(289)
Disposal of treasury stock .....			(38)		173				135		135
Net change in the year .....						(10,515)	(3,846)	(1,372)	(15,733)	3,696	(12,037)
<b>Balance, March 31, 2020</b> .....	<b>160,209</b>	<b>¥31,118</b>	<b>¥41,476</b>	<b>¥379,948</b>	<b>¥(54,934)</b>	<b>¥19,950</b>	<b>¥(40,151)</b>	<b>¥(4,028)</b>	<b>¥373,379</b>	<b>¥38,703</b>	<b>¥412,082</b>

	Thousands of U.S. dollars (Note 1)										
		Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Noncontrolling interests	Total equity
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
<b>Balance, March 31, 2019</b> .....		\$288,126	\$386,504	\$3,219,823	\$(507,721)	\$282,086	\$(336,154)	\$(24,590)	\$3,308,074	\$324,141	\$3,632,215
Net income attributable to owners of the parent .....				<b>367,920</b>					<b>367,920</b>		<b>367,920</b>
Change in ownership interest in a subsidiary owned by a foreign associated company .....			(2,184)						(2,184)		(2,184)
Change in the parent's ownership interest due to transactions with noncontrolling interests .....			70		151				221		221
Cash dividends, \$0.43 per share .....				(69,704)					(69,704)		(69,704)
Repurchase of treasury stock .....					(2,673)				(2,673)		(2,673)
Disposal of treasury stock .....			(356)		1,599				1,243		1,243
Net change in the year .....						(97,359)	(35,612)	(12,707)	(145,678)	34,218	(111,460)
<b>Balance, March 31, 2020</b> .....		<b>\$288,126</b>	<b>\$384,034</b>	<b>\$3,518,039</b>	<b>\$(508,644)</b>	<b>\$184,727</b>	<b>\$(371,766)</b>	<b>\$(37,297)</b>	<b>\$3,457,219</b>	<b>\$358,359</b>	<b>\$3,815,578</b>

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries  
Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Operating activities:</b>			
Income before income taxes.....	¥ 58,728	¥ 55,802	\$ 543,778
Adjustments for:			
Income taxes—paid.....	(14,201)	(13,881)	(131,487)
Depreciation and amortization (Note 17).....	22,324	21,238	206,706
Loss on Impairment.....	457	4,187	4,232
Loss on disposals and sales of property, plant and equipment.....	670	440	6,201
Equity in earnings of associated companies.....	(5,066)	(3,558)	(46,904)
Gain on sales of investment securities.....	(2,497)	(2,204)	(23,121)
Loss on valuation of investment securities.....	996		9,225
Changes in operating assets and liabilities:			
Decrease in receivables.....	657	2,196	6,077
Increase in inventories.....	(651)	(2,248)	(6,030)
Increase in payables.....	(1,590)	(909)	(14,722)
Decrease in liability for retirement benefits.....	(1,610)	(2,294)	(14,910)
Other—net.....	4,575	3,356	42,361
Total adjustments.....	4,064	6,323	37,628
Net cash provided by operating activities.....	62,792	62,125	581,406

## Investing activities:

Transfers to time deposits.....	(106,436)	(77,653)	(985,514)
Proceeds from withdrawing time deposits.....	108,154	67,374	1,001,429
Purchases of property, plant and equipment.....	(20,585)	(29,385)	(190,606)
Proceeds from sales of property, plant and equipment....	454	406	4,205
Purchases of investment securities.....	(15)	(917)	(140)
Proceeds from sales of investment securities.....	4,080	4,440	37,776
Acquisition of controlling interest in a company.....	(346)	(1,089)	(3,203)
Other—net (Note 4).....	(1,367)	(189)	(12,659)
Net cash used in investing activities.....	(16,061)	(37,013)	(148,712)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Financing activities:</b>			
Net decrease in short-term loans.....	(7,318)	(7,136)	(67,759)
Proceeds from long-term debt.....		40,000	
Payments for settlement of long-term debt.....	(9,948)	(47,973)	(92,108)
Repurchase of treasury stock.....	(2)	(5)	(21)
Sales of treasury stock.....	115	386	1,062
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.....		(489)	
Dividends paid.....	(7,520)	(5,924)	(69,634)
Dividends paid to noncontrolling interests.....	(1,567)	(1,840)	(14,506)
Other—net.....	609		5,640
Net cash used in financing activities.....	(25,631)	(22,981)	(237,326)
<b>Foreign currency translation adjustments on cash and cash equivalents.....</b>	<b>290</b>	<b>(4,896)</b>	<b>2,687</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>21,390</b>	<b>(2,765)</b>	<b>198,055</b>
<b>Cash and cash equivalents, beginning of year.....</b>	<b>103,171</b>	<b>105,936</b>	<b>955,289</b>
<b>Cash and cash equivalents, end of year.....</b>	<b>¥ 124,561</b>	<b>¥ 103,171</b>	<b>\$1,153,344</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

YAKULT HONSHA CO., LTD. and its subsidiaries  
Year ended March 31, 2020

## 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 ¥108 to U.S. \$1, the approximate rate of exchange at March 31, 2020. 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, 2020 include the accounts of the Company and its seventy six (76 in 2019) 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 2019) 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 21 years

#### **(H) LONG-LIVED ASSETS**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

#### **(I) INVESTMENT SECURITIES**

The Group classifies all securities as available-for-sale securities, and reports marketable securities at fair value, with unrealized gains and losses (net of applicable taxes) as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

#### **(J) RETIREMENT AND PENSION PLANS**

The Company and certain subsidiaries have noncontributory and contributory funded pension plans covering substantially all of their employees. Certain subsidiaries have unfunded retirement benefit plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees. Past service costs are accounted for as expenses in the periods in which the costs are incurred. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

Retirement benefits to directors and Audit and Supervisory Board members of certain subsidiaries are provided at the amount which would be required if all directors and Audit and Supervisory Board members retired at each balance sheet date.

#### **(K) ASSET RETIREMENT OBLIGATIONS**

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be

recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

#### **(L) RESEARCH AND DEVELOPMENT COSTS**

Research and development costs are charged to income as incurred.

#### **(M) LEASES**

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

The Company's consolidated subsidiaries outside Japan began preparing their financial statements based on IFRS 16 (Leases) from the current consolidated fiscal year, and in principle recognize all leases as assets and liabilities on their balance sheets.

As a result, at the fiscal year-end, "Lease assets" recorded under "Property, plant and equipment" increased by ¥5,627 million, "Lease obligations" recorded under "Current liabilities" increased by ¥1,646 million, and "Lease obligations" recorded under "Non-current liabilities" increased by ¥3,679 million. This change had minimal impact on the Company's profit/loss for the current fiscal year and had no impact on the balance of retained earnings at the beginning.

#### **(N) INCOME TAXES**

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

#### **(O) FOREIGN CURRENCY TRANSACTIONS**

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

#### **(P) FOREIGN CURRENCY FINANCIAL STATEMENTS**

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rate.

#### **(Q) PER SHARE INFORMATION**

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share for the years ended March 31, 2020 and 2019, is not disclosed due to the absence of dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

#### **(R) ACCOUNTING CHANGES AND ERROR CORRECTIONS**

Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation:

When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates:

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors:

When an error in prior-period consolidated financial statements is discovered, those statements are restated.

#### **(S) NEW ACCOUNTING PRONOUNCEMENTS**

**Accounting Standard for Revenue Recognition**—On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to

customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

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

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

### NOTE 3 INVENTORIES

Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished products.....	¥10,232	¥ 9,405	\$ 94,742
Work in process.....	2,166	2,143	20,051
Raw materials and supplies.....	16,374	17,566	151,615
Total.....	¥28,772	¥29,114	\$266,408

### NOTE 4 INVESTMENT SECURITIES

Investment securities at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment securities:			
Marketable equity securities.....	¥73,564	¥91,228	\$681,149
Trust fund investments and other.....	3,469	3,469	32,123
Total.....	¥77,033	¥94,697	\$713,272

The costs and aggregate fair values of investment securities at March 31, 2020 and 2019 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2020</b>				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥45,086	¥30,236	¥1,758	¥73,564
<b>March 31, 2019</b>				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥47,621	¥44,985	¥1,378	¥91,228

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2020</b>				
Securities classified as—				
Available-for-sale:				
Equity securities.....	\$417,465	\$279,961	\$16,277	\$681,149

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2020 and 2019, were ¥3,469 million (\$32,123 thousand) and ¥3,469 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2020 and 2019, were ¥4,080 million (\$37,776 thousand) and ¥3,518 million, respectively. Gross realized gain on these sales for the year ended March 31, 2020 and 2019, computed on the moving-average cost basis, was ¥2,502 million (\$23,163 thousand) and ¥2,204 million, respectively. Gross realized loss on these sales for the year ended March 31, 2020 and 2019, computed on the moving-average cost basis, was ¥5 million (\$42 thousand) and ¥2 million, respectively.

The valuation loss on available-for-sale equity securities for the year ended March 31, 2020, was ¥996 million (\$9,225 thousand).

There is no valuation loss on available-for-sale equity securities for the year ended March 31, 2019.

## NOTE 5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisting of bank loans, which include bank overdrafts, at March 31, 2020 and 2019 were ¥27,272 million (\$252,518 thousand) and ¥34,598 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2020 and 2019 ranged from 0.26% to 0.57% and 0.26% to 4.12%, respectively.

Long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of
	2020	2019	U.S. dollars
Loans from banks and other financial institutions, 0.37% to 2.45% (0.37% to 4.93% in 2019), due serially to 2030:			
Collateralized .....	¥ 2,514	¥ 2,514	\$ 23,281
Unsecured.....	73,638	79,372	681,828
Obligations under finance leases (Note 9).....	10,529	5,702	97,492
Total.....	86,681	87,588	802,601
Less current portion .....	(9,004)	(7,532)	(83,373)
Long-term debt, less current portion .....	¥77,677	¥80,056	\$719,228

Annual maturities of long-term debt as of March 31, 2020 were as follows:

Year ending March 31	Millions of yen	Thousands of
		U.S. dollars
2021.....	¥9,004	\$83,373
2022.....	8,277	76,638
2023.....	7,168	66,371
2024.....	46,894	434,203
2025.....	5,879	54,431
2026 and thereafter.....	9,459	87,585
Total.....	¥86,681	\$802,601

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2020 were as follows:

March 31, 2020	Millions of yen	Thousands of
		U.S. dollars
Time deposits .....	¥ 9	\$ 83
Land .....	3,536	32,743
Buildings and structures—net of accumulated depreciation.....	1,717	15,896
Total.....	¥5,262	\$48,722

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

## NOTE 6 RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have severance payment plans for employees. Certain subsidiaries have severance payment plans for directors and Audit & Supervisory Board members.

The plans provide benefits based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2020 and 2019, included the amounts of ¥360 million (\$3,331 thousand) and ¥393 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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year.....	<b>¥66,718</b>	¥66,340	<b>\$617,763</b>
Current service cost.....	<b>3,348</b>	3,504	<b>30,995</b>
Interest cost.....	<b>413</b>	497	<b>3,827</b>
Actuarial (losses) gains.....	<b>(341)</b>	614	<b>(3,162)</b>
Benefits paid.....	<b>(3,691)</b>	(3,311)	<b>(34,176)</b>
Others.....	<b>(2,390)</b>	(926)	<b>(22,127)</b>
Balance at end of year.....	<b>¥64,057</b>	¥66,718	<b>\$593,120</b>

2. The changes in plan assets for the years ended March 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year.....	<b>¥61,930</b>	¥61,632	<b>\$ 573,428</b>
Expected return on plan assets.....	<b>1,183</b>	1,430	<b>10,954</b>
Actuarial losses.....	<b>(3,083)</b>	(1,831)	<b>(28,552)</b>
Contributions from the employer.....	<b>3,768</b>	3,836	<b>34,885</b>
Benefits paid.....	<b>(3,324)</b>	(2,967)	<b>(30,776)</b>
Others.....	<b>(2,296)</b>	(170)	<b>(21,261)</b>
Balance at end of year.....	<b>¥58,178</b>	¥61,930	<b>\$538,678</b>

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
	2020	2019	2020
Defined benefit obligations.....	<b>¥61,837</b>	¥64,457	<b>\$ 572,562</b>
Plan assets.....	<b>(58,178)</b>	(61,930)	<b>(538,678)</b>
Total.....	<b>3,659</b>	2,527	<b>33,884</b>
Unfunded defined benefit obligations.....	<b>2,220</b>	2,261	<b>20,558</b>
Net liability arising from defined benefit obligations.....	<b>¥ 5,879</b>	¥ 4,788	<b>\$ 54,442</b>

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits.....	<b>¥6,408</b>	¥5,463	<b>\$59,337</b>
Asset for retirement benefits.....	<b>(529)</b>	(675)	<b>(4,895)</b>
Net liability arising from defined benefit obligations.....	<b>¥5,879</b>	¥4,788	<b>\$54,442</b>

4. The components of net periodic benefit costs for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost.....	<b>¥3,348</b>	¥3,504	<b>\$30,995</b>
Interest cost.....	<b>413</b>	497	<b>3,827</b>
Expected return on plan assets.....	<b>(1,183)</b>	(1,430)	<b>(10,954)</b>
Recognized actuarial losses.....	<b>762</b>	375	<b>7,052</b>
Others.....	<b>233</b>	(454)	<b>2,159</b>
Net periodic benefit costs.....	<b>¥3,573</b>	¥2,492	<b>\$33,079</b>

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial losses.....	<b>¥(1,979)</b>	¥(2,070)	<b>\$(18,328)</b>
Total.....	<b>¥(1,979)</b>	¥(2,070)	<b>\$(18,328)</b>

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial losses.....	<b>¥5,829</b>	¥3,850	<b>\$53,975</b>
Total .....	<b>¥5,829</b>	¥3,850	<b>\$53,975</b>

#### 7. Plan assets

##### (1) Components of plan assets

Plan assets as of March 31, 2020 and 2019 consisted of the following:

	2020	2019
Bonds .....	<b>14%</b>	12%
Stocks.....	<b>14</b>	16
Cash and Deposits .....	<b>38</b>	39
General accounts .....	<b>26</b>	24
Others .....	<b>8</b>	9
Total .....	<b>100%</b>	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, 2020 and 2019 are set forth as follows:

	2020	2019
Discount rate .....	<b>0.57%</b>	0.52%
Expected rate of return on plan assets.....	<b>2.50</b>	2.50

## NOTE 7 EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (A) DIVIDENDS

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (B) INCREASES/DECREASES AND TRANSFER OF COMMON STOCK, RESERVE, AND SURPLUS

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

### (C) TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## NOTE 8 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, result in a normal effective statutory tax rate of approximately 30.62% and 30.62% for each of the years ended March 31, 2020 and 2019. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Pension and severance costs.....	¥ 3,087	¥ 2,478	\$ 28,587
Tax loss carryforwards .....	4,236	4,474	39,223
Accrued bonuses.....	1,911	1,905	17,692
Long-lived assets (Impairment loss).....	1,494	1,373	13,833
Others.....	8,390	8,243	77,686
Total of tax loss carryforwards and temporary differences...	19,118	18,473	177,021
Less valuation allowance for tax loss carryforwards .....	(1,427)	(4,203)	(13,209)
Less valuation allowance for temporary differences.....	(1,484)	(1,628)	(13,743)
Total valuation allowance .....	(2,911)	(5,831)	(26,952)
Total.....	¥ 16,207	¥ 12,642	\$ 150,069
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities .....	¥ 9,556	¥ 14,109	\$ 88,481
Undistributed earnings of foreign subsidiaries and associated companies.....	13,802	12,453	127,795
Unrealized gain on land held by subsidiaries.....	1,281	1,257	11,865
Others.....	4,188	3,337	38,784
Total.....	¥ 28,827	¥ 31,156	\$ 266,925
Net deferred tax liabilities.....	¥(12,620)	¥(18,514)	\$ (116,856)

Valuation allowance decreased ¥2,920 million (\$27,039 thousands). This was mainly reversal of valuation allowance for tax loss carryforwards in a foreign subsidiary.

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, 2020 and 2019 was as follows:

	2020	2019
Normal effective statutory tax rate .....	30.62%	30.62%
Equity in earnings of associated companies.....	(2.64)	(1.95)
Tax exemption.....	(1.09)	(1.42)
Undistributed earnings of foreign consolidated subsidiaries and associated companies .....	3.80	4.78
Social expenses not deductible for income tax purposes.....	0.60	0.67
Tax rate differences in foreign subsidiaries.....	(4.24)	(4.64)
Others—net.....	(3.40)	(0.07)
Actual effective tax rate .....	23.65%	27.99%

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2020 and 2019 were as follows:

	Millions of yen						Total
	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	
<b>March 31, 2020</b>							
Deferred tax assets relating to tax loss carryforwards	¥152	¥125	¥215	¥269	¥201	¥3,274	¥4,236
Less valuation allowances for tax loss carryforwards	(133)	(112)	(189)	(255)	(195)	(543)	(1,427)
Net deferred tax assets relating to tax loss carryforwards	19	13	26	14	6	2,731	2,809

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

The deferred tax assets of ¥2,809 million (\$26,014 thousands) as of March 31, 2020 were recognized as part of the balance of tax loss carryforwards of ¥4,236 million (\$39,223 thousands,

multiplied by the statutory effective tax rate) in a foreign subsidiary. The tax loss carryforward for which the deferred tax assets were recorded was recoverable based on the future business plan, and valuation allowances was not required.

	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
<b>March 31, 2020</b>							
Deferred tax assets relating to tax loss carryforwards	<b>\$1,408</b>	<b>\$1,158</b>	<b>\$1,990</b>	<b>\$2,492</b>	<b>\$1,863</b>	<b>\$30,312</b>	<b>\$39,223</b>
Less valuation allowances for tax loss carryforwards	<b>(1,234)</b>	<b>(1,037)</b>	<b>(1,748)</b>	<b>(2,358)</b>	<b>(1,804)</b>	<b>(5,028)</b>	<b>(13,209)</b>
Net deferred tax assets relating to tax loss carryforwards	<b>174</b>	<b>121</b>	<b>242</b>	<b>134</b>	<b>59</b>	<b>25,284</b>	<b>26,014</b>

## NOTE 9 LEASES

The Group leases certain machinery, research equipment, vending machines, computer equipment, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2020		2020	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year.....	<b>¥ 3,536</b>	<b>¥186</b>	<b>\$32,744</b>	<b>\$1,725</b>
Due after one year.....	<b>6,993</b>	<b>298</b>	<b>64,748</b>	<b>2,762</b>
Total.....	<b>¥10,529</b>	<b>¥484</b>	<b>\$97,492</b>	<b>\$4,487</b>

	Millions of yen	
	2019	
	Finance leases	Operating leases
Due within one year.....	¥1,990	¥1,543
Due after one year.....	3,712	2,919
Total.....	¥5,702	¥4,462

## NOTE 10 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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Sales.....	<b>¥5,242</b>	¥5,428	<b>\$48,542</b>
Sales discounts and rebates.....	<b>72</b>	59	<b>663</b>
Collection of loans.....		4	
Rent of vending machines.....	<b>20</b>	25	<b>187</b>
Temporary receipts.....	<b>2,048</b>	2,057	<b>18,961</b>
Subsidy of sales expenses.....	<b>25</b>	52	<b>235</b>

The balances due to or from these related parties at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Notes and accounts receivable.....	<b>¥1,174</b>	¥1,260	<b>\$10,868</b>
Other receivables.....	<b>7</b>	9	<b>69</b>
Other payables.....	<b>20</b>	11	<b>186</b>
Accrued expenses.....	<b>15</b>	14	<b>141</b>
Other long-term liabilities.....	<b>36</b>	37	<b>329</b>

## NOTE 11 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group uses bank loans based on its capital investment plan mainly for the food and beverages business.

Temporal surplus funds are invested in short-term investments exposed to an insignificant risk of changes in value such as bank deposits. The Group does not invest in speculative instruments in compliance with the Group policy.

### (2) NATURE, EXTENT OF RISK, AND RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

Notes and accounts receivable are exposed to customer credit risk. To manage such credit risk, the Group monitors payment terms and credit information of major customers. Investment securities, mainly held for business-related purposes, are exposed to the risk of market price fluctuations. To manage such market risk, the fair value of the investments are obtained regularly and reported to the Company's Board of Directors.

Payment terms of notes and accounts payable are usually within one year.

Loans are made principally in connection with capital investments. Most of the loans are at variable interest rates and exposed to the risk of interest rate fluctuations. It is the Group's policy not to hedge such market risk with derivatives such as interest-rate swaps as a result of considering the financial market situation and outstanding balance.

Payables and loans are exposed to liquidity risk. The Group manages the risk by reviewing cash flow projections prepared by accounting and related departments.

### (3) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are based on the quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. The estimation might differ if other valuation techniques were used.

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
<b>March 31, 2020</b>			
Cash and cash equivalents .....	¥124,561	¥124,561	
Time deposits .....	51,077	51,077	
Receivables .....	53,964		
Allowance for doubtful accounts.....	(236)		
Receivables—net.....	53,728	53,728	
Investment securities.....	73,564	73,564	
Total.....	¥302,930	¥302,930	
Short-term borrowings.....	¥ 27,272	¥ 27,272	
Payables.....	35,977	35,977	
Long-term debt (excluding obligations under finance leases).....	76,152	76,261	¥109
Total.....	¥139,401	¥139,510	¥109
<b>March 31, 2019</b>			
Cash and cash equivalents .....	¥103,171	¥103,171	
Time deposits .....	53,313	53,313	
Receivables .....	55,590		
Allowance for doubtful accounts.....	(262)		
Receivables—net.....	55,328	55,328	
Investment securities.....	91,228	91,228	
Total.....	¥303,040	¥303,040	
Short-term borrowings.....	¥ 34,598	¥ 34,598	
Payables.....	37,929	37,929	
Long-term debt (excluding obligations under finance leases).....	81,886	82,030	¥144
Total.....	¥154,413	¥154,557	¥144

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
<b>March 31, 2020</b>			
Cash and cash equivalents .....	\$1,153,344	\$1,153,344	
Time deposits .....	472,937	472,937	
Receivables .....	499,669		
Allowance for doubtful accounts.....	(2,189)		
Receivables—net.....	497,480	497,480	
Investment securities.....	681,149	681,149	
Total.....	\$2,804,910	\$2,804,910	
Short-term borrowings.....	\$ 252,518	\$ 252,518	
Payables.....	333,121	333,121	
Long-term debt (excluding obligations under finance leases).....	705,109	706,116	\$1,007
Total.....	\$1,290,748	\$1,291,755	\$1,007

#### **Cash and cash equivalents, Time deposits, and Receivables**

The carrying values of cash and cash equivalents, time deposits, and receivables approximate fair value because of their short maturities.

#### **Investment securities**

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

#### **Short-term borrowings and Payables (excluding current portion of long-term debt)**

The carrying values of short-term borrowings and payables (excluding the current portion of long-term debt) approximate fair value because of their short maturities.

#### **Long-term debt (including current portion of long-term debt)**

The fair value of long-term borrowings is determined by discounting the cash flows related to the debt at the Group's assumed corporate discount rate.

#### **(4) FINANCIAL INSTRUMENTS WHOSE FAIR VALUE CANNOT BE RELIABLY DETERMINED**

	Carrying amount		Thousands of U.S. dollars
	2020	2019	
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies.....	¥66,216	¥64,078	\$613,115

#### **(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
<b>March 31, 2020</b>				
Cash and cash equivalents .....	¥124,561			
Time deposits .....	51,077			
Receivables .....	53,964			
Total.....	¥229,602			

	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
<b>March 31, 2019</b>				
Cash and cash equivalents .....	¥103,171			
Time deposits .....	53,313			
Receivables .....	55,590			
Total.....	¥212,074			

	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
<b>March 31, 2020</b>				
Cash and cash equivalents .....	\$1,153,344			
Time deposits .....	472,937			
Receivables .....	499,669			
Total.....	\$2,125,950			

## NOTE 12 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Losses arising during the year.....	¥(13,691)	¥ (4,504)	\$ (126,772)
Reclassification adjustments to profit or loss.....	(1,501)	(2,202)	(13,897)
Amount before income tax effect.....	(15,192)	(6,706)	(140,669)
Income tax effect.....	4,652	2,054	43,073
Total.....	¥(10,540)	¥ (4,652)	\$ (97,596)
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Foreign currency translation adjustments:			
Adjustments arising during the year.....	¥ (3,849)	¥(17,540)	\$ (35,639)
Total.....	¥ (3,849)	¥(17,540)	\$ (35,639)
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Defined retirement benefit plans:			
Adjustments arising during the year.....	¥ (2,498)	¥ (2,442)	\$ (23,129)
Reclassification adjustments to profit or loss.....	519	372	4,801
Amount before income tax effect.....	(1,979)	(2,070)	(18,328)
Income tax effect.....	607	634	5,622
Total.....	¥ (1,372)	¥ (1,436)	\$ (12,706)
	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Share of other comprehensive income in associates:			
Losses arising during the year.....	¥ (51)	¥ (281)	\$ (469)
Reclassification adjustments to profit or loss.....		(1)	
Total.....	¥ (51)	¥ (282)	\$ (469)
Total other comprehensive income (loss).....	¥(15,812)	¥(23,910)	\$ (146,410)

## NOTE 13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Advertising.....	¥17,554	¥18,012	\$162,537
Sales subsidies.....	7,734	9,329	71,613
Freight expense.....	14,134	13,827	130,873
Sales commission.....	25,878	24,894	239,610
Salaries.....	43,998	42,183	407,385
Provision for bonuses.....	3,837	3,975	35,532
Net periodic benefit costs.....	2,476	2,212	22,924
Depreciation and amortization.....	4,967	4,844	45,989
Research and development.....	8,931	10,535	82,697

## NOTE 14 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,969 million (\$83,046 thousand) and ¥10,564 million for the years ended March 31, 2020 and 2019, respectively.

## NOTE 15 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2020 was approved at the Company's Board of Directors' meeting held on May 14, 2020:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥23.00 (\$0.21) per share.....	¥3,691	\$34,179

## NOTE 16 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2020 and 2019 is as follows:

Diluted net income per share for the years ended March 31, 2020 and 2019 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
<b>Year ended March 31, 2020</b>				
Basic EPS:				
Net income available to common shareholders .....	<b>¥39,735</b>	<b>160,198</b>	<b>¥248.04</b>	<b>\$2.30</b>

	Millions of yen	Thousands of shares	Yen
	Net income attributable to owners of the parent	Weighted-average shares	EPS
Year ended March 31, 2019			
Basic EPS:			
Net income available to common shareholders .....	¥34,935	160,333	¥217.89

## NOTE 17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segment of an Enterprise and a Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segment of an Enterprise and a Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### (1) DESCRIPTION OF REPORTABLE SEGMENTS

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of Food and Beverages (Japan), Food and Beverages (The Americas), Food and Beverages (Asia and Oceania), Food and Beverages (Europe), Pharmaceuticals, and Others.

Food and Beverages (Japan) consists of fermented milk drinks, juice, and noodles, etc.

Food and Beverages (The Americas) consists of fermented milk drinks, etc.

Food and Beverages (Asia and Oceania) consists of fermented milk drinks, etc.

Food and Beverages (Europe) consists of fermented milk drinks, etc.

Pharmaceuticals consists of anticancer drugs and other pharmaceuticals.

Others consist of cosmetics and professional baseball team operation.

### (2) METHODS OF MEASUREMENT FOR THE AMOUNTS OF SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

	Millions of yen							
	2020							
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
Japan	The Americas	Asia and Oceania	Europe					
Sales								
Sales to external customers.....	¥186,682	¥48,747	¥122,318	¥7,941	¥19,670	¥20,646		¥406,004
Intersegment sales or transfers.....	22,699					2,266	¥(24,965)	
Total .....	209,381	48,747	122,318	7,941	19,670	22,912	(24,965)	406,004
Segment profit (loss) .....	18,209	12,360	31,854	332	(811)	2,049	(18,318)	45,675
Segment assets .....	180,889	86,824	229,251	9,511	14,350	14,951	92,095	627,871
Other:								
Depreciation and amortization.....	9,846	2,026	8,248	398	224	433	1,149	22,324
Investment in associates.....			60,653					60,653
Increase in property, plant and equipment and intangible assets ...	8,812	1,500	7,954	466	264	437	1,999	21,432

	Thousands of U.S. dollars							
	2020							
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
Japan	The Americas	Asia and Oceania	Europe					
Sales								
Sales to external customers.....	\$1,728,539	\$451,357	\$1,132,573	\$73,526	\$182,134	\$191,168		\$3,759,297
Intersegment sales or transfers.....	210,172					20,979	\$(231,151)	
Total .....	1,938,711	451,357	1,132,573	73,526	182,134	212,147	(231,151)	3,759,297
Segment profit (loss) .....	168,603	114,449	294,939	3,077	(7,511)	18,974	(169,613)	422,918
Segment assets .....	1,674,901	803,930	2,122,694	88,068	132,867	138,434	852,727	5,813,621
Other:								
Depreciation and amortization.....	91,166	18,756	76,369	3,685	2,078	4,012	10,640	206,706
Investment in associates.....			561,605					561,605
Increase in property, plant and equipment and intangible assets ...	81,593	13,887	73,645	4,314	2,442	4,049	18,510	198,440

- Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥13,656 million (\$126,444 thousand) of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥99,064 million (\$917,258 thousand) of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,149 million (\$10,640 thousand) of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥1,999 million (\$18,510 thousand) of capital expenditure of the head office.

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

- Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,867 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥117,047 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,262 million of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥1,481 million of capital expenditure of the head office.

#### (4) INFORMATION ABOUT GEOGRAPHICAL AREAS

##### a. Sales

Millions of yen				
2020				
Japan	The Americas	Asia and Oceania	Europe	Total
¥224,500	¥48,757	¥124,806	¥7,941	¥406,004

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

Thousands of U.S. dollars				
2020				
Japan	The Americas	Asia and Oceania	Europe	Total
\$2,078,703	\$451,452	\$1,155,616	\$73,526	\$3,759,297

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

##### b. Property, plant and equipment

Millions of yen				
2020				
Japan	The Americas	Asia and Oceania	Europe	Total
¥114,382	¥16,079	¥71,168	¥2,367	¥203,996

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

Thousands of U.S. dollars				
2020				
Japan	The Americas	Asia and Oceania	Europe	Total
\$1,059,094	\$148,883	\$658,962	\$21,915	\$1,888,854

#### (5) LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

##### March 31, 2020

The detail was omitted for an immaterial matter.

##### March 31, 2019

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

#### (6) BARGAIN PURCHASE GAIN

##### March 31, 2020

The detail was omitted for an immaterial matter.

##### March 31, 2019

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

# Independent Auditors' Report



Deloitte Touche Tohmatsu LLC  
Marunouchi Nijubashi Building  
3-2-3 Marunouchi, Chiyoda-ku  
Tokyo 100-8360  
Japan  
Tel: +81 (3) 6213 1000  
Fax: +81 (3) 6213 1005  
www.deloitte.com/jp/en

## 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. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, 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, 2020, 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.

### 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.

Member of  
Deloitte Touche Tohmatsu Limited

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 judgement. 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.

**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 24, 2020

# Global Network

## OVERSEAS OPERATIONS AND RESEARCH AND DEVELOPMENT INSTITUTE

(As of March 31, 2020)

Company name	Start of Sales	Location
<b>ASIA AND OCEANIA</b>		
Yakult Taiwan Co., Ltd.	March 1964	Taipei
Hong Kong Yakult Co., Ltd.	June 1969	Hong Kong
Yakult (Thailand) Co., Ltd.	June 1971	Bangkok
Korea Yakult Co., Ltd.	August 1971	Seoul
Yakult Philippines, Inc.	October 1978	Manila
Yakult (Singapore) Pte., Ltd.	July 1979	Singapore
P.T. Yakult Indonesia Persada	January 1991	Jakarta
Yakult Australia Pty. Ltd. • New Zealand Branch	February 1994	Dandenong
Yakult (Malaysia) Sdn. Bhd.	February 2004	Shah Alam
Yakult Vietnam Co., Ltd.	September 2007	Ho Chi Minh
Yakult Danone India Pvt. Ltd.	January 2008	New Delhi
Yakult (China) Corporation	April 2007	Shanghai
Guangzhou Yakult Co., Ltd.	June 2002	Guangzhou
Shanghai Yakult Co., Ltd.	May 2005	Shanghai
Beijing Yakult Co., Ltd.	June 2006	Beijing
Tianjin Yakult Co., Ltd.	August 2011	Tianjin
Wuxi Yakult Co., Ltd.	June 2015	Wuxi
Yakult Middle East FZCO	March 2017	Dubai
Yakult Myanmar Co., Ltd.	August 2019	Yangon

Company name	Start of Sales	Location
<b>The AMERICAS</b>		
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
<b>EUROPE</b>		
Yakult Europe B.V.	March 1996	Almere, The Netherlands
Yakult Nederland B.V.	April 1994	Amstelveen
Yakult Belgium N.V./S.A.	April 1995	Brussels
Yakult UK Ltd. • Ireland Branch	April 1996	London
Yakult Deutschland GmbH	April 1996	Neuss
Yakult Oesterreich GmbH	December 2005	Vienna
Yakult Italia S.r.l.	February 2007	Milan
Yakult Honsha European Research Center for Microbiology VOF (YHER)	May 2005	Ghent, Belgium

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

# Corporate Data

(As of March 31, 2020)

<b>CORPORATE NAME</b>	YAKULT HONSHA CO., LTD.
<b>DATE FOUNDED</b>	1935
<b>DATE INCORPORATED</b>	April 9, 1955
<b>HEAD OFFICE</b>	10-30, Kaigan, 1-chome, Minato-ku, Tokyo, 105-8660, Japan* <sup>1</sup> URL: <a href="https://www.yakult.co.jp/">https://www.yakult.co.jp/</a>
<b>PAID-IN CAPITAL</b>	¥31,117,654,815
<b>ANNUAL ACCOUNT SETTLEMENT DATE</b>	March 31
<b>NUMBER OF EMPLOYEES</b>	28,395 (Consolidated)
<b>NUMBER OF ISSUED SHARES</b>	171,045,418
<b>NUMBER OF SHAREHOLDERS</b>	28,417* <sup>2</sup>

\*1 Due to the relocation of the Head Office on April 1, 2020, the address was changed from 1-19, Higashi Shimbashi 1-chome, Minato-ku, Tokyo.

\*2 Including shareholders who own shares of less than one unit

## OFFICES

1 head office, 1 institute, 5 branches, 7 plants

● Head Office

★ Yakult Central Institute

### Branches

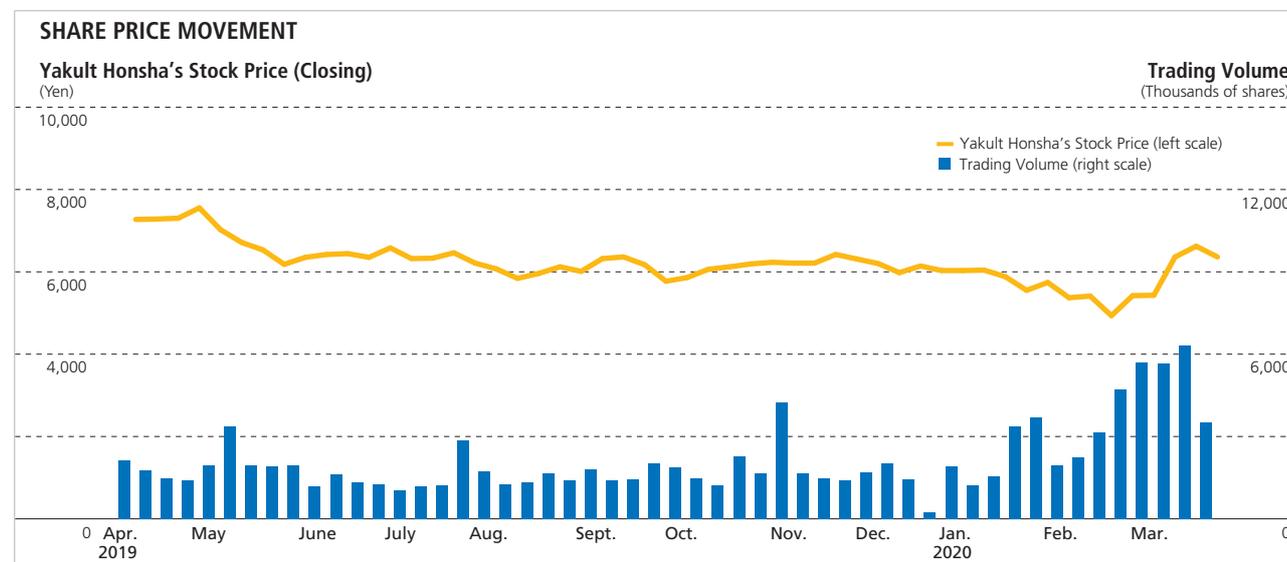
- A Hokkaido Branch
- B East Japan Branch
- C Metropolitan Branch
- D Central Japan Branch
- E West Japan Branch

### Plants

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

## MAJOR SUBSIDIARIES IN JAPAN

- Yakult Tokyo Sales Co., Ltd.
- Yakult Okayama Wake Plant Co., Ltd.
- Yakult Corporation Co., Ltd.
- Yakult Materials Co., Ltd.
- Yakult Health Foods Co., Ltd.
- Yakult Logistics Co., Ltd.
- Yakult Kyudan Co., Ltd.



# Yakult

**YAKULT HONSHA CO., LTD.**

10-30, Kaigan, 1-chome,  
Minato-ku, Tokyo, 105-8660, Japan  
Telephone: +81-3-6625-8960  
URL: <https://www.yakult.co.jp/>



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