

Yakult



**Evolving into
a Healthcare Company
that Continues
Contributing to People's
Health
Around the World**

ANNUAL REPORT 2021

Year ended March 31, 2021



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Forward-Looking Statements

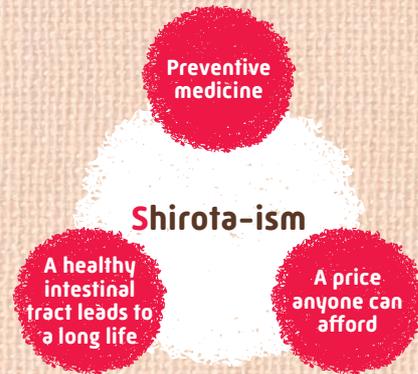
Statements contained in the Annual Report 2021 regarding business results for fiscal 2021 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.



Growing

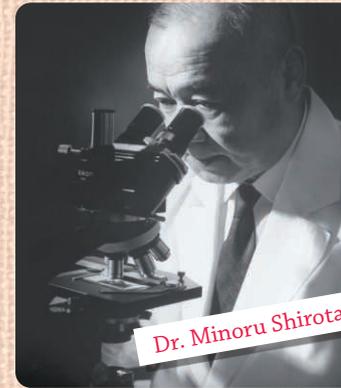
Corporate philosophy

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.



The Sources of Yakult's Strength

Yakult has three unique sources of strength:



Our founder,

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

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

Product Power:

Nearly 90 years as a Probiotics Pioneer

Since its founding nearly 90 years ago, Yakult has been a pioneer in the field of probiotics, providing products that contribute to good health. Today, Yakult has expanded beyond food and beverages to play an active role in the fields of pharmaceuticals and cosmetics as well.



from Our Roots

In the nearly 90 years since then,

Yakult has conducted its business activities around the world in accordance with Dr. Shirōta'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 previous page.

As a probiotics* pioneer,

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

* Probiotics: Live microorganisms which when administered in adequate amounts confer a health benefit on the host (FAO/WHO definition, 2002).

The Yakult Lady System:

Everywhere Is Local

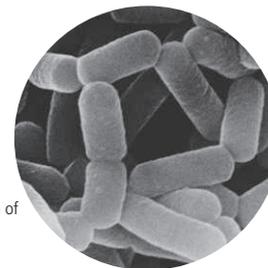
Yakult's products are offered mainly through two channels, home delivery and retail sales. Our Yakult Ladies are an essential part of our home delivery sales. The strength of the Yakult Ladies lies in their ability to communicate directly with customers, which allows them to convey the value and appeal of our proprietary living *Lactobacillus casei* strain Shirōta and recommend continued consumption of one bottle of *Yakult* per day. From its beginnings in Japan, our unique Yakult Lady home-delivery system has expanded to, and been highly successful in, many countries and regions around the world.



Dynamic R&D:

The Wellspring of Future Competitiveness

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



Electron micrograph of *Lactobacillus casei* strain Shirōta



Electron micrograph of *Bifidobacterium breve* strain Yakult

Yakult Consumption around the World

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

Taking Good Health Global



Financial Highlights

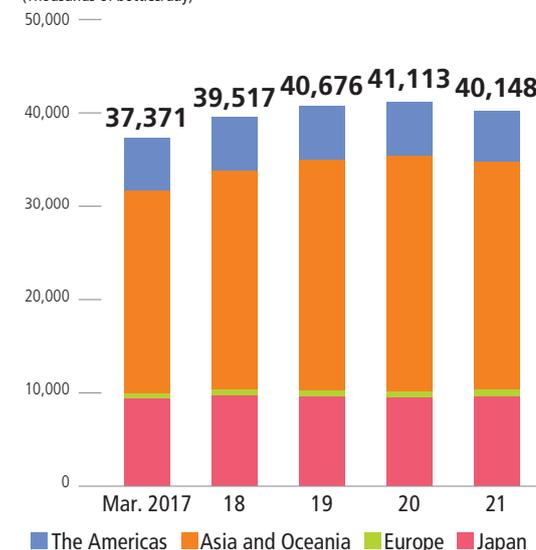
YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2021, 2020, 2019, 2018 and 2017

	2017	2018	2019	2020	2021	Thousands of U.S. dollars (Note 2) 2021
For the year:						
Net sales	¥378,308	¥401,570	¥407,017	¥406,004	¥385,707	\$3,506,425
Operating income	37,282	43,464	45,846	45,675	43,694	397,219
Net income attributable to owners of the parent	30,155	34,065	34,935	39,736	39,267	356,976
At the year-end:						
Total assets	¥585,741	¥627,032	¥618,533	¥627,871	¥635,102	\$5,773,657
Total liabilities	208,860	240,358	226,254	215,789	195,341	1,775,829
Total equity	376,881	386,674	392,279	412,082	439,761	3,997,828
Financial ratio:						
Return on equity (ROE) (%)	8.9	9.8	9.8	10.9	10.1	
Per share of common stock:						
	Yen					U.S. dollars (Note 2)
Basic net income	¥ 182.39	¥ 207.02	¥ 217.89	¥ 248.04	¥ 244.85	\$ 2.23
Total equity (Note 3)	2,077.29	2,194.32	2,229.80	2,330.58	2,523.81	22.94
Cash dividends applicable to the year	32.00	34.00	44.00	46.00	52.00	0.47

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 ¥110 to U.S.\$1, the approximate rate of exchange at March 31, 2021.
3. Noncontrolling interests are not included in equity on process of calculation.

Sales Volume by Region

(Thousands of bottles/day)



South Korea

2,750

Thousands of bottles/day

Middle East

16

Thousands of bottles/day

Australia

270

Thousands of bottles/day

Indonesia

6,727

Thousands of bottles/day

Singapore

273

Thousands of bottles/day

Thailand

2,070

Thousands of bottles/day

China

7,012

Thousands of bottles/day

Breakdown is as follows:

- Guangzhou 2,770
- Shanghai 490
- Beijing 380
- Other areas of China 3,372

Hong Kong

450

Thousands of bottles/day

Taiwan

656

Thousands of bottles/day

Vietnam

650

Thousands of bottles/day

Malaysia

346

Thousands of bottles/day

The Philippines

3,030

Thousands of bottles/day

Myanmar

17

Thousands of bottles/day

India

192

Thousands of bottles/day

ASIA AND OCEANIA

Japan

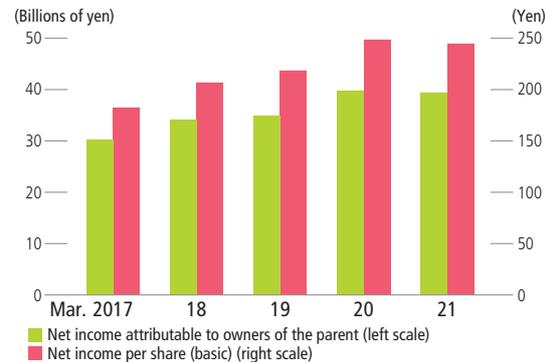
9,583

Thousands of bottles/day

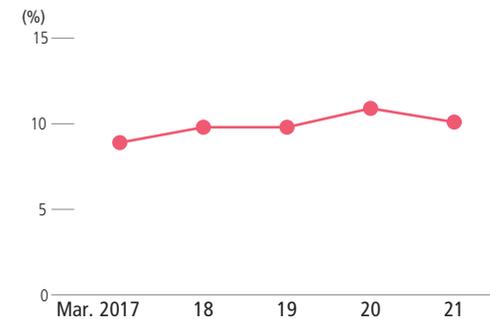
Net Sales and Operating Margin



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



ROE



● To Our Shareholders



Hiroshi Narita

President and Representative Director

Having been passed the baton, I am filled with a renewed eagerness to deliver good health to as many people as possible around the world.

My name is Hiroshi Narita and I became president and representative director of Yakult Honsha on June 23, 2021. I am ready to devote myself fully to the task of meeting the hopes and expectations of all of our stakeholders.

The COVID-19 pandemic which began in early 2020 has been a painful reminder to all of us of the importance of health. Almost nine decades have passed since Yakult founder Dr. Minoru Shirota, working from the concepts of “preventive medicine” and “a healthy intestinal tract leads to a long life,” discovered a beneficial strain of lactic acid bacteria which reaches the intestines alive, and successfully incorporated it into a fermented milk drink released under the name of *Yakult*. The product he developed is now enjoyed every day by more than 40 million people in 40 countries and regions worldwide; people who may be separated by language, culture, and dietary customs, but who share a desire for health. At Yakult, we will continue to do our part to communicate the benefits of probiotics so that more people can benefit from *Yakult* in countries all around the world.

In an era when diversity is more valued than ever in many areas of society, social issues and the solutions that address them are also diversifying, with greater respect paid to individual health aspirations. Within this context, what should Yakult be doing to better contribute to the health of the world’s people? Our answer to this question is *Yakult Group Global Vision 2030*. This vision outlines three qualitative goals

on our path to becoming a global healthcare company: deliver health solutions to more people worldwide, provide “new value” tailored to the needs of the individual, and improve the relationship between people and planet.

We also recognize environmental, social, and governance (ESG) initiatives as vital to increasing our business value. Through *the Yakult Group Environmental Vision*, we set a goal to achieve net-zero greenhouse gas emissions by 2050, and we are committed to responsible conduct in all areas of our operations, so that our business supports the creation of a more sustainable world.

We remain committed to delivering products that are safe and offer peace of mind, and to making a positive difference in our local communities. We also take seriously our responsibility to engage in fair and ethical business and in the sound governance of our organization.

Above all, we will strive tirelessly to become a company that serves all of its stakeholders—most importantly our customers around the world. I ask for your continued guidance and support.



Hiroshi Narita
President and Representative Director

Long-Term Vision

Evolving into a healthcare company that continues contributing to people's health Around the world

Described below is *the Yakult Group Global Vision 2030*, our newly defined long-term vision, and the medium-term management plan, which sets detailed goals for the first four years.

Outline

Formulation of the Yakult Group Global Vision 2030

We formulated *the Yakult Group Global Vision 2030*, established to be both our long-term vision, and a guide for maintaining the Group's growth while adapting to changes in the environment.

In the next 10 years, from fiscal 2021 to fiscal 2030, we aim to realize our corporate philosophy by evolving into a healthcare company that can make broader contributions towards achieving a healthy society.

What we aspire to be

Qualitative goals

Key themes

Yakult Group Global Vision 2030

Evolving into a healthcare company that continues contributing to people's health around the world

Deliver good health to as many people as possible around the world

Offer customers new values which match their needs

Realize a society in which people and the planet co-exist

1 Strengthening global expansion

2 Expansion of business domain

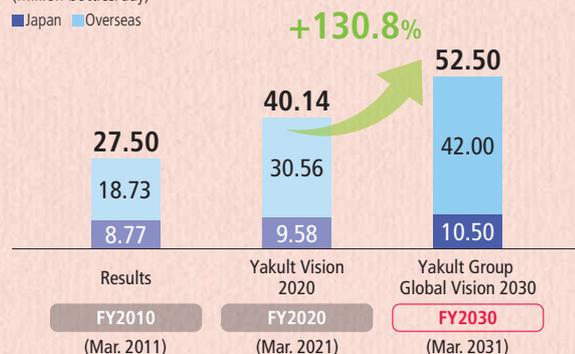
3 Responding to environmental issues

Quantitative Goals

Number of Bottles of Dairy Products Sold Worldwide

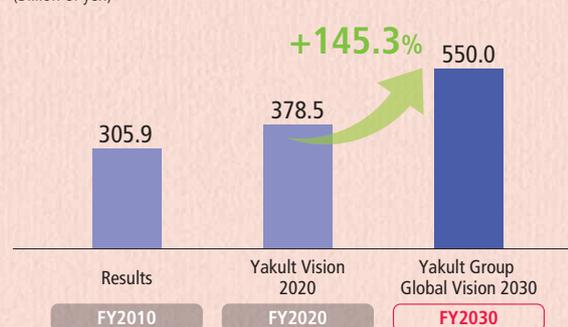
(Million bottles/day)

■ Japan ■ Overseas



Consolidated Net Sales*

(Billion of yen)



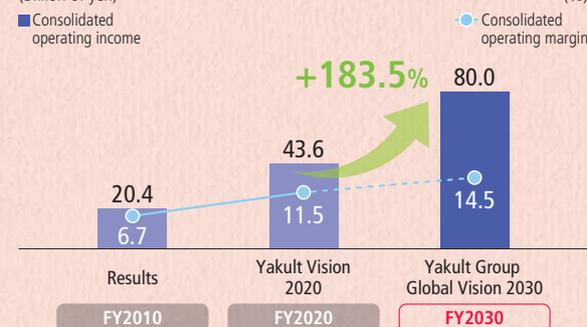
Consolidated Operating Income* / Consolidated Operating Margin

(Billion of yen)

■ Consolidated operating income

(%)

● Consolidated operating margin



*Accounting Standard for Revenue Recognition is applied to figures of FY2020 and FY2030.

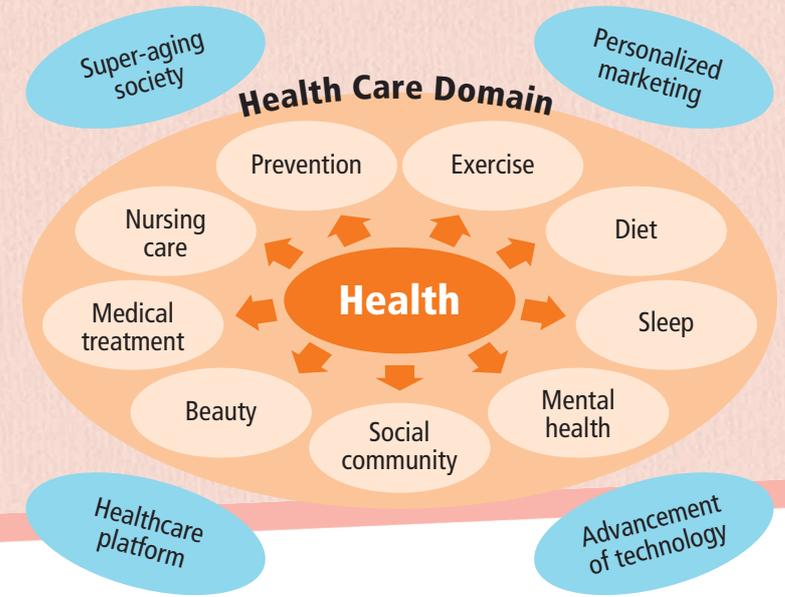
Targeted market

Targeting the Accelerating Growth of the Consumer Health Market

The global COVID-19 pandemic is heightening people's interest in health throughout the world. A range of health focused products and services have been developed to cope with changes occurring in the social environment, such as the super-aging society. The domestic market of products and services for a longer healthy life expectancy is projected to reach approximately ¥37 trillion by 2030.

In these circumstances, we have defined what we aspire to achieve in the next 10 years as **"Evolve into a healthcare company that continues contributing to people's health around the world,"** with key themes to achieving this vision including **"strengthening global expansion," "expanding the business domain"** and **"responding to environmental issues."**

Diversification of Health-Related Solutions

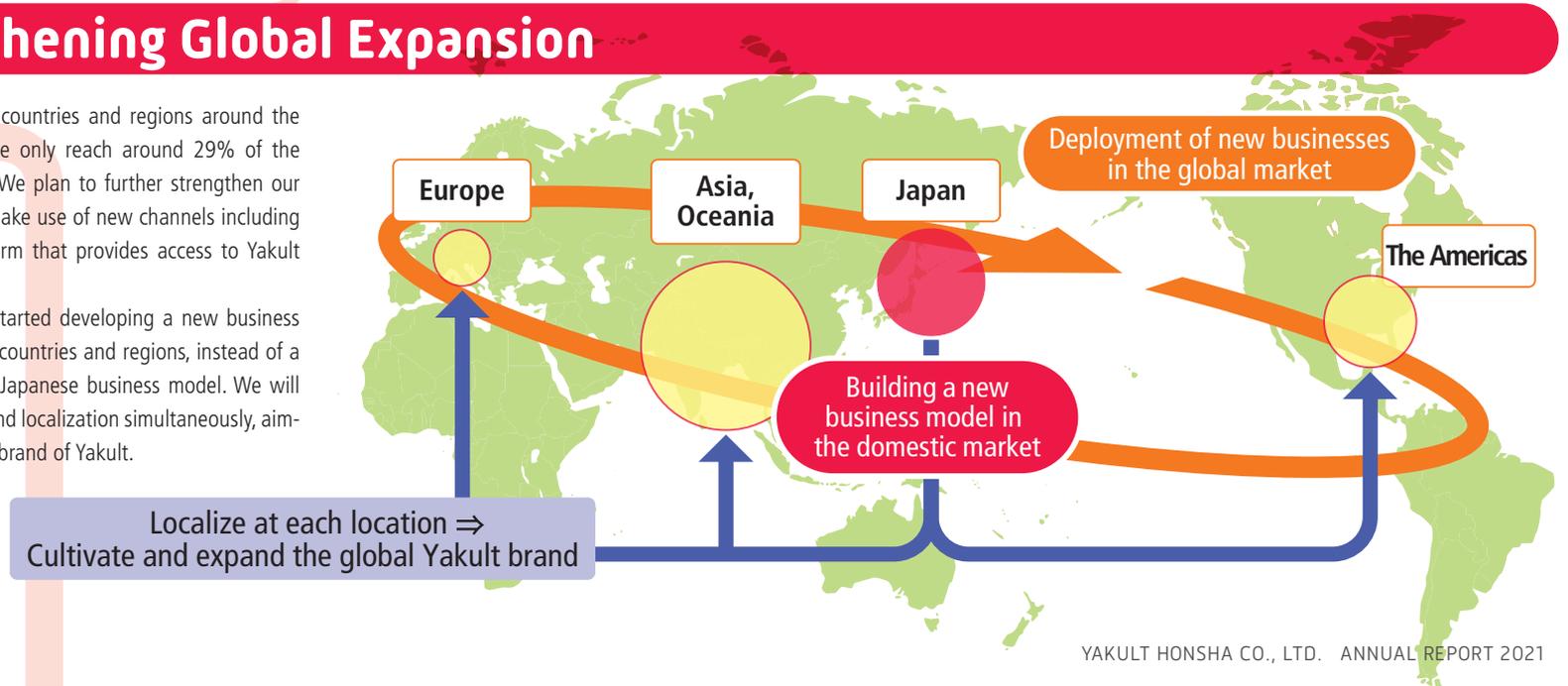


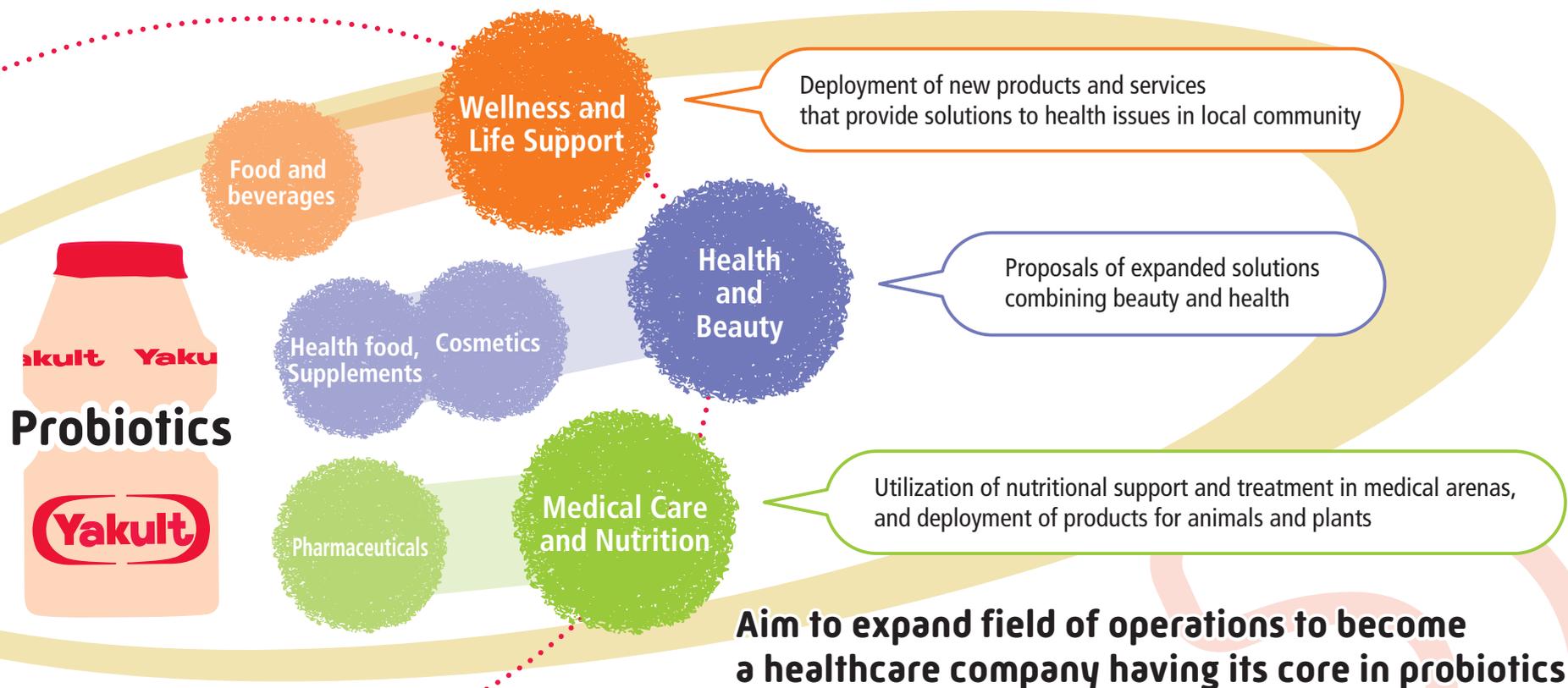
Three key themes to realize our vision

1. Strengthening Global Expansion

At present we operate in 40 countries and regions around the world including Japan, but we only reach around 29% of the global population at present. We plan to further strengthen our global expansion, as well as make use of new channels including e-commerce, to build a platform that provides access to Yakult products globally.

In recent years, we have started developing a new business model that is tailored to local countries and regions, instead of a horizontal deployment of the Japanese business model. We will work on global development and localization simultaneously, aiming to further grow the global brand of Yakult.





2. Expanding the Business Domain

Our business began with probiotics and has expanded to include food and beverages, health food and supplements, cosmetics and pharmaceuticals. We will expand this health-related value with three more focus areas.

The first is wellness and lifestyle support. We will utilize our customer contact points built by Yakult Ladies in developing new products and services, so that we can help to address Japan's super-aging society and other social challenges, and thereby shape a healthy society on a local basis.

The second is health and beauty. We already hold two product lines essential for the healthcare business: health food and supplements, and cosmetics. We will take advantage of the synergetic effect of both product lines to provide beauty and health-related value.

The final area is medical care and nutrition. The probiotics research that began with our founding has evolved into research into the microbiome, which is present in every part of the human body. The research clearly suggests that the microbiome has health-promoting benefits and will give birth to new medicine and treatment possibilities. The Yakult Central Institute is also continuing to further its research in this area, and we will aim to utilize the results of this research to expand our medical care segment.

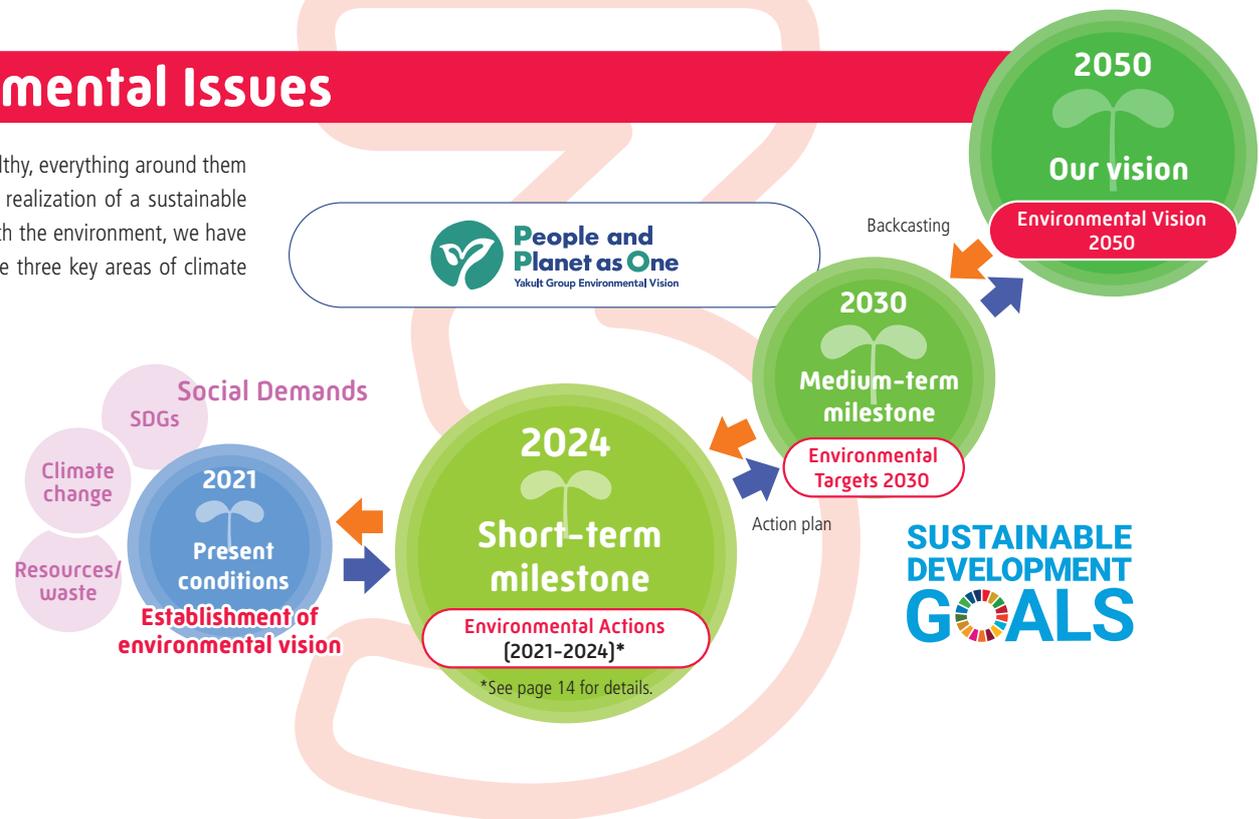
3. Responding to Environmental Issues

Since 2006, our corporate slogan has been “In order for people to be healthy, everything around them must also be healthy.” In the aim to continue contributing towards the realization of a sustainable society by finding ways to live as one with the world, and in harmony with the environment, we have established *the Yakult Group Environmental Vision*, which focuses on the three key areas of climate change, plastic containers and packaging, and water.

Environmental Vision 2050

“To realize a society where people and the planet co-exist as one through a value chain that has zero environmental impact”
—Net Zero Carbon Emissions (in scopes 1, 2 and 3)—

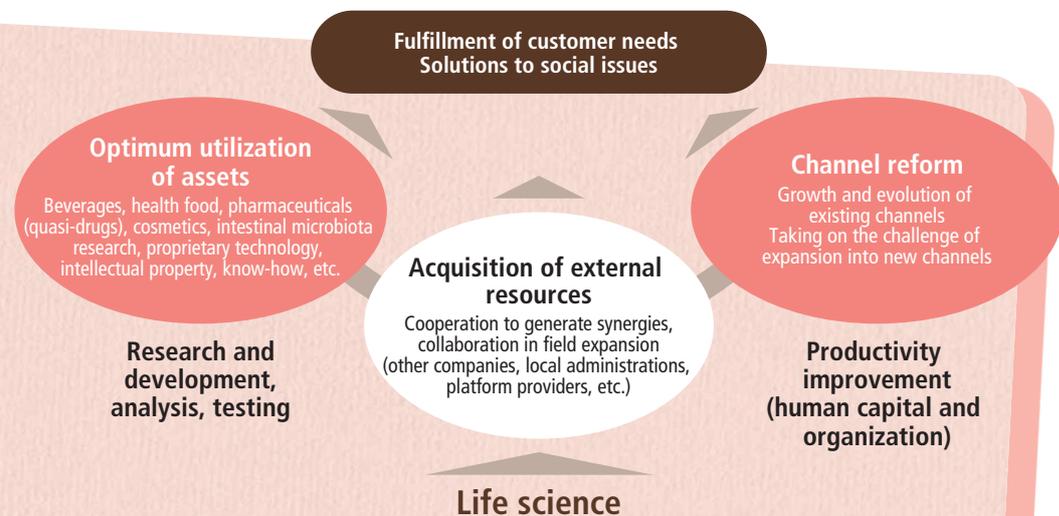
Initiatives for 2030



To achieve key themes

Accelerate Innovation through the Optimum Utilization of Assets, Acquisition of External Resources, and Channel Reform

We have been expanding the scale of our business by utilizing internal management resources, but will seek future growth by leveraging the acquisition of external assets as an important management option. Furthermore, we will work to optimally utilize group-wide assets and enact channel reform, and fulfill customer needs and solve social issues related to health, as we aim to evolve into a healthcare company.



Medium-Term Management Plan

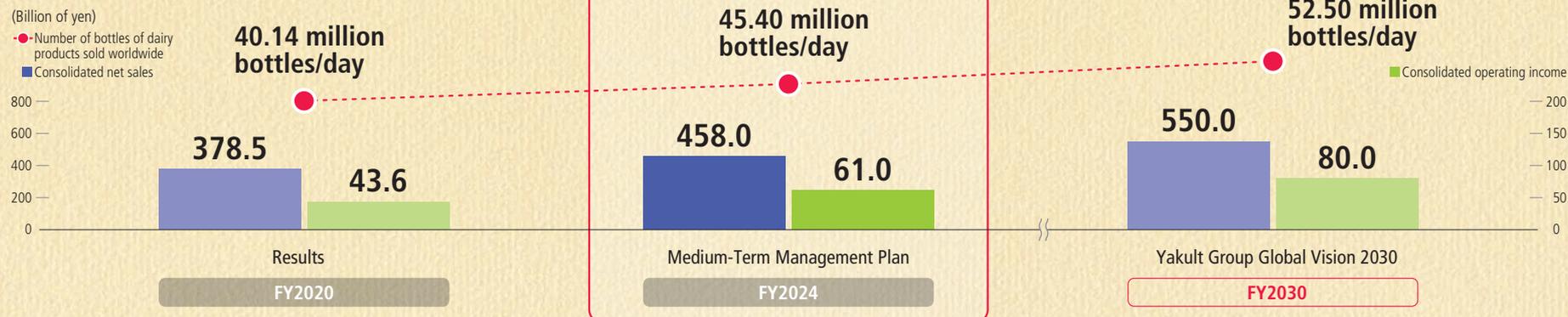
Proactively take on the challenge of creating new values that correspond to changes in the social environment

Medium-Term Management Plan (2021–2024)
Innovative challenge

Our medium-term management plan represents our plan until fiscal 2024; the first four years of our long-term *Yakult Group Global Vision 2030*. We seek to realize the basic policy of "Proactively take on the challenge of creating new values that correspond to changes in the social environment" by promoting six initiatives as follows:

- 1 Segment-based strategy
- 2 Global expansion
- 3 Expansion into new fields
- 4 Group function
- 5 ESG initiatives
- 6 Business investment and shareholder return

(Billion of yen)
● Number of bottles of dairy products sold worldwide
■ Consolidated net sales



Note: Accounting Standard for Revenue Recognition is applied to consolidated net sales.

1

Segment-based strategy

Expanding Business That Correspond to the Diversification of Customers' Values

The Group will seek to operate its businesses in accordance with the diversification of customer values.

Food and Beverages (Japan)

- Implement a product strategy centered on core and high-value-added products
- Expand customer contact and acquire new customers by building an organizational structure to respond to the diversification of consumers
- Contribute to society by promoting a business model that is meticulous and community-based



Food and Beverages (Overseas)

- Achieve growth in existing markets
- Develop a foundation for creating new markets and strengthening brands
- Take measures to ensure the sustainable growth of the international business



Pharmaceuticals

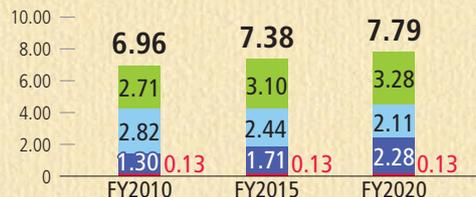
- Engage in continuous development, launch, and market deployment of superior products that cater to medical needs
- Improve profitability through optimization and effective utilization of management resources
- Plan and consider new businesses that lead to the health and long life of people by making the best use of our strengths and management resources

Cosmetics

- Deploy products and services with lactobacillus and fermentation at the core
- Build a new framework that suits the needs of diversifying customers in the domestic business
- Take on the challenge in new markets overseas and expand business

Progress in the Population Covered in Countries and Regions Entered

(Billion people)
 ■ Population (Japan) ■ Population covered in countries entered (Overseas)
 ■ Population not covered in countries entered (Overseas)*
 ■ Population of untapped countries

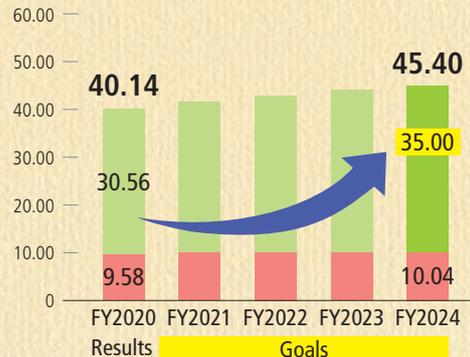


	(1) World population	Number of countries / regions entered (Overseas)	Population of countries / regions entered (Overseas)	(2) Population covered in countries / regions entered (Overseas)	Covering ratio (2) / (1)
FY2020	7.79 billion people	39 countries/regions	4.38 billion people	2.28 billion people	29.3%

*This refers to the population of areas where we have not been able to set up a sales environment in operating countries and regions.

Number of Bottles of Dairy Products Sold Worldwide

(Million bottles per day)
 ■ Japan
 ■ Overseas



2

Global expansion

Realizing Sustainable Growth by strengthening Global Expansion

The population of countries and regions that we cover reached approximately 2.3 billion in fiscal 2020, an increase of one billion over the last 10 years. However, this still only represents about 29% of the global population of approximately 7.8 billion. The population of those countries we have yet to enter is about 3.3 billion. Even in the countries where we operate, the population we are still unable to cover is more than 2.1 billion. We aim to expand the business by continuing to cultivate existing markets with current products, while considering the introduction of new products for each country where we operate. At the same time, we will deepen our research into untapped countries in order to increase the population covered.

3

Expansion into new fields

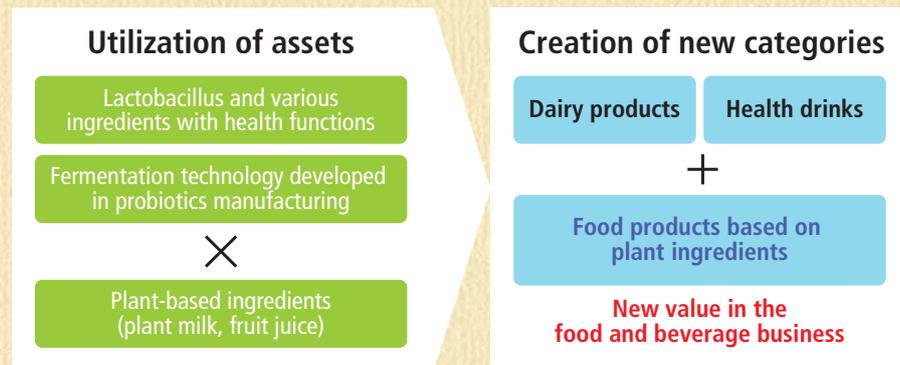
Expansion of Business Domains with the Aim of Becoming a Healthcare Company

In addressing geo-environmental challenges while also meeting expanding health related needs, manufacturers are actively employing ingredients made of grains such as soybeans to develop new markets. Yakult also seeks to create a new category of "food products based on plant ingredients" by utilizing its holding assets, and to develop it as the third pillar of the food and beverage business, following dairy products and health drinks.

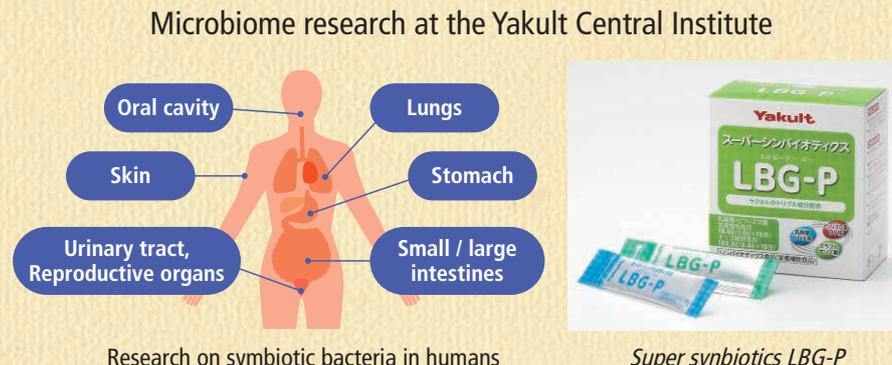
In addition, as a new business that leverages the fruits of our research, the Yakult Central Institute is promoting research on the microbiome, which is present in every part of the human body, and has proven its health-promoting benefits. Yakult has already commercialized *Super synbiotics LBG-P*, which is used mainly at university hospitals. Going forward, using our new "Medical Biome® business*," we will enhance the product line geared towards supporting medical arenas and establish an independent sales organization.

*English-like trademark registered in Japan.

Development of New Products in Existing Businesses



Creation of New Values in New Businesses



Optimizing the value chain



Synergies with the Group's management resources

Yakult Honsha × Yakult Group sales companies × Overseas operations × Associated companies

- Expansion of the business domain through collaboration among group resources
- Optimal utilization of group assets (human, capital, funds, information)
- Building a customer platform using digital technology

4

Group function

Optimal Utilization of the Group's Management Resources

We will optimize the value chain to build a development system for new products and services that flexibly suit the needs of customers. This will require collaborative use of management resources held by the Group. We will review the materials that we have researched for many years but have yet to utilize, while making use of products and technologies handled by the Group's affiliated companies to create a synergetic effect among businesses of the Group, in order to create new value throughout the entire value chain.

5

ESG initiatives

Strengthening Initiatives Addressing Environmental Issues for Sustainable Growth

To realize *Yakult Environmental Vision 2050*, we will take the following environmental actions (2021–2024), determined for the four years through fiscal 2024.

Main Key Themes and Action Plans

Environment	<h4 style="color: #4CAF50;">Environmental Action (2021-2024)</h4> <ul style="list-style-type: none"> ● Achieve a zero-carbon society Reduce GHG emissions (in Japan, scopes 1 and 2) by 10% compared to fiscal 2018 levels ● Convert to fully recyclable containers and packaging Reduce plastic containers and packaging (in Japan) by 5% compared to fiscal 2018 levels, or make them recyclable ● Reduce water consumption Reduce water consumption (at dairy product plants in Japan, per production unit) by 3% compared to fiscal 2018 levels ● Reduce waste <ul style="list-style-type: none"> · Reduce the amount of waste generated by 20% compared to fiscal 2010 levels · Maintain a food waste recycling rate of 95% or higher ● Conserve and utilize biodiversity <ul style="list-style-type: none"> · Support and participate in conservation activities · Promote biodiversity education 	<h4 style="color: #4CAF50;">Society</h4> <ul style="list-style-type: none"> ● Provide safe and reliable products ● Conduct activities to solve local issues ● Promote work-life balance ● Promote diversity ● Respect people and human rights
	<h4 style="color: #4CAF50;">Governance</h4> <ul style="list-style-type: none"> ● Ensure fair and sound transactions ● Practice corporate governance ● Disclose corporate information and communicate with society 	

Cash flow from operating activities (FY2021–FY2024):
Approximately ¥260 billion

- R&D investment for business expansion and continuous marketing investment
- Acquisition of professional human resources (digital, marketing, etc.)

Capital investments in existing fields:
Approximately ¥130 billion

Capital investments for business expansion and improvement in profitability

- Expand overseas business
- Strengthen production structure in Japan and overseas

Growth investments in new fields, shareholder return policy

Growth investments for building new business models

- Acquire external resources (business tie-ups, M&As, etc.)
- Invest for establishment of new businesses
- Promote DX

Dividend payments to shareholders

- Enhance profit distribution (place top priority on aiming to continuously increase dividends)

6

Business investment and shareholder return

Promotion of Investments to Realize Innovation

Cash flow from operating activities for the four years up until fiscal 2024 is projected to be in the region of ¥260 billion, and we seek to realize innovation with the funds invested in the areas listed on the left.

For the fiscal year ending March 2021, we plan to pay an annual dividend of ¥62 per share, an increase of ¥10 per share. Going forward, we will place the highest priority on increasing dividends continuously and aim to enhance profit distribution to shareholders.

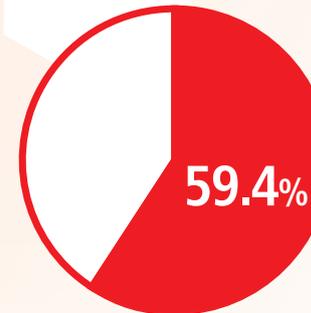
Review of Operations

Japan

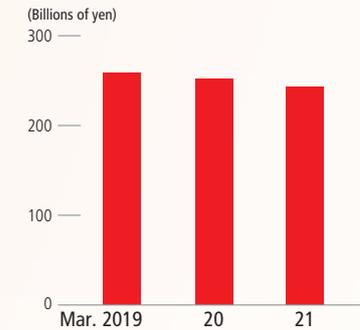
Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on dairy products, our Pharmaceuticals business focuses on manufacture and sales aimed at developing Yakult into a specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our “Others” business segment. For the fiscal year ended March 31, 2021, net sales in Japan came to ¥242.9 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



Yakult 1000



Mil-Mil



Sofuhl



In dairy products for the Japanese market, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, and proactively conducting grassroots value dissemination initiatives, taking measures to prevent novel coronavirus infection from spreading among customers and employees.

In our home delivery channel, we placed a particular focus on

the *Yakult 400* fermented milk drink products including *Yakult 400W*, and *Yakult 1000*, as we made use of delivery methods designed to fulfill the customers' needs, in order to encourage existing customers to continue drinking these products while also creating new customers. Meanwhile, we raised the profile of the Yakult Delivery Net online ordering service by conducting proactive advertising, which led to an increase in both users and sales.

The retail store channel felt some of the impact of the coronavirus, including the cessation of value dissemination initiatives through sampling activities. However, higher expectations of lactic acid bacteria as an aid to maintaining customers' health led to increased demand for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*.

In product specific initiatives, we incrementally expanded

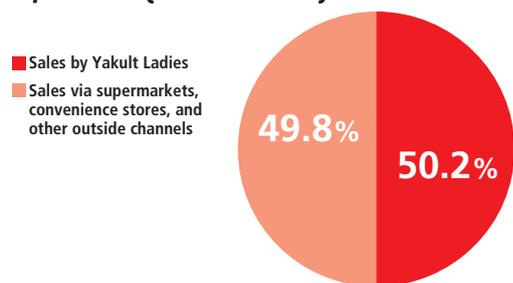
the sales regions for *Yakult 1000* and *Yakult 400W* and pursued efforts to encourage consumption in conjunction with an advertising campaign. In April 2021 we expanded sales of *Yakult 1000* throughout Japan, and in May 2021 we expanded the sales region for *Yakult 400W* to Tokyo and the six other Kanto prefectures in addition to the West Japan area.

As a result of these efforts to bolster sales, the results for dairy products as a whole surpassed those of the previous year.

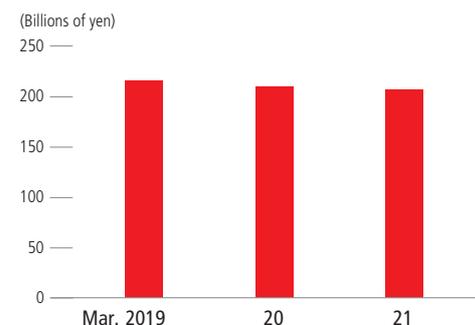
In other beverages, we worked to increase sales of our *Toughman* series of energy drinks through a brand revitalization which included a television commercial broadcast in October 2020, as well as other initiatives including a consumer campaign. However, sales decreased, particularly from vending machines, due to curtailed operations and business shutdowns in workplaces and leisure facilities.

Consequently, consolidated net sales for the Food and Beverages segment (Japan) declined 1.1% from the previous fiscal year, totaling ¥207.1 billion.

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



Net Sales of Food and Beverages



Pharmaceuticals



Campto 40mg for I.V. Infusion



Elplat I.V. Infusion Solution 100mg



Gemcitabine for I.V. Infusion 200mg Yakult



Live webinar

During the fiscal year under review, as a means of reducing visits to medical institutions during the spread of the novel coronavirus, we made use of online meetings among other methods, in order to promote awareness and the proper use of our products

specializing in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, despite the fact that medical institutions are increasingly switching to available generic versions, we boosted initiatives to

encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about it, a Company strength as the developer of the original drug, as well as the relationships of trust we have built with medical professionals. In

● Review of Operations

In addition, for the antineoplastic drug *Onivyde*[®] (liposomal irinotecan), which was launched in June 2020 pursuant to a promotional agreement with Nihon Servier Co., Ltd., we undertook aggressive promotional activities, which resulted in the rapid introduction of this product to the market.

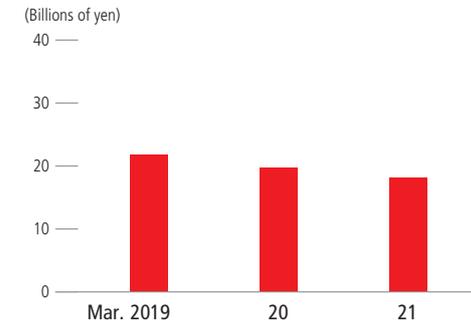
However, our revenue was impacted by decreased opportunities to use our products as the spread of the pandemic prompted a postponement of hospitalizations and operations, a decrease in doctor visits, and other developments. This was compounded by revisions to National Health Insurance drug

prices in April 2020, which reduced prices for most of Yakult's pharmaceutical products.

In R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor duvelisib [YHI-1702], for which we have an exclusive licensing agreement for development and commercialization in Japan from Secura Bio, Inc. (U.S.), and the HDAC inhibitor resminostat [YHI-1001], licensed from 4SC AG (Germany).

Despite the above efforts, however, consolidated net sales in the Pharmaceuticals segment declined 7.9% to ¥18.1 billion.

Net Sales of Pharmaceuticals



Others

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

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

As one specific example of such efforts, we worked to increase



Lactdew series



Tokyo's Jingu Stadium filled with Tokyo Yakult Swallows fans

sales of our *Lactdew* series of highly moisturizing basic skin care products by broadening the range with two new products launched in July 2020, while at the same time conducting advertising, including a television commercial. In January 2021 we released *Yakult Aroma Moist Hand Cream*, seeking to increase points of contact with customers.

In July 2020, we commenced online sales in China via the e-commerce shopping site Tmall Global, and sought to use this channel to aid in raising the profile of our cosmetic products.

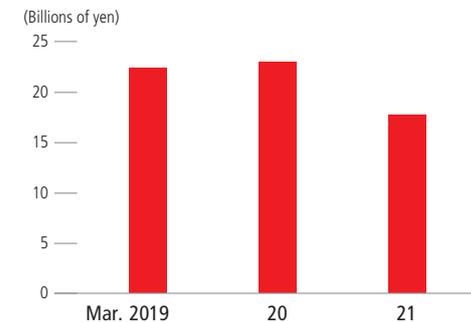
Through these initiatives, the results achieved by the cosmetics operation as a whole surpassed those of the previous year.

Meanwhile, our professional baseball operations were impacted by the spread of the novel coronavirus pandemic, particularly as we were forced to hold games either without or with limited spectators. However, we strove to respond to fans'

expectations by creating an environment where they could watch games with peace of mind while also engaging with them in various ways.

Despite our initiatives, however, consolidated net sales in the Others segment declined 22.7% to ¥17.7 billion.

Net Sales of Others



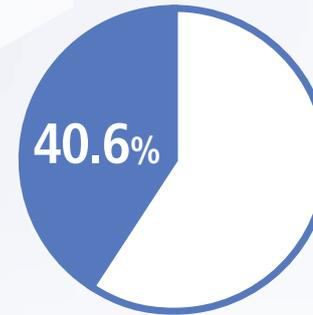
International Business

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 30.56 million bottles for the fiscal year ended March 31, 2021.

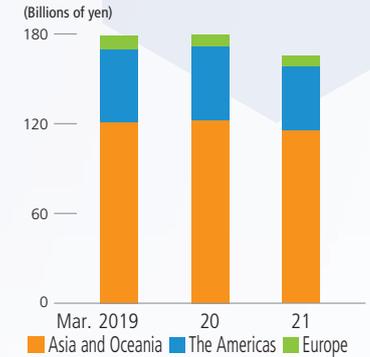
The impact of the novel coronavirus varies across countries and regions depending on the extent of the infection's spread, as well as the business restrictions implemented by local and national governments, among other factors. We are therefore taking measures appropriate to each location and following the instructions of governmental agencies as we conduct our operations and manufacturing activities.

For the fiscal year ended March 31, 2021, the International Business recorded net sales of ¥165.4 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, and Myanmar



Indonesia



Hong Kong



China



Vietnam



United Arab Emirates



Indonesia

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 took action to further reinforce our sales

network in 2020 by starting the construction of Wuxi Plant 2 (Wuxi Yakult Co., Ltd.) and increasing the number of sales offices to 49. However, our revenue was impacted by various

Review of Operations

factors including the spread of the novel coronavirus pandemic and unseasonable weather.

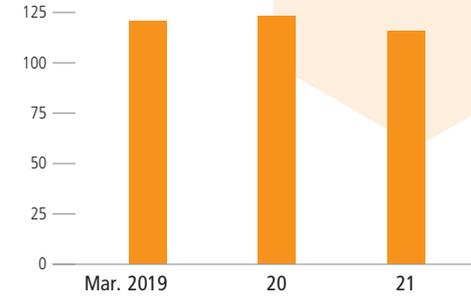
As a result of the above, consolidated net sales in the Food and Beverages (Asia and Oceania) segment declined 6.0% from the previous year to ¥115.0 billion.



Malaysia

Net Sales in Asia and Oceania

(Billions of yen)



The Americas

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



Brazil



Mexico



United States



Mexico

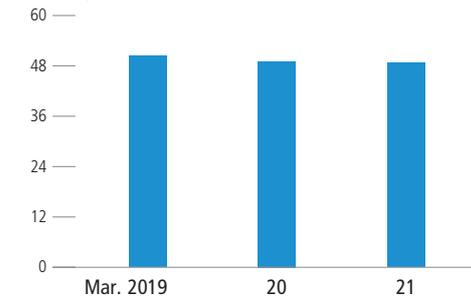
Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, the United States, and other countries. In these regions, we strived to increase revenue

by reinforcing the sales networks for both the home delivery and retail store sales channels.

Despite these efforts, consolidated net sales in the Food and

Net Sales in the Americas

(Billions of yen)



Beverages (The Americas) segment decreased 14.1% from the previous year to ¥41.9 billion.



United States

France



Europe

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



Shared bottle design used in Europe



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



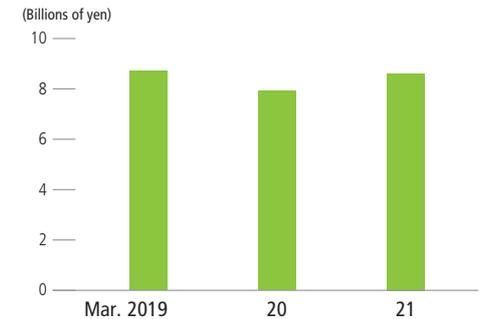
Germany

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.

As a result of these efforts, consolidated net sales in the Food and Beverages (Europe) segment increased 7.8% from the previous year to ¥8.6 billion.

Net Sales in Europe



Research and Development

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

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

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

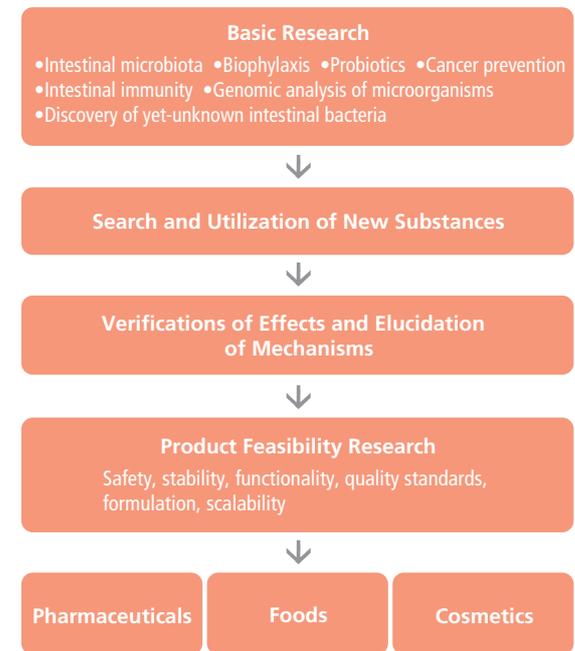
The Yakult Central Institute consists of seven separate research departments, each with their own research function and state-of-the-art research facilities. Supporting the work of the research departments is: the Administration Department, responsible for managing the Institute; the Research Management 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, an advanced region 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 high-value-added ingredients which are useful in the medical field utilizing the microbiome; the cosmetics segment focuses on dermatologically safe and effective ingredients.

Organization of the Yakult Central Institute



Recent R&D Activities

Continued intake of dairy products containing *Lactobacillus casei* strain Shirota mitigates potential constipation and Acute Respiratory Infections (ARI) — identified in a joint study with the National Institute of Nutrition under the Ministry of Health of Vietnam

In a joint study with the National Institute of Nutrition under the Ministry of Health of Vietnam, the effects of continued consumption of dairy products containing *Lactobacillus casei* strain Shirota (LcS) was observed by targeting approx. 1,000 preschool children in Vietnam. The results showed that continued intake of the dairy products with LcS contributed to reduced incidence of constipation and acute respiratory infections (ARIs). Similar trend was observed in the incidence of diarrhea. It is expected that the continued intake of dairy products with LcS may contribute to the healthy development of children in Vietnam. The study was published in the *European Journal of Clinical Nutrition*.



Both *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult in fermented milk products reach the end of the ileum, and either or both of the strains occupy 90% or more of the ileal microbiota for several hours — identified in a joint study with Hirosaki University

A joint study was conducted with Hirosaki University to identify how the consumption of dairy products containing either *Lactobacillus casei* strain Shirota, or *Bifidobacterium breve* strain Yakult, or both affected the composition of microbiota in the terminal ileum (the final section of the small intestine) by small-intestinal fluid perfusion using an endoscopic retrograde bowel insertion (ERBI) technique. The results show that both strains in the fermented milk products reached the terminal ileum where either one or both strains went on to represent 90% or more of the indigenous microbiota. The results also showed that a certain number of the ingested bacteria survived until reach there, and that the ERBI method is effective in assessing the time course of microbiota in the human terminal ileum. The results suggest that knowing the dynamics of ingested probiotics and the composition of the microbiota in the terminal ileum is important for analyzing the function of food products containing probiotics. The results of the study were published in *Gut Microbes*.

CSR Activities

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



The Yakult Group’s Materiality

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

Six Material Themes to Achieve Sustainability



The Yakult Group Environmental Vision

In April 2021, we formulated *the Yakult Group Environmental Vision*, to be a concrete set of guidelines for the three materiality issues related to the environment, maintaining our course towards the goal of uniting both “People and Planet as One.” Our ideal vision for the future is set out in Environmental Vision 2050, which details our plans to achieve net-zero carbon emissions (in scopes 1, 2 and 3) on our way to a value chain with zero environmental impact. To ensure effective progress toward this vision, we have used backcasting to establish both Environmental Targets 2030 and Environmental Actions (2021–2024). The

Yakult Group believes that society consists of water, soil, air, plants and animals, and of course people, and that it is only when all of these elements are healthy that people can be too, and this in turn forms a healthy society. Amidst the risks of climate change, pollution, dwindling resources and a loss of biodiversity, we will use the six materiality principles to plan and strategize in order to create a more sustainable Yakult Group, a more sustainable society, and a more sustainable world. In this way, we can make our corporate philosophy and goal of uniting both “People and Planet as One” a reality.

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



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

CSR Topics

Dispatching Guest Lecturers / Health-Related Lectures



Both in Japan and overseas, health-related lecturers are given by marketing company employees in each region at Yakult centers (Yakult Ladies sales hubs) and local community facilities. They address a broad range of topics including the importance of the intestines, probiotics and seasonal ailments. In Japan, our branches and marketing companies dispatch guest lecturers to elementary schools and other locations, where they use scale models and other instructional tools to provide easy-to-understand information on the important role of the intestines and the importance of healthy eating habits.



Guest lecture held in Indonesia

Promoting Health-Focused Management



Yakult Honsha sees employee health maintenance and improvement as an investment in the future, and as a company we promote strategic Health-Focused Management. The head of the group, our President, is also the group's Chief Health Officer, and in fiscal 2020 we established a new, dedicated Health Management Promotion Section within the Human Resources Department. In addition, we were certified as a White 500 company (large corporation category) for the fourth consecutive year. This certification is awarded to companies that meet the standards set by Japan's Ministry of Economy, Trade and Industry to proactively promote employee health and productivity management.



Initiatives by the Yakult Ladies



Since 1972, Yakult Ladies have been visiting elderly people who live alone as they make their deliveries, both to make sure that they are well, and to offer some human interaction. This activity began when a Yakult Lady in Koriyama, in Japan's Fukushima Prefecture, heard a story about an elderly person who had passed away in their home, without anybody realizing. Moved by this, she took it upon herself to provide *Yakult* to elderly people living alone in the area, at her own expense. Her initiative resonated with both the local Yakult marketing company and social workers in the region, and further moved many local governments to take action. As a result, these visits by Yakult Ladies, known as Courtesy Visit Activities, have spread throughout Japan. As of March 31, 2021, about 2,600 Yakult Ladies pay regular visits to roughly 36,000 elderly people in response to requests from around 122 local governments and other institutions in Japan. Outside Japan, Korea Yakult (hy Co., Ltd.) continuously undertakes activities to verify the safety of elderly persons who are living alone.



Corporate Governance

1. Basic Stance

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

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

2. Capital Composition

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

Distribution of Ownership Among Shareholders

(As of March 31, 2021)



Major Shareholders

(As of March 31, 2021)

Shareholder	Percentage of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust account)	7.08%
Custody Bank of Japan, Ltd. (Trust account)	4.42
Fuji Media Holdings, Inc.	3.80
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.90
Kyoshinkai	2.24
Matsusho Co., Ltd.	2.00
Mizuho Bank, Ltd.	1.28
Custody Bank of Japan, Ltd. (Trust account 5)	1.24
STATE STREET BANK WEST CLIENT-TREATY 505234	1.19
Mr. Teruo Nakamura	1.19

Notes: 1. In addition to the above, the Company holds 10,551,195 shares (6.17%) of its own shares.

2. Mr. Teruo Nakamura, who passed away on December 27, 2020, is listed by name on the stock register due to an incomplete transfer in his name.

3. Governing Bodies, Organizational Operations and Operational Execution

Board of Directors

The Board of Directors is composed of 15 members, including six outside directors, two of whom are female. The five members of the Audit & Supervisory Board, which includes three outside members, one of whom is female, also attend meetings. The Board of Directors adopts resolutions and receives reports on matters within its jurisdiction as defined by law and the

Rules of the Board of Directors, and is responsible for supervising the business execution of the directors and executive officers. The Board of Directors holds meetings, in principle, eight times per year, in addition to convening special meetings as required.

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

The six outside directors are listed in the chart below.

(As of June 23, 2021)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Specially approved visiting Professor, Graduate School of International Corporate Strategy, 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 and appropriately supervise the execution of business, which would further strengthen and enrich its management structure based on the expertise in business strategy he has accumulated over the years in wide-ranging positions including university professor, consultant and business manager.
Masayuki Fukuoka	Honorary Professor, Faculty of Law, Hakuoh University	Mr. Fukuoka was appointed on the expectation that he would offer pertinent advice and appropriately supervise the execution of business from an objective viewpoint to the Company's management, which would lead to further reinforcement and enhancement of the management structure, based on his expertise and experience as a university professor of political science studies.
Norihito Maeda	President of Yakult Kanagawa Tobu Sales Co., Ltd.	Mr. Maeda, the president of a Yakult sales company, was appointed on the expectation that he would continue to make a significant contribution to the development of the entire Yakult Group centering on the domestic foods and beverages business as he has offered a range of advice to improve customer services based on market conditions, leveraging his management experience.
Naoko Tobe	Lawyer	Ms. Tobe was appointed on the expectation that she would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on her advanced knowledge and insight and abundant experience as a lawyer.
Katsuyoshi Shinbo	Lawyer; Outside Director, Sumitomo Mitsui Financial Group; Outside Corporate Auditor, Mitsui Chemicals, Inc.	Mr. Shinbo was appointed on the expectation that he would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on his advanced knowledge and insight as a lawyer and experience as an outside officer of another company.
Yumiko Nagasawa	Facilitator of Foster Forum (Association for the Development of High Quality Financial Products); Outside Director, Yamaguchi Financial Group, Inc.	Ms. Nagasawa was appointed on the expectation that she would offer pertinent advice from an objective viewpoint to the Company's management and appropriately supervise the execution of business, which would lead to further reinforcement and enhancement of the management structure, based on her expertise in finance and his experience as an outside officer of another company.

Note: Mr. Ryuji Yasuda, Mr. Masayuki Fukuoka, Ms. Naoko Tobe, Mr. Katsuyoshi Shinbo, and Ms. Yumiko Nagasawa 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, seven divisional general

managers, and one senior Audit & Supervisory Board member, as a meeting body designed to promote effective management activities and accelerate decision making with meetings convened, in principle, on a weekly basis. The Management Policy Council discusses and

receives reports on management policies and measures as well as business operations.

The Company also established the Executive Officers Committee, comprised of 24 executive officers and two senior Audit & Supervisory Board members, which meets on a weekly basis 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, one of whom is female. 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.

In addition, the Audit & Supervisory Board convenes prior to meetings of the Board of Directors and other important meetings to discuss the proposed agenda for the meetings, and to share information gathered from materials provided by relevant department and division heads, as well as information gained from explanations received firsthand and by other means.

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

The three outside Audit & Supervisory Board members are listed in the chart on the right.

Internal Audits

Internal audits are conducted by the Auditing Department, an organization that reports directly to the Company's President and that performs operational, financial and internal control audits, including those of Group companies, both in Japan and overseas. The head of the Auditing Department currently oversees a 12-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

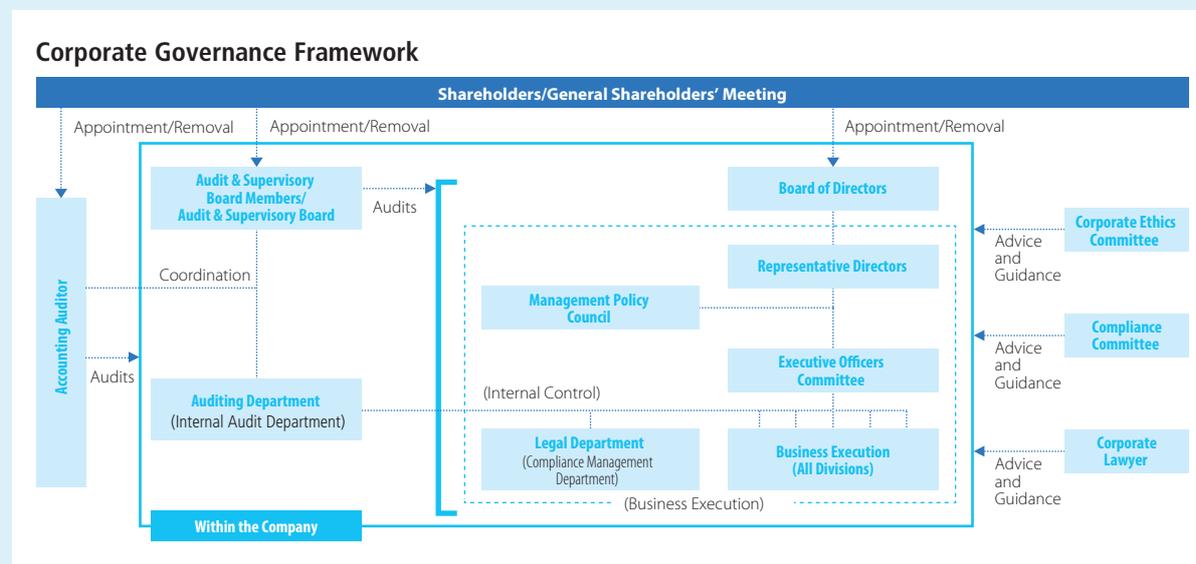
Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its 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 23, 2021)

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
Seijuro Tanigawa	President of Yakult Kobe Sales Co., Ltd.	Mr. Tanigawa was appointed on the expectation that his long record of managing a Yakult sales company would be an advantage when performing audit operations primarily on the legality of the directors' execution of duties, thus contributing significantly to the development of the entire Yakult Group.
Seno Tezuka	Certified Public Accountant; Outside Director of Restar Holdings Corporation	Mr. Tezuka was appointed on the expectation that his expertise as an accountant and abundant experience in corporate accounting would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure.
Emi Machida	Certified public accountant; Outside Auditor of The Nisshin Oillio Group, Ltd.	Ms. Machida was appointed on the expectation that her expertise as an accountant and abundant experience in corporate accounting would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure.

Note: Mr. Seno Tezuka and Ms. Emi Machida are independent Audit & Supervisory Board members as specified by the Tokyo Stock Exchange.



4. Internal Control Systems and Policies

The Company resolved at the Board of Directors' meeting on May 19, 2006 to establish an internal control system as mandated for a large company with a Board of Directors by the Companies Act and its enforcement regulations. The Company revises the details of this resolution as necessary in response to changes inside and outside the Company. At the current time, the details are as follows:

The Company aims to proceed with its business activities in accordance with its corporate philosophy: "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." To achieve this, the Company believes that it is important to implement management that places emphasis on strengthening and enhancing internal control functions as a company that is widely trusted by society.

Based on this perspective, the Company has made the resolutions listed below on basic policies regarding building internal control systems after reconfirming the current situation at the Company in relation to the development of internal control systems.

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

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

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

(2) Internal structure related to timely disclosure

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

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

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

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

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

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

iii) 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.

iiii) Rules and other systems regarding the management of risks for losses

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

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

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

exclusive company-wide supervisory operations related to food quality assurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 regarding the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination: the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.

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

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

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

Board of Directors and Audit & Supervisory Board Members

President and Representative Director Hiroshi Narita

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

Directors (Part-Time)
Ryuji Yasuda (Outside Director)
Masayuki Fukuoka (Outside Director)
Norihito Maeda (Outside Director)
Naoko Tobe (Outside Director)
Katsuyoshi Shinbo (Outside Director)
Yumiko Nagasawa (Outside Director)

Senior Audit & Supervisory Board Members
Hiroshi Yamakami
Hideyuki Kawana

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

Executive Officers

President and Executive Officer
Hiroshi Narita

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

Senior Managing Executive Officers
Fumiyasu Ishikawa
Divisional General Manager of Research & Development Division

Akifumi Doi
Divisional General Manager of Production Division

Tetsuya Hayashida
Divisional General Manager of Food and Beverages Division
Divisional General Manager of Cosmetics Business Division

Managing Executive Officers
Masanori Ito
Divisional General Manager of Pharmaceuticals Business Division

Susumu Hirano
Divisional General Manager of International Business Division

Masao Imada
Divisional General Manager of Management Support Division

Koichi Hirano
Masanobu Nanno
Masatoshi Nagira
Hideaki Hoshiko
Yasuyuki Suzuki
Shuichi Watanabe

Executive Officers
Masahiko Satomi
Akira Kishimoto
Takao Goto
Hiroyuki Kawabata
Junichi Shimada
Yoshihiro Goto
Masato Nagaoka
Hiroaki Nagaoka
Hiroshi Natsume
Masakazu Seino

(As of June 23, 2021)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2021, 2020, 2019, 2018, and 2017

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2017	2018	2019	2020	2021	2021
For the year:						
Net sales	¥ 378,308	¥ 401,570	¥ 407,017	¥ 406,004	¥ 385,707	\$3,506,425
Selling, general and administrative expenses.....	177,053	186,466	190,064	188,951	183,127	1,664,793
Operating income	37,282	43,464	45,846	45,675	43,694	397,219
Net income attributable to owners of the parent.....	30,155	34,065	34,935	39,736	39,267	356,976
Research and development costs	10,549	10,208	10,564	8,969	8,488	77,159
Capital investments	23,365	23,305	29,505	20,631	23,638	214,892
Depreciation and amortization	22,661	21,532	21,238	22,324	22,114	201,033
At the year-end:						
Total assets.....	¥ 585,741	¥ 627,032	¥ 618,533	¥ 627,871	¥ 635,102	\$5,773,657
Net property, plant and equipment.....	198,299	201,199	200,072	203,996	203,045	1,845,869
Total liabilities.....	208,860	240,358	226,254	215,789	195,341	1,775,829
Total equity	376,881	386,674	392,279	412,082	439,761	3,997,828
Yen						
Per share of common stock:						
Basic net income	¥ 182.39	¥ 207.02	¥ 217.89	¥ 248.04	¥ 244.85	\$ 2.23
Total equity	2,077.29	2,194.32	2,229.80	2,330.58	2,523.81	22.94
Cash dividends applicable to the year	32.00	34.00	44.00	46.00	52.00	0.47
Financial ratios:						
Return on equity (ROE) (%)	8.9	9.8	9.8	10.9	10.1	
Equity ratio (%).....	58.6	56.2	57.8	59.5	63.8	

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

2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥110 to U.S. \$1, the approximate rate of exchange on March 31, 2021.

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

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Management's Discussion and Analysis

OVERVIEW

During the fiscal year ended March 31, 2021, the Japanese economy was significantly affected by the rapid economic deterioration due to the economic restrictions associated with the spread of COVID-19. Although a recovery is expected due to the effects of a range of policies and an improvement in overseas economies, we continue to pay close attention to the risk that the resurgence of infection in Japan and overseas will cause a further downturn in the economy.

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 microbiota.) 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.

On a consolidated basis, net sales decreased 5.0% from the previous fiscal year, to ¥385.7 billion. Operating income declined 4.3%, to ¥43.7 billion, while the operating margin rose to 11.3%, up 0.1 percentage point from a year earlier. Net income attributable to owners of the parent declined 1.2%, to ¥39.3 billion.

SALES, COSTS, EXPENSES, AND EARNINGS

SALES

Net sales fell 5.0%, to ¥385.7 billion.

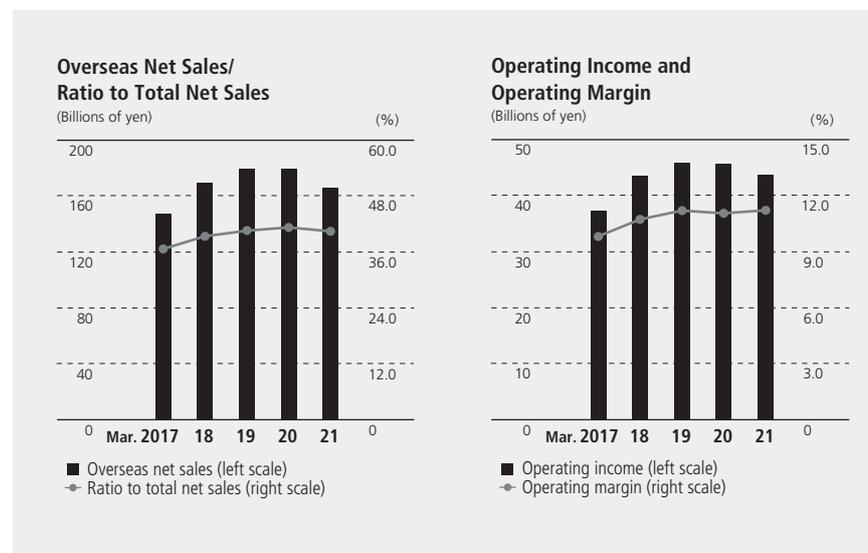
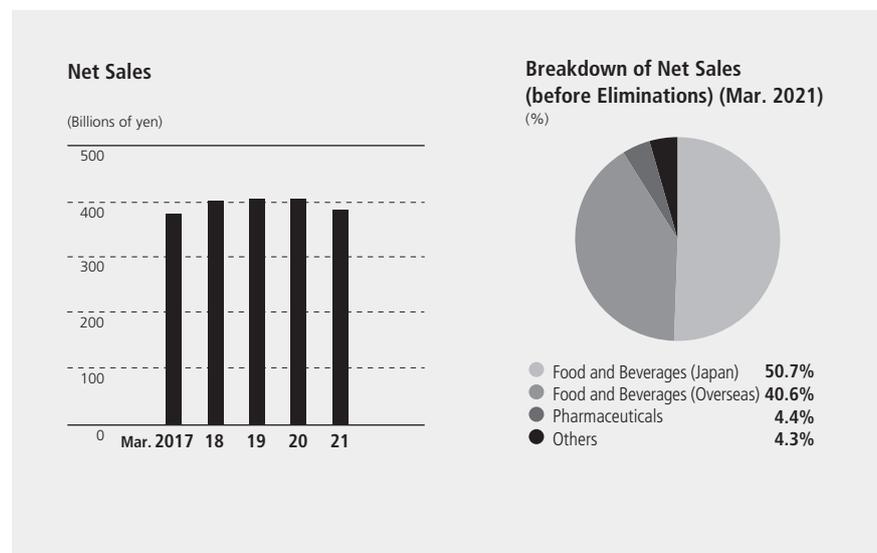
Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 50.7% of sales, up 2.1 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 40.6% of sales, down 0.9 percentage points. Pharmaceuticals generated 4.4%, down 0.2 percentage point, and Others contributed 4.3%, down 1.0 percentage point.

COSTS, EXPENSES, AND EARNINGS

Consolidated cost of sales decreased 7.3%, to ¥158.9 billion. As a result, the cost of sales ratio fell 1.0 percentage point, to 41.2%. Gross profit fell 3.3%, to ¥226.8 billion, while the gross profit margin climbed 1.0 percentage points, to 58.8%.

Selling, general and administrative (SG&A) expenses declined 3.1%, to ¥183.1 billion, mainly reflecting lower sales promotion expenses.

The SG&A expense ratio rose 1.0 percentage point, to 47.5%. R&D expenses dropped ¥0.5 billion year on year, to ¥8.5 billion. As a percentage of net sales, R&D expenses remained unchanged at 2.2%.



As a result, operating income decreased 4.3%, to ¥43.7 billion, impacted by a decline in currency exchange rate fluctuations amounting to ¥2.3 billion, and the operating margin rose 0.1 percentage point, to 11.3%. Other income—net amounted to ¥15.6 billion, up ¥2.6 billion from a year earlier, due mainly to an increase in the foreign exchange gain despite the recording of expense related to the novel coronavirus. Income taxes amounted to ¥15.8 billion. Consequently, net income attributable to owners of the parent decreased 1.2%, to ¥39.3 billion, and return on sales rose 0.4 percentage point, to 10.2%.

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. It did this by proactively conducted grassroots value dissemination initiatives utilizing scientific evidence, while taking measures to prevent the spread of COVID-19 to customers and workers.

Through our home delivery channel, we sought to encourage continued consumption of the fermented milk drinks *Yakult 400* series, including *Yakult 400 W*, and *Yakult 1000*, and to create new customers, through delivery methods that meet customer needs. We also raised awareness of “Yakult Delivery Net,” our online home-delivery ordering system, through aggressive advertising campaign, resulting in an increase in both the number of customers and sales.

In the retail store channel, despite the impact of voluntary restraints on value dissemination initiatives through free tasting and sales in-store activities, we experienced higher demand for *New Yakult* and *New Yakult Calorie Half* due to heightened expectations for lactic acid bacteria in preparation for customer health maintenance.

In product-specific initiatives, we gradually expanded the sales area for *Yakult 1000* and *Yakult 400W*, and conducted drinking promotion activities in conjunction with advertising. The nationwide launch of *Yakult 1000* will begin in April 2021, and the sales area for *Yakult 400 W* will be expanded to one metropolitan area and six prefectures in the Kanto region in May 2021.

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

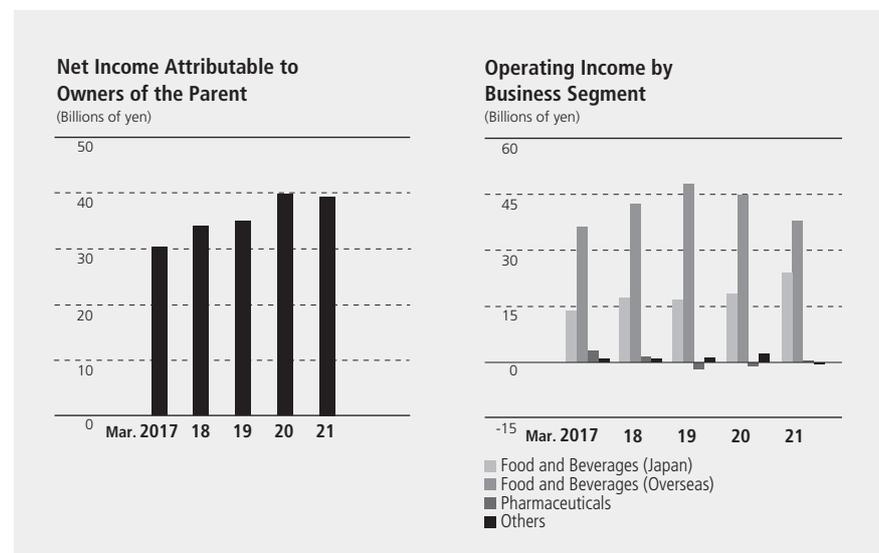
In beverages, we sought to boost revenue, focusing primarily on our *Toughman* series, by revitalizing the brand by airing a TV commercial featuring Kazuya Kamenashi in October 2020 and implementing a customer campaign. However, sales decreased, mainly through vending machines, due to the voluntary suspension of business and the closure of leisure facilities.

Consequently, consolidated net sales for the Food and Beverages segment (Japan) declined 1.1% from the previous fiscal year, to ¥207.1 billion, while segment profit jumped 30.5%, to ¥23.8 billion.

FOOD AND BEVERAGES (OVERSEAS): Yakult’s overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). Operations now extend to 39 countries and regions outside Japan, and are centered on 29 business bases and one research center. The operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all Yakult products overseas in March 2021 amounted to approximately 31.59 million bottles.

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

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, Myanmar, China, and other countries, besides importing and selling *Yakult* and other products in the United Arab Emirates. In China, we began construction of our second plant building at Wuxi Plant (Wuxi Yakult Co., Ltd.) in 2020 and expanded the number of sales offices across the entire country to 49, in an effort to further reinforce our sales network. However, sales were affected by the spread of COVID-19 and unseasonable weather.



Despite these efforts, consolidated net sales in the Food and Beverages (Asia and Oceania) segment decreased 6.0% from the previous year to ¥115.0 billion, and segment profit fell 17.2%, to ¥26.4 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 region, we worked to boost sales by reinforcing our sales network in both home delivery and retail channels.

Despite these initiatives, consolidated net sales in the Food and Beverages (The Americas) segment decreased 14.1% from the previous year to ¥41.9 billion, and segment profit fell 15.9%, to ¥10.4 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 difficult circumstances, the Yakult companies in each country aimed for sustainable growth by conducting sales activities tailored to their respective markets.

As a result of the above, consolidated net sales in the Food and Beverages (Europe) segment increased 7.8% from the previous year to ¥8.6 billion, and segment profit jumped 95.5%, to ¥0.6 billion.

PHARMACEUTICALS: In the Pharmaceuticals segment, we pursued activities for promoting awareness and proper use of our products that specialize in oncology field through tele-meetings and other means, to offset the effects of voluntary restraints on sales visits to medical institutions caused by the spread of COVID-19.

As for our leading product, the antineoplastic drug *Elplat*, medical institutions are increasingly switching to generic versions of *Elplat*, but we boosted activities to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information as well as the relationships of trust we have built up with medical professionals, which are our strength as the original drug developer in Japan. We also sought to expand aggressive promotion activities for the antineoplastic drug *Onivyde®* (liposomal irinotecan), which was launched in June 2020, based on an agreement with Nihon Servier Co., Ltd. for promotion in Japan, and we were able to swiftly introduce it to the market. However, opportunities to use our products have decreased due to factors such as postponement of hospitalization and surgery, and curbing medical examinations accompanying the spread of COVID-19. In addition, the revision of NHI drug price standards that was made in April 2020 resulted in price reductions for most of our pharmaceutical products, and this had an impact on our revenue.

Meanwhile, in R&D, we continued 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 Secura Bio, Inc. (U.S.), and HDAC inhibitor resminostat [YHI-1001], which was in-licensed from 4SC AG (Germany).

Net sales in the Pharmaceuticals segment totaled ¥18.1 billion, down 7.9% from the previous fiscal year, while segment profit was ¥0.2 billion (compared with a segment loss of ¥0.8 billion in the previous fiscal year).

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 inner and outer 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.

As one specific example of such efforts, in July 2020 we released two new products of our *Lactdew* series of highly moisturizing basic skin care products, while conducting advertising that included a television commercial to boost sales.

We also sought to expand our contact with customers, releasing the Yakult Aroma Moist Hand Cream in January 2021.

Furthermore, in July 2020, we launched online sales through Tmall Global, an e-commerce shopping site in China, in an effort to boost awareness in the Chinese market.

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

In our professional baseball operations, due to the spread of COVID-19 we were forced to hold games with no spectators or with a limited number of attendees. We sought to meet the expectations of people by creating an environment where people could watch games with peace of mind, and we provided a range of services to fans.

Despite these efforts, consolidated net sales in the Others segment dropped 22.7% to ¥17.7 billion, and the segment loss was ¥0.1 billion (compared with segment income of ¥2.0 billion in the previous fiscal year).

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥635.1 billion, up 1.2% year on year.

Current assets increased ¥1.0 billion, or 0.4%, from the previous fiscal year-end, to ¥266.8 billion.

Net property, plant and equipment fell ¥1.0 billion, to ¥203.0 billion, mainly due to the depreciation of property, plant and equipment that exceeded acquisition costs.

Investments and other assets rose ¥7.2 billion, or 4.5%, to ¥165.3 billion, mainly due to an increase in investment securities reflecting higher market value and other factors.

During the fiscal year under review, capital investment rose 14.6%, to ¥23.6 billion.

Total liabilities fell 9.5%, to ¥195.3 billion. The major component of this decrease was a decline of ¥17.7 billion in borrowings (the total of short-term and long-term debt). As a result, the debt-to-equity ratio fell 6.7 percentage points, to 23.8%.

Equity (excluding noncontrolling interests) increased 8.5%, to ¥405.0 billion, from ¥373.4 billion a year earlier. This result was primarily attributable to an increase in unrealized gain on available-for-sale securities along with a rise in stock prices, despite a decline in unrealized gain on available-for-sale securities due to the strong yen.

As a result, the equity ratio improved 4.3 percentage points, to 63.8%. Return on equity (ROE) fell 0.8 percentage point, to 10.1%. Return on assets (ROA) decreased 0.4 percentage point, to 6.9%.

CASH FLOWS

Net cash provided by operating activities fell ¥7.0 billion from the previous fiscal year, to ¥55.8 billion. This primarily resulted from ¥59.3 billion in income before income taxes and

¥22.1 billion in depreciation and amortization, which was partly offset by ¥14.9 billion in total income taxes.

Net cash used in investing activities increased ¥3.6 billion, to ¥19.6 billion. Cash was mainly used for transfers to time deposits and purchases of property, plant and equipment, for the expansion of new production facilities.

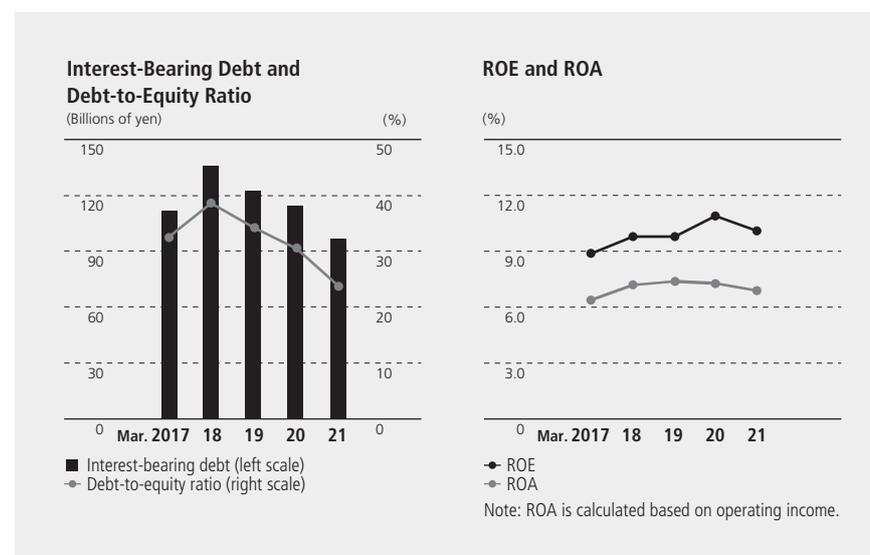
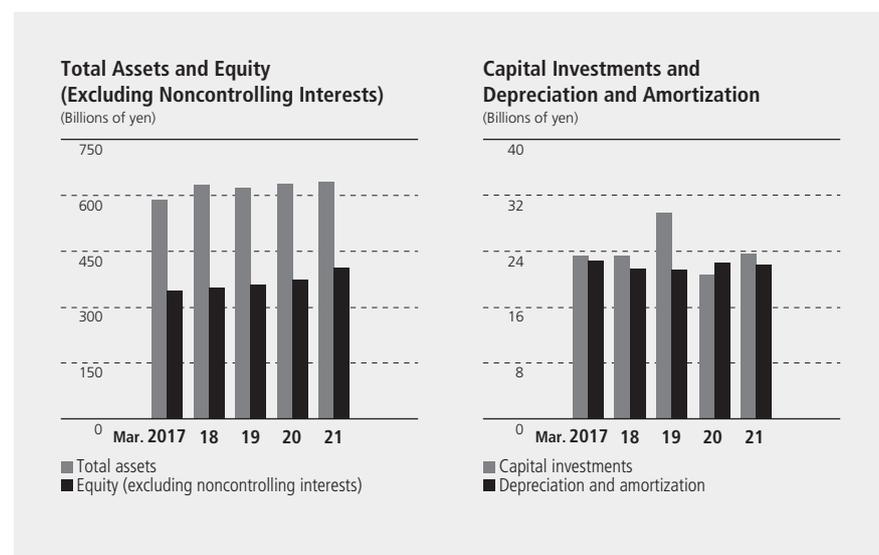
Net cash used in financing activities increased ¥5.6 billion, to ¥31.3 billion. This outlay mainly reflected payments for settlement of long-term and short-term debt and the payment of dividends.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥122.8 billion, a net decline of ¥1.8 billion from a year earlier.

DIVIDENDS

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

Based on this policy, we decided to pay a total dividend of ¥52.0 per share for the fiscal year ended March 31, 2021, up ¥6.0 from the previous fiscal year, to continuously increase the return



to shareholders. We have already declared and paid an interim dividend of ¥26.0 per share, and the balance of ¥26.0 per share will be distributed to our shareholders as the year-end dividend.

As for the dividend policy for the fiscal year ending March 31, 2022 and beyond, the Company's Board of Directors, at its meeting held on May 14, 2021, resolved to change the dividend policy to give top priority to continuously increasing the dividend without setting a base amount, in order to return even greater profits to shareholders, given the fact that there is a discrepancy between the dividend base amount (¥30 per annum) and the actual dividend results as a result of continuing dividend increases.

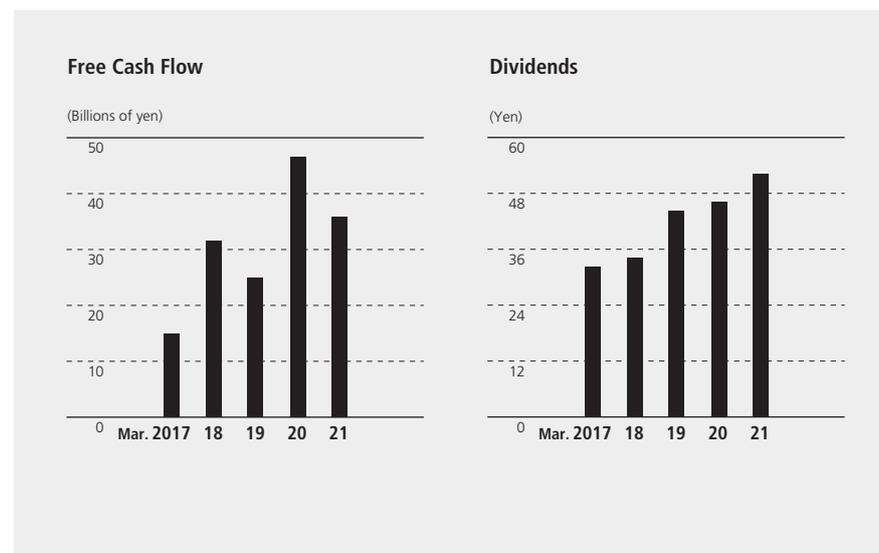
Accordingly, in the dividend policy for the fiscal year ending March 31, 2022 and beyond, we will give top priority to continuously increasing dividends, and determine the amount of dividends by comprehensively taking into account the demand for funds and financial conditions for future business expansion and profit improvement as well as the business results for the current fiscal year.

For the fiscal year ending March 31, 2022, based on this policy, we plan to pay an annual dividend of ¥62 per share, an increase of ¥10 from the current fiscal year.

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

In dairy products for the Japanese market, we are steadfastly committed to focusing on



the *Yakult* series of fermented milk drinks as our most important brand and broadening the recognition of the science behind our proprietary living *Lactobacillus casei* strain Shirota. Concurrently, we will promote initiatives to communicate the value of *Yakult 400* series and high-value-added product *Yakult 1000* brands while responding flexibly to changes in the business environment, to activate the brand of all dairy products.

Through our home delivery channel, we will expand the sales area of *Yakult 1000* nationwide in April 2021, and strive to create a point of contact for new customers by leveraging "Yakult Delivery Net," the online home-delivery ordering system. In addition, through our retail store channel, we will aim to boost sales of dairy products, such as *New Yakult* and *New Yakult Calorie Half*, by reflecting changing market trends amid heightened health awareness among customers in connection with the prevention of infectious diseases.

In beverages, although it is expected that this category will be affected by consumers' self-restraint from going out, we will continue to strengthen sales of our mainstay *Toughman* series of health drinks and other products with the aim of boosting sales.

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.

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

Domestic sales are expected to decline due to the revision of the NHI drug price standards that is made in April 2021, but we will secure operating income by thoroughly reviewing expenses. 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, founded 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 expand the market and meet sales targets. In addition, based on a promotion agreement with Nihon Servier Co., Ltd., we will promote activities to establish the antineoplastic drug *Onivyde®* (liposomal irinotecan), which was launched in June 2020, as a standard treatment, and strive to increase sales.

Meanwhile, in R&D we will proceed with the development of new drugs such as PI3K inhibitor duvelisib [YHI-1702] and HDAC inhibitor resminostat [YHI-1001], and we will

expedite the filing of marketing approval applications through cooperation with the licensees. We will also actively promote the introduction and launch of new generic drugs that specialize in oncology and related fields.

OTHERS

In our cosmetics operations, we will work 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.

In Japan, we will continue to promote the regular use of basic skin-care products and consider new initiatives, such as using the Internet to enhance customer service and expand contact points with customers. Overseas, we will continue to raise awareness of online sales through Tmall Global, an e-commerce shopping site in China, and work to boost sales in the cosmetics business.

In our professional baseball operations, it is expected that the number of visitors to professional baseball tournaments will remain limited due to the spread of COVID-19. 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. In addition, approximately half of sales in Japan are from sales companies that are neither our subsidiaries nor affiliates companies and have no capital relationship with the Company. In the event that we are unable to maintain a good relationship between sales companies and the Company, and Yakult Ladies and their sales companies, or to secure appropriate human resources, including Yakult Ladies, such trends could pose a serious problem to the sale of the Group's products and have a significant adverse impact on the Group's business results and financial condition.

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

In principle, our subsidiaries conduct all the operations from manufacturing to sales in the Overseas Food and Beverages business, except in certain countries and regions where our affiliate companies conduct business. While the importance of home delivery channels depends on countries and regions, the Group's business in countries, such as Thailand, South Korea, Indonesia, and Mexico, depends largely on the Yakult Lady home delivery system. In the event that the Group is unable to manage local affiliate companies properly, maintain good relationships with Yakult Ladies, or secure appropriate human resources, including Yakult Ladies, needed for the cultivation and expansion of overseas businesses, such trends could have a significant adverse impact on the Group's business results and financial condition.

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

Risks Pertaining to Increases in Raw Material Prices and Labor Costs

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

Risks Accompanying the Pharmaceutical Business

(1) Risks of dependency on specific products

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

(2) Risks of new drug development

The Group undertakes R&D activities aimed at launching new drugs. However, marketing of ethical drugs is allowed only when they are approved through rigorous investigations of efficacy and safety, as stipulated by the competent authorities.

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

(3) Risks accompanying patent expirations

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

(4) Risks of drug price reduction measures

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

Risks of Deterioration of the "Yakult" Brand

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

Risks in Intellectual Property Rights

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

Risks Related to Litigation, 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.

Risk of an Epidemic of Infection

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

Risks Related to Marine Plastic Problems

Plastic containers are used for many products, including *Yakult* series, the Group's main products. In addition, in order to contribute to healthy and enjoyable lives for people around the world, we aim to expand sales of *Yakult* series and other products in the years ahead. However, due to growing international concern about marine pollution caused by microplastics, the problem of plastic containers and packaging has gained attention. The Group will continue to promote the recycling of plastic containers and packaging. If the problems are not addressed appropriately, however, sales of *Yakult* series and other products, which are the Group's main products, could be constrained, and this might have a significant adverse impact on the Group's business results.

Risks Related to Management Strategy and Business Plan

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

Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries
March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
ASSETS			
Current assets:			
Cash and cash equivalents (Note 12).....	¥ 122,767	¥ 124,561	\$ 1,116,059
Time deposits (Notes 6 and 12).....	53,488	51,077	486,256
Receivables (Note 12):			
Notes and accounts receivable.....	45,787	47,327	416,248
Associated companies.....	5,069	5,010	46,081
Other.....	2,910	1,628	26,457
Inventories (Note 4).....	27,735	28,772	252,139
Other current assets.....	9,254	7,682	84,126
Allowance for doubtful accounts (Note 12).....	(209)	(250)	(1,906)
Total current assets.....	266,801	265,807	2,425,460
Property, plant and equipment:			
Land (Note 6).....	44,065	44,294	400,595
Buildings and structures (Note 6).....	176,574	174,174	1,605,218
Machinery, equipment and vehicles.....	165,874	163,974	1,507,944
Furniture and fixtures.....	27,024	26,674	245,674
Lease assets (Note 10).....	25,597	24,577	232,699
Construction in progress.....	9,237	5,154	83,978
Total.....	448,371	438,847	4,076,108
Accumulated depreciation (Note 6).....	(245,326)	(234,851)	(2,230,239)
Net property, plant and equipment.....	203,045	203,996	1,845,869
Investments and other assets:			
Investment securities (Notes 5 and 12).....	80,239	77,033	729,442
Investments in and advances to associated companies (Note 12) ..	65,327	62,747	593,888
Long-term loans.....	42	69	380
Deferred tax assets (Note 9).....	4,156	4,908	37,782
Other assets (Note 7).....	15,492	13,311	140,836
Total investments and other assets.....	165,256	158,068	1,502,328
Total (Note 19).....	¥ 635,102	¥ 627,871	\$ 5,773,657

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 6 and 12).....	¥ 15,372	¥ 27,272	\$ 139,745
Current portion of long-term debt (Notes 6, 10, and 12)	8,841	9,004	80,369
Payables (Note 12):			
Notes and accounts payable.....	22,729	26,210	206,629
Associated companies.....	88	100	800
Other.....	7,973	9,667	72,484
Income taxes payable.....	4,961	4,431	45,102
Accrued expenses.....	22,610	22,650	205,544
Other current liabilities.....	10,972	9,729	99,750
Total current liabilities.....	93,546	109,063	850,423
Long-term liabilities:			
Long-term debt (Notes 6, 10, and 12).....	72,006	77,677	654,597
Liability for retirement benefits (Note 7).....	4,727	6,768	42,970
Asset retirement obligations.....	1,636	1,677	14,878
Deferred tax liabilities (Note 9).....	20,700	17,528	188,178
Other long-term liabilities.....	2,726	3,076	24,783
Total long-term liabilities.....	101,795	106,726	925,406
Commitments (Note 10)			
Equity (Notes 8 and 17):			
Common stock—			
authorized, 700,000,000 shares;			
issued, 171,045,418 shares in 2021 and			
171,045,418 shares in 2020.....	31,118	31,118	282,888
Capital surplus.....	40,938	41,476	372,160
Retained earnings.....	411,359	379,948	3,739,632
Treasury stock—at cost			
10,593,453 shares in 2021 and 10,836,662 shares in 2020...	(52,726)	(54,934)	(479,327)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities.....	24,773	19,950	225,211
Foreign currency translation adjustments.....	(48,482)	(40,151)	(440,750)
Defined retirement benefit plans.....	(2,029)	(4,028)	(18,441)
Total.....	404,951	373,379	3,681,373
Noncontrolling interests.....	34,810	38,703	316,455
Total equity.....	439,761	412,082	3,997,828
Total.....	¥635,102	¥627,871	\$5,773,657

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales (Note 19)	¥385,707	¥406,004	\$3,506,425
Cost of sales (Notes 7, 10, and 15).....	158,886	171,378	1,444,413
Gross profit	226,821	234,626	2,062,012
Selling, general and administrative expenses (Notes 7, 10, 14, and 15)	183,127	188,951	1,664,793
Operating income (Note 19).....	43,694	45,675	397,219
Other income (expenses):			
Interest and dividend income	5,734	7,533	52,124
Interest expense	(759)	(876)	(6,896)
Foreign exchange gain (loss)	2,611	(282)	23,742
Equity in earnings of associated companies	3,911	5,066	35,552
Gain on sales of investment securities	3,754	2,502	34,128
Loss on valuation of investment securities	(671)	(996)	(6,103)
Loss on impairment.....	(409)	(457)	(3,720)
Expense related to the novel coronavirus (Note 16) ...	(1,147)		(10,431)
Other—net (Note 5)	2,618	563	23,803
Other income—net	15,642	13,053	142,199
Income before income taxes	59,336	58,728	539,418
Income taxes (Note 9):			
Current	15,243	14,675	138,575
Deferred	602	(786)	5,467
Total income taxes.....	15,845	13,889	144,042
Net income	43,491	44,839	395,376
Net income attributable to noncontrolling interests.....	4,224	5,103	38,400
Net income attributable to owners of the parent	¥ 39,267	¥ 39,736	\$ 356,976
Per share of common stock (Note 18):	Yen		U.S. dollars (Note 1)
Basic net income	¥ 244.85	¥ 248.04	\$ 2.23
Cash dividends applicable to the year.....	52.00	46.00	0.47

Diluted net income per share of common stock for 2021 and 2020 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, 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net income	¥ 43,491	¥ 44,839	\$ 395,376
Other comprehensive income (loss) (Note 14):			
Unrealized gain (loss) on available-for-sale securities..	4,853	(10,540)	44,118
Foreign currency translation adjustments.....	(13,017)	(3,849)	(118,334)
Defined retirement benefit plans	1,999	(1,372)	18,177
Share of other comprehensive loss in associates	(241)	(51)	(2,196)
Total other comprehensive income (loss)	(6,406)	(15,812)	(58,235)
Comprehensive income	¥ 37,085	¥ 29,027	\$ 337,141
Total comprehensive income (loss) attributed to:			
Owners of the parent.....	¥ 37,758	¥ 24,002	\$ 343,253
Noncontrolling interests	(673)	5,025	(6,112)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2021

	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			
Balance, March 31, 2019	160,226	¥31,118	¥41,743	¥347,741	¥(54,834)	¥30,465	¥(36,305)	¥(2,656)	¥357,272	¥35,007	¥392,279
Net income attributable to owners of the parent				39,736					39,736		39,736
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)
Balance, March 31, 2020	160,209	31,118	41,476	379,948	(54,934)	19,950	(40,151)	(4,028)	373,379	38,703	412,082
Net income attributable to owners of the parent				39,267					39,267		39,267
Change in the parent's ownership interest due to transactions with noncontrolling interests			(1)						(1)		(1)
Cash dividends, ¥52.0 per share				(7,856)					(7,856)		(7,856)
Repurchase of treasury stock	243				(3)				(3)		(3)
Disposal of treasury stock			(537)		2,211				1,674		1,674
Net change in the year						4,823	(8,331)	1,999	(1,509)	(3,893)	(5,402)
Balance, March 31, 2021	160,452	¥31,118	¥40,938	¥411,359	¥(52,726)	¥24,773	¥(48,482)	¥(2,029)	¥404,951	¥34,810	¥439,761

	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			
Balance, March 31, 2020	\$282,888	\$377,052	\$3,454,075	\$(499,397)	\$181,368	\$(365,007)	\$(36,619)	\$3,394,360	\$351,844	\$3,746,204
Net income attributable to owners of the parent			356,976					356,976		356,976
Change in the parent's ownership interest due to transactions with noncontrolling interests			(1)					(1)		(1)
Cash dividends, \$0.47 per share			(71,419)					(71,419)		(71,419)
Repurchase of treasury stock				(25)				(25)		(25)
Disposal of treasury stock		(4,891)		20,095				15,204		15,204
Net change in the year					43,843	(75,743)	18,178	(13,722)	(35,389)	(49,111)
Balance, March 31, 2021	\$282,888	\$372,160	\$3,739,632	\$(479,327)	\$225,211	\$(440,750)	\$(18,441)	\$3,681,373	\$316,455	\$3,997,828

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Operating activities:			
Income before income taxes.....	¥ 59,336	¥ 58,728	\$ 539,418
Adjustments for:			
Income taxes—paid.....	(14,887)	(14,201)	(135,336)
Depreciation and amortization (Note 18).....	22,114	22,324	201,033
Loss on Impairment.....	409	457	3,720
Loss on disposals and sales of property, plant and equipment.....	235	670	2,140
Equity in earnings of associated companies.....	(3,911)	(5,066)	(35,552)
Gain on sales of investment securities.....	(3,696)	(2,497)	(33,603)
Loss on valuation of investment securities.....	671	996	6,103
Changes in operating assets and liabilities:			
Decrease in receivables.....	1,026	657	9,328
Increase in inventories.....	(1,585)	(651)	(14,409)
Decrease in payables.....	(3,240)	(1,590)	(29,453)
Decrease in liability for retirement benefits.....	(328)	(1,610)	(2,982)
Other—net.....	(324)	4,575	(2,950)
Total adjustments.....	(3,516)	4,064	(31,961)
Net cash provided by operating activities.....	55,820	62,792	507,457

Investing activities:

Transfers to time deposits.....	(88,736)	(106,436)	(806,689)
Proceeds from withdrawing time deposits.....	85,107	108,154	773,696
Purchases of property, plant and equipment.....	(23,663)	(20,585)	(215,118)
Proceeds from sales of property, plant and equipment....	434	454	3,944
Purchases of investment securities.....	(418)	(15)	(3,798)
Proceeds from sales of investment securities.....	7,362	4,080	66,925
Acquisition of controlling interest in a company.....		(346)	
Other—net (Note 5).....	291	(1,367)	2,645
Net cash used in investing activities.....	(19,623)	(16,061)	(178,395)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Financing activities:			
Net decrease in short-term loans.....	(11,900)	(7,318)	(108,182)
Proceeds from long-term debt.....	500		4,546
Payments for settlement of long-term debt.....	(10,437)	(9,948)	(94,886)
Repurchase of treasury stock.....	(3)	(2)	(25)
Sales of treasury stock.....	1,400	115	12,728
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.....	(6)		(59)
Dividends paid.....	(7,846)	(7,520)	(71,325)
Dividends paid to noncontrolling interests.....	(3,154)	(1,567)	(28,668)
Other—net.....	191	609	1,736
Net cash used in financing activities.....	(31,255)	(25,631)	(284,135)
Foreign currency translation adjustments on cash and cash equivalents.....	(6,736)	290	(61,242)
Net (decrease) increase in cash and cash equivalents.....	(1,794)	21,390	(16,315)
Cash and cash equivalents, beginning of year.....	124,561	103,171	1,132,374
Cash and cash equivalents, end of year.....	¥ 122,767	¥ 124,561	\$1,116,059

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2021

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 ¥110 to U.S. \$1, the approximate rate of exchange at March 31, 2021. 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, 2021 include the accounts of the Company and its seventy five (75 in 2020) 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 2020) 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.

(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, 2021 and 2020, is not disclosed due to the absence of dilutive securities.

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

(R) ACCOUNTING CHANGES AND ERROR CORRECTIONS

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

(1) Changes in Accounting Policies:

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

(2) Changes in Presentation:

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

(3) Changes in Accounting Estimates:

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

(4) Corrections of Prior-Period Errors:

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

(S) NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standard for Revenue Recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

The appliance of the accounting standard and guidance is not expected a material impact on the beginning balance of retained earnings and net income and loss for the following fiscal year.

(T) CHANGE IN PRESENTATION METHODS

Change with applying "Accounting standard for disclosure of accounting estimates"

We applied "Accounting standard for disclosure of accounting estimates" in current fiscal year and stated "NOTE 3 SIGNIFICANT ACCOUNTING ESTIMATES."

(U) ADDITIONAL INFORMATION

Expense related to the novel coronavirus (other expenses) was recorded in the consolidated statements of income. The expense was mainly compensation for absence from work for Yakult Ladies in activity restrictions in the Food and Beverages manufacturing and sales divisions in Japan and overseas, and fixed cost in response to a decrease in the number of official games at professional baseball operations included in other business divisions.

Now the novel coronavirus pandemic has not yet resolved in many countries including Japan, but in the Food and Beverages manufacturing and sales business, which is the Group's main business,

sales activities are generally continuing normally, although sales activities are restricted in some countries. While there are countries in which consumption has been sluggish due to the effects of infectious diseases, there are countries in which the number of units sold has increased due to increased awareness of infection prevention, etc. Therefore, at present, we recognize that there is no risk that the novel coronavirus will have a significant impact on consolidated financial results.

NOTE 3 SIGNIFICANT ACCOUNTING ESTIMATES

Impairment of property, plant and equipment in foreign subsidiaries

(1) Carrying amount

Land	¥2,979 million in ¥44,065 million (\$27,083 thousand in \$400,595 thousand)
Buildings and structures	¥51,985 million in ¥176,574 million (\$472,588 thousand in \$1,605,218 thousand)
Machinery and vehicles	¥92,091 million in ¥165,874 million (\$837,194 thousand in \$1,507,944 thousand)
Furniture and fixtures	¥5,838 million in ¥27,024 million (\$53,077 thousand in \$245,674 thousand)
Lease assets	¥10,104 million in ¥25,597 million (\$91,850 thousand in \$232,699 thousand)
Construction in progress	¥7,135 million in ¥9,237 million (\$64,866 thousand in \$83,978 thousand)
Accumulated depreciation	¥(81,423) million in ¥(245,326) million (\$ (740,212) thousand in \$ (2,230,239) thousand)

(2) Information on the significant accounting estimate

The Group operates in 39 countries and regions outside Japan, and built and operates 27 factories, including 20 factories held by subsidiaries, and has production facilities in 17 countries and regions.

In assessing the recoverability of impairment of property, plant and equipment, the indications of impairment of property, plant and equipment evaluated in each cash-generating unit or asset group basically based on sales area.

In current fiscal year, no impairment loss was recognized as a result of evaluation of whether there are any indications of impairment loss and judgement for recognition by each cash-generating unit or asset group in foreign subsidiaries.

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

As a result, there may be indications of impairment of property, plant and equipment, and there is a possibility that impairment loss of property, plant and equipment is recorded if their planned future cash flows cannot be obtained.

Yakult Myanmar Co., Ltd. temporarily stopped production and sales activities by considering safety of the employees due to unstable political situation and demonstration. If the situation becomes worse and the operation stops for long time, there is a possibility of recognizing impairment loss of all ¥3,329 million of fixed assets or a part of them.

NOTE 4 INVENTORIES

Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and finished products.....	¥10,019	¥10,232	\$ 91,081
Work in process.....	2,176	2,166	19,780
Raw materials and supplies.....	15,540	16,374	141,278
Total.....	¥27,735	¥28,772	\$252,139

NOTE 5 INVESTMENT SECURITIES

Investment securities at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Investment securities:			
Marketable equity securities.....	¥76,775	¥73,564	\$697,957
Trust fund investments and other.....	3,464	3,469	31,485
Total.....	¥80,239	¥77,033	\$729,442

The costs and aggregate fair values of investment securities at March 31, 2021 and 2020 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2021				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥41,325	¥36,516	¥1,065	¥76,776
March 31, 2020				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥45,086	¥30,236	¥1,758	¥73,564

	Thousands of U.S. dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
March 31, 2021				
Securities classified as—				
Available-for-sale:				
Equity securities.....	\$375,682	\$331,959	\$9,684	\$697,957

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2021 and 2020, were ¥3,464 million (\$31,485 thousand) and ¥3,469 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2021 and 2020, were ¥7,362 million (\$66,924 thousand) and ¥4,080 million, respectively. Gross realized gain on these sales for the year ended March 31, 2021 and 2020, computed on the moving-average cost basis, was ¥3,754 million (\$34,128 thousand) and ¥2,502 million, respectively. Gross realized loss on these sales for the year ended March 31, 2021 and 2020, computed on the moving-average cost basis, was ¥58 million (\$525 thousand) and ¥5 million, respectively.

The valuation loss on available-for-sale equity securities for the year ended March 31, 2021 and 2020, was ¥671 million (\$6,103 thousand) and ¥996 million, respectively.

NOTE 6 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisting of bank loans, which include bank overdrafts, at March 31, 2021 and 2020 were ¥15,372 million (\$139,745 thousand) and ¥27,272 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2021 and 2020 ranged from 0.25% to 0.57% and 0.26% to 0.57%, respectively.

Long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans from banks and other financial institutions, 0.38% to 2.45% (0.37% to 2.45% in 2020), due serially to 2036:			
Collateralized	¥ 2,250	¥ 2,514	\$ 20,455
Unsecured.....	68,934	73,638	626,672
Obligations under finance leases (Note 10).....	9,663	10,529	87,839
Total.....	80,847	86,681	734,966
Less current portion	(8,841)	(9,004)	(80,369)
Long-term debt, less current portion	¥72,006	¥77,677	\$654,597

Annual maturities of long-term debt as of March 31, 2021 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022.....	¥8,841	\$80,369
2023.....	7,736	70,328
2024.....	47,344	430,403
2025.....	6,207	56,425
2026.....	5,858	53,255
2027 and thereafter.....	4,861	44,186
Total.....	¥80,847	\$734,966

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2021 were as follows:

March 31, 2021	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 9	\$ 78
Land	3,536	32,148
Buildings and structures—net of accumulated depreciation.....	1,643	14,937
Total.....	¥5,188	\$47,163

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

NOTE 7 RETIREMENT AND PENSION PLANS

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

The plans provide benefits based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2021 and 2020, included the amounts of ¥369 million (\$3,350 thousand) and ¥360 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year.....	¥64,057	¥66,718	\$582,336
Current service cost.....	3,465	3,348	31,501
Interest cost.....	444	413	4,038
Actuarial gains (losses).....	2,780	(341)	25,271
Benefits paid.....	(3,890)	(3,691)	(35,363)
Others.....	(277)	(2,390)	(2,518)
Balance at end of year.....	¥66,579	¥64,057	\$605,265

2. The changes in plan assets for the years ended March 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year.....	¥58,178	¥61,930	\$ 528,884
Expected return on plan assets.....	1,737	1,183	15,788
Actuarial gains (losses).....	4,540	(3,083)	41,275
Contributions from the employer.....	3,771	3,768	34,285
Benefits paid.....	(3,547)	(3,324)	(32,243)
Others.....	(64)	(2,296)	(578)
Balance at end of year.....	¥64,615	¥58,178	\$587,411

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
	2021	2020	2021
Defined benefit obligations.....	¥64,323	¥61,837	\$ 584,759
Plan assets.....	(64,615)	(58,178)	(587,411)
Total.....	(292)	3,659	(2,652)
Unfunded defined benefit obligations.....	2,256	2,220	20,506
Net liability arising from defined benefit obligations.....	¥ 1,964	¥ 5,879	\$ 17,854

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Liability for retirement benefits.....	¥4,358	¥6,408	\$39,620
Asset for retirement benefits.....	(2,394)	(529)	(21,766)
Net liability arising from defined benefit obligations.....	¥1,964	¥5,879	\$17,854

4. The components of net periodic benefit costs for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost.....	¥3,465	¥3,348	\$31,501
Interest cost.....	444	413	4,038
Expected return on plan assets.....	(1,737)	(1,183)	(15,788)
Recognized actuarial losses.....	1,219	762	11,077
Others.....	17	233	154
Net periodic benefit costs.....	¥3,408	¥3,573	\$30,982

5. Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains (losses).....	¥2,893	¥(1,979)	\$26,297
Total.....	¥2,893	¥(1,979)	\$26,297

6. Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Unrecognized actuarial losses.....	¥2,937	¥5,829	\$26,696
Total	¥2,937	¥5,829	\$26,696

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2021 and 2020 consisted of the following:

	2021	2020
Bonds	13%	14%
Stocks.....	20	14
Cash and Deposits	33	38
General accounts	24	26
Others	10	8
Total	100%	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2021 and 2020 are set forth as follows:

	2021	2020
Discount rate	0.64%	0.57%
Expected rate of return on plan assets.....	2.50	2.50

NOTE 8 EQUITY

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

(A) DIVIDENDS

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

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

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

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

(C) TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS

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

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

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

NOTE 9 INCOME TAXES

The Company and its domestic subsidiaries 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, 2021 and 2020. 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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Pension and severance costs.....	¥ 2,209	¥ 3,087	\$ 20,081
Tax loss carryforwards	3,873	4,236	35,213
Accrued bonuses.....	1,829	1,911	16,623
Long-lived assets (Impairment loss).....	1,321	1,494	12,003
Others.....	8,588	8,390	78,076
Total of tax loss carryforwards and temporary differences...	17,820	19,118	161,996
Less valuation allowance for tax loss carryforwards	(1,754)	(1,427)	(15,943)
Less valuation allowance for temporary differences.....	(1,489)	(1,484)	(13,538)
Total valuation allowance	(3,243)	(2,911)	(29,481)
Total.....	¥ 14,577	¥ 16,207	\$ 132,515
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	¥ 10,927	¥ 9,556	\$ 99,335
Undistributed earnings of foreign subsidiaries and associated companies.....	14,502	13,802	131,831
Unrealized gain on land held by subsidiaries.....	1,359	1,281	12,354
Others.....	4,333	4,188	39,391
Total.....	¥ 31,121	¥ 28,827	\$ 282,911
Net deferred tax liabilities.....	¥(16,544)	¥(12,620)	\$(150,396)

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, 2021 and 2020 was as follows:

	2021	2020
Normal effective statutory tax rate	30.62%	30.62%
Equity in earnings of associated companies.....	(2.02)	(2.64)
Tax exemption.....	(1.57)	(1.09)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	2.97	3.80
Social expenses not deductible for income tax purposes.....	0.41	0.60
Tax rate differences in foreign subsidiaries.....	(4.45)	(4.24)
Others—net.....	0.74	(3.40)
Actual effective tax rate	26.70%	23.65%

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2021 and 2020 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	
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards	¥105	¥220	¥221	¥162	¥329	¥2,836	¥3,873
Less valuation allowances for tax loss carryforwards	(85)	(184)	(220)	(154)	(198)	(913)	(1,754)
Net deferred tax assets relating to tax loss carryforwards	20	36	1	8	131	1,923	2,119

	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	
March 31, 2020							
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

	Thousands of U.S. dollars						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	
March 31, 2021							
Deferred tax assets relating to tax loss carryforwards	\$953	\$2,001	\$2,005	\$1,476	\$2,993	\$25,785	\$35,213
Less valuation allowances for tax loss carryforwards	(774)	(1,677)	(1,998)	(1,399)	(1,797)	(8,298)	(15,943)
Net deferred tax assets relating to tax loss carryforwards	179	324	7	77	1,196	17,487	19,270

NOTE 10 LEASES

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

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

	Millions of yen		Thousands of U.S. dollars	
	2021		2021	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year.....	¥ 3,373	¥228	\$30,660	\$2,067
Due after one year.....	6,290	170	57,179	1,547
Total.....	¥ 9,663	¥398	\$87,839	\$3,614

	Millions of yen	
	2020	
	Finance leases	Operating leases
Due within one year.....	¥ 3,536	¥186
Due after one year.....	6,993	298
Total.....	¥10,529	¥484

NOTE 11 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, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Sales.....	¥4,029	¥5,242	\$36,625
Sales discounts and rebates.....	70	72	640
Collection of loans.....			
Rent of vending machines.....	30	20	276
Temporary receipts.....	1,875	2,048	17,047
Subsidy of sales expenses.....	19	25	177

The balances due to or from these related parties at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Notes and accounts receivable.....	¥897	¥1,174	\$8,157
Other receivables.....	7	7	65
Other payables.....	9	20	80
Accrued expenses.....	5	15	48
Other long-term liabilities.....	27	36	249

NOTE 12 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

(3) FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2021			
Cash and cash equivalents	¥122,766	¥122,766	
Time deposits	53,488	53,488	
Receivables	53,766		
Allowance for doubtful accounts.....	(193)		
Receivables—net.....	53,573	53,573	
Investment securities.....	76,775	76,775	
Total.....	¥306,602	¥306,602	
Short-term borrowings.....	¥ 15,372	¥ 15,372	
Payables.....	30,790	30,790	
Long-term debt (excluding obligations under finance leases).....	71,184	71,245	¥61
Total.....	¥117,346	¥117,407	¥61
March 31, 2020			
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

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2021			
Cash and cash equivalents	\$1,116,059	\$1,116,059	
Time deposits	486,256	486,256	
Receivables	488,786		
Allowance for doubtful accounts.....	(1,757)		
Receivables—net.....	487,029	487,029	
Investment securities.....	697,957	697,957	
Total.....	\$2,787,301	\$2,787,301	
<hr/>			
Short-term borrowings.....	\$ 139,745	\$ 139,745	
Payables.....	279,913	279,913	
Long-term debt (excluding obligations under finance leases).....	647,127	647,677	\$550
Total.....	\$1,066,785	\$1,067,335	\$550

Cash and cash equivalents, Time deposits, and Receivables

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

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 5.

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

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

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

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

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies.....	¥68,791	¥66,216	\$625,373

(5) MATURITY ANALYSIS FOR FINANCIAL ASSETS

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2021				
Cash and cash equivalents	¥122,767			
Time deposits	53,488			
Receivables	53,766			
Total.....	¥230,021			

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2020				
Cash and cash equivalents	¥124,561			
Time deposits	51,077			
Receivables	53,964			
Total.....	¥229,602			

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2021				
Cash and cash equivalents	\$1,116,059			
Time deposits	486,256			
Receivables	488,786			
Total.....	\$2,091,101			

NOTE 13 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrealized gain on available-for-sale securities:			
Gain (loss) arising during the year.....	¥ 10,020	¥(13,691)	\$ 91,087
Reclassification adjustments to profit or loss.....	(3,025)	(1,501)	(27,498)
Amount before income tax effect.....	6,995	(15,192)	63,589
Income tax effect	(2,142)	4,652	(19,471)
Total.....	¥ 4,853	¥(10,540)	\$ 44,118
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(13,017)	¥ (3,849)	\$ (118,334)
Total.....	¥(13,017)	¥ (3,849)	\$ (118,334)
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 1,674	¥ (2,498)	\$ 15,221
Reclassification adjustments to profit or loss.....	1,218	519	11,076
Amount before income tax effect.....	2,892	(1,979)	26,297
Income tax effect	(893)	607	(8,120)
Total.....	¥ 1,999	¥ (1,372)	\$ 18,177
	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Share of other comprehensive loss in associates:			
Gains arising during the year.....	¥ (241)	¥ (51)	\$ (2,196)
Total.....	¥ (241)	¥ (51)	\$ (2,196)
Total other comprehensive loss.....	¥ (6,406)	¥(15,812)	\$ (58,235)

NOTE 14 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Advertising	¥17,139	¥17,554	\$155,806
Sales subsidies	7,231	7,734	65,740
Freight expense.....	14,646	14,134	133,145
Sales commission	25,484	25,878	231,674
Salaries	43,289	43,998	393,540
Provision for bonuses	3,869	3,837	35,173
Net periodic benefit costs.....	2,821	2,476	25,642
Depreciation and amortization	4,525	4,967	41,137
Research and development	8,450	8,931	76,817

NOTE 15 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,488 million (\$77,159 thousand) and ¥8,969 million for the years ended March 31, 2021 and 2020, respectively.

NOTE 16 OTHER INCOME (EXPENSES)

Expense related to the novel coronavirus

Expense related to the novel coronavirus was mainly compensation for absence from work for Yakult Ladies inside and outside of Japan, and fixed expenses in response to a decrease in the number of official games at professional baseball operations.

NOTE 17 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2021 was approved at the Company's Board of Directors' meeting held on May 14, 2021:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥26.00 (\$0.24) per share.....	¥4,173	\$37,935

NOTE 18 NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2021 and 2020 is as follows:

Diluted net income per share for the years ended March 31, 2021 and 2020 is not disclosed due to the absence of dilutive securities.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income attributable to owners of the parent	Weighted-average shares		EPS
Year ended March 31, 2021				
Basic EPS:				
Net income available to common shareholders	¥39,267	160,373	¥244.85	\$2.23

	Millions of yen	Thousands of shares	Yen
	Net income attributable to owners of the parent	Weighted-average shares	EPS
Year ended March 31, 2020			
Basic EPS:			
Net income available to common shareholders	¥39,735	160,198	¥248.04

NOTE 19 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							
	2021							
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
Japan	The Americas	Asia and Oceania	Europe					
Sales								
Sales to external customers.....	¥186,519	¥41,878	¥114,966	¥8,564	¥18,123	¥15,657		¥385,707
Intersegment sales or transfers.....	20,533					2,047	¥(22,580)	
Total	207,052	41,878	114,966	8,564	18,123	17,704	(22,580)	385,707
Segment profit (loss)	23,767	10,390	26,384	649	191	(142)	(17,545)	43,694
Segment assets	183,236	74,196	237,743	10,159	12,881	15,828	101,059	635,102
Other:								
Depreciation and amortization.....	9,739	1,751	8,637	480	205	388	914	22,114
Investment in associates.....			63,234					63,234
Increase in property, plant and equipment and intangible assets ...	11,193	915	11,475	486	177	586	958	25,790

	Thousands of U.S. dollars							
	2021							
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
Japan	The Americas	Asia and Oceania	Europe					
Sales								
Sales to external customers.....	\$1,695,625	\$380,708	\$1,045,146	\$77,858	\$164,758	\$142,330		\$3,506,425
Intersegment sales or transfers.....	186,666					18,612	\$(205,278)	
Total	1,882,291	380,708	1,045,146	77,858	164,758	160,942	(205,278)	3,506,425
Segment profit (loss)	216,067	94,452	239,857	5,896	1,739	(1,291)	(159,501)	397,219
Segment assets	1,665,780	674,512	2,161,304	92,354	117,104	143,886	918,717	5,773,657
Other:								
Depreciation and amortization.....	88,538	15,922	78,516	4,362	1,864	3,524	8,307	201,033
Investment in associates.....			574,854					574,854
Increase in property, plant and equipment and intangible assets ...	101,759	8,324	104,315	4,417	1,612	5,326	8,706	234,459

- Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,761 million (\$116,013 thousand) of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥107,986 million (\$981,688 thousand) of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥914 million (\$8,307 thousand) of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥958 million (\$8,706 thousand) of capital expenditure of the head office.

	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

- Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥13,656 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥99,064 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,149 million of depreciation of the head office.
4. Reconciliation in capital expenditure consists of ¥1,999 million of capital expenditure of the head office.

(4) INFORMATION ABOUT GEOGRAPHICAL AREAS

a. Sales

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

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

Thousands of U.S. dollars				
2021				
Japan	The Americas	Asia and Oceania	Europe	Total
\$1,985,710	\$380,802	\$1,062,055	\$77,858	\$3,506,425

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

b. Property, plant and equipment

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

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

Thousands of U.S. dollars				
2021				
Japan	The Americas	Asia and Oceania	Europe	Total
\$1,039,423	\$120,860	\$662,216	\$23,370	\$1,845,869

Independent Auditors' Report



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Yakult Honsha Co., Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

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

Key Audit Matter

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

Member of
Deloitte Touche Tohmatsu Limited

Determination of the indication of impairment of property, plant and equipment in foreign subsidiaries	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 3 to the consolidated financial statements "Significant Accounting Estimates," the Group operates in 39 countries and regions outside Japan, and built and operates 27 factories, including 20 factories held by subsidiaries, and has production facilities in 17 countries and regions. The total amount of property, plant and equipment recorded by foreign subsidiaries is ¥88,709 million out of ¥203,045 million of the Group's property, plant and equipment as of March 31, 2021, and represented approximately 14.0% of the Group's consolidated total assets.</p> <p>The performance of each foreign subsidiary is affected by many external environmental factors, such as politics, economics, social backgrounds, legal restrictions, natural disasters, and infectious diseases in each operating country and region. In addition, there is a possibility that those foreign subsidiaries, which have recently started their operations, could not achieve their business plans. Such possibility exists when the foreign subsidiaries enter countries or regions especially where probiotics are not recognized because it may take long time for their products to penetrate the markets. As a result, there may be indications of impairment of property, plant and equipment.</p> <p>Each foreign subsidiary's financial statements, which is part of the consolidated financial statements, is prepared in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America. The Company evaluates whether there are any indications that property, plant and equipment in the foreign subsidiaries may be impaired by each cash-generating unit or asset group.</p> <p>We identified the determination of indications of impairment for the foreign subsidiaries' property, plant and equipment by each cash-generating unit or asset group as a key audit matter because of the following:</p> <ul style="list-style-type: none"> • The total amount of each foreign subsidiary's property, plant and equipment is significant. • There is a risk that indications of impairment might not be identified due to a wide range of internal and external factors affecting the business activities of the foreign subsidiaries as described above in many countries and regions where they operate. 	<p>We performed the following audit procedures, among others, to assess the Company's determination of whether there were any indications of impairment of property, plant and equipment in each foreign subsidiary:</p> <ul style="list-style-type: none"> • We evaluated the design and operating effectiveness of internal controls over determination of indications of impairment of property, plant and equipment in each foreign subsidiary. Especially, processes to identify cash-generating units or an asset group based on sales areas and to collect and evaluate local information for identifying indications of impairment. • We inspected a document prepared by the Company to determine whether the Company tested determination of indications of impairment of the property, plant and equipment by analyzing trends of sales, operating incomes, and other information of each cash-generating unit or asset group. • We made inquiries of management and inspected related documents to determine whether each foreign subsidiary prepared the business plan for the following years based on the local condition and its historical financial result, and whether the Company evaluated the feasibility of their business plans. • For foreign subsidiaries with significant amounts of property, plant and equipment, we evaluated the reasonableness of the Group's determination of indications of impairment of property, plant and equipment with the assistance of the component auditors under International Financial Reporting Standards or generally accepted accounting principles in the United States of America, as well as based on our understanding of the situations surrounding the foreign subsidiaries.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 23, 2021

Global Network

OVERSEAS OPERATIONS AND RESEARCH AND DEVELOPMENT INSTITUTE

(As of March 31, 2021)

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

Company name	Start of Sales	Location
The AMERICAS		
Yakult S/A Ind. E Com. (Brazil)	October 1968	São Paulo
Yakult S.A. De C.V. (Mexico)	October 1981	Mexico City
Yakult U.S.A. Inc.	October 1999	Fountain Valley
EUROPE		
Yakult Europe B.V.	March 1996	Almere, 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: Other countries and regions where 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, 2021)

CORPORATE NAME	YAKULT HONSHA CO., LTD.
DATE FOUNDED	1935
DATE INCORPORATED	April 9, 1955
HEAD OFFICE	10-30, Kaigan, 1-chome, Minato-ku, Tokyo, 105-8660, Japan URL: https://www.yakult.co.jp/
PAID-IN CAPITAL	¥31,117,654,815
ANNUAL ACCOUNT SETTLEMENT DATE	March 31
NUMBER OF EMPLOYEES	28,798 (Consolidated)
NUMBER OF ISSUED SHARES	171,045,418
NUMBER OF SHAREHOLDERS	36,184*

*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

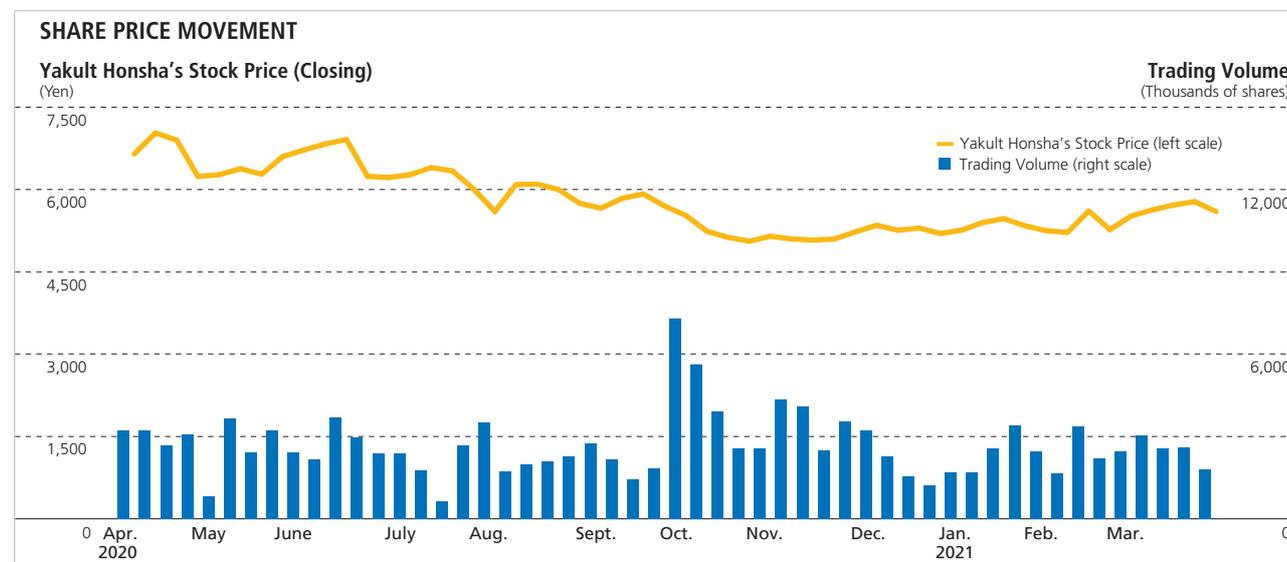
- A Hokkaido Branch
- B East Japan Branch
- C Metropolitan Branch
- D Central Japan Branch
- E West Japan Branch

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

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報2109RV1100 (宝)
Printed in Japan