Yakult

Annual Report 2003

Year ended March 31, 2003

Probiotics: A new universal concept for health

Profile

Yakult—A Probiotics Pioneer

Medical developments in the 20th century focused on curing disease with an ever-increasing range of medicines. In the 21st century, however, a turn toward better living habits as a means of warding off disease is shifting the focus to preventive medicine. Yakult Honsha Co., Ltd., was founded on the principles of preventive medicine and has used its extensive research in probiotics to enhance the health of its customers since the 1930s. In the 21st century, the Company aims to use its role as a probiotics pioneer to expand its contribution to the prevention of illness and disease and to thus raise the quality of life for people throughout the world.

Contents

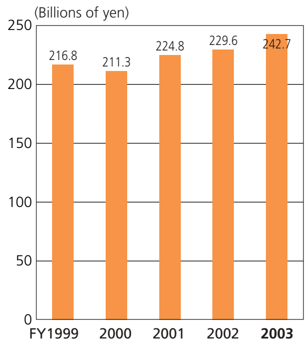
Financial Highlights

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries March 31, 2003 and 2002

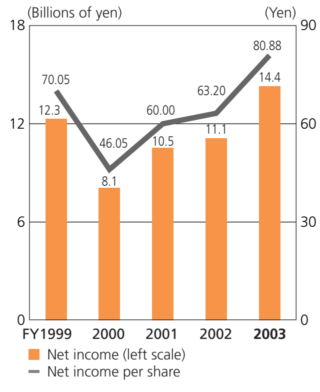
	Millions of yen		Thousands of U.S. dollars (Note)
	2003	2002	**2003**
For the year:			
Net sales	**¥242,740**	¥229,623	**$2,022,836**
Operating income	**21,619**	13,071	**180,154**
Net income	**14,383**	11,108	**119,861**
At the year-end:			
Total assets	**¥276,203**	¥269,094	**$2,301,695**
Total liabilities	**87,959**	85,288	**732,994**
Total shareholders' equity	**174,827**	168,033	**1,456,891**
	Yen		U.S. dollars (Note)
Per share of common stock:			
Basic net income	**¥80.88**	¥63.20	**$0.67**
Diluted net income	**80.87**	63.19	**0.67**
Cash dividends applicable to the year	**15.00**	15.00	**0.13**

Note: U.S. dollar amounts are included, solely for the convenience of readers, at the rate of ¥120 to U.S.$1, the approximate rate of exchange at March 31, 2003.

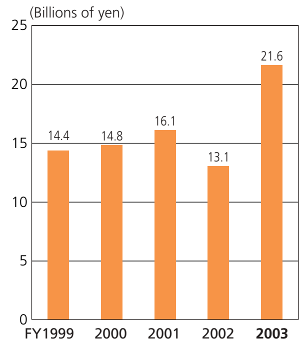
Net Sales



Net Income and Net Income per Share



Operating Income



To Our Shareholders

In fiscal 2003, ended March 31, 2003, Japan's economy remained characterized by uncertainty as unemployment and wage conditions continued on a downward path, the global economy weakened, and personal consumption continued to decline, producing an extremely harsh business environment. Against this backdrop, Yakult Honsha Co., Ltd. (Yakult), continued to vigorously promote Shirota-ism—the promotion of the ideals of preventive medicine and the concept of a healthy intestinal tract leads to a long life—upon which Dr. Minoru Shirota founded the Company. Beyond this, we advanced ongoing efforts to strengthen business activities, continued to expand our overseas operations, sought to further boost our pharmaceuticals business, and introduced new products to enrich our functional product lineup.

As a result of these activities, in the year under review, consolidated net sales rose 5.7%, to ¥242.7 billion, while operating income soared 65.4%, to ¥21.6 billion.

Raising Probiotics Awareness

Fiscal 2003 signaled the second year of Yakult's three-year plan designed to communicate to customers the health benefits of leading probiotics *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult. To this end, Yakult engaged in efforts to raise the public's awareness and understanding of probiotics with easy-to-understand explanations that spread the health benefits of Yakult's probiotic products. In the current fiscal year, the Company plans to build on these activities, expanding the scope of its message worldwide.

The Yakult Lady system, which ushered in its 40th year of operations in 2003, forms an indispensable component of these activities. The face of the Company, Yakult Ladies add a human touch to our sales activities, taking the opportunity for personal contact with customers to teach them about our products and provide them with information that emphasizes the benefits of preventive health and the idea that a healthy intestinal tract contributes to longevity. In the year under review, to train Yakult Ladies to take on the role of spreading such information, in March 2002, we revised our Center Clinic manual and from April commenced full-fledged practical training at Center Clinics to enhance the knowledge and skills of sales company staff as well as center managers. Sales company employees who receive such training provide Yakult Ladies with one-on-one training.

Toward Worldwide Operations

Yakult's overseas operations commenced in Taiwan in 1964 and have expanded to include Asia, Oceania, the Americas, and Europe, introducing Shirota-ism, the concept of preventive medicine and the idea that a healthy intestinal tract leads to longevity. Dr. Shirota promoted this concept around the world to aid people in maintaining

and improving their health. At present, the Company is placing particular emphasis on tapping into Asian markets and building strong business foundations in the region. In June 2002, we began selling fermented milk *Yakult* in China, with the establishment of Guangzhou Yakult Co., Ltd., as part of our aim to construct strong business foundations, particularly in Asian markets. In addition, we plan to commence sales in Malaysia by the end of 2003. Looking ahead, Yakult, in its role as the leading company in the field of probiotics, plans to expand its commitment to the Company philosophy of delivering health to people worldwide via bases in developed countries in Asia, Oceania, the Americas, and Europe.

Contributing to the Fight against Cancer

Our pharmaceuticals business, the focus of which is anticancer drugs, continued to register strong growth in the year under review, posting sales of ¥21.0 billion, up 20.9% from the previous fiscal year. While we exceeded our target for overseas sales, domestic sales continued to fall short of sales targets. Recognizing that the Japanese market for anticancer drugs still carries great potential for growth in sales of *Campto,* we are currently pushing forward with efforts to raise the number of our medical representatives, with the aim of raising awareness of the effectiveness of the drug on the part of doctors and health-care institutions alike. In addition to seeking approval for *Campto* to be used for new indications, several new drugs are in the development pipeline. One of the most promising, *Oxaliplatin,* is a new anticancer drug that is under Phase II clinical trials, and we plan to file a New Drug Application in 2004.

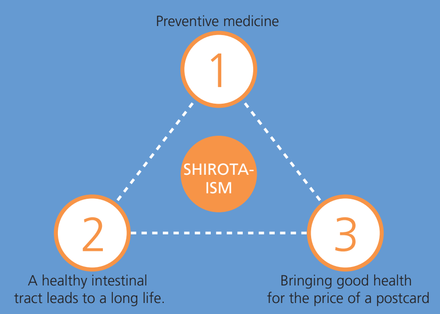
Focusing on Products with a Purpose

New products rolled out in the year under review included *Renefa,* a drink that contains globin protein hydrolysate, a substance that controls a rise in serum triglyceride levels after meals. Launched in March 2003, *Renefa* has been granted permission by Japan's Health, Labour and Welfare minister to bear the Food for Specified Health Uses mark on its labeling in recognition of its health benefits. Following on the heels of the success of *Bansoreicha,* a mainstay product that controls blood sugar levels, in June 2003, the Company also launched health tea beverage *Itawaricha,* with seaweed derivative fucoidan. The Company will continue to adhere to a policy of focusing on functional foods with health benefits to ensure product longevity.

Our Commitment to Compliance

Yakult views compliance with all laws and regulations that govern its business as an issue of the utmost importance and highest priority. The Company's Compliance Council, comprised of outside experts, gives advice and guidance for better compliance and reviews reports submitted by

SHIROTA-ISM



1. Preventive medicine
   Rather than treat disease after people have fallen ill, it is important to prevent disease in advance.
2. A healthy intestinal tract leads to a long life.
   Nutrients are absorbed through the intestines. Therefore, a healthy intestinal tract will allow us to enjoy a longer, healthier life.
3. Bringing good health for the price of a postcard
   The Company strives to deliver *Yakult* and its intestine-fortifying benefit to as many people as possible, at an affordable price.

In addition to Shirota-ism, such concepts as "propagation," "door-to-door delivery," "harmony among people," and "sincerity" have been steadfast principles of Yakult's operations since the Company's founding.

Yakult regarding plans that incorporate such advice as well as the progress and results of compliance measures. In addition, the body conducts fair and unbiased audits and ensures that operations comply with applicable rules and regulations. In addition to compliance, Yakult is pursuing its aim of being a company that honors the opinions and concerns of its stakeholders and to this end is advancing the establishment of a system of corporate governance.

The Road Ahead

The difficult operating environment posed by protracted weak economic conditions in Japan and overseas constitutes a considerable challenge for Yakult. However, because our focus is on customers' understanding of the products' health benefits, such conditions have minimal impact on how we conduct business. Looking at the road ahead, we plan to effect steady overseas expansion that follows the pattern of thorough education of customers about probiotics through the face-to-face contact on which our success is built and continue to conduct R&D in the field of probiotics as well as enhance our lineup of functional foods. In addition, we will devote efforts to realizing the full potential of the domestic market for *Campto* and enriching our pharmaceuticals development pipeline as the graying of Japan and the rest of the world progresses. Present and vital in all of these activities will be Yakult's firm commitment to quality and the promotion of good health.

In April 2003, France-based Groupe DANONE increased its holdings in the Company with the acquisition of 33,949,000 shares through a subsidiary, making it the Company's largest shareholder. We remain committed to our business philosophy and will continue to conduct business as we have in the past, striving to raise shareholder value.

We thank our shareholders and investors for their ongoing loyalty and support as well as ask for their continued understanding in the future.

Sumiya Hori

June 2003
Sumiya Hori, President

Board of Directors and Auditors

(As of June 27, 2003)

Sumiya Hori
President

General Managers

Takayuki Ohashi
General Manager,
Food and Beverages Sales Division and Cosmetics Division,
Senior Managing Director

Tadashi Suzuki
General Manager,
Administrative Division,
Senior Managing Director

Toshizo Shiga
General Manager,
Pharmaceuticals Division,
Senior Managing Director

Teruo Yokokura
General Manager,
Production Division and R&D Division,
Managing Director

Naomasa Tsuritani
General Manager,
International Business Division,
Managing Director

President

Sumiya Hori

Senior Managing Directors

Takayuki Ohashi

Tadashi Suzuki

Toshizo Shiga

Managing Directors

Norihiro Nagata

Teruo Yokokura

Mitsuhiko Kaneko

Akira Katsumata

Naomasa Tsuritani

Directors

Ryuichiro Tanaka

Kozo Kobayashi

Norihiko Matsuo

Masaaki Watanuki

Tamotsu Tombe

Ryuji Chino

Kiyoshi Terada

Kenji Taguchi

Katsumi Otsubo

Yoshihiro Kawabata

Tsuyoshi Kinugasa

Shinji Mizumoto

Kaoru Yamaguchi

Rikio Otsuka

Masahiko Sadakata

Senior Corporate Auditors

Masakazu Matsumura

Yasukuni Miura

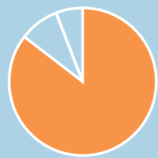
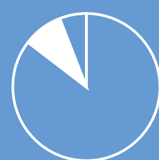
Corporate Auditors

Teruo Nakamura

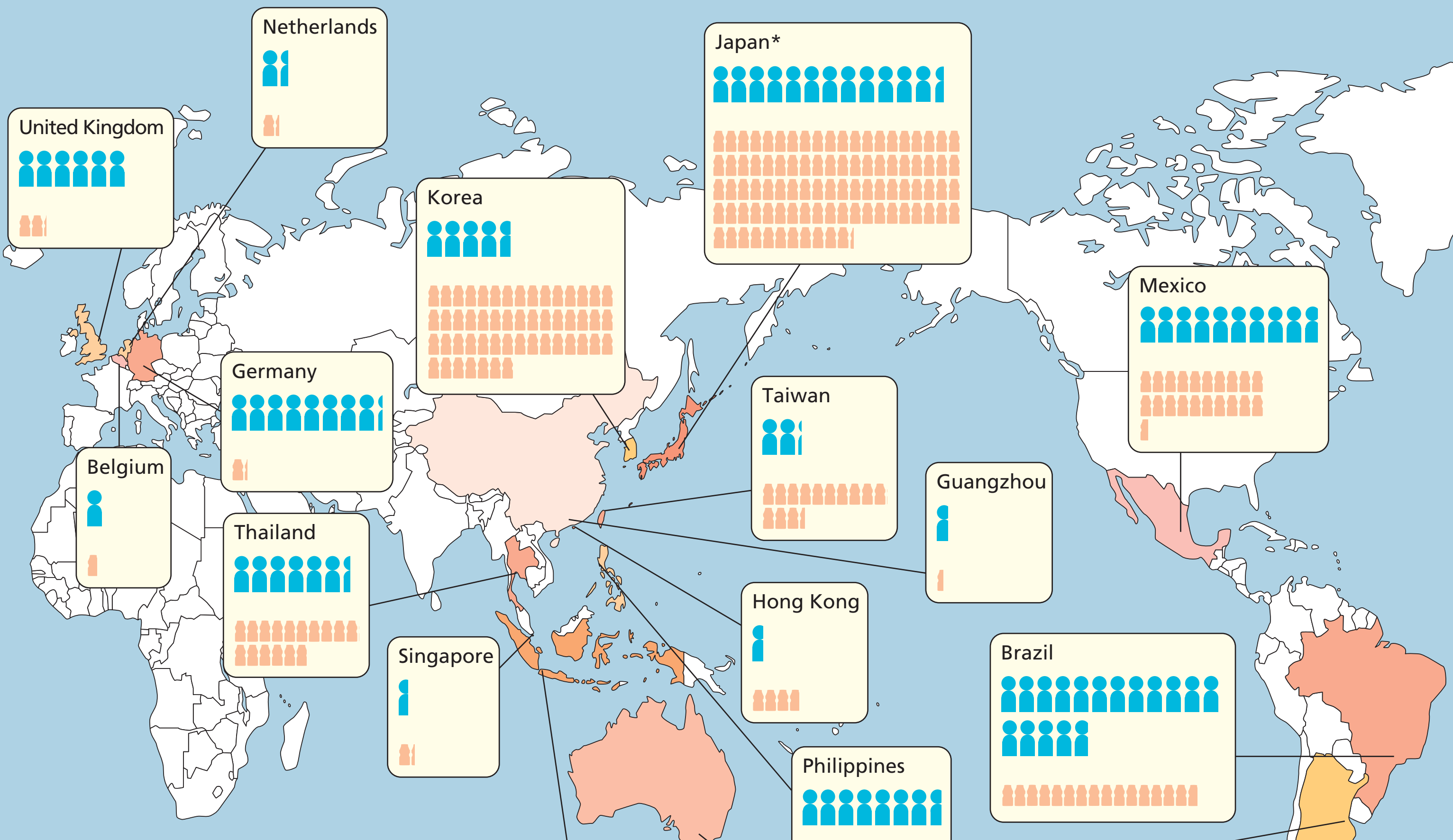
Akihiko Okudaira

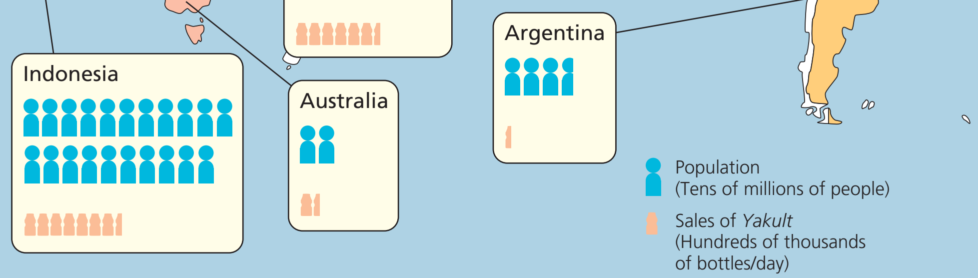
Tomoharu Tanaka

Our Business at a Glance

Segment			Business Areas	Review and Outlook	Percentage of Net Sales
Food and Beverages	**Dairy Products** 	Domestic	Yakult manufactures and sells its products—primarily the fermented milk drink *Yakult*—mainly at 16 business sites and, including countries in which the Company is conducting test marketing, manufactures and sells *Yakult* in 22 countries and regions around the world. In addition to mainstay product *Yakult,* products sold by this segment include other fermented milk drinks, fermented milk, yogurt, juice, and other beverages. We are focusing on sales of functional foods and beverages, in particular.	In fiscal 2003, Yakult further strengthened its Center Clinics system, the objective of which is to restructure center operations as well as the education and training of Yakult Ladies and sales center managers. This gave a boost to our sluggish domestic dairy products business. We continued to advance overseas expansion, extending our reach into China. We have high expectations for *Renefa,* a drink that controls a rise in serum triglyceride levels after meals, as well as *Itawaricha,* a health tea containing active fucoidan that joins the popular *Bansoreicha* in bolstering our lineup of functional foods. Net sales by this segment were up 5.1%, to ¥207.3 billion.	 85.4%
		Overseas			
	Juices and Other Beverages 				
Pharmaceuticals 			Yakult's pharmaceuticals operations have demonstrated significant growth since the introduction of mainstay anticancer drug *Campto* in 1994. *FEMIEST,* a treatment for postmenopausal symptoms, is also part of our lineup of pharmaceuticals. *Campto* is approved to treat nine different types of cancer in Japan. In the United States and Europe, it has been approved as first-line and second-line treatments of colorectal cancer and is now used to treat other types of cancer.	*Campto* continues to exhibit strong growth, posting sales of ¥19.5 billion in fiscal 2003. However, the drug's performance in Japan has been below targets, and we will strengthen our promotional activities in the local market. The Company's development pipeline includes *Oxaliplatin,* an anticancer drug that shows great promise, and we expect to apply for its approval in 2004. In the year under review, net sales by this segment were up 20.9%, to ¥21.0 billion.	 8.7%
Others 			Yakult's Others business includes its cosmetics operations and its ownership of the Yakult Swallows, a professional baseball team in Japan. The Company's cosmetics are formulated using moisturizing and anti-aging agents developed from Yakult's proprietary biotechnology. The cosmetics are sold through home visits to ensure that customers are aware of their unique benefits.	In fiscal 2003, the Company launched a number of new products. The aim was to respond to new trends in the cosmetics industry, thereby increasing sales. Yakult engages in ongoing R&D to continue to uncover proprietary methods of using the strength of lactobacilli to improve skin health, in keeping with the philosophy of the Company's founder, Dr. Minoru Shirota. Net sales by the Others segment dropped 3.7%, to ¥14.4 billion.	 5.9%

Worldwide Sales of *Yakult*





Performance from January to December 2002

	Sales Quantity (Thousands of bottles/day)	Percentage of Previous Year's Sales (%)
Asia and Oceania		
Taiwan	1,345	87.6
Hong Kong	399	90.9
Thailand	1,591	100.4
Korea	5,191	101.7
Philippines	647	119.9
Singapore	129	103.8
Indonesia	742	149.6
Australia	150	121.0
Guangzhou	59	—
Subtotal	10,254	103.1
The Americas		
Brazil	1,589	88.9
Mexico	2,075	108.5
Argentina	31	107.5
Subtotal	3,694	99.1
Europe		
Netherlands	120	108.0
Belgium	92	105.0
United Kingdom	215	113.1
Germany	116	84.1
Subtotal	543	103.1
Total	14,491	102.1

* Sales in Japan totaled 9.13 million bottles per day in fiscal 2003 (April 1, 2002, to March 31, 2003).


Indonesia


Mexico


Netherlands

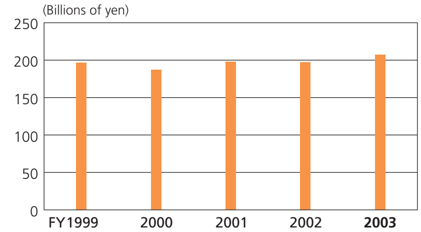

Guangzhou


Brazil


United Kingdom

FOOD AND BEVERAGES

Sales of Food and Beverages



In fiscal 2003, personal consumption continued to decline amid ongoing economic weakness in the Japanese economy. Looking overseas, we recorded growth in all but the most mature markets and are continuing on a path of steady expansion. Consequently, the food and beverages business recorded sales of ¥207.3 billion, up 5.1% from the previous fiscal year.

Dairy Products (Domestic)

FISCAL 2003 ACTIVITIES

In Japan, Yakult is known primarily for its dairy products, the mainstay of which is the fermented milk drink *Yakult*. These products contain lactobacilli, beneficial bacteria that constitute a crucial component of good health. Yakult's dairy products incorporate lactobacilli *(Lactobacillus casei* strain Shirota), which possess a strong resistance to gastric acid and bile acids as well as are delivered live and active primarily to the small intestine, and bifidobacteria *(Bifidobacterium breve* strain Yakult), a select variety with proven health benefits, which are active mainly in the large intestine. These lactic acid bacteria were designed to promote good health through daily intake, embody the principles of preventive medicine and have three principal benefits—the promotion of regular bowel movements, the prevention of intraintestinal growth of harmful bacteria, and the prevention of intraintestinal putrefaction. The benefits of lactobacilli and bifidobacteria have been granted permission by the Health, Labour and Welfare minister, who has approved the use of labels that indicate that Yakult's dairy products are Food for Specified Health Uses, products that have been scientifically proven to have health benefits.

In the year under review, Yakult implemented a number of initiatives designed to strengthen its sales organization and bring its products to the attention of a wider range of consumers.

One of the two pillars of Yakult's sales of dairy products is the Yakult Lady system. Yakult Ladies are Yakult salespeople who deliver Yakult products in person to homes and offices, taking the opportunity of home visits with customers to educate them about the benefits of probiotics, spreading the concept of preventive health upon which Yakult was founded. In recent years, a number of societal

Yakult

One bottle contains more than 15 billion lactobacilli.

Yakult LT

Low-sugar, 50% fewer calories compared to *Yakult*

Yakult 400

One bottle contains more than 40 billion lactobacilli.

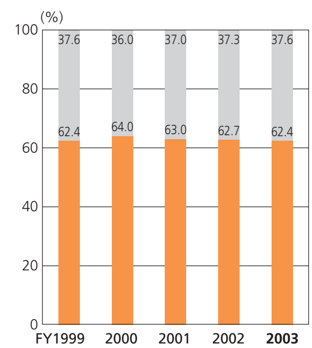
Bifiel

Bifidus yogurt drink containing more than 10 billion bifidobacteria

Sofuhl

Yogurt containing more than a billion lactobacilli

Sales Ratio of Dairy Products by Channel



Sales by Yakult Ladies

Sales via supermarkets, convenience stores, and other outside channels changes have made retention of Yakult Ladies an important issue. Consequently, in 2002, Yakult implemented the Center Clinic system, to make widespread improvements to the 2,800 nationwide centers with which Yakult Ladies are affiliated, including education and customer base expansion, reassessment of the markets covered by Yakult Ladies, and a stronger company structure.

Turning to sales to supermarkets and convenience stores as well as from vending machines, Yakult sought to emphasize the functionality of its products to fully capitalize on the recent worldwide boom in yogurt and probiotics. To this end, we stepped up our use of advertising that emphasized our products as being at the forefront of probiotics.

Sofuhl, a hard-type yogurt that has been a best-seller for Yakult since 1975, underwent a change in package design that better communicates the functions of lactobacilli in April 2003. In the past, 80% of sales of *Sofuhl* have been by Yakult Ladies, but, with the new packaging, we are working to strengthen its presence in stores—particularly convenience stores—as well, and, at present, sales from these channels are strong.

FISCAL 2003 REVIEW

Dedicated efforts to bolster the Yakult Lady system and ongoing initiatives to boost public awareness of the connection between Yakult's dairy products and probiotics helped to ward off any significant influence the continuing uncertainty in the domestic economy might have on sales. While unit sales dipped slightly in the year under review, revenues posted an increase.

STRATEGY AND OUTLOOK

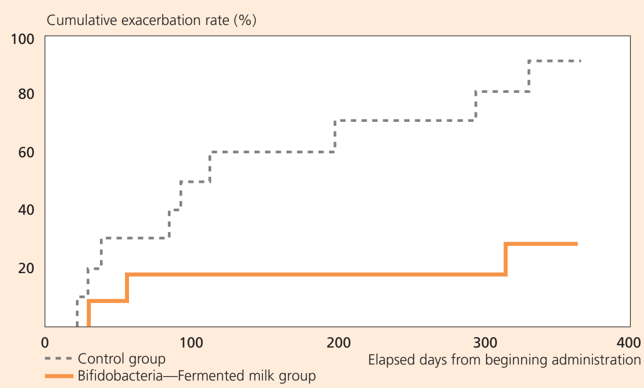
Yakult remains steadfastly committed to a policy of increasing sales via measures constructed to educate a wider segment of the public about the benefits of probiotics. The Yakult Lady system will play an indispensable role in such efforts. Faced with the twin trends of an aging population and the declining birthrate, we are shifting the focus of our efforts to educate the public about the functions of our dairy products from young people to middle-aged and elderly consumers. This shift, in addition to reflecting the changing composition of Japan's population, also recognizes the relative stability of an elderly customer base, as they have health concerns, making products that carry scientifically proven health benefits appealing. To facilitate better customer management and higher levels of customer satisfaction, we plan to implement a customer management system in the home delivery system in the future.

Looking at sales through other channels, surviving amid fierce competition will require devising strong product strategies and introducing new products each year. However, rather than engaging in price competition, Yakult intends to continue to make value-added products with health benefits that outlast trends and inspire customers to purchase them on a regular basis. In addition, the Company will work to expand sales to school lunch programs and health care facilities for the elderly, which have exhibited steady growth as the composition of the population shifts to a majority of middle-aged and elderly people.

Number of Yakult Ladies

FY	1999	2000	2001	2002	**2003**
	54,000	53,600	52,000	51,000	**50,000**

Prevention of Recurrence of Chronic Ulcerative Colitis (CUC) through Ingestion of Bifidobacteria-Fermented Milk



Notes: 1. Based on research findings of Hideki Ishikawa, *et al.,* 2003
2. At each monthly outpatient appointment, clinical symptoms were evaluated in comparison with one month earlier. Hatched tiles show the month of the exacerbation of the symptoms of ulcerative colitis.

Dairy Products (Overseas)

FISCAL 2003 ACTIVITIES AND REVIEW

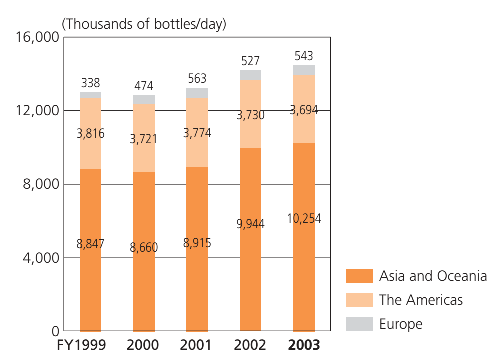
Since Yakult's overseas operations began in Taiwan in March 1964, our corporate philosophy has been to contribute to the health and happiness of people around the world. Yakult's global network has expanded to currently encompass bases in 16 countries, and, including countries in which we are conducting test marketing, we manufacture and sell the fermented milk drink *Yakult* in 22 countries and regions around the world. In expanding its overseas business, Yakult has employed the unique sales strategy that it uses in Japan: rather than introducing its products to a new country or region by simply putting large quantities of them on store shelves, Yakult's unique approach to penetrating new markets consists of selecting a relatively small market in which to begin sales and then moving on and expanding to subsequent markets in the region only after employees have been thoroughly trained and the public has been adequately educated about Yakult products in the first area. Yakult dispatches approximately seven Japanese employees to each of its overseas bases to learn about the local culture and customs so that they can successfully work with local workers, who form the bulk of employees at our overseas operations. These Japanese employees have a number of responsibilities, such as training local employees about the Yakult system, overseeing factories so that local employees can conduct local recruiting of employees and Yakult Ladies, and also accompanying Yakult Ladies on their daily rounds to provide hands-on training. In this way, Yakult communicates its corporate culture and philosophy as well as familiarizes people with its products, ensuring quality control outside of Japan. Also, just as in its domestic operations, the Company does not engage in price-competition or other sales tactics to attract new customers overseas; rather, it strives to create a loyal customer base by teaching people about the health benefits of its products to ensure that they have a clear idea of why they are drinking them.

Asia and Oceania ● Yakult's Asian and Oceania operations encompass production and sales of the fermented milk drink *Yakult* in Taiwan, Hong Kong, Thailand, Korea, the Philippines, Singapore, Indonesia, Australia, and Guangzhou.

In the period under review, the full-fledged production and sales of fermented milk products got under way in China in June 2002 at Guangzhou Yakult Co., Ltd., in Kwangtung, China. Because China is a market that has been growing steadily in recent years, it is the perfect candidate for business expansion by the Company, since its overseas strategy focuses on countries that boast large populations, possess adequate infrastructures, and welcome business from foreign-owned companies. Looking ahead, Yakult is aiming to increase the new company's production capacity fourfold by the middle of 2003 and establish four more factories in China in the future.

In Australia, dedicated sales activities increased consumers' familiarity with Yakult products throughout the country. P.T. Yakult Indonesia Persada, which became

Sales Quantity by Region



a subsidiary in December 2001, continued to demonstrate healthy sales, boosted by vigorous consumption attributable to the stabilization of economic conditions and the restoration of political order in Indonesia. The addition of this company to the scope of Group consolidation contributed significantly to the growth in sales in the Asian and Oceania regions, which jumped 43.7%, to ¥7.3 billion.

The Americas ● Yakult's operations in the Americas consist of production and sales of the fermented milk drink *Yakult* in Mexico, Brazil, and Argentina.

While our business in Mexico continued to post growth, continuing an impressive trend that has lasted for nearly seven years, intensive sales activities in Brazil were offset by a significant decrease in the value of the Brazilian real against the yen, as well as by weak economic conditions and intensified competition in that country, resulting in a drop in sales there. However, sales in the Americas increased 76.3%, to ¥23.2 billion, boosted largely by the addition of Yakult S.A. de C.V. (Mexico) to the scope of consolidation.

Europe ● In Europe, the fermented milk drink *Yakult* is manufactured and sold in the Netherlands, and sold in the United Kingdom, Germany, Belgium, and Luxembourg.

Overall sales volumes in this region continue to rise, as they have since Yakult commenced sales there. However, the recent boom in probiotics in Europe has led to the proliferation of competitors in the market. Sales activities to combat this trend included the introduction of *Yakult LT* in March 2002. The Company posted a 14.0% sales increase, to ¥7.8 billion, in this region.

In the fiscal year under review, the average daily sales of our mainstay product *Yakult,* which is manufactured and sold in 16 countries worldwide, amounted to 14.2 million bottles a day (as of March 2003).

STRATEGY AND OUTLOOK

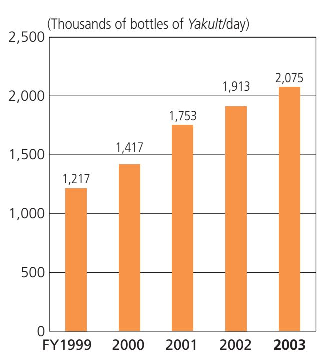
At present, test sales of fermented milk drink *Yakult* are under way in the United States (Los Angeles and New York), France, and Spain.

Asia and Oceania ● Our strategy in this region will focus on China in the coming years, where we expect to conduct further expansion. In fact, at this time, we are currently preparing to introduce our Yakult Lady system there. In addition, operations are planned to commence in Malaysia in 2003. Moreover, feasibility studies regarding expansion into Vietnam, India, and other Asian countries are currently under way.

The Americas ● While Yakult's policy of steady expansion continues to produce a strong sales performance in Mexico, the relative maturity of the Brazilian market has slowed sales of *Yakult*. In response, the Company plans to gradually diversify its product line there.

Europe ● In Europe, test sales of the fermented milk drink *Yakult* are being conducted in France and Spain, and we are conducting feasibility studies to explore the possibility of introducing the Company's products in other EU countries in order to capitalize on the popularity of probiotics in the region.

Sales Quantity in Mexico



Advance into Foreign Markets

Planned expansion	
Malaysia	Sales scheduled to commence in 2003
Test sales	
Brunei, United States (East and West coasts), Uruguay, Luxembourg, France, Spain	
Currently undergoing feasibility studies	
Vietnam, India, other Asian countries	Conducting local feasibility studies based on the assumption of market entry
Europe (especially EU countries)	Conducting local feasibility studies based on the assumption of market entry
Various countries in Latin America	Conducting local feasibility studies based on the assumption of market entry

Juices and Other Beverages

FISCAL 2003 ACTIVITIES

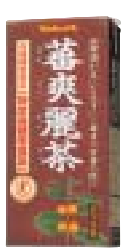
As in its business in dairy products, Yakult's juices and other beverages operations place a strong emphasis on functional drinks that have unique health benefits. To this end, in the year under review we rolled out several new products and continued to strengthen our product lineups and marketing activities for existing products.

In recent years, various factors—including changes in eating habits, lack of exercise, and increased mental stress—have led to the proliferation of so-called "lifestyle" diseases—diseases that are the indirect result of modern lifestyles. One such condition is hyperlipidemia, more commonly known as high blood cholesterol and largely the result of excessive fat intake and lack of exercise. Approximately 50% of Japanese adults have or are at risk of this condition. In response to this trend, Yakult developed *Renefa,* a drink that contains globin protein hydrolysate, a substance that controls a rise in serum triglyceride levels after meals. *Renefa,* launched in March 2003, has been granted permission by the Health, Labour and Welfare minister to bear the Food for Specified Health Uses mark in recognition of its health benefits. A sales target of 1.5 million bottles in fiscal 2004 has been set for *Renefa,* and the Company plans to devote efforts to fostering the drink's growth with the expectation that it will become a Yakult mainstay product.

Kurozu (Black Vinegar) Drink, launched in select markets in September 2002, features black vinegar that has fermented and aged for over a year and contains honey and plum juice. Black vinegar is believed to facilitate relief from fatigue and stimulate appetite and may improve fat metabolism as well. Also introduced in the year under review were *Ocha,* in 280ml PET bottles, and *Coffee Time Rich Café.*

In addition to launching new products, we continued to nurture existing products, particularly functional drinks. *Bansoreicha,* a sugar-free tea drink made from guava leaves introduced in 1998, is one such product. The polyphenol in the tea leaves has been found to control increases in blood sugar after meals, and the product has experienced exponential growth since this effect was recognized by the Minister of Health, Labour and Welfare and gained approval to bear the mark of a Food for Specified Health Uses. Due to the rapid increase in products targeting individuals who are concerned about high blood sugar levels, we added a new *Bansoreicha* 1,000ml paper carton product to the series in April 2003, mainly for sale to volume retailers.

We also took measures to enhance the variety of sizes in the product lineup of *Lemorea,* a relaxation-inducing



Bansoreicha
(1,000ml carton)
The polyphenol in the guava leaves controls increases in blood sugar after meals.

Itawaricha
A health tea with the seaweed derivative fucoidan

Lemorea
(280ml PET bottle)
A refreshing and relaxation drink with a combination of lemon juice and seven herb extracts

Renefa
The globin protein hydrolysate controls a rise in serum triglyceride levels after meals.

Hiline
Contains galacto-oligosaccharide and dietary fiber, which promote a healthy digestive tract

drink with a combination of lemon juice and herb extracts launched in June 2001 to deliver refreshment and relaxation to businesspeople, students, and others who feel overburdened. Vigorous marketing activities that included the use of television commercials and other advertising were complemented by efforts to expand sales with the introduction of a 280ml PET bottle of *Lemorea* in response to the demand for a smaller size from women, who make up the majority of the drink's loyal fans. Also in April 2001, the product's package design was changed to better emphasize its active ingredient, teanin.

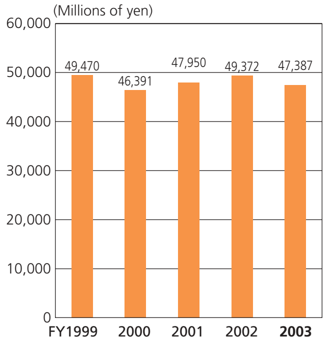
FISCAL 2003 REVIEW

Against this backdrop, net sales edged down in the period under review. Although sales of *Bansoreicha* remained strong, this did not serve to compensate for the effects of ever-intensifying competition in the market for functional beverages with health benefits as well as prolonged weak consumption due to uncertainty in the economy.

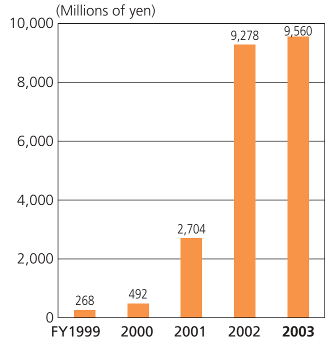
STRATEGY AND OUTLOOK

In fiscal 2004, we will continue to concentrate on marketing and improving products that have health benefits. In particular, we plan to focus on those that target the rapidly growing middle-aged and elderly population. One such product, *Itawaricha,* a sugar-free tea drink launched nationwide in June 2003, is expected to follow the path carved out for such drinks by *Bansoreicha.* This newcomer to the Yakult product lineup contains a substance called fucoidan found in Okinawa *mozuku* seaweed. *Itawaricha* is a noncaloric, noncaffeine health tea that is easy to drink. The market for sugar-free tea beverages is still exhibiting considerable growth, and health teas are expected to show strong growth within this category as products with a positive impact on people's health become increasingly popular among consumers. As its second health tea after *Bansoreicha,* Yakult expects *Itawaricha* to round out its product lineup in the sugar-free tea market and has set a sales target of 20 million bottles for the product's first year on the market.

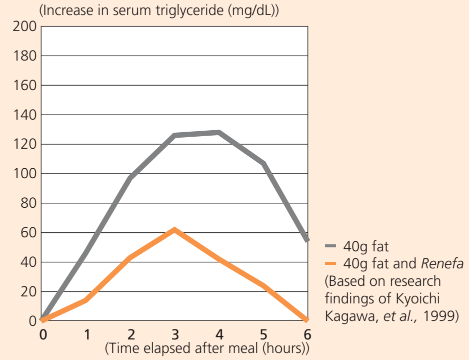
Sales of Juices and Other Beverages (Non-Consolidated Basis)



Sales of *Bansoreicha* (Non-Consolidated Basis)

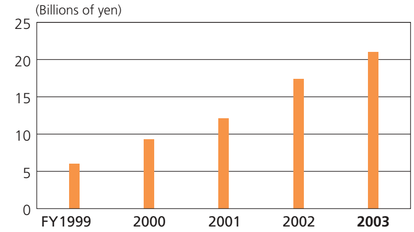


Effect of *Renefa* on Serum Triglyceride Levels when Ingested after Meals



PHARMACEUTICALS

Sales of Pharmaceuticals



FISCAL 2003 ACTIVITIES

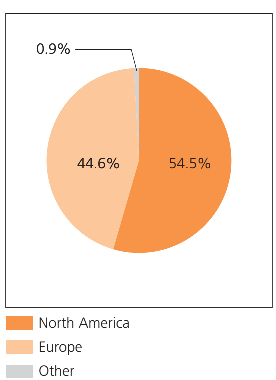
Yakult's pharmaceuticals research focuses on the development of new anticancer drugs, which has largely fueled its success in this highly competitive market. The principal product of our pharmaceuticals operations is *Campto (Camptosar* in the United States), an innovative anticancer drug introduced first in Japan in April 1994. *Campto* is chemically derived from a plant alkaloid, camptothecin, and is approved to treat nine different types of cancer in Japan. In the United States and Europe, it has been approved as first-line and second-line treatments of colorectal cancer and is now used to treat other types of cancer. At present, *Campto* is undergoing clinical testing in Japan to expand its indications to include pancreatic cancer, what would be its 10th indication. In the year under review, clinical testing for pancreatic cancer is ongoing in Japan, and the application process is to be completed in 2004. In the United States and Europe, tests are under way to expand the drug's indications to include small-cell lung cancer, stomach cancer, and pancreatic cancer. A study conducted by the Japan Clinical Oncology Group found that, when *Campto* was used in combination with other drugs in the conventional treatment of small-cell lung cancer, it was significantly effective in prolonging survival. Similar tests are under way in the United States and Europe, where application for approval is expected to take place in 2004. Finally, efforts to gain approval for the treatment of stomach cancer are advancing, particularly in Europe, where the Phase III trial has been completed.

FISCAL 2003 REVIEW

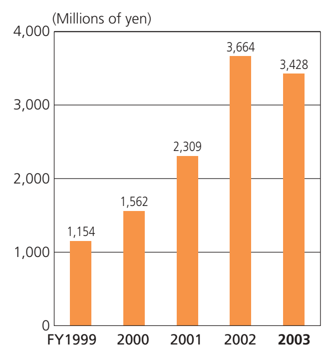
In fiscal 2003, sales by the pharmaceuticals business continued to soar, rising 20.9% year on year, to ¥21.0 billion. This stellar performance was primarily attributable to strong worldwide demand for *Campto,* which accounted for 93% of sales in this industry segment. Strong bulk shipments of *Campto* overseas enabled sales to climb 25.2%, to ¥17.3 billion, while domestic sales of *Campto* leaped 31.5%, to ¥2.2 billion.

Campto

Breakdown of Overseas Sales of *Campto* by Region



Campto Royalty Income



STRATEGY AND OUTLOOK

Anticipating future trends and investing in new drug discovery play crucial roles in boosting competitiveness in the pharmaceuticals industry. We moved ahead with the approval process for *Oxaliplatin,* a new drug for the treatment of colorectal cancer. We plan to apply for approval in 2004. The drug could be used in combination with *Campto,* and its approval is anticipated to translate into a rise in sales of *Campto* as well.

Expansion of *Campto* Applications and Development Pipeline

1. Expansion of Applications of *Campto*

	Indications	Stage	Date of application	Remarks
Japan	Pancreatic cancer	Phase II (commenced April 2001)	Application scheduled for fourth quarter of fiscal 2004 (planned, approval expected within one year)	
Pfizer (Pharmacia)	Pancreatic cancer	Phase III completed	Fiscal 2003 (scheduled) (*1)	First-line treatment in combination with Gemcitobine
	Stomach cancer	Phase III	Scheduled to apply incorporating Aventis data	Second-line treatment in combination with 5-FU
	Lung cancer (small cell carcinoma)	Phase III	Undecided	Using JCOG data (*2)
	Childhood cancer	Submitted proposal April 2003	—	Submitted for priority view (six months)
	Breast cancer (oral form)	Phase I completed	Application scheduled for fourth quarter of fiscal 2004 (*1)	Second-line treatment
Aventis	Colon cancer (adjuvant therapy)	Phase III	Approval in fiscal 2004 (*1) (scheduled)	Prevents recurrence
	Stomach cancer	Phase III	Application scheduled for third quarter of fiscal 2003 (approval expected within one year) (*1)	First-line treatment in combination with 5-FU/FA (*3)
	Lung cancer (small cell carcinoma)	Phase III	Undecided	Using JCOG data (*2)

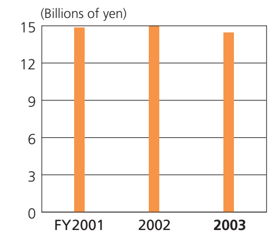
*1: The fiscal years of Pfizer (Pharmacia) and Aventis cover the one-year period from January 1 to December 31.
*2: Japan Clinical Oncology Group
*3: Folic acid

2. Development Pipeline

Product	Indications	Licensor	Joint development partner	Stage	Remarks
Oxaliplatin	Colorectal cancer	Debiopharm S.A. (Switzerland)	Independent development	Phase II, plan to apply for approval in fiscal 2004	Could be combined in future with *Campto*
FEMIEST	Osteoporosis	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Phase II completed, development on hold	Development was on hold due to data from Phase III trials indicating that risks arising from long-term hormone replacement therapy outweighed the benefits of taking the drug.
E_2/NETA patch	Post-menopausal symptoms	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Preparing for Phase III	—
	Osteoporosis	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Phase II completed, development on hold	—

OTHERS

Sales of Others



Cosmetics

FISCAL 2003 ACTIVITIES

While most people associate Yakult with its fermented milk drinks, Yakult's products are not limited to those that promote health internally. Company lore holds that Yakult began to investigate the cosmetic benefits of its products after it was discovered that employees who were involved in the production of fermented milk drink *Yakult* boasted unusually beautiful hands. Yakult's cosmetics operations applied its proprietary biotechnology to premium cosmetics to boost skin health from the inside out, thereby complementing the internal health benefits of its beverages.

In the period under review, we enhanced our existing product series with a number of new products while continuing to strive to attract customers to their unique functions. In February 2003, we introduced a total of 11 new items and added new color variations to the *Grantia* series of makeup products that incorporate beneficial skin care agents, including *Natural S.E. Liquid* and hyaluronic acid. The addition of these new products aims to enhance the series by meeting demand for special products that reflect seasonal differences and new trends in makeup.

During a nationwide launch in May 2002, we added *Revecy-N Conditioning Milk,* a product that restores suppleness to the skin, to the *Revecy-N* series of skin care products, which feature *Dual Moisture Balance,* an agent that promotes skin metabolism.

Also in May 2002, the Company introduced its third summer trial set of six *Revecy-N* products to enable customers to test their effectiveness.

The *Parabio* series, which contains LS-1, a moisturizing agent that penetrates beneath the surface of the skin to supplement intercellular lipid, underwent a face-lift and was relaunched in October 2002 with new package designs that make them easier to use. The line's elegant new look evokes the image of high-end cosmetics.

In addition to rolling out new products, the Company continued to increase the number of Cosmetic Yakult Ladies as the number of Yakult Beauty Advisors declines. This group of salespeople, who number 11,000, constitutes the main force in sales of Yakult cosmetics and

Bi-Cycle Lifting Essence

Skin care products

Grantia series

conducts sales through home visits. The Cosmetic Yakult Lady system closely resembles the Yakult Lady system, with Cosmetic Yakult Ladies reporting to a center manager every day and receiving training and support from the Company to maximize sales through better management and control of its sales force. The home esthetique treatments that they offer customers enable them to provide customers with a relaxed and enjoyable atmosphere while teaching them about the unique benefits of Yakult cosmetics. In addition to Yakult Beauty Advisors and Cosmetic Yakult Ladies, Yakult Ladies sell certain Yakult cosmetics, such as *Medicated Hand Gel,* the first product in the new *Poshmama* series, which targets working mothers.

In addition to offering esthetique treatments that customers can enjoy in their own homes, Yakult offers luxurious professional esthetique treatments that are performed in its esthetique salons. With our Home Esthetique service, customers can receive esthetique treatments without leaving the relaxing atmosphere of their own homes at very affordable rates.

Because Yakult cosmetics are sold through home visits, some customers do not know where to purchase them. Accordingly, Yakult has stepped up its advertising in magazines and newspapers. Other marketing activities included a campaign in which we handed out free samples that included a toll-free number at which customers can place orders for our products.

FISCAL 2003 REVIEW

As a result of the aforementioned measures, sales of our key skin care products increased in the year under review. This was primarily attributable to increased revenues resulting from the introduction of new products—*Bi-Cycle Lifting Essence,* the *Grantia* series, and the *New Parabio* series—introduced in fiscal 2001 and fiscal 2002.

STRATEGY AND OUTLOOK

One of the cosmetics operations' management issues is its sales structure. While home visits are a crucial element in Yakult's cosmetics sales, just as with the Yakult Lady system, the proliferation of working women and other societal changes has limited the number of customers who can be reached solely through home visits. In response to this trend, Yakult has begun mail-order sales on a trial basis and has made it possible to order Yakult cosmetics on-line or over the telephone. In the future, we will enhance our lineup of products to meet customer needs and consider new sales methods, with the aim of increasing sales.

Natural S.E. Liquid's formula closely resembles the skin's own natural moisturizing factor (NMF), maintaining moisture, preventing the oxidation of sebum, and maintaining a low pH.

B.E. Liquid incorporates an agent that is a by-product of fermented soy milk containing isoflavones that raises the skin's hyaluronic acid content to retain suppleness and resilience while preventing sagging and wrinkles.

Number of Yakult Beauty Advisors

FY	1999	2000	2001	2002	**2003**
	14,300	13,600	12,400	11,600	**11,000**

Environment and Community Activities

The Yakult Group takes environmental conservation into consideration in all corporate activities in recognition of the fact that protecting the environment is an essential element in sustainable development that is in harmony with society.

Environmental Activities

ENVIRONMENTAL MEASURES

Yakult takes care to consider the environmental impact of every facet of its business activities. As a company that is founded on the principles of good health and preventive medicine, Yakult has a commitment to reducing the impact of its business activities on the environment and contributing to making the world a safer and more comfortable place to live. In light of this commitment, we stepped up our endeavors in environmental preservation in 1991 with the establishment of the Environmental Measures Council, which establishes environmental policy throughout the Yakult Group. Further, in 1997, we established Yakult's Basic Policy on the Environment to establish concrete and multifaceted initiatives to save energy and resources and reduce waste. Raising the bar even higher, in 1999, we expanded our environmental policy organization to include Yakult branches, the Central Institute, and nationwide sales companies as well as are pushing forward with the creation of an environmental management system. All of our 12 plants, as well as the Central Institute for Microbiology Research, had acquired ISO14001 certification during the fiscal under review.

Yakult began recycling activities in 1970, more than 30 years ago, even before environmentally conscious business activities became the standard. Yakult's first environmental initiative was the recycling of plastic *Yakult* bottles collected by Yakult Ladies. At present, they are recycled to make construction materials and audio goods boxes. *Yakult* bottles are also used in a unique wastewater purification system. A variety of microbes live on the inner and outer surfaces of bottles whose bottoms have been removed, forming a bio-film that feeds on the organisms that are the cause of contamination in the water housed in the tank. This system is employed to treat wastewater at Yakult factories as well as ponds and rivers. In addition, we have turned to thinner, more lightweight drink containers, particularly those for our beverages, to save resources and reduce waste generated by the consumption of our products. In logistics, we are working to reduce CO_2 emissions by driving at economical speeds and encouraging drivers of Company vehicles to turn off the vehicle's engine immediately after coming to a stop. At the sales stage, we are energetically working to install energy-saving vending machines that use CFC-substitute coolants and do not use electricity for cooling during the peak period of energy demand of 10:00 A.M. to 1:00 P.M. Also, the Company has published an environmental report since fiscal 2000.

Yakult introduced environmental accounting in 2001 and plans to use cost performance evaluations of its environmental protection activities to improve their efficiency and reduce their cost.

Community Activities

VISITATION PROGRAM FOR SENIOR CITIZENS

In 1972, a Yakult Lady in Koriyama began voluntarily visiting elderly citizens living alone while making home visits to customers to chat with them and check on their safety and well-being after hearing the story of a senior citizen who had died with no one by his side. After one of Yakult's sales companies learned about the voluntary visits, they became a corporate activity, eventually expanding to cover the entire country. Since then, Yakult's services have grown to include 320 local governments, with approximately 6,700 Yakult Ladies paying regular visits to 87,000 senior citizens throughout Japan (as of March 2003). This program has been awarded several honors, including the 7th Special Koho Award for Excellence as a Corporation from the Keizai Koho Center (Japan Institute for Social and Economic Affairs) in 1991, the First Japan Life and Culture Grand Prize from the Japan Fashion Association in 1992, and the Minister of Health and Welfare Award for distinguished volunteer service in 1994.

HEALTH EDUCATION AND CULTURAL ENRICHMENT

In keeping with its desire to promote preventive medicine and good health, Yakult works to disseminate health-related information with such activities as the publication of magazines and documents and the creation of videos that provide information related to various aspects of health science as well as academic symposiums.

In addition, we host a variety of cultural events at Yakult Hall.

PROMOTING THE ENJOYMENT OF SPORTS

Yakult owns the *Yakult Swallows,* a professional baseball team in Japan's Central League. We hold *Yakult Swallows* baseball clinics for schoolchildren, where they receive advice and coaching from professional players.

ENVIRONMENTAL ACCOUNTING

Environmental Preservation Costs

(Millions of yen)

Cost	Principal measures	Investment	Expenses	Total
(1) Business Area Costs				
1. Pollution control costs	Maintenance and management of water-processing facilities and boiler, cooler repair, operation of deodorizing equipment, promotion of electric cars, etc.	27.2	192.2	219.4
2. Environmental protection costs	Boiler system construction, energy-saving measures for chilled pumps, measures to conserve energy used by the vaporizing system, measures to conserve energy used by the air-conditioning system, recovery and replacement of CFCs, etc.	7.6	3.2	10.8
3. Recycling costs	Use of delivery cars for the recovery of empty containers, waste processing, proper disposal of vending machines, etc.	81.5	109.1	190.6
(2) Upstream and Downstream Costs	Reuse of revamped vending machines, consignment of recycling in accordance with Containers and Packaging Recycling Law, crushing and processing of recovered plastic containers	2.2	242.3	244.5
(3) Management Activity Costs	ISO 14001 acquisition, employee training, environmental protection campaigns, analysis and measurement of waste, water quality measurement, etc.	0.3	103.1	103.4
(4) R&D Costs	Rationalization of packaging, use of easy-peel caps on dairy products, use of thinner 500ml PET bottles	0.0	1.8	1.8
(5) Community Activity Costs	Placement of flower beds, beautification activities, creation of environmental report, fees for membership in environmental groups, etc.	0.0	14.0	14.0
(6) Environmental Damage Costs		0.0	0.1*1	0.1
Total		118.8	665.8	784.6

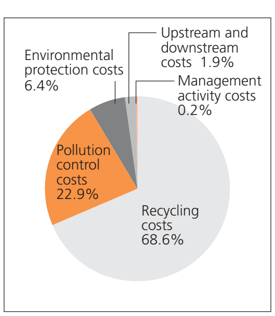
*1: Due to an incident in which a vehicle's gas tank was damaged going over a sewer grate in front of the entrance to the Kyoto Factory, the Company recorded expenses related to the purchase of oil mats and other necessary measures to prevent diesel oil from leaking into the sewage system.

Economic Effect of Environmental Protection Measures

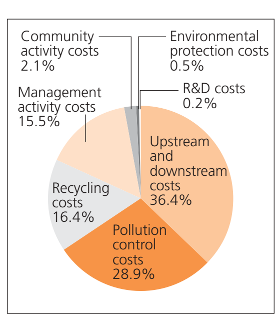
(Millions of yen)

Effect	Amount	Effect	Amount
Reduction in waste-processing costs resulting from recycling	0.7	Cost reductions from shift to lightweight containers and packaging	9.1
Income from recycling	2.5	Cost reductions from reuse of revamped vending machines	1,082.8
Cost reductions from energy saving	13.9	Other	0.0
Cost reductions from resource saving	6.2		
Total			1,115.2

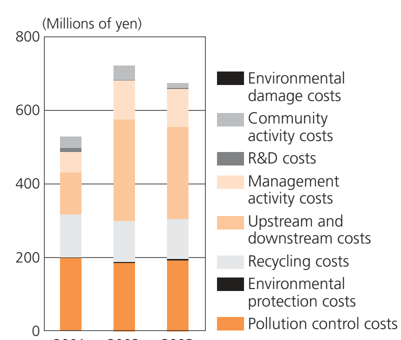
Breakdown of Investment



Breakdown of Expenses



Movement in Breakdown of Expenses



Financial Section

Contents

Consolidated Five-Year Summary

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries   Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2003	2002	2001	2000	1999	**2003**
For the year:						
Net sales	**¥242,740**	¥229,623	¥224,795	¥211,279	¥216,780	**$2,022,836**
Selling, general and administrative expenses	**109,116**	105,774	102,353	92,978	96,173	**909,304**
Operating income	**21,619**	13,071	16,107	14,834	14,382	**180,154**
Net income	**14,383**	11,108	10,537	8,084	12,290	**119,861**
Research and development costs	**5,801**	5,167	4,676	4,633		**48,342**
Capital investments	**10,166**	5,944	8,911	8,882		**84,717**
Depreciation and amortization	**8,348**	8,014	8,041	7,950	7,770	**69,568**
At the year-end:						
Total assets	**¥276,203**	¥269,094	¥242,247	¥235,454	¥220,886	**$2,301,695**
Net property, plant and equipment	**85,156**	87,798	82,805	79,500	80,618	**709,631**
Total liabilities	**87,959**	85,288	74,861	70,428	93,533	**732,994**
Total shareholders' equity	**174,827**	168,033	158,450	152,104	114,978	**1,456,891**
	Yen					U.S. dollars
Per share of common stock:						
Basic net income	**¥ 80.88**	¥ 63.20	¥ 60.00	¥ 46.05	¥ 70.05	**$0.67**
Total shareholders' equity	**995.51**	956.18	901.62	865.81	655.63	**8.30**
Cash dividends per share	**15**	15	15	22.5	7.5	**0.13**
Financial ratios:						
Return on equity (ROE) (%)	**8.4**	6.8	6.8	6.1	11.8	
Equity ratio (%)	**63.3**	62.4	65.4	64.6	52.1	

Notes: 1. Figures for 1999 and 2000 have been rounded down to the nearest million.
2. Figures for 2001, 2002 and 2003 have been rounded to the nearest million.
3. U.S. dollar amounts are included, solely for the convenience of readers, at the rate of ¥120 to U.S.$1, the approximate rate of exchange at March 31, 2003.

Management's Discussion and Analysis

Overview

In fiscal 2003, ended March 31, 2003, although there were signs in the first half of the year that the Japanese economy had bottomed out, including increases in exports and production by corporations as well as an upturn in personal consumption, in the second half of the year, the combined factors of protracted deflation, an unstable financial system, and sluggish stock prices resulted in an ongoing recession.

Against this backdrop, the Yakult Group adhered to a policy of promoting healthy living in the 21st century and developing activities to enlighten consumers about and popularize probiotics, the foundation of its business. In addition to promoting the benefits of its products, the Group strove to enhance its sales organization, conducted R&D on new products, and bolstered its production facilities in the pursuit of a better performance.

These activities enabled the Company to raise net sales 5.7%, to ¥242.7 billion, operating income 65.4%, to ¥21.6 billion, and net income to ¥14.4 billion, up 29.5% from the previous fiscal year. The principal reason for the increases was the inclusion of Yakult S.A. de C.V. (Mexico), Corporacion Vermex S.A. de C.V., Distribuidora Yakult Guadalajara S.A. de C.V., and P.T. Yakult Indonesia Persada in the scope of consolidation, which were accounted for under the equity method through fiscal 2002.

Results of Operations

Net Sales

Net sales rose 5.7%, or ¥13.1 billion, to ¥242.7 billion. The principal reason for the rise was a ¥10.0 billion increase in revenues from the Food and Beverages business, whose sales reflected the contribution of Yakult Mexico and three other companies, which became subsidiaries at the end of fiscal 2002, but were accounted for by the equity method through fiscal 2002 and included in the scope of consolidation in the year under review. The Pharmaceuticals business posted a ¥3.6 billion increase in sales, while sales by the Others business dropped ¥0.6 billion. Looking at the makeup of sales by industry segment, Food and Beverages accounted for 85.4% of consolidated net sales, compared with 85.9% in the previous fiscal year; Pharmaceuticals accounted for 8.7%, compared with 7.6% in the previous fiscal year; and the Others business made up 5.9% of net sales, compared with 6.5% in the previous fiscal year. Overseas sales rose 39.2%, to ¥57.4 billion, increasing their proportion of consolidated net sales from 18.0% to 23.6%.

Sales by Business

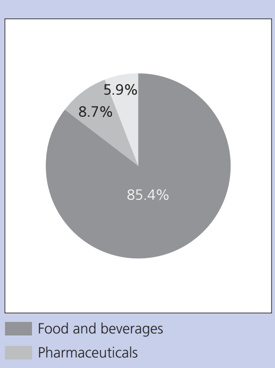
Food and Beverages: Sales by the Food and Beverages business rose 5.1%, to ¥207.3 billion. The addition of sales from Yakult Mexico and three other companies that resulted from their inclusion in the scope of consolidation in fiscal 2003 constituted the primary factor in the rise. With our dairy products, we continued to develop Companywide probiotics activities designed to promote Yakult's *Lactobacillus casei* strain Shirota as well as its role as a pioneer in the field of probiotics; also, we worked to expand our sales organization and strengthen sales initiatives. Mainstay fermented milk drink *Yakult 400* demonstrated strong growth, far exceeding its fiscal 2002 performance. In addition, soft-type yogurt *Purela,* whose sales were expanded nationwide in fall 2002, enjoyed popularity with customers and enjoyed higher sales, while hard-type yogurt *Sofuhl* saw strong growth in the market for yogurts with health benefits.

All of Yakult's dairy products have received approval from the Ministry of Health, Labour and Welfare to bear the Food for Specified Health Uses mark on their packaging.

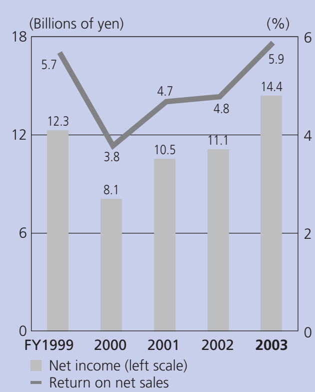
Yakult's overseas operations commenced in March 1964 with non-consolidated subsidiary Yakult Co., Ltd. (Taiwan) and have grown to include bases in 16 countries and regions, and 22 including those in which test sales are being conducted. These operations focus primarily on the production and sales of the fermented milk drink *Yakult*. Daily average *Yakult* sales reached approximately 14.2 million bottles as of March 2003. In China, we launched sales in Guangzhou Province in June 2002 and followed up this development with the commencement of sales in Shanghai in January 2003.

In Juices and Other Beverages operations, we promoted vigorous sales activities focused on functional foods. Among them, *Bansoreicha* and *Hiline,* two Food for Specified Health Uses products, as well as *Lemorea,* a beverage designed to induce

Breakdown of Net Sales



Return on Net Sales and Net Income



relaxation, demonstrated sales growth. *Kurozu Drink,* which is being sold in select areas and responds to the trends toward natural ingredients and health-enhancing products, and *Renefa,* a drink launched in March 2003 that controls a rise in serum triglyceride levels after meals, both earned a favorable reception from consumers. However, the overall market for this business was difficult, reflecting sluggishness in consumption.

Pharmaceuticals: Sales by the Pharmaceuticals business rose 20.9%, to ¥21.0 billion. In this field, we concentrated efforts on increasing sales of anticancer drug *Campto.* This drug has been approved in the United States and Europe for use in the first-line and second-line treatment of colorectal cancer and is sold worldwide through a sales network that includes licensing contracts with Pharmacia and Aventis. At present, overseas sales expansion is proceeding smoothly, with clinical testing to expand the drug's indications to include lung cancer and stomach cancer moving forward in the United States and Europe.

As the result of domestic sales activities focused on *Campto,* in the period under review, sales of the drug in Japan rose 31.6%. Clinical testing to expand the drug's indications is currently under way. We are also striving to increase sales of post-menopausal symptoms treatment *FEMIEST; SPHEREX,* an agent for the treatment of arterial embolisms in medical devices; and *Calorian,* a nutritional liquid food for hospital use. In addition, with such activities as the transfer of sales of chemotherapy agent and adrenocortical hormone synthesis inhibitor *Opeprim* from Aventis, which proceeded smoothly, we strove to further specialize in oncology and expand our sales channels.

Others: Sales by the Others business edged down 3.7%, to ¥14.4 billion. This business encompasses Yakult's cosmetics as well as its professional baseball team.

In cosmetics operations, the Company worked to attract customers to the functions of *Natural S.E. Liquid,* a moisturizing agent developed from lactobacilli, and *B.E. Liquid,* an anti-aging agent derived from the use of bifidobacteria in the fermentation of soy milk, as well as endeavored to enhance customer service that employs esthetique treatments.

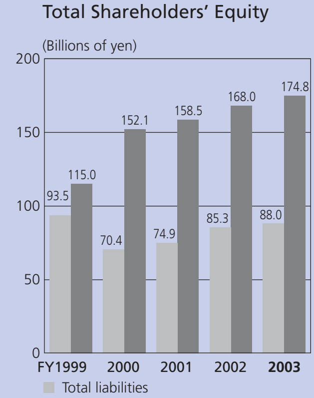
In addition to relaunching the *Parabio* series of skin care products, we expanded sales activities focused on *Bi-Cycle Lifting Essence,* which incorporates *B.E. Liquid,* raising sales of mainstay skin care products. We also worked to strengthen sales with product additions to the *Grantia* series of cosmetics and the launch of *Poshmama Medicated Hand Gel.* However, overall sales by this segment were slightly down from fiscal 2002.

Costs, Expenses, and Earnings

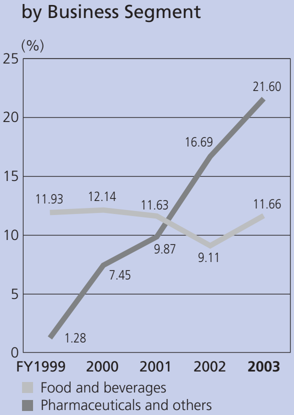
Cost of sales rose 1.1%, to ¥112.0 billion, falling short of the 5.7% rise in net sales. Consequently, the gross profit on consolidated net sales rose 10.0%, to ¥130.7 billion, and the gross profit margin increased 2.1 percentage points, from 51.8% to 53.9%. Selling, general and administrative expenses rose 3.2%, to ¥109.1 billion. As a result, operating income rose 65.4%, or ¥8.5 billion, to ¥21.6 billion, primarily due to the addition of income from Yakult Mexico and three other companies in the consolidated financial statements after inclusion in the scope of consolidation at the end of fiscal 2002. Looking at the proportion of operating income by industry segment, the Food and Beverages business accounted for 75.9% of operating income, compared with 76.9% in fiscal 2002; the Pharmaceuticals business accounted for 24.8%, compared with 22.3%; and the Others business accounted for -0.8%, compared with 0.9%. Although the proportion of operating income by industry segment did not change dramatically, the Company's dependence on revenues from the Pharmaceuticals business is climbing somewhat.

Other income (expenses) declined ¥0.3 billion, to income of ¥4.3 billion. The decrease stemmed from the inclusion of Yakult Mexico and three other companies in the scope of consolidation and the resulting reduction in royalty income and capital returns under the equity method. Profit on foreign exchange rates for assets and debts recorded in foreign currencies by the Company's overseas subsidiaries as well as a decrease in the unrealized loss on investment securities had a cumulative upward influence on other income (expenses). As a result, income before income taxes and minority interests jumped 46.5%, to ¥25.9 billion.

Total Liabilities and
Total Shareholders' Equity



Operating Margin
by Business Segment



Income taxes as a percentage of income before income taxes and minority interests, which is recorded under provision for income taxes, remained lower than the 42.1% effective tax rate, but rose to 37.4%, compared with 35.5% in fiscal 2002. A decline in capital returns from the equity method was the primary reason for the rise. As a result, net income rose 29.5%, to ¥14.4 billion, while the profit margin rose 1.1 percentage points, from 4.8% to 5.9%. Return on equity was at 8.4%, up 1.6 percentage points from fiscal 2002.

Capital Investments and R&D

Capital investments rose 71.0%, to ¥10.2 billion. Although it appears that spending skyrocketed, this simply reflects a return to normal levels after a temporary slowdown in capital investments in the dairy products business in fiscal 2002, when the business was in between periods of major capital investments. A significant amount of capital investments was used for production facilities for soft-type yogurt *Purela.*

R&D costs—which are charged to selling, general and administrative expenses—rose 12.3%, to ¥5.8 billion. The ratio of R&D costs to consolidated net sales rose from 2.3% in fiscal 2002 to 2.4%.

Financial Position

Total assets at year-end were up 2.6%, or ¥7.1 billion, from fiscal 2002 year-end, to ¥276.2 billion. The rise was primarily concentrated in the parent company. A ¥10.0 billion rise in current assets was mainly due to a ¥16.6 billion rise in cash and cash equivalents stemming from an increase in cash flows from operating activities. Property, plant and equipment slipped ¥2.6 billion, primarily due to fluctuations in the exchange rate that resulted in a reduction in assets held by overseas subsidiaries. Turning to investments and other assets, although investment securities rose ¥1.8 billion, deferred tax assets and other assets dropped ¥4.0 billion. The absence of carryforwards of losses for tax purposes was the principal reason for the decrease.

On the other side of the balance sheet, liabilities edged up 3.1%, or ¥2.7 billion, to ¥88.0 billion. A considerable part of the increase was due to a ¥5.9 billion rise in reserves for retirement benefits stemming from the amortization of a discrepancy arising from a change in accounting standards. On the other hand, short-term bank loans and the current portion of long-term debt combined to fall 14.4%, or ¥2.2 billion; alone, long-term debt fell 7.0%, or ¥0.4 billion, further reducing the Company's already low dependence on interest-bearing debt.

Shareholders' equity increased 4.0%, or ¥6.8 billion, to ¥174.8 billion. Despite an increase in retained earnings, a reduction in an account for adjustments for exchange rates limited the net increase in shareholders' equity. As a result, the equity ratio edged up only 0.9 percentage point, from 62.4%, to 63.3%, and the debt-to-equity ratio dipped 2.0 percentage points, from 12.5% to 10.5%. Although interest-bearing debt totaled ¥18.3 billion, because cash and cash equivalents came to ¥78.4 billion, looking at net liabilities, which are calculated by deducting the amount of liquidity on hand from debts, the Company achieved "debtless" operations.

Regarding asset profitability, return on equity rose 1.6 percentage points, from 6.8% to 8.4%, and return on assets was up 2.9 percentage points, from 4.9% to 7.8%. This reflects the further fortification of the Company's already solid financial position, which resulted in higher asset profitability.

Cash Flows

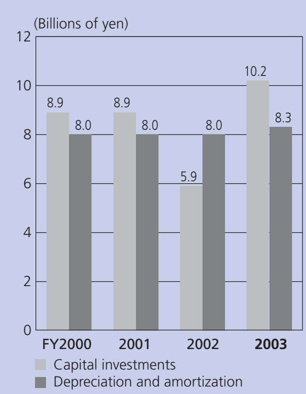
Cash flows from operating activities increased ¥8.4 billion, to ¥33.0 billion. This was mainly attributable to the contribution of cash flows from Yakult Mexico and three other companies resulting from the inclusion of such companies in the scope of consolidation from fiscal 2003.

Cash flows used in investing activities came to ¥7.3 billion, reflecting a ¥1.7 billion increase in outflows compared with fiscal 2002. This was primarily due to increases in purchases of property, plant and equipment and the purchase of investment securities.

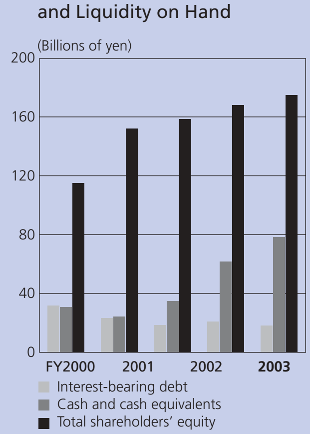
Cash flows used in financing activities decreased ¥0.9 billion, to total ¥5.3 billion. A reduction in the amount of dividends paid to minority shareholders was the main reason for the decline.

As a result, cash and cash equivalents at year-end totaled ¥78.4 billion, up ¥16.6 billion from fiscal 2002.

Capital Investments
and Depreciation and Amortization



Interest-Bearing Debt
and Liquidity on Hand



Dividends

Our basic policy is to maintain stable dividends and a dividend payout ratio of over 30%, as well as dividends of ¥15 per share. In doing so, we take into consideration the state of our internal reserves to be allocated for R&D investment and the renewal of production equipment to maintain a solid financial position.

In accordance with this policy, in the fiscal year under review, we paid dividends of ¥15 share. The payout ratio dropped 4.2 percentage points, to 35.5%, while dividends on equity remained on a par with fiscal 2002, at 1.9%.

Forward-Looking Statements

Food and Beverages

We will continue to carry out Companywide activities revolving around the dissemination of probiotics in our dairy products business, promoting education about and the popularization of the concepts of preventive medicine and the idea of a healthy intestinal tract being linked to a long life to expand our customer base. In 2003, the Yakult Lady system—the Yakult Group's unique home delivery system—celebrates its 40th birthday, which the Company views as an opportunity to further enhance its sales organization.

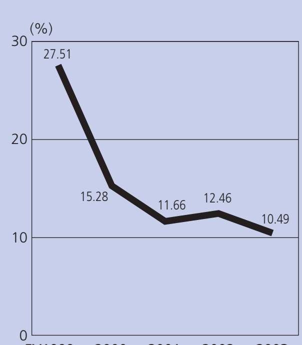
In Juices and Other Beverages, with Food for Specialized Health Uses at its core, we will strengthen sales promotion activities focused on functional foods as well as improve the direct sales routes of our sales companies and continue to expand our network of vending machines.

Overseas, there are still a number of promising markets, and, as the leading company in the field of probiotics, we plan to vigorously expand globally in the coming years. At present, we are pushing forward with preparations to commence sales in Malaysia in 2003.

Pharamaceuticals

In our business in pharmaceuticals, *Campto* is expected to continue to enjoy solid sales both in Japan and overseas, and overseas exports, in particular, are expected to experience strong growth. In Japan, we are developing sales activities that aim to multiply domestic sales of the drug.

Debt-to-Equity Ratio



Others

In the cosmetics business, we are working to enhance esthetique services and develop new products that realize high customer satisfaction. Moreover, we are developing new products that will attract new customers, fostering individual brands, and developing seasonal sales campaigns to invigorate sales, as well as improving education and training within the Company, at sales companies, and among Yakult Beauty Advisors, with an eye to raising our sales capabilities.

By employing the aforementioned activities and initiatives, in fiscal 2004, net sales are forecasted to grow 2.2%, to ¥248.0 billion, operating income is expected to dip 2.9%, to ¥21.0 billion, and net income is anticipated to drop 16.6%, to ¥12.0 billion. The temporary drop in net income is due to the absence of gains of exchange rate discrepancies as well as income from transactions involving players on our professional baseball team.

Forward-looking statements are based on information available at the time of their writing and carry potential risks and uncertainties. For this reason, unforeseeable circumstances may result in significant differences in forecasts and actual performance.

Consolidated Balance Sheets

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 78,391**	¥ 61,746	**$ 653,255**
Time deposits (Note 5)	**3,852**	8,265	**32,102**
Receivables:			
Notes and accounts receivable	**32,932**	35,148	**274,435**
Unconsolidated subsidiaries and associated companies	**3,060**	3,184	**25,498**
Other	**2,128**	2,315	**17,736**
Inventories (Note 3)	**22,732**	22,519	**189,434**
Deferred tax assets (Note 8)	**2,955**	1,911	**24,626**
Other current assets	**1,966**	2,735	**16,383**
Allowance for doubtful accounts	**(396)**	(247)	**(3,297)**
Total current assets	**147,620**	137,576	**1,230,172**
Property, plant and equipment:			
Land (Note 5)	**30,047**	29,194	**250,394**
Buildings and structures (Note 5)	**69,721**	69,887	**581,006**
Machinery, equipment and vehicles	**74,391**	73,785	**619,922**
Furniture and fixtures	**13,620**	15,218	**113,496**
Construction in progress	**280**	1,842	**2,336**
Total	**188,059**	189,926	**1,567,154**
Accumulated depreciation	**(102,903)**	(102,128)	**(857,523)**
Net property, plant and equipment	**85,156**	87,798	**709,631**
Investments and other assets:			
Investment securities (Note 4)	**4,630**	2,816	**38,586**
Investments in and advances to unconsolidated subsidiaries and associated companies	**11,025**	8,907	**91,873**
Long-term loans	**825**	870	**6,875**
Goodwill	**879**	1,093	**7,329**
Deferred tax assets (Note 8)	**14,156**	17,518	**117,966**
Other assets	**11,912**	12,516	**99,263**
Total investments and other assets	**43,427**	43,720	**361,892**
Total	**¥276,203**	¥269,094	**$2,301,695**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 12,372**	¥ 14,329	**$ 103,097**
Current portion of long-term debt (Note 5)	**753**	1,007	**6,276**
Payables:			
Notes and accounts payable	**25,502**	29,218	**212,514**
Unconsolidated subsidiaries and associated companies	**187**	160	**1,559**
Other	**4,081**	2,984	**34,013**
Income taxes payable	**3,746**	1,557	**31,218**
Accrued expenses	**10,178**	9,139	**84,818**
Deferred tax liabilities (Note 8)	**1,143**	1,843	**9,523**
Other current liabilities	**3,764**	4,805	**31,363**
Total current liabilities	**61,726**	65,042	**514,381**
Long-term liabilities:			
Long-term debt (Note 5)	**5,207**	5,599	**43,391**
Liability for retirement benefits (Note 6)	**18,379**	12,399	**153,163**
Deferred tax liabilities (Note 8)	**1,707**	1,386	**14,223**
Other long-term liabilities	**940**	862	**7,836**
Total long-term liabilities	**26,233**	20,246	**218,613**
Minority interests	**13,417**	15,773	**111,810**
Shareholders' equity (Notes 5, 7 and 11):			
Common stock—authorized, 700,000,000 shares; issued, 175,910,218 shares in 2003 and 2002	**31,118**	31,118	**259,314**
Capital surplus	**40,661**	40,649	**338,840**
Retained earnings	**109,345**	97,285	**911,212**
Unrealized gain on available-for-sale securities	**340**	326	**2,834**
Foreign currency translation adjustments	**(6,310)**	(1,221)	**(52,584)**
Total	**175,154**	168,157	**1,459,616**
Treasury stock—at cost, 305,104 shares in 2003 and 175,396 shares in 2002	**(327)**	(124)	**(2,725)**
Total shareholders' equity	**174,827**	168,033	**1,456,891**
Total	**¥276,203**	¥269,094	**$2,301,695**

Consolidated Statements of Income

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales	**¥242,740**	¥229,623	**$2,022,836**
Cost of sales (Note 10)	**112,005**	110,778	**933,378**
Gross profit	**130,735**	118,845	**1,089,458**
Selling, general and administrative expenses (Note 10)	**109,116**	105,774	**909,304**
Operating income	**21,619**	13,071	**180,154**
Other income (expenses):			
Interest and dividend income	**1,056**	796	**8,801**
Interest expense	**(468)**	(501)	**(3,901)**
Royalty income	**3,594**	4,338	**29,946**
Foreign exchange gain	**1,145**	193	**9,539**
Equity in earnings of unconsolidated subsidiaries and associated companies	**2,681**	4,716	**22,341**
Charge for transitional obligations for retirement benefits	**(3,942)**	(3,942)	**(32,846)**
Other—net	**255**	(963)	**2,129**
Other income—net	**4,321**	4,637	**36,009**
Income before income taxes and minority interests	**25,940**	17,708	**216,163**
Income taxes (Note 8):			
Current	**7,468**	1,655	**62,229**
Deferred	**2,231**	4,633	**18,589**
Total income taxes	**9,699**	6,288	**80,818**
Minority interests in net income	**1,858**	312	**15,484**
Net income	**¥ 14,383**	¥ 11,108	**$ 119,861**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (m)):			
Basic net income	**¥80.88**	¥63.20	**$0.67**
Diluted net income	**80.87**	63.19	**0.67**
Cash dividends applicable to the year	**15.00**	15.00	**0.13**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2003 and 2002

	Issued number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2001	175,910	¥31,118	¥40,649	¥ 88,247	¥500	¥(1,957)	¥(107)
Net income				11,108			
Adjustments to retained earnings for revaluation based on general price-level accounting				1,268			
Cash dividends, ¥15 per share				(2,639)			
Bonuses to directors and corporate auditors				(164)			
Decrease from merger of unconsolidated subsidiary				(535)			
Net decrease in unrealized gain on available-for-sale securities					(174)		
Net increase in foreign currency translation adjustments						736	
Treasury stock acquired—net (4,728 shares)							(17)
Balance, March 31, 2002	175,910	31,118	40,649	97,285	326	(1,221)	(124)
Net income				**14,383**			
Surplus from disposal of treasury stock			**12**				
Adjustments to retained earnings for revaluation based on general price-level accounting				**486**			
Cash dividends, ¥15 per share				**(2,638)**			
Bonuses to directors and corporate auditors				**(171)**			
Net increase in unrealized gain on available-for-sale securities					**14**		
Net decrease in foreign currency translation adjustments						**(5,089)**	
Treasury stock acquired—net (129,708 shares)							**(203)**
Balance, March 31, 2003	**175,910**	**¥31,118**	**¥40,661**	**¥109,345**	**¥340**	**¥(6,310)**	**¥(327)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2002	$259,314	$338,734	$810,708	$2,719	$(10,173)	$(1,030)
Net income			**119,861**			
Surplus from disposal of treasury stock		**106**				
Adjustments to retained earnings for revaluation based on general price-level accounting			**4,048**			
Cash dividends, $0.13 per share			**(21,983)**			
Bonuses to directors and corporate auditors			**(1,422)**			
Net increase in unrealized gain on available-for-sale securities				**115**		
Net decrease in foreign currency translation adjustments					**(42,411)**	
Treasury stock acquired—net (129,708 shares)						**(1,695)**
Balance, March 31, 2003	**$259,314**	**$338,840**	**$911,212**	**$2,834**	**$(52,584)**	**$(2,725)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Operating activities:			
Income before income taxes and minority interests	**¥25,940**	¥17,708	**$216,163**
Adjustments for:			
Income taxes—paid	**(4,864)**	(1,671)	**(40,531)**
Depreciation and amortization	**8,348**	8,014	**69,568**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(2,681)**	(4,716)	**(22,341)**
Loss on valuation of investment securities	**387**	1,241	**3,229**
Changes in operating assets and liabilities, net of effects from consolidating previously associated companies:			
Decrease (increase) in trade receivables	**1,499**	(407)	**12,493**
Increase in inventories	**(1,666)**	(3,906)	**(13,881)**
Increase (decrease) in trade payables	**(3,474)**	990	**(28,947)**
Increase in liability for retirement benefits	**5,981**	6,100	**49,838**
Other—net	**3,496**	1,172	**29,127**
Total adjustments	**7,026**	6,817	**58,555**
Net cash provided by operating activities	**32,966**	24,525	**274,718**
Investing activities:			
Decrease in time deposits	**4,413**	410	**36,778**
Purchases of property, plant and equipment	**(10,405)**	(8,477)	**(86,710)**
Proceeds from sales of property, plant and equipment	**917**	529	**7,640**
Purchases of investment securities	**(2,330)**	(161)	**(19,418)**
Acquisition of controlling interest in a company	**(226)**	(412)	**(1,881)**
Acquisition of shares of subsidiaries	**(64)**	(42)	**(530)**
Increase of loans receivable	**(214)**	(348)	**(1,787)**
Collection of loans receivable	**315**	957	**2,622**
Other—net	**299**	1,973	**2,490**
Net cash used in investing activities	**(7,295)**	(5,571)	**(60,796)**
Financing activities:			
Net decrease in short-term loans	**(1,654)**	(1,766)	**(13,782)**
Proceeds from long-term debt	**388**	108	**3,233**
Payments for settlement of long-term debt	**(973)**	(952)	**(8,107)**
Dividends paid	**(2,638)**	(2,639)	**(21,983)**
Other—net	**(413)**	(893)	**(3,444)**
Net cash used in financing activities	**(5,290)**	(6,142)	**(44,083)**
Foreign currency translation adjustments on cash and cash equivalents	**(3,736)**	370	**(31,135)**
Cash and cash equivalents increased by merger		182	
Net increase in cash and cash equivalents	**16,645**	13,364	**138,704**
Increase in cash and cash equivalents due to change in scope of consolidation		13,696	
Cash and cash equivalents, beginning of year	**61,746**	34,686	**514,551**
Cash and cash equivalents, end of year	**¥78,391**	¥61,746	**$653,255**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yakult Honsha Co., Ltd. and consolidated subsidiaries Years ended March 31, 2003 and 2002

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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. In addition, certain reclassifications and rearrangements have been made in the 2002 financial statements to conform to the classifications and presentations used in 2003.

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 ¥120 to $1, the approximate rate of exchange at March 31, 2003. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The accompanying consolidated financial statements as of March 31, 2003 include the accounts of the Company and its 54 (54 in 2002) significant subsidiaries (collectively, the "Group"). Consolidation of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control or influence concept, 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 3 (3 in 2002) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and 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.

Prior to December 31, 2001, the Company had equity method investments in the following five companies:

Yakult S.A. de C.V. ("Mexico")
Empresas Tekaos S.A. de C.V. ("Tekaos")
Corporacion Vermex S.A. de C.V. ("Vermex")
Distribuidora Yakult Guadalajara S.A. de C.V. ("Distribuidora"), and
P.T. Yakult Indonesia Persada ("Indonesia")

As the result of a merger between Mexico and Tekaos on December 31, 2001, whereby Mexico was the surviving company, the Company received a controlling interest in Mexico, which consequently also gave the Company a controlling interest in Vermex and Distribuidora (due to the fact that Tekaos also held ownership interests in Vermex and Vermex also held ownership interests in Distribuidora).

The Company implemented a successive share purchase of Indonesia, whereby control was obtained by the Company.

Each of the four companies (the "Acquired Companies") have a reporting period of December 31, which differs from the Company's March 31 reporting date. Therefore, beginning on December 31, 2001, the balance sheets of each of the Acquired Companies were consolidated, however, the profit or loss accounts still remain recorded on the Company's income statement on the equity method for the year ended March 31, 2002. This methodology changes for the Company's financial statements for the year ended March 31, 2003, as the Acquired Companies are fully consolidated beginning in that reporting period, and on a go forward basis.

The financial statements of the Company's subsidiaries in Mexico and Argentina have been prepared based on general price-level accounting. The related revaluation adjustments made to reflect the effect of inflation in Mexico and Argentina in the accompanying consolidated financial statements have been charged or credited to net income and are directly reflected in retained earnings.

The excess of cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective dates of acquisition, is being amortized on a straight-line basis from 5 to 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Company is eliminated.

(b) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(c) Inventories

Inventories are principally stated at cost, as determined by the moving-average method.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries.

Estimated useful lives are as follows:

- The Company and its domestic consolidated subsidiaries

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 17 years

- Foreign consolidated subsidiaries

Buildings and structures	9 to 50 years
Machinery, equipment and vehicles	3 to 20 years (2 to 20 years in 2002)

(e) Investment Securities

The Group classifies all securities as available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, reports them at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable 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.

(f) Retirement and Pension Plans

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

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥19,708 million, determined as of April 1, 2000, is being amortized over 5 years.

Retirement benefits to directors and corporate auditors of the Company are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

(g) Research and Development Costs

Research and development costs are charged to income as incurred.

(h) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(i) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 tax laws to the temporary differences.

(j) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(k) 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 income statement to the extent that they are not hedged by forward exchange contracts.

(l) Foreign Currency Financial Statements

The balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

(m) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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

3. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Merchandise	**¥ 4,009**	¥ 5,512	**$ 33,405**
Finished products	**1,329**	1,340	**11,072**
Work in process	**2,487**	1,464	**20,724**
Raw materials	**13,942**	12,833	**116,183**
Other	**965**	1,370	**8,050**
Total	**¥22,732**	¥22,519	**$189,434**

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Investment securities:			
Marketable equity securities	**¥1,837**	¥1,828	**$15,309**
Government and corporate bonds	**1**	1	**8**
Trust fund investments and other	**2,792**	987	**23,269**
Total	**¥4,630**	¥2,816	**$38,586**

The carrying amounts and aggregate fair values of investment securities at March 31, 2003 and 2002 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2003				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥1,266**	**¥682**	**¥111**	**¥1,837**
Debt securities	**1**			**1**
Other	**128**		**7**	**121**
March 31, 2002				
Securities classified as—				
Available-for-sale:				
Equity securities	¥1,256	¥ 623	¥ 51	¥1,828
Debt securities	1			1
Other	137		11	126

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2003				
Securities classified as—				
Available-for-sale:				
Equity securities	**$10,548**	**$5,686**	**$925**	**$15,309**
Debt securities	**8**			**8**
Other	**1,069**		**61**	**1,008**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Available-for-sale:			
Equity securities	**¥2,671**	¥861	**$22,260**
Total	**¥2,671**	¥861	**$22,260**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥3 million ($22 thousand) and ¥864 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥645 million for the year ended March 31, 2002. Gross realized loss was ¥3 million ($24 thousand) for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale:		
Due after one year through five years	¥1	$8
Total	¥1	$8

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2003 and 2002 were ¥12,372 million ($103,097 thousand) and ¥14,329 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2003 and 2002 ranged from 0.59% to 4.31% and 0.63% to 5.15%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Unsecured 1.7% domestic convertible bonds, convertible into common stock at ¥1,646.70 per share, due 2002		¥ 59	
Loans from banks and other financial institutions, 1.42% to 18.00% (1.75% to 18.00% in 2002), due serially to 2025:			
Collateralized	**¥1,576**	2,279	**$13,138**
Unsecured	**4,384**	4,268	**36,529**
Total	**5,960**	6,606	**49,667**
Less current portion	**(753)**	(1,007)	**(6,276)**
Long-term debt, less current portion	**¥5,207**	¥5,599	**$43,391**

Annual maturities of long-term debt as of March 31, 2003 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 753	$ 6,276
2005	860	7,163
2006	965	8,042
2007	449	3,739
2008	490	4,086
2009 and thereafter	2,443	20,361
Total	¥5,960	$49,667

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥5,873 million ($48,940 thousand) and the above collateralized long-term debt at March 31, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 700	$ 5,833
Land	5,386	44,880
Buildings and structures—net of accumulated depreciation	1,500	12,504
Total	¥7,586	$63,217

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.

The Company issued convertible bonds (Third series convertible bonds) under the previous Commercial Code that, due to the arrival of the maturity date (March 31, 2003), were redeemed in full.

6. RETIREMENT AND PENSION PLANS

The Company and its certain domestic consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

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 domestic consolidated 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 recorded in the accompanying consolidated balance sheets at March 31, 2003 and 2002, included amounts for directors and corporate auditors in the amount of ¥799 million ($6,664 thousand) and ¥692 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Certain consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability (asset) for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥79,526**	¥75,213	**$662,713**
Fair value of plan assets	**(37,206)**	(41,204)	**(310,048)**
Unrecognized actuarial loss	**(16,889)**	(10,545)	**(140,738)**
Unrecognized transitional obligation	**(7,883)**	(11,825)	**(65,692)**
Net liability	**17,548**	11,639	**146,235**
Prepaid pension cost	**32**	68	**264**
Liability for employees' retirement benefits	**¥17,580**	¥11,707	**$146,499**

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥2,973**	¥2,800	**$24,772**
Interest cost	**2,084**	2,113	**17,363**
Expected return on plan assets	**(1,751)**	(1,816)	**(14,591)**
Amortization of prior service cost		811	
Recognized actuarial loss	**1,179**	1,243	**9,824**
Amortization of transitional obligation	**3,941**	3,942	**32,846**
Net periodic benefit costs	**¥8,426**	¥9,093	**$70,214**

Assumptions used for the years ended March 31, 2003 and 2002, are set forth as follows:

	2003	2002
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	4.5%	4.5%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of transitional obligation	5 years	5 years

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥60,646 million ($505,387 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.05% for the years ended March 31, 2003 and 2002. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Tax loss carryforwards	**¥ 2,907**	¥ 9,265	**$ 24,223**
Loss from revaluation of securities	**7,353**	8,142	**61,276**
Pension and severance costs	**6,834**	4,373	**56,949**
Allowance for doubtful receivables	**1,190**	1,241	**9,916**
Other	**4,399**	3,259	**36,664**
Less valuation allowance	**(2,751)**	(4,113)	**(22,924)**
Total	**19,932**	22,167	**166,104**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**2,074**	2,002	**17,284**
Inventories	**1,130**	1,368	**9,419**
Unrealized gain on land held by a consolidated subsidiary	**1,305**	1,317	**10,875**
Other	**1,162**	1,280	**9,680**
Total	**5,671**	5,967	**47,258**
Net deferred tax assets	**¥14,261**	¥16,200	**$118,846**

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42.05% to 40.49%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease deferred tax assets—non-current by ¥590 million ($4,920 thousand) and increase income taxes—deferred by ¥599 million ($4,995 thousand) in the consolidated financial statements for the year ended March 31, 2003.

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, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	**42.05%**	42.05%
Equity in earnings of associated companies	**(4.35)**	(11.20)
Permanently non-deductible expenses	**1.44**	2.66
Other—net	**(1.75)**	2.00
Actual effective tax rate	**37.39%**	35.51%

At March 31, 2003, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥8,036 million ($66,964 thousand), which are available to be offset against taxable income of the Company and such consolidated subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 629	$ 5,241
2005	198	1,647
2006	1,342	11,182
2007	416	3,466
2008 and thereafter	5,451	45,428
Total	¥8,036	$66,964

9. LEASES

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the Company and its domestic subsidiaries were ¥6,735 million ($56,125 thousand) and ¥6,877 million for the years ended March 31, 2003 and 2002, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002 was as follows:

	Millions of yen					
	2003			2002		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥26,511**	**¥4,523**	**¥31,034**	¥26,662	¥4,790	¥31,452
Accumulated depreciation	**13,837**	**2,643**	**16,480**	12,888	2,275	15,163
Net leased property	**¥12,674**	**¥1,880**	**¥14,554**	¥13,774	¥2,515	¥16,289

	Thousands of U.S. dollars		
	2003		
	Furniture and Fixtures	Other	Total
Acquisition cost	**$220,926**	**$37,694**	**$258,620**
Accumulated depreciation	**115,310**	**22,029**	**137,339**
Net leased property	**$105,616**	**$15,665**	**$121,281**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 5,666**	¥ 5,829	**$ 47,220**
Due after one year	**9,261**	10,847	**77,171**
Total	**¥14,927**	¥16,676	**$124,391**

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥6,290 million ($52,419 thousand) and ¥6,394 million for the years ended March 31, 2003 and 2002, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥432 million ($3,601 thousand) and ¥476 million for the years ended March 31, 2003 and 2002, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥41**	¥18	**$336**
Due after one year	**37**	21	**310**
Total	**¥78**	¥39	**$646**

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥5,801 million ($48,342 thousand) and ¥5,167 million for the years ended March 31, 2003 and 2002, respectively.

11. SUBSEQUENT EVENTS

(a) Purchase of Treasury Stock

At the general shareholders meeting held on June 27, 2003, the Company's shareholders approved the acquirement of treasury stock, up to 10 million shares of the Company's common stock (aggregate amount of ¥17,000 million), until the next general shareholders meeting.

(b) Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders meeting held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥7.5 ($0.06) per share	¥1,318	$10,981
Bonuses to directors and corporate auditors	144	1,203

12. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2003 and 2002 is as follows:

(1) Industry Segments

	Millions of yen				
	2003				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**¥207,262**	**¥21,045**	**¥14,433**		**¥242,740**
Intersegment sales					
Total sales	**207,262**	**21,045**	**14,433**		**242,740**
Operating expenses	**183,104**	**13,143**	**14,673**	**¥ 10,201**	**221,121**
Operating income (loss)	**¥ 24,158**	**¥ 7,902**	**¥ (240)**	**¥(10,201)**	**¥ 21,619**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**¥166,812**	**¥16,310**	**¥ 9,670**	**¥ 83,411**	**¥276,203**
Depreciation	**6,883**	**360**	**171**	**934**	**8,348**
Capital expenditures	**9,508**	**179**	**254**	**748**	**10,689**

	Thousands of U.S. dollars				
	2003				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**$1,727,180**	**$175,379**	**$120,277**		**$2,022,836**
Intersegment sales					
Total sales	**1,727,180**	**175,379**	**120,277**		**2,022,836**
Operating expenses	**1,525,861**	**109,527**	**122,281**	**$ 85,013**	**1,842,682**
Operating income (loss)	**$ 201,319**	**$ 65,852**	**$ (2,004)**	**$ (85,013)**	**$ 180,154**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**$1,390,101**	**$135,918**	**$ 80,582**	**$695,094**	**$2,301,695**
Depreciation	**57,359**	**2,998**	**1,429**	**7,782**	**69,568**
Capital expenditures	**79,235**	**1,493**	**2,116**	**6,230**	**89,074**

	Millions of yen				
	2002				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income					
Sales to customers	¥197,222	¥17,413	¥14,988		¥229,623
Intersegment sales					
Total sales	197,222	17,413	14,988		229,623
Operating expenses	179,251	12,203	14,789	¥ 10,309	216,552
Operating income	¥ 17,971	¥ 5,210	¥ 199	¥(10,309)	¥ 13,071
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	¥169,414	¥14,935	¥10,599	¥ 74,146	¥269,094
Depreciation	6,509	511	155	839	8,014
Capital expenditures	5,656	120	132	351	6,259

Food and beverages: Fermented milk drinks, juice, noodles, etc.
Pharmaceuticals: Anticancer drugs, other medical products
Others: Cosmetics, operating a professional baseball team

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen					
	2003					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥204,365**	**¥23,236**	**¥ 7,295**	**¥7,844**		**¥242,740**
Interarea transfer	**2,352**				**¥ (2,352)**	
Total sales	**206,717**	**23,236**	**7,295**	**7,844**	**(2,352)**	**242,740**
Operating expenses	**185,069**	**16,216**	**5,818**	**6,169**	**7,849**	**221,121**
Operating income	**¥ 21,648**	**¥ 7,020**	**¥ 1,477**	**¥1,675**	**¥(10,201)**	**¥ 21,619**
Total assets	**¥136,939**	**¥31,196**	**¥21,928**	**¥5,537**	**¥ 80,603**	**¥276,203**

	Thousands of U.S. dollars					
	2003					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$1,703,043**	**$193,637**	**$ 60,794**	**$65,362**		**$2,022,836**
Interarea transfer	**19,602**				**$ (19,602)**	
Total sales	**1,722,645**	**193,637**	**60,794**	**65,362**	**(19,602)**	**2,022,836**
Operating expenses	**1,542,244**	**135,135**	**48,486**	**51,406**	**65,411**	**1,842,682**
Operating income	**$ 180,401**	**$ 58,502**	**$ 12,308**	**$13,956**	**$ (85,013)**	**$ 180,154**
Total assets	**$1,141,160**	**$259,968**	**$182,732**	**$46,145**	**$671,690**	**$2,301,695**

	Millions of yen					
	2002					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥204,489	¥13,179	¥ 5,076	¥6,879		¥229,623
Interarea transfer	1,628				¥ (1,628)	
Total sales	206,117	13,179	5,076	6,879	(1,628)	229,623
Operating expenses	185,136	13,171	3,457	6,107	8,681	216,552
Operating income	¥ 20,981	¥ 8	¥ 1,619	¥ 772	¥(10,309)	¥ 13,071
Total assets	¥134,976	¥35,263	¥20,935	¥4,328	¥ 73,592	¥269,094

The Americas: Mexico, Brazil, Argentina
Asia and Oceania: Hong Kong, Guangzhou, Indonesia, Malaysia, Australia
Europe: The Netherlands, the U.K., Germany, Belgium

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2003 and 2002 amounted to ¥57,406 million ($478,384 thousand) and ¥41,255 million, respectively.

Tohmatsu & Co.
MS Shibaura Building
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Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Yakult Honsha Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yakult Honsha Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 27, 2003

Major Subsidiaries and Affiliates

(As of June 27, 2003)

Branches

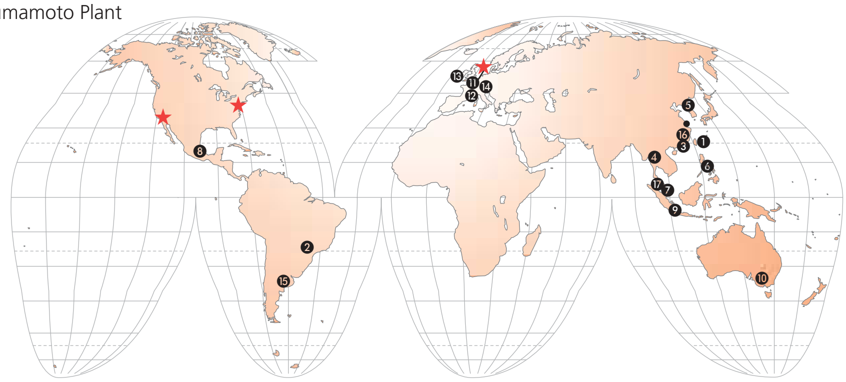
Hokkaido Branch
Tohoku Branch
Kanto Branch
Tokyo Branch
Chubu Kanagawa Branch
Tokai Branch
Kinki Branch
Chugoku Shikoku Branch
Kyushu Branch

Yakult Plants

Sapporo Plant
Fukushima Plant
Ibaraki Plant
Fujisawa Plant
Fujisawa Cosmetics Plant
Fuji Susono Plant
Fuji Susono Pharmaceuticals Plant
Shizuoka Plant
Kyoto Plant
Fukuyama Plant
Saga Plant
Kumamoto Plant

Major Subsidiaries

Yakult Kyudan Co., Ltd.
Yakult Corporation Co., Ltd.
Yakult Materials Co., Ltd.
Yakult Food Industry Co., Ltd.
Yakult Higashi Nihon Logistics Co., Ltd.
Yakult Chuo Logistics Co., Ltd.
Yakult Nishi Nihon Logistics Co., Ltd.
Yakult Pharmaceutical Industry Co., Ltd.
Nihon Chlorella Co., Ltd.



International Subsidiaries and Affiliates

❶ Yakult Co., Ltd. (Taiwan)
3F No. 261, Sung Chiang Road,
Taipei, Taiwan, R.O.C.
Phone: 886-2-25158960
Fax: 886-2-25168960

❷ Yakult S/A Ind. E. Com. (Brazil)
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01311-100,
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Fax: 55-11-32819966

❸ Hong Kong Yakult Co., Ltd.
Room 609-610, Silvercord Tower II,
30 Canton Rd., Tsim Shatsui,
Kowloon, Hong Kong
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Fax: 852-23751355

❹ Yakult (Thailand) Co., Ltd.
16th Fl. Yakult Building 1025
Phahon Yothin Road, Phaya Thai,
Bangkok 10400, Thailand
Phone: 66-2-6198008
Fax: 66-2-6198020

❺ Korea Yakult Co., Ltd.
28-10, Chamwon-dong, Socho-ku,
Seoul, Korea
Phone: 82-2-34496000
Fax: 82-2-34496655

❻ Yakult Philippines, Inc.
1461F, Agoncillo Cor, Escoda Street,
Ermita, Metro Manila, Philippines
Phone: 63-2-5211722
Fax: 63-2-3382225

❼ Yakult (Singapore) Pte. Ltd.
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Singapore 758300
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Fax: 65-67523817

❽ Yakult S.A. de C.V. (Mexico)
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Col. Santa Cruz Atoyac Deleg.,
Benito Juarez C.P. 03310,
Mexico D.F., Mexico
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Fax: 52-55-56010903

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Fax: 62-21-57905126

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Fax: 44-208-7404999

⓮ Yakult Deutschland GmbH
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41468 Neuss, Germany
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Fax: 49-2131-3416-16

⓯ Yakult Argentina S.A.
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Fax: 86-20-8252-1018

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Fax: 31-36-5329840

★ Yakult International (U.S.A.) Inc.
Los Angeles Office
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Fax: 1-310-7921424

New York Office
116 West 23rd Street, Suite 500,
New York, NY 10011, U.S.A.
Phone: 1-646-375-2301
Fax: 1-646-375-2347

Corporate Data

Corporate Name:
Yakult Honsha Co., Ltd.

Date Founded:
1935

Date Incorporated:
April 9, 1955

Head Office:
1-19 Higashi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8660, Japan
Phone: +81-3-3574-8960
URL: http://www.yakult.co.jp/

Paid-in Capital:
¥31,117,654,815

Annual Account Settlement Date:
March 31

Number of Employees:
13,407

Number of Issued and Outstanding Shares:
175,910,218

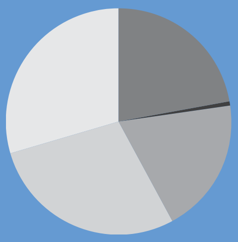
Number of Shareholders:
15,360

Offices:
1 institute, 9 branches, 12 factories,
6 pharmaceutical products sales offices

Major Shareholders:

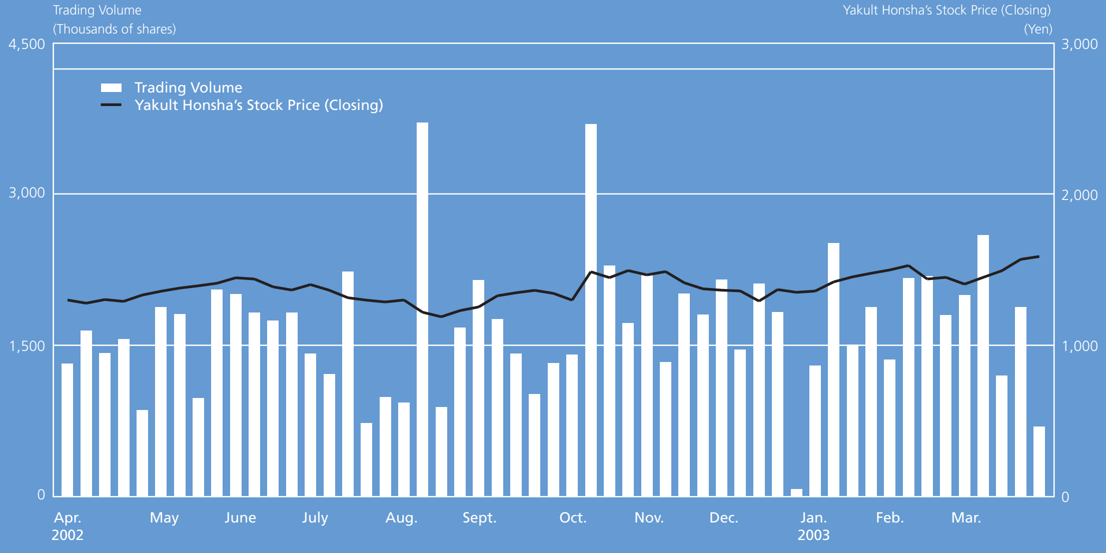
	Percentage of Total Shares Issued
Matsusho Co., Ltd.	6.55%
THE CHASE MANHATTAN BANK, N.A. LONDON	6.28
MLPFS CUSTODY ACCOUNT	5.43
The Master Trust Bank of Japan, Ltd.	3.10
Mizuho Bank, Ltd.	2.82
Japan Trustee Services Bank, Ltd.	2.23
STATE STREET BANK AND TRUST COMPANY	2.22
Kyoshinkai	2.04
Nippon Life Insurance Company	1.49
Resona Holdings, Inc.	1.44

Distribution of Ownership among Shareholders
(On a number of shares basis)



Japanese financial institutions..........22.28%
Japanese securities companies...........0.61%
Other Japanese corporations 19.41%
Foreign institutions and others.........28.56%
Japanese individuals and others.......29.14%

Share Price Movement



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