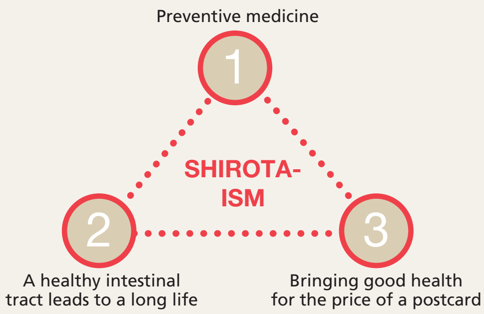
Healthy naturally. Trusted globally.

Yakult
Annual Report 2004
Year ended March 31, 2004

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. 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.



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

CONTENTS

Financial Highlights

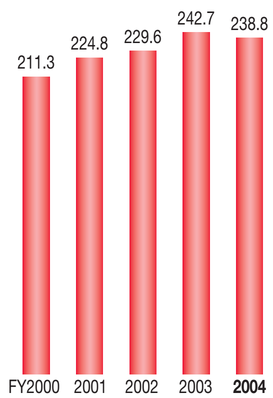
YAKULT HONSHA Co., Ltd. and consolidated subsidiaries   March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of yen					Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥238,847**	¥242,740	¥229,623	¥224,795	¥211,279	**$2,274,736**
Operating income	**16,395**	21,619	13,071	16,107	14,834	**156,141**
Net income	**15,083**	14,383	11,108	10,537	8,084	**143,651**
At the year-end:						
Total assets	**¥286,389**	¥276,203	¥269,094	¥242,247	¥235,454	**$2,727,510**
Total liabilities	**90,354**	87,959	85,288	74,861	70,428	**860,514**
Total shareholders' equity	**182,766**	174,827	168,033	158,450	152,104	**1,740,629**

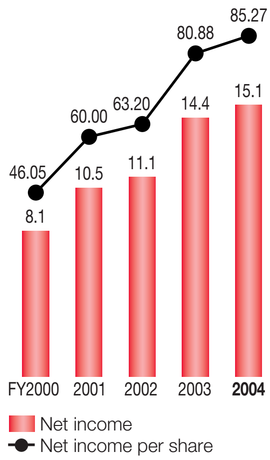
	Yen					U.S. dollars (Note 3)
Per share of common stock:						
Basic net income	**¥85.27**	¥80.88	¥63.20	¥60.00	¥46.05	**$0.81**
Diluted net income		80.87	63.19	59.99	46.04	
Cash dividends applicable to the year	**15.00**	15.00	15.00	15.00	22.50	**0.14**

Notes: 1. Figures for 2000 have been rounded down to the nearest million.
2. Figures for 2001, 2002, 2003 and 2004 have been rounded to the nearest million.
3. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and had been made at the rate of ¥105 to U.S.$1, the approximate rate of exchange at March 31, 2004.
4. Diluted net income per share of common stock for 2004 was not calculated due to the absence of dilutive stock.

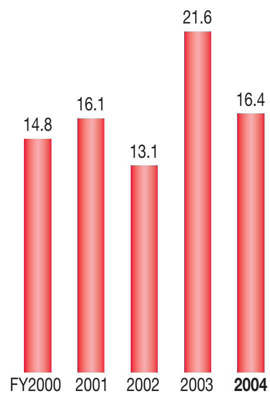
Net Sales
(Billions of yen)



Net Income and Net Income per Share
(Billions of yen/Yen)



Operating Income
(Billions of yen)



Sumiya Hori, President

An Interview with the President

LOOKING BACK ON FISCAL 2004

Could you tell us about Yakult's activities during fiscal 2004?

During fiscal 2004, ended March 31, 2004, Japan's economy appeared to have established the basis for a gradual recovery, spurring rising expectations. However, it remained difficult to make confident projections in light of the expected impact of yen appreciation and political factors.

Amid this environment, Yakult proactively worked to promote a deeper and more-widespread awareness of probiotics—living microorganisms with beneficial effects on human health—which are the main foundation of the Company's operations. In this and other ways, we strove to accentuate the superior characteristics of our products, and we also took measures to augment and strengthen our marketing systems and upgrade our R&D and manufacturing capabilities.

Our mainstay dairy products business grew smoothly in Japan and overseas, although business in juices and other beverages was relatively weak owing to unseasonable weather and other factors. Regarding the pharmaceuticals business, the merger of Pharmacia and Pfizer Inc. depressed our sales of *Campto* in North America, and we were unable to attain our overall pharmaceuticals sales target. However, we did generate cosmetics sales in accordance with our sales goals.

As a result of these activities, fiscal 2004 consolidated net sales amounted to ¥238.8 billion, 1.6% down from the fiscal 2003 level. Operating income decreased 24.2%, to ¥16.4 billion.

IMPORTANT MANAGEMENT TASKS

What are the goals of Yakult's medium-term management plan?

We have just begun implementing Yakult's second medium-term management plan, which covers the three-year period from 2004 through 2006.

Among our principal management tasks is strengthening the foundation for domestic operations in dairy products and juices and other beverages. Besides rebuilding and further strengthening the Yakult Ladies system for home and office distribution, we are stepping up our development of sales through retail stores and augmenting other outside channels. Moreover, in addition to probiotic dairy products, we are expanding our efforts to develop and accelerate the launch of other types of highly innovative and superior functional foods with health benefits in line with the principles of preventive medicine.

Yakult aims to promote the further internationalization of its operations by strengthening its existing business units overseas while proactively entering new overseas markets. Regarding our pharmaceuticals business, we are continuing to concentrate efforts on the marketing of *Campto* in Japan, North America, and Europe and on moving forward with measures to bolster our domestic marketing system and extend the range of *Campto*'s approved indications. At the same time, we are taking steps to strengthen and speed up our new drug development programs with the goal of expanding business focused primarily on cancer and related condition domains. In addition, we are endeavoring to employ corporate brand management in a manner that maximizes our corporate and shareholder value.

SUPERIORITY IN THE PROBIOTICS MARKET

Why have Yakult's probiotic products been so widely accepted?

Yakult's probiotic products have a successful record over a period more than 70 years long, dating back to the initial lactobacilli research of the Company's founder, Dr. Minoru Shirota. Yakult has continued to vigorously promote the ideals of preventive medicine and the concept of a healthy intestinal tract leading to a long life, and our use of the unique Yakult Lady marketing system has enabled us to explain the benefits of our probiotic products directly to consumers and thereby penetrate a wide range of markets. Currently, we are implementing a Companywide unified probiotic campaign designed to further increase the public's awareness and understanding of probiotics. We expect this campaign to broaden the scope of our contribution to better health in Japan as well as in a growing number of other countries throughout the world.

In recent years, Yakult has considerably increased its research results and data related to *Lactobacillus casei* strain Shirota. To date, epidemiological studies have shown that the strain controls the recurrence of superficial bladder cancer and reduces the risk of bladder cancer, and it has been announced that the strain helps prevent colorectal cancer. In 2003, The Japanese Society of Immunotoxicology announced that *Lactobacillus casei* strain Shirota has the effect of revitalizing immune system functions depressed due to smoking.

In the future, Yakult will continue promoting the use of the safest, most effective probiotics.

STRATEGIC ALLIANCE WITH GROUPE DANONE

What are the potential benefits for Yakult of strategic collaboration with DANONE?

France-based Groupe DANONE is the world's largest dairy product manufacturer, and Yakult's strategic alliance with that company is expected to facilitate a further rise in Yakult's growth. Plans call for a progressive rise in collaboration regarding overseas probiotic business in particular, and we anticipate that this will accelerate the expansion of our overseas operations. Yakult brings to the alliance its strong lactobacilli-related technologies as well as its superior marketing capabilities owing to the Yakult Lady marketing system. Groupe DANONE has global brand presence and marketing expertise. Synergistically combining and leveraging the strengths of Yakult and Groupe DANONE is expected to further reinforce the two companies' global leadership positions. I expect the positive results of collaboration with Groupe DANONE, with respect to overseas business expansion and R&D programs, will be concretely evident within five years.

BEING A HIGHLY TRUSTED COMPANY

What is Yakult's approach to corporate governance?

Yakult's fundamental corporate governance concept is "to make thorough efforts to achieve steady business development, primarily in its core business field, while striving to maintain a solid financial position and highly transparent management systems." I believe that upgrading corporate governance is a crucial means of inspiring society with a still-higher level of trust, boosting our market valuation, and maximizing shareholder value. We will continue striving to optimize our management practices as a means of living up to our responsibility to our shareholders.

Yakult's Compliance Council, which comprises four outside members (three attorneys and one certified public accountant), has met at regular intervals since May 2000. This committee inspects our operations from the perspective of society at large, fairly and impartially, and gives the Company its advice. This system is one of our means of inspiring society with a still-higher level of trust and confidence.

Having performed an additional review of our internal regulations from the perspective of compliance, we have drafted the Yakult Ethical Code (8 items) and the Yakult Action Guidelines (16 items) and are taking various measures to ensure rigorous conformance to those standards.

PROVIDING HIGH-QUALITY PRODUCTS

What kind of measures are you taking with respect to quality assurance and safety management?

We have obtained certification of our Hazard Analysis and Critical Control Point (HACCP) systems and are otherwise proactively taking various measures with regard to quality assurance. To further increase our quality assurance rigor, we established the Food Product Quality Assurance Committee in April 2004. Society currently demands extremely strict food safety standards. In view of this, we have deemed it necessary to further clarify our quality assurance and product safety systems for ensuring the appropriate management of all processes leading up to the delivery of products to customers as well as the actual implementation of those processes.

THE FUTURE OF YAKULT

Could you tell us about Yakult's long-term vision?

In 2005, Yakult will mark the 70th anniversary of its founding. We are considering the ideal approach toward commemorating this special year, and I believe that this is an excellent occasion for renovating the foundation for our future corporate development.

To this end, we are reconfirming our original commitment to the principles of preventive medicine and the concept of a healthy intestinal tract leading to a long life. We are seeking to promote even-more-widespread understanding throughout the world of the outstanding health benefits of leading probiotics *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult. Currently, we are aiming to boost our daily sales of dairy products to 10 million bottles per day in Japan and 50 million bottles per day in 50 countries around the world. To augment our profitability, we intend to strategically and efficiently employ our corporate resources with an eye to realizing both sales expansion and cost reduction. On a nonconsolidated basis, we have set the goal of regaining and sustaining a 10% ratio of ordinary income to net sales as we strive to further expand our operations.

Based on Yakult's corporate philosophy of endeavoring to contribute to the health and happiness of people around the world, the Company plans to maintain its position as the world's leader in the field of probiotics by continually taking innovative approaches to promoting better health. We thank our shareholders and investors for their sustained support and hope for their continued understanding in the future.

June 2004

Sumiya Hori, President

TOPICS

Accelerating Overseas Expansion through a Strategic Alliance with Groupe DANONE

On March 4, 2004, Yakult and France-based Groupe DANONE concluded a strategic alliance agreement that calls for collaboration based on mutual trust, which will help to further leverage and develop the special strengths, corporate cultures, and business models of each partner.

The alliance is designed to further reinforce the world leadership positions of Yakult and Groupe DANONE in certain food and beverage market segments and accelerate the growth of the two companies' operations. Primarily in overseas probiotic markets, the partners plan to take various approaches to cooperatively utilizing Yakult's technological strengths and unique marketing systems along with Groupe DANONE's pervasive worldwide presence and powerful marketing capabilities.

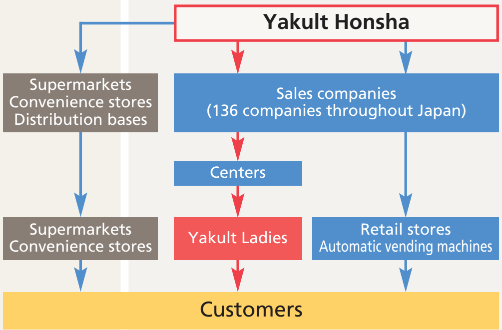
Concrete collaborative measures will be discussed at a "Liaison Office" established in June 2004. With respect to cooperative overseas operations, the partners will give priority to regions in which neither has a presence yet, and will consider cooperation through such forms as joint ventures. In the People's Republic of China and other countries where the partners have a presence, they will deepen their collaboration—in such programs as joint purchasing and financing—to the greatest extent possible without impacting relationships with other partners in those countries. Regarding R&D, the allies intend to move forward with collaboration such as that involving the mutual seconding of researchers. The partners have also cooperatively established a "Global Probiotics Council," which has the task of promoting greater and broader understanding of the benefits of probiotics throughout the world.

As of December 2003, Groupe DANONE was Yakult's top shareholder, with a holding of 20% of Yakult's outstanding shares. However, Groupe DANONE has agreed that it will not increase its current share in Yakult during the next five years, and will not seek to gain an effective controlling share of the Company in the five years following that period. Groupe DANONE has described its investment in Yakult as a long-term investment based on its confidence in Yakult's business and management. Yakult has received assurance that Groupe DANONE will respect Yakult's special culture, business model, and independence in accordance with the strategic alliance agreement and will not seek to obtain effective control over Yakult.

To help maximize the benefits of the alliance, Groupe DANONE has sent two representatives to serve on Yakult's board of directors, and Yakult has sent one representative to serve on Groupe DANONE's board.

Service with a Smile: The Base of Yakult's Momentum

Domestic Product Distribution System



Products sold by Yakult Ladies: These include such products as *Yakult 400, Yakult 80 Ace, Mil-Mil E, Bifiel,* and *Purela*.
Products sold via retail stores and vending machines.

It would be hard to find a Japanese person who is not familiar with the sight of Yakult Ladies making deliveries to homes and offices in line with their slogan "Whenever, Wherever, To Deliver Even a Single Bottle."

Yakult Ladies' Home and Office Delivery Activities

Yakult Ladies are the group of female salespeople who commenced making regular deliveries of Yakult products directly to customers in 1963. During the subsequent four decades, Yakult Ladies have been the human face that Yakult presents to its customers and thereby reinforces its relationships with customers. The Yakult Lady system for direct deliveries to homes and offices is a distribution system unique to Yakult. Yakult Ladies began their activities in 1963, taking up the mission of making deliveries while also vigorously promoting Shirota-ism—an ideology that focuses on the ideals of preventive medicine and the concept that a healthy intestinal tract leads to a long life—upon which Dr. Minoru Shirota founded the Company. Besides delivering products with impeccable quality assurance and safety characteristics, Yakult Ladies have the important task of explaining the scientific principles of lactobacilli probiotics and the functional characteristics of each Yakult product to encourage better understanding of such information on the parts of customers. Currently, Yakult delivers its products directly to customers in Japan via 48,500 Yakult Ladies, who are employed by 136 domestic sales companies. Each Yakult Lady is based at one of 2,700 centers throughout Japan, from which they are dispatched to the homes and offices of customers of their marketing district.

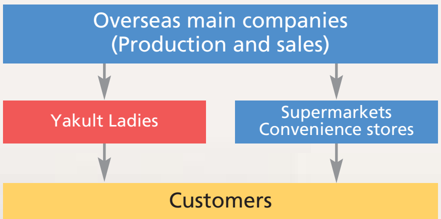
Overcoming Challenges

The number of Yakult Ladies has begun tending downward from its peak, creating the need for structural reinforcement measures. Accordingly, from 2002 each center has been introducing the Center Clinic system, which are designed to augment centers' organizational and marketing capabilities. In the past two years, approximately 1,000 centers implemented the Center Clinic system, and this system was seen to have the effect of boosting the performance of those units by from 30–40%. Thus, in addition to helping solve problems associated with the decline in numbers of Yakult Ladies, these programs have provided a framework for Yakult Ladies to attain higher levels of per-capita productivity, enabling the simultaneous enhancement of performance and revenue.

Brazil

Guangzhou

Overseas Product Distribution System



Regarding work activities, we are emphasizing the satisfaction of helping improve customers' health and the work incentive derived from earning customers' gratitude. Moreover, as a means of improving work conditions for working women with small children, we have since 1973 established approximately 1,400 child care facilities.

Prospective Developments

The most powerful element of the Yakult Ladies system is the strong bond it creates with customers. Yakult Ladies strive to make their interaction and provide products that help improve customers' health. While many customers benefit from Yakult Ladies, we do our utmost to ensure that all customers enjoy each encounter with their Yakult Lady. The demographic graying of Japan's population is expected to increase demand for home delivery services, and we hope to meet this demand by providing health-related and other information and sustaining a close relationship with our clientele.

Yakult Ladies outside Japan

Currently, there are 34,000 Yakult Ladies active in Mexico, Indonesia, the Philippines, China, and seven other countries.

Overseas, Yakult Ladies seek to market products and make deliveries while vigorously promoting Shirota-ism. Yakult Ladies give customers information on products' scientific basis and functions while emphasizing the need to drink the products on a sustained daily basis to obtain their full benefits. When delivering products overseas, Yakult Ladies give top priority to building strong relationships of trust with customers. Regarding training, Japanese staff are sent to overseas units to supervise manufacturing facilities and give guidance to the staff of those facilities as well as conducting training programs for Yakult Ladies. To ensure harmony with local societies, numerous measures are taken to adjust operations in line with the special characteristics of local cultures, customs, and cuisines. In these ways, Yakult is proceeding with the creation of new business systems in overseas markets that maintain conformance with the Company's fundamental business philosophy.

Currently, Yakult is proactively introducing Yakult Lady direct delivery systems in countries where such systems are appropriate, such as countries in Southeast Asia and South America. The Company is confident that this initiative will continue effectively helping to promote new individual and family lifestyles that are conducive to better health.

Yakult at a Glance

Yakult's mainstay dairy product business is expanding steadily in Japan and overseas. Yakult Lady distribution operations were begun in China from August 2003, and a further acceleration of growth in overseas operations is anticipated. Moreover, the Company has sustained its development of pharmaceutical products, focusing on cancer and related fields, and these pharmaceutical operations continue to make a significant contribution to profitability.

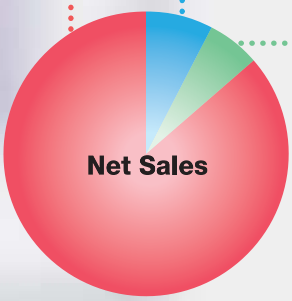
Food and Beverages 86.4%

Dairy Products

- Domestic
- Overseas

Juices and Other Beverages

Yakult manufactures and sells its products—primarily the fermented milk drink *Yakult*—both in Japan and overseas. In addition to mainstay product *Yakult,* products sold by this segment include fermented milk, juices, and other beverages. We are focusing on sales of functional foods and beverages, in particular. Net sales by this segment were down 0.4%, to ¥206.4 billion.



Pharmaceuticals 7.6%

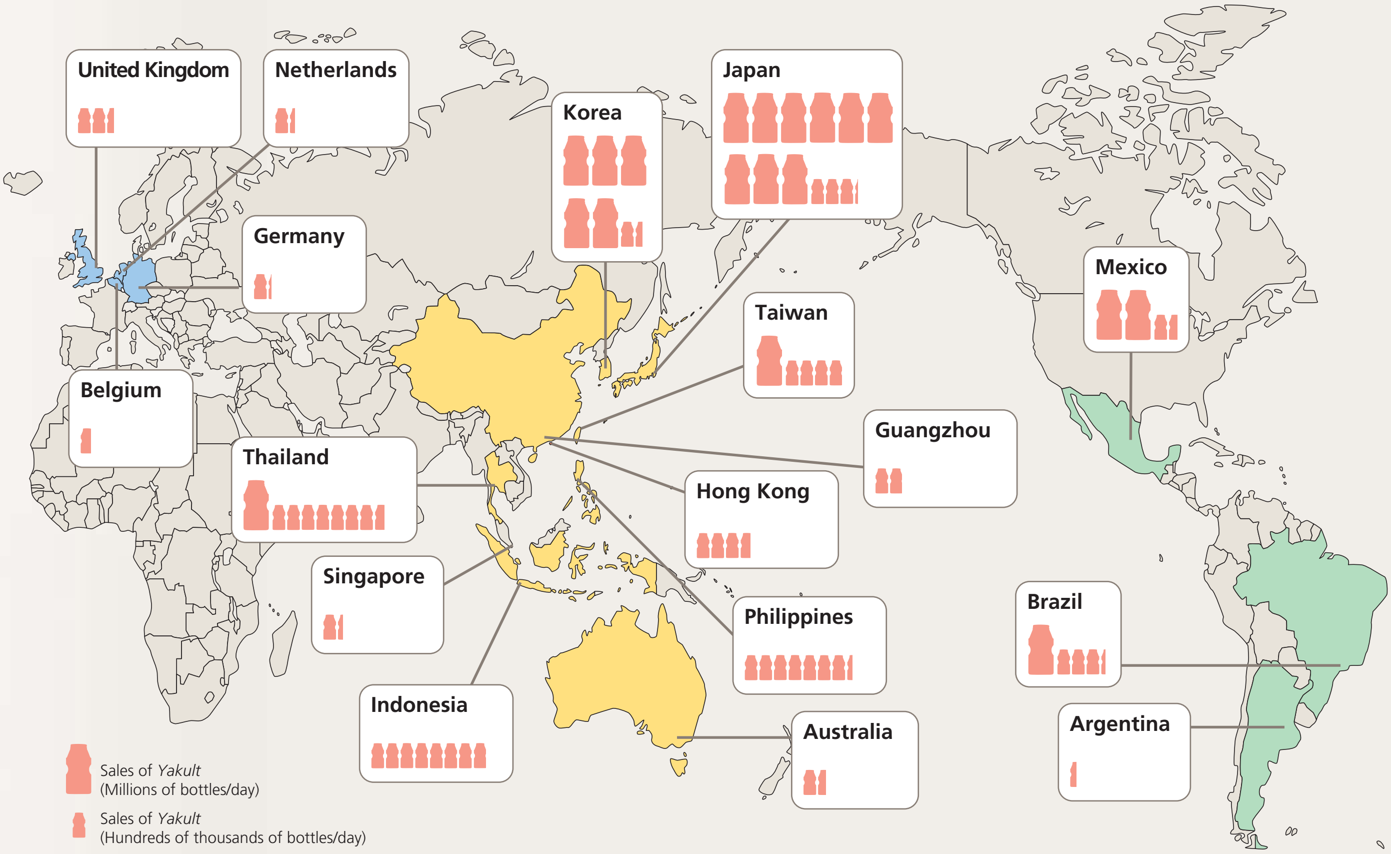
Yakult's pharmaceuticals operations have demonstrated significant growth since the introduction of mainstay anticancer drug *Campto* in 1994.

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. Net sales by this segment dropped 13.6%, to ¥18.2 billion.

Others 6.0%

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 antiaging agents developed from Yakult's proprietary biotechnology. Net sales by this segment dropped 1.3%, to ¥14.2 billion.

Worldwide Sales of Yakult



Working through its overseas network of 17 business bases, Yakult manufactures and sells approximately 15 million bottles of Yakult products per day in 24 countries* and regions around the world. Regarding China, the Company will establish a manufacturing base in Shanghai and is working to expand the scope of its marketing operations in Shanghai and northern China. We initiated marketing operations in Malaysia and New Zealand in February and June 2004, respectively. These and other measures are expected to considerably augment overseas sales, and we are currently aiming to increase overseas sales in the future to 50 million bottles per day in 50 countries and regions.

*** As of June 30, 2004**

Performance from January to December 2003

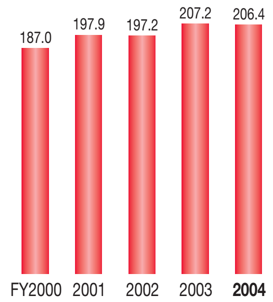
	Sales Quantity (Thousands of bottles/day)	Percentage of Previous Year's Sales (%)	Establishment
Asia and Oceania			
Taiwan	1,391	103.4%	March 1964
Hong Kong	378	94.6%	June 1969
Thailand	1,771	111.3%	June 1971
Korea	5,153	99.3%	August 1971
Philippines	742	114.7%	October 1978
Singapore	141	109.0%	July 1979
Indonesia	796	107.2%	January 1991
Australia	166	110.6%	February 1994
Guangzhou	189	322.3%	June 2002
Malaysia	—	—	February 2004
subtotal	**10,726**	**104.6%**	
The Americas			
Brazil	1,336	84.1%	October 1968
Mexico	2,157	104.0%	October 1981
Argentina	44	144.1%	May 1997
subtotal	**3,537**	**95.7%**	
Europe			
Netherlands	132	109.6%	April 1994
Belgium	83	89.6%	April 1995
United Kingdom	255	118.9%	April 1996
Germany	106	91.2%	April 1996
subtotal	**576**	**106.0%**	
Total	**14,839**	**102.4%**	
Performance from April 2003 to March 2004			
Japan	9,316	102.0%	1935

Food and Beverages

Food and beverages manufacturing and marketing operations encompass the fermented milk drink *Yakult,* fermented milk, juices, and other beverages. The Company is focusing principally on sales of functional beverages.

In fiscal 2004, sales of dairy products increased smoothly both in Japan and overseas, although sales of juices and other beverages were slightly depressed by unseasonable summer weather and other factors. Consequently, the food and beverages business recorded sales of ¥206.4 billion, down 0.4% from the previous fiscal year, and operating income decreased 8.6%, to ¥22.1 billion.

Sales of Food and Beverages
(Billions of yen)



Dairy Products (Domestic)

FISCAL 2004 ACTIVITIES

Yakult's dairy products are well known in Japan as exemplars of probiotics products that can promote better health due to their incorporation of lactobacilli (*Lactobacillus casei* strain Shirota) and bifidobacteria (*Bifidobacterium breve* strain Yakult). All Yakult's dairy products have been granted permission by the Health, Labour and Welfare Minister to bear the Food for Specified Health Uses *(Tokuho)* mark.

Fiscal 2004 was the second year of Yakult's unified Companywide probiotics activities, which aim to continue emphasizing the position of Yakult's dairy products as leading representatives of probiotics and strengthening marketing systems and operations. Yakult Lady distribution activities were expanded to include the use of brochures and magazines to deepen customer awareness of products' capabilities and effects. To enhance understanding of its products' scientific principles of action among customers at large-scale retailers, Yakult has undertaken such initiatives as proposing the establishment of "probiotic corners" in stores and organizing health fairs and other promotional events. All these activities are designed to comprehensively strengthen the Yakult brand.

FISCAL 2004 PERFORMANCE

Particularly strong growth was seen in sales of *Yakult 400,* which is distributed only by Yakult Ladies. One 80ml bottle of *Yakult 400* contains more than 40 billion lactobacilli. As Yakult Ladies have been strongly emphasizing *Yakult 400* promotion measures to make customers keenly aware of the beneficial effects of Yakult's probiotics, the sales volume of *Yakult 400* surged 22% from the fiscal 2003 level.

In April 2003, Yakult introduced a new package design for *Sofuhl* hard-type yogurt that emphasizes the product's functionality through text including the phrase "Yakult probiotics work in live intestines." This supported a 3% rise in the volume of *Sofuhl* sales. We also redesigned the package of *Yakult LT*, introducing a package design that emphasizes the beneficial health effects of lactobacilli as well as the product's low level of calories.

While sales of *Bifidobacterium breve* strain Yakult products were below the fiscal 2003 level, sales of *Yakult 400* and *Sofuhl* were considerably higher than originally projected, making important contributions to overall sales of dairy products. Smooth increases were also recorded in sales of *Purela* soft-type yogurt, which is distributed only by Yakult Ladies, and *Yakult,* which is the Company's mainstay product for marketing through retail stores.

STRATEGY AND OUTLOOK

Yakult is working to boost its sales through campaigns centering on measures to promote better understanding of probiotics. In recent years, the demographic aging and falling birthrate of the Japanese population have led to a trend of

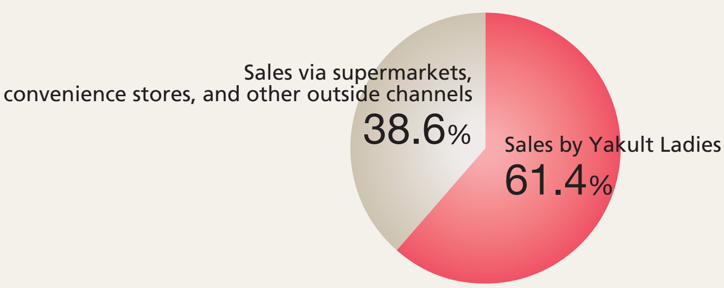
consumers decreasing their emphasis on product prices and increasing emphasis on products' quality, ingredients, and health value. The Company is focusing on the theme of health as it works to help customers recognize the value of our products. We are also striving to realize various synergistic benefits involving our direct delivery operations via Yakult Ladies and our other distribution routes, including stores, vending machines, and school and other types of cafeterias.

Regarding direct home and office delivery operations, Yakult is endeavoring to strengthen its Yakult Lady organizational power and tighten the focus of its lines of products exclusively reserved for direct delivery operations. Aiming to further accelerate the rise in sales of *Yakult 400,* the Company is providing thorough training courses for Yakult Ladies as well as additional literature for Yakult Ladies to use as educational and marketing tools.

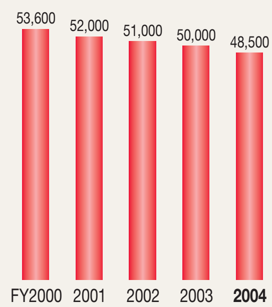
With respect to other sales via large-scale retailers and other channels, Yakult is striving to enhance store procurement staff's understanding of probiotics and thereby increase the variety and volume of Yakult products stocked by stores while expanding the market for those products. To enhance customer loyalty, the Company is also continuing to organize probiotics promotions aimed at ordinary consumers. Furthermore, we are placing strategic emphasis on marketing programs aimed at schools, offices, hospitals, and other institutions, and we will endeavor to increase the scale of business with such customers.

Yakult is also working to further expand sales of *Joie* drinkable yogurt by increasing emphasis on the long-selling product's functional capabilities. Accordingly, a redesigned package for *Joie* was introduced in April 2004.

Sales Ratio of Dairy Products by Channel



Number of Yakult Ladies in Japan



Dairy Products (Overseas)

Yakult is offering better health to customers throughout the world, and it is recognized worldwide as a leading probiotics company. The Company has 17 business bases outside of Japan, and it manufactures and sells approximately 15 million bottles of Yakult products per day in 24 countries and regions.

In expanding its overseas operations, Yakult has proceeded in the same manner as in Japan: the Company begins by ensuring that customers are able to gain a full understanding of the superior characteristics of *Lactobacillus casei* strain Shirota and the health benefits of Yakult products, only then taking vigorous steps to increase the number of Yakult product enthusiasts and the solid market position of the Yakult brand.

ASIA AND OCEANIA

Yakult's Asia and Oceania operations encompass production and sales of the fermented milk drink *Yakult* in Taiwan, Hong Kong and Guangzhou Province (China), Thailand, the Republic of Korea, the Philippines, Singapore, Indonesia, Malaysia, and Australia. In fiscal 2004, sales in the Asia and Oceania region increased 20.0%, to ¥8.8 billion.


Shanghai

Yakult (Singapore) Pte. Ltd. was previously an affiliate accounted for by the equity method, but it was converted into a wholly owned subsidiary in May 2003. In July 2003, Yakult increased its shareholding in Yakult Co., Ltd. (Taiwan), to 15%, making that company an affiliate accounted for by the equity method. In addition, the construction of a factory in Malaysia was completed. In February 2004, the facility began shipping products, principally for marketing in stores in the principal markets of peninsular Malaysia.

Regarding China, Yakult Lady distribution operations were commenced in Guangzhou City from August 2003. This and a contribution from rising demand in the Shanghai region boosted the sales volume of Guangzhou Yakult Co., Ltd., by 222.3%, to 189 thousand bottles of *Yakult* per day, a performance considerably better than original projections. In October 2003, Yakult decided to establish a subsidiary and factory in Shanghai. Plans also call for progressively expanding operations in northern China, and the Shanghai plant is expected to supply that region as well.

Demand for Yakult products in Thailand is rapidly rising, and the Company responded by increasing its production capacity by 280 thousand bottles, to 1,930 thousand bottles per day. In the Philippines, monthly sales volume compared with the same month of the previous year has risen for four consecutive years, and daily sales volume rose to 742 thousand bottles in January to December 2003. In Korea, sales volume decreased slightly, but the daily sales volume there of 5,153 thousand bottles remained the highest among Yakult's overseas markets.

THE AMERICAS

Yakult's operations in the Americas consist of production and sales of the fermented milk drink *Yakult* in Mexico, Brazil, and Argentina. Sales in the Americas decreased 4.4%, to ¥22.2 billion, mainly reflecting the impact of the depreciation of the Mexican peso against the yen.

In Brazil, a deterioration of economic conditions has been accompanied by a tendency of customers to purchase relatively inexpensive competing products, and this was a principal factor in depressing sales volume by 15.9%.

In Mexico, monthly sales volume compared with the same month of the previous year has risen for eight consecutive years, and daily sales volume rose to 2,157 thousand bottles in January to December 2003. The Yakult Lady delivery system has expanded in Mexico, and this system has succeeded in creating widespread awareness of Yakult products there. Sales via supermarkets and convenience stores in Mexico have also continued to be strong.

Mexico

EUROPE

In Europe, the fermented milk drink *Yakult* is manufactured and sold in the Netherlands as well as being marketed in the United Kingdom, Germany, and Belgium. In fiscal 2004, the Company's net sales in this region increased 14.8%, to ¥9.0 billion.

In the United Kingdom, Yakult began distributing its products via local milkmen six years ago. The continued strength of sales via this channel and the growing market penetration of *Yakult LT* boosted the daily sales volume 18.9%, to 255 thousand bottles. The volume of *Yakult LT* also advanced smoothly in the Netherlands, where the Company markets its products exclusively through retail stores, and daily sales volume in that country rose 9.6%, to 132 thousand bottles. However, a boom in the popularity of probiotics has led to a rise in the number of companies competing in the probiotics market, and this led to sales volume declines in Germany and Belgium.

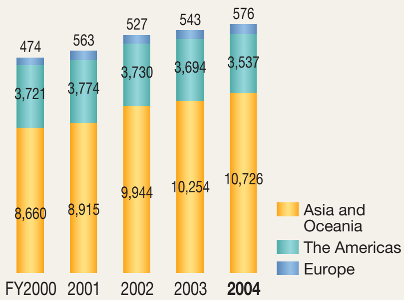
Netherlands

STRATEGY AND OUTLOOK

Yakult is stepping up it strategic efforts to expand its overseas sales of dairy products using business development methods tailored to match the special conditions of each country and region.

Seeing considerable potential for expanding its operations in China's huge market, the Company is proceeding with the implementation of a long-term business development strategy involving the establishment of local companies and facilities as well as the creation of strong Yakult Lady distribution systems. The Company is also considering the launch of the Yakult Lady distribution system in Malaysia in the near future.

Sales Quantity by Region
(Thousands of bottles/day)



Advance into Foreign Markets

Test sales
France, Spain, and the United States (East and West coasts)
Conducting feasibility studies based on the assumption of market entry
Vietnam, India, other Asian countries
Europe (Western European countries, primarily EU members, and certain Eastern European countries)
Various countries in Latin America

Juices and Other Beverages

FISCAL 2004 ACTIVITIES

Yakult's Juices and Other Beverages business encompasses functional beverages that promote good health as well as coffee, tea, and juice products.

During fiscal 2004, Yakult proactively undertook campaigns to highlight the functional characteristics and health benefits of its beverage products. Aiming to expand its business selling products through vending machines, in July 2003 the Company arranged an alliance with Kirin Beverage Corp. that calls for the initiation of full-fledged joint marketing activities. From October 2003, Yakult began using its vending machines to market Kirin Beverage's *Kirin FIRE* coffee beverage, *Kirin Gogono-Kocha* black tea beverage, and *Volvic* imported mineral water, while Kirin Beverage began marketing Yakult's *Bansoreicha* and *Itawaricha* health tea beverages. This arrangement has broadened the marketing routes for Yakult beverages while also boosting the average sales volume of the Company's vending machines.

Regarding new products, in March 2004 Yakult reinforced its mainstay *Toughman* line of nutritious tonic beverages with the launch of the reformulated new *Toughman* series of existing products as well as the all-new *Toughman V* product. These moves are designed to rebuild the *Toughman* brand and refresh the brand's image in a manner that attracts new types of customers.

Itawaricha, a stomach-friendly health tea beverage launched nationwide in June 2003, contains a substance called fucoidan found in Okinawa *mozuku* seaweed. However, we have not yet been able to promote sufficient understanding among consumers of the functional health benefits of this product, and sales volume fell below the target level.

In contrast, a steady rise was seen in sales of *Kurozu Drink,* a functional black vinegar health beverage launched nationwide in March 2004. Japanese demand for black vinegar, which is believed to generate various health benefits, has been growing, and a significant market for vinegar beverages centered on products containing black vinegar is taking shape.

Another noteworthy new product in this sector is *Shiso Drink,* a product containing perilla extract that was launched in February 2004.

FISCAL 2004 PERFORMANCE

Sales declined 7.6%. This drop reflected such factors as unseasonable summer weather and the general weakness of personal consumption as well as a rise in competition owing to the rising number of other companies' competing products, which affected sales through all marketing routes including the Yakult Lady system.

STRATEGY AND OUTLOOK

Yakult is maintaining the fundamental strategy of emphasizing functional beverages. In Japan, the progressive trend of demographic aging is increasing consumers' recognition of lifestyle factors affecting health quality, and this is boosting demand for high-value-added products with health benefits. In response, the Company is working to increase its products' appeal by clearly spotlighting the virtues of each product with such keywords as blood sugar levels, blood pressure, and triglyceride levels. We are also spotlighting the functional benefits of our products by proactively seeking authorization to have them bear the *Tokuho* mark.

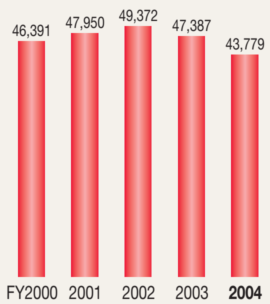
Regarding marketing strategies, the Company is seeking to better utilize the capabilities of the Yakult Lady distribution system for explaining product characteristics to customers while tightening its focus on strategic products. With respect to marketing via large-scale retailers and other stores, we are striving to expand our shelf space by making proposals such as those for the establishment of functional food corners.

In vending machine operations, Yakult is expanding its network of vending machines that primarily offer functional beverages while taking measures to more clearly differentiate its products from competing products. Moreover, having created a vending machine marketing alliance with Kirin Beverage, we are considering the possibility of expanding the scope of that alliance to encompass commissioned manufacturing and distribution activities.

Yakult's product strategy involves the strategic concentration of marketing expenditures on the strong *Bansoreicha* brand as well as the *Lemorea* relaxation beverage, *Itawaricha* health tea beverage, and other promising functional health beverages. The Company is endeavoring to attract a greater number of young new consumers of *Toughman* products, and it has therefore recruited a different group of celebrities to appear in a series of television commercials that are designed to appeal to relatively young people. The new *Toughman* line is being distributed by Yakult Ladies while *Toughman V* is being marketed through stores, and we anticipate that this strategy will help make *Toughman* a leading brand in the nutritional tonic market.

In April 2004, the Company introduced a redesigned package for *Milouge* that includes the banner "*Milouge*, a Dairy Product Made by Yakult," thereby emphasizing the product's positioning as a Yakult-brand dairy product. We are working to increase the volume of *Milouge* sales via vending machines and large-scale retailers.

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



Tokuho Mark

Products are allowed to bear labels that identify them as "a food product that can be expected to have positive health effects." Japan's Health, Labour and Welfare Minister grants permission for that product's package to display the *Tokuho* mark, which specifies the product's application and effects.

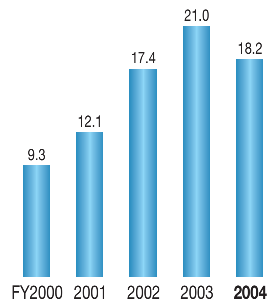
Yakult has obtained authorization to use the *Tokuho* mark for all of its dairy products and three products in the juices and other beverages segment.

Pharmaceuticals

The Company's principal pharmaceutical product is *Campto* (*Camptosar* in the United States), an innovative anticancer drug chemically derived from a plant alkaloid, camptothecin, which has been marketed in Japan since April 1994. *Campto* is approved for the treating of nine types of cancer in Japan and has been approved in the United States and Europe as first-line and second-line treatments of colorectal cancer.

In fiscal 2004, Yakult's pharmaceuticals business generated ¥18.2 billion in net sales, down 13.6% from the previous fiscal year, and operating income decreased 35.0%, to ¥5.1 billion.

Sales of Pharmaceuticals
(Billions of yen)



FISCAL 2004 ACTIVITIES

Pfizer acquired Yakult's licensee, Pharmacia in April 2003, and the reorganization of related operations temporarily depressed the sales of *Camptosar* in the United States. Pfizer's inventory policy resulted in a considerable drop in our sales of the active pharmaceutical ingredient to Pfizer.

Aiming to broaden the range of *Campto*'s indications, *Campto* is undergoing clinical testing for gastric cancer and small cell lung cancer in the United States and Europe as well as clinical testing for postoperative adjuvant therapy for colorectal cancer in Europe.

In Japan, Yakult applied for the import authorization of *Oxaliplatin* in February 2004. *Oxaliplatin* is one of the standard drugs for the treatment of colorectal cancer, currently used in more than 60 countries around the world.

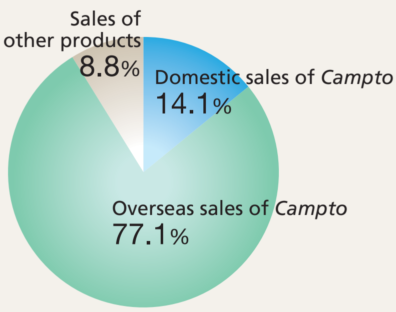
FISCAL 2004 PERFORMANCE

In fiscal 2004, sales of the active pharmaceutical ingredient for *Campto* overseas dropped 19.1%, to ¥14.0 billion. This depressed overall sales in the pharmaceuticals business segment, which fell 13.6%, to ¥18.2 billion, the first time the Company has recorded a year-on-year decrease in pharmaceuticals business. Sales in Japan grew 18.8%, to ¥2.6 billion, but this growth was insufficient to offset the fall in overseas sales.

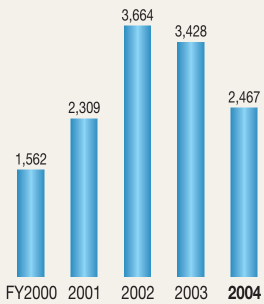
STRATEGY AND OUTLOOK

The Company's basic strategy for pharmaceutical business is to concentrate its resources on the development of anticancer drugs as well as such drugs to treat disorders associated with cancer and working to augment its drug development capabilities.

Breakdown of Pharmaceuticals Sales



***Campto* Royalty Income**
(Millions of yen)



Campto

The Company is utilizing product life-cycle management methods on *Campto/Camptosar* to discover and realize the drug's additional potential. *Camptosar's* protection period in the United States has been extended to February 2008 due to approval of pediatric exclusivity, while the protection period for principal European countries will end in 2009.

The Company is working to boost *Campto* sales overseas by proceeding with the post-marketing clinical investigations to probe evidence of *Campto* in combination with other agents for the treatment of non-small cell lung cancer and gastric cancer.

In an attempt to support the sales of *Campto/Camptosar* overseas, the Company will fully utilize clinical data generated in Japan. The approval of the antibody drugs *Avastin* and *Erbitux* has led to expectation of a rise in opportunities for the use of *Campto* in combination with these drugs. The Company aimed its sales of pharmaceuticals overseas of ¥13.3 billion in fiscal 2005.

In Japan, the Company has almost completed Phase II testing for the indication of pancreatic cancer (the 10th indication) and an application for this indication is to be soon submitted. To achieve an expansion of domestic sales, the Company will be increasing its medical representatives to 150 and deploying them nationwide in the future.

Placing particularly strong emphasis on preparations for the marketing of *Oxaliplatin,* the Company is proactively taking associated measures and considering the arrangement of related alliances. The Company is aiming to raise the level of domestic sales of pharmaceutical products to ¥6.0 billion in fiscal 2005 while seeking to increase sales of *Campto* in Japan to ¥4.2 billion.

Expansion of Indications for *Campto* and Development Pipeline

1. Expansion of *Campto* Indications

(As of June 30, 2004)

	Indications	Stage	Date of application	Remarks
Japan	Pancreatic cancer	Under sNDA (supplemental new drug application)		
Pfizer (Pharmacia)	Pancreatic cancer	Phase III completed	Date of application unknown	First-line treatment in combination with Gemcitabine
	Gastric cancer	Phase III	Scheduled to apply incorporating Aventis data	Second-line treatment in combination with 5-FU
	Small cell lung cancer	Phase III	Undecided	Utilization of JCOG data (*1)
	Pediatric cancer	Granted pediatric exclusivity in the United States (six months)		
	Breast cancer (oral formulation)	Phase II	Application scheduled for first quarter of fiscal 2005 (*2)	Second-line treatment
Aventis	Colorectal cancer (adjuvant therapy)	Phase III completed	Application scheduled for first quarter of fiscal 2005 (*2)	Prevention of recurrence
	Gastric cancer	Phase III completed	Application scheduled for fourth quarter of fiscal 2004 (approval expected within one year) (*2)	First-line treatment in combination with 5-FU/FA (*3)
	Small cell lung cancer	Phase III	Undecided	Utilization of JCOG data (*1)

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

2. Development Pipeline

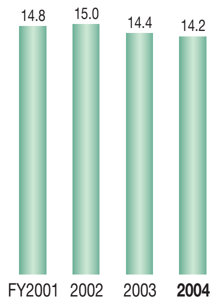
Product	Indications	Licensor	Joint development partner	Stage	Remarks
Oxaliplatin	Colorectal cancer	Debiopharm S.A. (Switzerland)	Independent development	Under NDA (new drug application)	Could be combined in future with *Campto*
FEMIEST	Osteoporosis	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Phase II completed, development on hold	Development was on hold due to publication of Phase III results for long-term hormone replacement therapy indicating risk exceeded benefit.
E_2/NETA patch	Post-menopausal symptoms	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Phase III	—
	Osteoporosis	Aventis	Teikoku Hormone Mfg. Co., Ltd.	Phase II completed, development on hold	—

Others

The others business segment includes business related to cosmetics products and the management of the Yakult Swallows, a major league professional baseball team in Japan.

During fiscal 2004, sales in the others business segment dropped 1.3%, to ¥14.2 billion, but operating income rose to ¥0.5 billion.

Sales of Others
(Billions of yen)



Cosmetics

FISCAL 2004 ACTIVITIES

During fiscal 2004, Yakult proactively explained the virtues of its unique functional cosmetics products—such as *Natural S.E. Liquid,* which employs a moisturizing agent developed from lactobacilli, and *B.E. Liquid,* an antiaging agent for skin derived using bifidobacteria to ferment soy milk—and also strove to augment the services it provides through home esthetique treatments. Regarding products, Yakult supplemented its high-end new *Parabio* series of basic skin care products with the September 2003 launch of the *Parabio AC Cream Extra.* More than 45 thousand units of this new product were sold, considerably above the original sales target of 9,000 units. Our product development and marketing efforts were crowned with success, as those buying *AC Cream Extra* included previous purchasers of new *Parabio* series products as well as new customers.

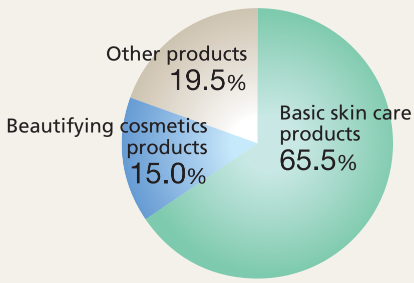
In the *Poshmama* series, strong sales were recorded of *Medicated Hand Gel,* which was launched in January 2003.

STRATEGY AND OUTLOOK

Yakult is seeking to increase its cosmetics sales by strengthening its marketing organization. Accordingly, the Company is working to train a greater number of employees to increase the level of Yakult Beauty Advisors' services. In addition, to make greater use of the nationwide coverage of the Yakult Lady distribution network, we are emphasizing an increase in cosmetics sales through this network. To approach customers who are difficult to contact through home visits, we are shifting from trial mail-order marketing operations to full-scale mail-order operations, and we are also planning to develop antenna shops, which are shops that serve as market barometers, and other new marketing methods.

Regarding product development, the Company is tightening its focus on four product lines—the *Parabio, Revecy-N, Grantia,* and *Poshmama* lines—while taking various measures to increase its manufacturing efficiency and marketing power.

Breakdown of Cosmetics Sales



Number of Cosmetics Marketing Staff

Type of Staff	Job Description	Number
Yakult Beauty Advisors	Home-visit marketing focused exclusively on cosmetics products	10,800
Esthetic Yakult Beauty Advisors	Yakult Beauty Advisors who also provide home esthetic treatments	1,400
Cosmetic Yakult Ladies	Yakult Ladies who also market cosmetics to existing dairy product customers	1,300

* In addition, there are 18,300 Yakult Ladies who market dairy products along with some cosmetics products.

Environment and Community Activities

Yakult is intent on being a company that consistently earns the trust and confidence of society with regard to fulfilling its corporate social responsibilities related to environmental protection, human rights, cultural enrichment, and community activities.

Yakult's corporate philosophy emphasizes "contributing to the health and happiness of people around the world." Besides striving to achieve this goal in its business operations, the Company strives to pursue this goal via all other corporate activities.

Environmental Protection

YAKULT'S BASIC POLICY ON THE ENVIRONMENT

To effectively contribute to protecting the global environment, Yakult established its Environmental Measures Council in 1991 and its Basic Policy on the Environment in 1997. Its environmental philosophy is: "Recognizing that environmental preservation and harmony with society are among the most important corporate management objectives, Yakult will give due consideration to environmental preservation with regard to all types and aspects of its corporate activities."

From 1999, Yakult has made systematic and sustained efforts to build strong environmental management systems. Besides proceeding with programs to obtain ISO 14001 compliance in each of the Yakult Group's manufacturing facilities, the Company has moved ahead proactively with the implementation of various environmental protection initiatives, such as those involving the reduction and recycling of waste, the conservation of energy, and the procurement of environment-friendly materials and products.

Yakult also publishes the *Yakult Environmental Report* annually, which presents information on the Company's environmental protection performance.

THE YAKULT BOTTLE-BASED WATER PURIFICATION SYSTEM

Making good use of the special shape of Yakult bottles, the Yakult bottle-based water purification system is able to attain a high degree of purification of wastewater from manufacturing and other human activities. The system is employed at the Company's factories, and it has helped improve water quality in ponds and rivers. Aiming to promote more widespread use of this system and increase its contribution to environmental preservation, the Company provides Yakult Filter Material (Yakult bottles whose bottoms have been removed) to national and local governments engaged in water purification activities such as those aimed at increasing water quality in ponds and rivers.

ENVIRONMENTAL ACTION PLAN IMPLEMENTATION

Aiming to strengthen the foundation for its environmental management systems, Yakult has since fiscal 2002 been implementing it First Stage Environmental Action Plan. Based on the results of this plan, the Company has drafted the Second Stage Environmental Action Plan, which is designed to further strengthen and broaden the scope of its environmental management systems.

FIRST STAGE ENVIRONMENTAL ACTION PLAN

(April 1, 2001, to March 31, 2004)

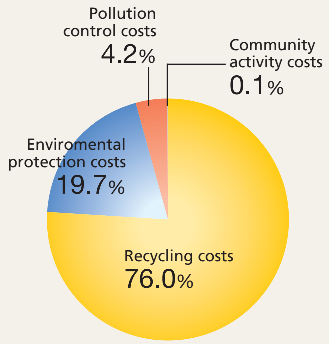
1. Building environmental management systems
   - Obtained ISO 14001 certification for all 12 domestic factories by January 2003
2. Reducing the volume of waste products
   - Measures to recycle nonburnable waste products increased recycled share of such waste products to 95.6%.
3. Resource conservation
   - Increased goal for reducing number of sheets of copying/printing paper used
4. "Green" procurement for office supplies
   - Share of environment-friendly products procured boosted to 78% (by value)

SECOND STAGE ENVIRONMENTAL ACTION PLAN

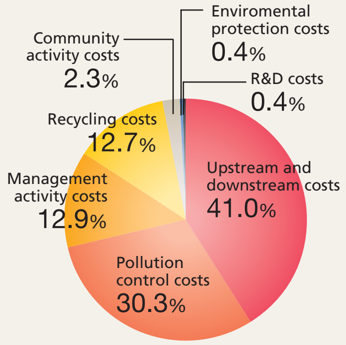
(April 1, 2004, to March 31, 2007)

1. Building environmental management systems
2. Reducing CO_2 emissions
3. Reducing disposal of waste products
   - Achieving zero emissions
   - Recycling 100% of office waste products
   - Reducing disposal of food waste products
4. Resource conservation (reducing consumption of copying/printing paper and water)
5. Reducing electric power consumption
6. Promoting procurement of products that conform with "Green" procurement guidelines
7. Promoting the overhaul and reuse of vending machines

Breakdown of Investment



Breakdown of Expenses



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.	5.7	234.7	240.4
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.	26.4	3.0	29.4
3. Recycling costs	Use of delivery cars for the recovery of empty containers, waste processing, proper disposal of vending machines, etc.	101.9	98.7	200.6
(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	0.0	316.7	316.7
(3) Management Activity Costs	ISO 14001 acquisition, employee training, environmental protection campaigns, analysis and measurement of waste, water quality measurement, etc.	0.0	100.2	100.2
(4) R&D Costs	Rationalization of packaging, use of easy-peel caps on dairy products, use of thinner 500ml PET bottles	0.0	2.8	2.8
(5) Community Activity Costs	Placement of flower beds, beautification activities, creation of environmental report, fees for membership in environmental groups, etc.	0.2	17.4	17.6
(6) Environmental Damage Costs		0.0	0.0	0.0
Total		134.1	773.6	907.7

Economic Effect of Environmental Protection Measures (Millions of yen)

Effect	Amount	Effect	Amount
Reduction in waste-processing costs resulting from recycling	1.5	Cost reductions from shift to lightweight containers and packaging	6.3
Income from recycling	3.2	Cost reductions from reuse of revamped vending machines	1,370.8
Cost reductions from energy saving	9.9	Cost benefit from "Green" procurement	0.1
Cost reductions from resource saving	4.0	Other	0.0
Total			1,395.7

Yakult Ladies' "Love Visitation Activities" provide companionship for elderly people living alone.

Community Activities

VISITATION PROGRAM FOR SENIOR CITIZENS

Yakult Ladies undertake "Love Visitation Activities" that involve the initiation of discussions with elderly customers living alone to confirm the well-being of those customers.

"Love Visitation Activities" trace their history back to 1972, when a Yakult Lady heard the story of a senior citizen who had died with no one by his side. She began distributing Yakult products to elderly people living alone. To cover the entire country, currently, Yakult conducts "Love Visitation Activities" in response to the requests of 290 local governments, with approximately 6,100 Yakult Ladies paying regular visits to 78,000 senior citizens throughout Japan.

ENCOURAGING AND SUPPORTING RESEARCH IN INTESTINAL FLORA

Yakult Bio-Science Foundation promotes and supports research that addresses the relationship the foundation annually organizes the Intestinal Flora Symposium.

In addition, Yakult operates the Lactobacilli Research Association, which supports research related to lactobacilli and enterobacteria of members at universities and research facilities throughout Japan.

DISSEMINATING INFORMATION ON PROBIOTICS TO PROMOTE BETTER UNDERSTANDING AMONG CONSUMERS

Yakult offers a Web site that presents information on probiotics and other health issues, thereby promoting better understanding of such issues among its customers. The Company has published *The Healthist* health information magazine since 1976 and creates various other publications and videos on health science. Moreover, we maintain and operate a video library to provide these materials to interested parties.

PROMOTING SPORTS AND CULTURE

Yakult owns the Yakult Swallows, a professional baseball team in Japan. Aiming to promote better understanding of the enjoyment of sports and the importance of good health, the Company organizes Yakult Swallows baseball clinics that enable schoolchildren to learn from professional baseball players.

In addition, we promote cultural activities by managing Yakult Hall, which hosts a wide variety of cultural events.

Board of Directors and Auditors

(As of June 25, 2004)

President

Sumiya Hori

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,
Senior Managing Director

Naomasa Tsuritani
General Manager,
International Business Division,
Managing Director

President

Sumiya Hori

Senior Managing Directors

Takayuki Ohashi
Tadashi Suzuki
Toshizo Shiga
Norihiro Nagata
Teruo Yokokura

Managing Directors

Mitsuhiko Kaneko
Akira Katsumata
Naomasa Tsuritani

Directors

Ryuichiro Tanaka
Kozo Kobayashi
Norihiko Matsuo
Masaaki Watanuki
Tamotsu Tomibe
Ryuji Chino
Kiyoshi Terada
Kenji Taguchi
Katsumi Otsubo
Yoshihiro Kawabata
Tsuyoshi Kinugasa
Simon C. Israel
Marcel Bertaud
Shinji Mizumoto
Kaoru Yamaguchi
Rikio Otsuka
Masahiko Sadakata

Senior Corporate Auditor

Yasukuni Miura

Corporate Auditors

Teruo Nakamura
Akihiko Okudaira
Ryohei Sumiya
Masahiko Ikeda
Seijyuro Tanigawa

Consolidated Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥238,847**	¥242,740	¥229,623	¥224,795	¥211,279	**$2,274,736**
Selling, general and administrative expenses	**113,756**	109,116	105,774	102,353	92,978	**1,083,397**
Operating income	**16,395**	21,619	13,071	16,107	14,834	**156,141**
Net income	**15,083**	14,383	11,108	10,537	8,084	**143,651**
Research and development costs	**6,457**	5,801	5,167	4,676	4,633	**61,492**
Capital investments	**7,802**	10,166	5,944	8,911	8,882	**74,302**
Depreciation and amortization	**7,985**	8,348	8,014	8,041	7,950	**76,044**
At the year-end:						
Total assets	**¥286,389**	¥276,203	¥269,094	¥242,247	¥235,454	**$2,727,510**
Net property, plant and equipment	**86,635**	85,156	87,798	82,805	79,500	**825,091**
Total liabilities	**90,354**	87,959	85,288	74,861	70,428	**860,514**
Total shareholders' equity	**182,766**	174,827	168,033	158,450	152,104	**1,740,629**

	Yen					U.S. dollars (Note 3)
Per share of common stock:						
Basic net income	**¥ 85.27**	¥ 80.88	¥ 63.20	¥ 60.00	¥ 46.05	**$0.81**
Total shareholders' equity	**1,047.78**	995.51	956.18	901.62	865.81	**9.98**
Cash dividends per share	**15.0**	15.0	15.0	15.0	22.5	**0.14**
Financial ratios:						
Return on equity (ROE) (%)	**8.4**	8.4	6.8	6.8	6.1	
Equity ratio (%)	**63.8**	63.3	62.4	65.4	64.6	

Notes: 1. Figures for 2000 have been rounded down to the nearest million.
2. Figures for 2001, 2002, 2003 and 2004 have been rounded to the nearest million.
3. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and had been made at the rate of ¥105 to U.S.$1, the approximate rate of exchange at March 31, 2004.

Management's Discussion and Analysis

OVERVIEW

In the first half of fiscal 2004, Japanese economic conditions remained harsh owing to such factors as the protraction of deflationary conditions and unseasonable weather during the summer. In the latter half, however, a rise in exports led to a recovery in corporate profitability and the expansion of capital investment. These upturns provided supportive conditions for the strengthening of the stock market and other positive trends, and Japan's economy began showing signs of a gradual recovery.

Amid this environment, the Yakult Group maintained its policy of promoting healthy living in the 21st century and developing activities to enlighten consumers about and popularize probiotics, the foundation of its business. Besides promoting the benefits of its products, the Group strove to improve its performance by strengthening its sales organization, conducting R&D on new products, and bolstering its production facilities. However, the Group's sales of juice and soft drink products were severely impacted by unseasonable summer weather, and pharmaceutical product sales, which had been rising rapidly, fell below their level in the previous year. Thus, the Group faced serious challenges.

As a result, on a consolidated basis, the Company's net sales declined 1.6%, to ¥238.8 billion, and operating income dropped 24.2%, to ¥16.4 billion, although net income grew 4.9%, to ¥15.1 billion. The rise in net income despite the fall in operating income reflected the Company's ¥5.9 billion gain on exemption from the future pension obligation of the governmental program.

RESULTS OF OPERATIONS

Net Sales

Net sales declined 1.6%, to ¥238.8 billion. This was mainly due to a drop in the pharmaceuticals sales that, in turn, reflected a business reorganization following the merger of Pharmacia and Pfizer that depressed our sales to the merged company and caused a drop in pharmaceuticals exports. Looking at net sales by industry segment, the Food and Beverages business accounted for 86.4% of sales, compared with 85.4% in the previous fiscal year; Pharmaceuticals accounted for 7.6%, down from 8.7%; and Others contributed 6.0% of net sales, up from 5.9%. Overseas sales decreased 4.1%, to ¥55.0 billion, decreasing their proportion of consolidated net sales from 23.6% to 23.0%.

Sales by Business

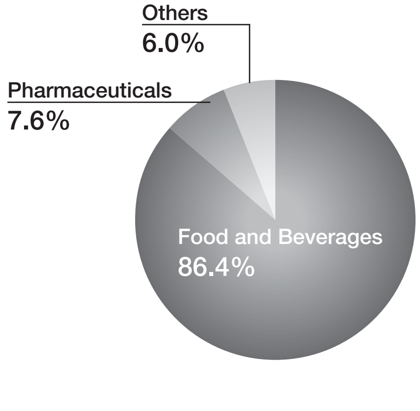
Food and Beverages: Sales by the Food and Beverages business edged down 0.4%, to ¥206.4 billion. Regarding dairy products, we continued to implement Companywide probiotics activities designed to spotlight Yakult's *Lactobacillus casei* strain Shirota while also working to expand our sales organization and strengthen sales initiatives. Strong growth was achieved in sales of mainstay fermented milk drink *Yakult 400,* and this growth supported a rise in overall sales of dairy products. Moreover, sales of *Yakult LT*—a light version of our mainstay fermented milk drink featuring less sweetness and fewer calories—grew steadily following the October 2003 introduction of a redesigned package for that product. In addition, higher sales were recorded of soft-type yogurt *Purela* and hard-type yogurt *Sofuhl* as the market for yogurts with health benefits continued to expand. Despite a decrease in sales of bifidobacteria products, overall sales of dairy products increased. 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 *(Tokuho)* mark on their packaging.

Yakult's overseas operations commenced in March 1964 with Yakult Co., Ltd. (Taiwan), as an associated company accounted for by the equity method and have grown to include business bases in 17 countries and regions, and operations in 23 countries* and regions, including those in which test sales are being conducted. These operations focus primarily on the production and sale of fermented milk drink *Yakult*. Daily average *Yakult* sales reached approximately 15.2 million bottles as of March 2004. Marketing operations in Malaysia began in February 2004.

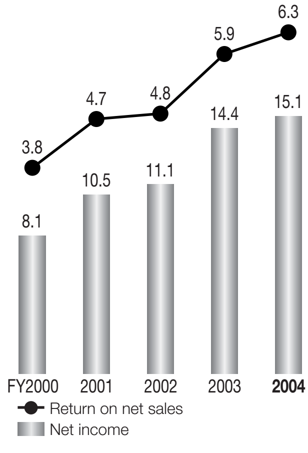
In Juices and Other Beverages operations, we undertook vigorous sales promotion activities focused on the special benefits of functional foods. We strengthened our product lineup by launching two new products. *Itawaricha,* a stomach-friendly health tea beverage, was launched in June 2003, and *Shiso Drink,* a product containing perilla extract that is reputed to help alleviate allergic reactions, was launched in February 2004. *Kurozu Drink,*

* As of March 31, 2004

Breakdown of Net Sales



Return on Net Sales and Net Income
(%/Billions of yen)



a functional black vinegar health beverage previously test marketed in parts of Japan, was launched nationwide in March 2004. The *Toughman* line of nutritious tonic beverages has long been a mainstay product line, and Yakult further enhanced its brand image in this market sector with the launch of the reformulated new *Toughman* series of existing products as well as the all-new *Toughman V* product. In addition, having arranged an alliance with Kirin Beverage, we began joint marketing activities with that company from October 2003 that have boosted the average sales volume of Yakult's vending machines and generated other benefits. However, intensifying competition and cooler summer weather depressed sales of such principal products as *Bansoreicha* and *Lemorea,* and marketing operations faced harsh market conditions.

Pharmaceuticals: Sales by the Pharmaceuticals business fell 13.6%, to ¥18.2 billion. In this field, we concentrated efforts on increasing sales of the anticancer drug *Campto. Campto* has been approved in the United States and the EU 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 Aventis and Pfizer. (Pfizer absorbed the previous licensee, Pharmacia, in April 2003.) At present, clinical testing to expand the drug's indications to include such additional indications as lung cancer and stomach cancer are moving forward in the United States and the EU.

Besides maintaining domestic sales activities focused on *Campto,* Yakult has also striven to increase sales of *FEMIEST,* an agent for treating post-menopausal symptoms, and *SPHEREX,* an agent for the treatment of arterial embolisms in medical devices, and the Company is working to reinforce its capabilities and expand its sales routes in the cancer-treatment product market segment by promoting such products as *Opeprim,* which is a chemotherapy agent for adrenal cancer and an adrenocortical hormone synthesis inhibitor. Furthermore, in February 2004, we submitted an application for authorization to import the chemotherapy agent *Oxaliplatin.* Preparations are also being made to extend the range of *Campto*'s approved indications to include pancreatic cancer.

However, business reorganization processes associated with Pfizer's absorption of Pharmacia had a considerable impact on overseas sales, which were lower than in the previous fiscal year.

Others: Sales by the Others business edged down 1.3%, to ¥14.2 billion. This business encompasses Yakult's cosmetics as well as its professional baseball team.

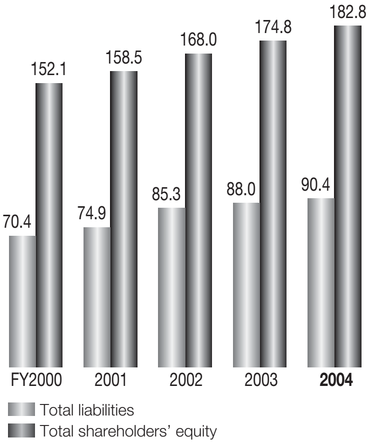
In cosmetics operations, the Company worked to attract customers to the functions of *Natural S.E. Liquid,* a moisturizing agent developed from lactobacilli, and *B.E. Liquid,* an antiaging agent derived from the use of bifidobacteria in the fermentation of soy milk, as well as endeavored to enhance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

Besides expanding the *Parabio* series of skin care products with the addition of *Parabio AC Cream Extra,* we renovated the *Bi-Cycle* series of products incorporating *B.E. Liquid.* Marketing operations focused on newly introduced products enabled an increase in sales of mainstay skin care products. Moreover, we reinforced the *Poshmama* series with the addition of *Sara-Sara Sun Screen* and *Medicated Hand Cream* products and strove to expand the clientele for this line while also eliminating certain slow-selling products with the goal of enhancing the efficiency of both marketing and manufacturing operations.

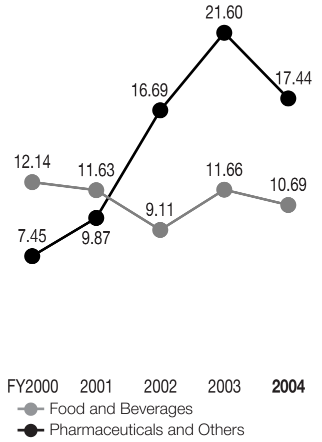
COSTS, EXPENSES, AND EARNINGS

Cost of sales decreased 3.0%, to ¥108.7 billion, a rate of decrease greater than the 1.6% decline recorded in net sales. Consequently, the gross profit margin increased 0.6 percentage point, from 53.9% to 54.5%, and gross profit declined only 0.4%, to ¥130.2 billion. Selling, general and administrative expenses rose 4.3%, to ¥113.8 billion, largely reflecting the efforts of the parent company and subsidiaries in Europe to increase future sales by augmenting spending on sales promotion campaigns and market surveys and research programs as well as a rise in net periodic benefit costs. As a result, operating income fell 24.2%, to ¥16.4 billion, a larger margin of decrease than that in gross profit. Looking at operating income by industry segment, operating income in the Food and Beverages business fell 8.6%, while operating income

Total Liabilities and Total Shareholders' Equity
(Billions of yen)



Operating Margin by Business Segment
(%)



in Pharmaceuticals dropped 35.0%. However, Others regained its operating profitability, generating ¥0.5 billion in operating income, compared with a ¥0.2 billion operating loss in the previous fiscal year.

Other income and expenses improved ¥4.9 billion, to income of ¥9.2 billion. This reflected a ¥5.9 billion gain on exemption from the future pension obligation of the governmental program. As a result, income before income taxes and minority interests decreased only 1.3%, to ¥25.6 billion.

The actual effective tax rate decreased from 37.4% to 35.5%. This principally reflected tax deductions associated with tax credits for investments in IT and R&D. As a result, net income grew 4.9%, to ¥15.1 billion, while the profit margin rose 0.4 percentage point, from 5.9% to 6.3%.

CAPITAL INVESTMENTS AND R&D EXPENSES

Capital investments fell 23.3%, to ¥7.8 billion, reflecting the completion during the previous fiscal year of investment in production facilities needed for the nationwide launch of the soft-type yogurt product *Purela.*

R&D expenses rose 11.3%, to ¥6.5 billion, reflecting the use of ¥2.2 billion for R&D related to Food for Specified Health Uses *(Tokuho)* mark products and other beverage and food products as well as the use of ¥2.6 billion for R&D related to *Oxaliplatin* and other pharmaceutical products.

Financial Position

Total assets at year-end were up 3.7%, or ¥10.2 billion, from fiscal 2003 year-end, and this rise was primarily attributable to the parent company.

Current assets rose ¥2.1 billion, mainly owing to increases of ¥4.3 billion in inventories and ¥2.3 billion in notes and accounts receivable. However, cash and cash equivalents decreased ¥2.7 billion due to such factors as investment in overseas facilities. Net property, plant and equipment grew ¥1.5 billion, due to a rise in the number of newly consolidated subsidiaries. Investments and other assets rose ¥6.6 billion, mainly owing to a rise in investment securities.

Total liabilities grew 2.7%, or ¥2.4 billion, mainly because of a ¥1.3 billion rise in income taxes payable.

Shareholders' equity increased 4.5%, or ¥7.9 billion, mainly reflecting a rise in retained earnings that was partially offset by increases in the magnitude of foreign currency translation adjustments and treasury stock. As a result, the equity ratio edged up 0.5 percentage point, from 63.3% to 63.8%, and the debt-to-equity ratio declined 1.1 percentage points, from 10.5% to 9.4%. Although interest-bearing debt totaled ¥17.2 billion, because cash and cash equivalents came to ¥75.6 billion, the Company maintained effectively "debtless" operations.

Regarding asset profitability, ROE remained unchanged at 8.4%, although ROA (the ratio of operating income to total assets) was down 2.1 percentage points, from 7.8% to 5.7%. This reflects the further fortification of the Company's already solid financial position despite a temporary dip in asset profitability.

Cash Flows

Net cash provided by operating activities amounted to ¥18.1 billion, down from ¥33.0 billion in the previous fiscal year. This mainly reflected a decrease in operating income, a rise in inventories, and a rise in income taxes paid.

Net cash used in investing activities totaled ¥9.7 billion, up from ¥7.3 billion. This primarily resulted from increased purchasing of investment securities and decreased redemption of time deposits, which were partially offset by decreased purchases of property, plant and equipment.

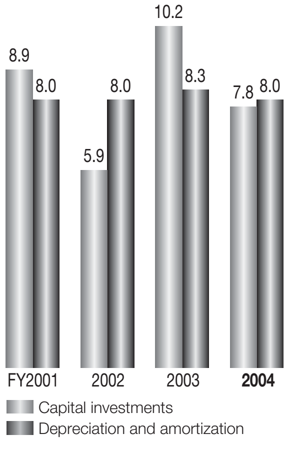
Net cash used in financing activities increased to ¥8.4 billion, from ¥5.3 billion, mainly due to a rise in the repurchase of treasury stock.

As a result, cash and cash equivalents at year-end totaled ¥75.6 billion, down ¥2.7 billion from fiscal 2003.

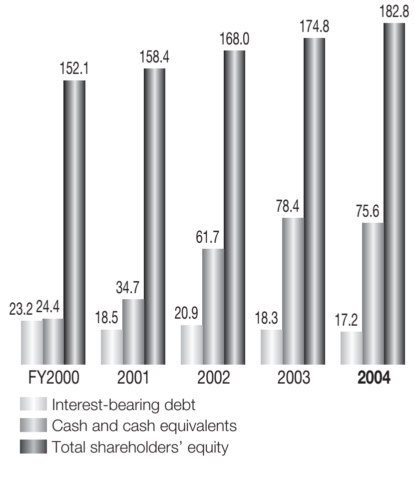
Dividends

Viewing dividend distribution policies as an important part of its basic management strategy, Yakult has the basic policy of seeking to maintain stable dividends of ¥15 per share while proactively

Capital Investments and Depreciation and Amortization
(Billions of yen)



Interest-Bearing Debt and Liquidity on Hand
(Billions of yen)



investing funds in projects needed to support the Company's future sustained growth.

In accordance with this policy, in the fiscal year under review, we paid dividends of ¥15 per share. The payout ratio for the parent company dropped 5.9 percentage points, to 29.6%, although dividends on equity remained approximately unchanged at 1.8%.

Aiming to increase shareholder benefits through the repurchase of treasury stock, based on a resolution approved at the 51st annual general shareholders' meeting held on June 27, 2003, Yakult had by March 2004 used ¥2.0 billion to repurchase 1.18 million shares of its stock.

Internal reserves are to be used for R&D investment and facility renewal designed to strengthen the Company and enhance its competitiveness.

FORWARD-LOOKING STATEMENTS

Food and Beverages

Yakult will continue to carry out Companywide activities revolving around the use of probiotics in its dairy product business while seeking to expand its customer base by further promoting the Yakult Group's founding concepts of preventive medicine and the link between a healthy intestinal tract and a long life.

In April 2004, we introduced a redesigned package for *Joie* drinkable yogurt that emphasizes the product's functional benefits, and we are striving to use this new packaging to boost sales of *Joie*.

Regarding Juices and Other Beverages operations, the Company is focusing primarily on functional health products, particularly Food for Specified Health Uses *(Tokuho)* mark products, as it works to promote increased sales. We are also striving to strengthen the direct sales routes of our sales companies, expand our network of vending machines, and boost sales per vending machine.

Overseas, there are still numerous promising markets remaining to be developed, and, as the leading company in the field of probiotics, we plan to vigorously expand internationally. In China, in view of the rising demand in the Shanghai area that is currently being satisfied by Guangzhou Yakult Co., Ltd., as well as our desire to expand marketing operations in northern regions of China, we are preparing to establish an additional company based in Shanghai.

Pharmaceuticals

Because the impact of Pfizer's business reorganization measures is expected to linger during fiscal 2005, Yakult is projecting that its overseas sales of pharmaceuticals will remain at approximately the same level as in the year under review. In Japan, we are continuing our efforts to augment marketing efforts and thereby promote a large rise in sales of *Campto.*

Because of uncertainty regarding the timing of receipt of authorization to import the chemotherapy agent *Oxaliplatin,* the Company has not included estimated sales of *Oxaliplatin* in its projections of fiscal 2005 sales.

Others

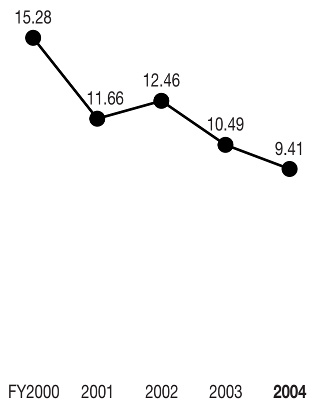
In the cosmetics operations, Yakult is working to augment its customer services that involve esthetique services while also taking steps to upgrade efficiency and customer satisfaction through scrap-and-build measures related to additions to and subtractions from product lines.

The Company is implementing new product launch related campaigns to attract new customers, programs to foster the development of individual brands, and seasonal sales campaigns and other measures aimed at invigorating sales. At the same time, we are seeking to upgrade our sales capabilities by strengthening education and training programs for sales companies' staff and Yakult Beauty Advisors.

As a result of the aforementioned activities and initiatives, Yakult projects that, in fiscal 2005, its net sales will grow 4.7%, to ¥250.0 billion; operating income will rise 9.8%, to ¥18.0 billion; and net income will decrease 23.8%, to ¥11.5 billion. The temporary drop in net income is expected to result from such factors as the lack of the special gain on exemption from the future pension obligation of the governmental program recorded in fiscal 2004.

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.

Debt-to-Equity Ratio
(%)



Consolidated Balance Sheets

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries   March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 75,649**	¥ 78,391	**$ 720,465**
Time deposits (Note 5)	**2,112**	3,852	**20,110**
Receivables:			
Notes and accounts receivable	**35,277**	32,932	**335,976**
Unconsolidated subsidiaries and associated companies	**3,208**	3,060	**30,554**
Other	**1,767**	2,128	**16,828**
Inventories (Note 3)	**27,022**	22,732	**257,354**
Deferred tax assets (Note 8)	**3,199**	2,955	**30,464**
Other current assets	**1,976**	1,966	**18,819**
Allowance for doubtful accounts	**(464)**	(396)	**(4,417)**
Total current assets	**149,746**	147,620	**1,426,153**
Property, plant and equipment:			
Land (Note 5)	**31,986**	30,047	**304,629**
Buildings and structures (Note 5)	**71,535**	69,721	**681,286**
Machinery, equipment and vehicles	**77,593**	74,391	**738,977**
Furniture and fixtures	**13,881**	13,620	**132,204**
Construction in progress	**623**	280	**5,933**
Total	**195,618**	188,059	**1,863,029**
Accumulated depreciation	**(108,983)**	(102,903)	**(1,037,938)**
Net property, plant and equipment	**86,635**	85,156	**825,091**
Investments and other assets:			
Investment securities (Note 4)	**9,209**	4,630	**87,704**
Investments in and advances to unconsolidated subsidiaries and associated companies	**13,819**	11,025	**131,606**
Long-term loans	**667**	825	**6,351**
Goodwill	**2,194**	879	**20,898**
Deferred tax assets (Note 8)	**13,553**	14,156	**129,081**
Other assets	**10,566**	11,912	**100,626**
Total investments and other assets	**50,008**	43,427	**476,266**
Total	**¥286,389**	¥276,203	**$2,727,510**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 11,719**	¥ 12,372	**$ 111,612**
Current portion of long-term debt (Note 5)	**974**	753	**9,279**
Payables:			
Notes and accounts payable	**25,148**	25,502	**239,507**
Unconsolidated subsidiaries and associated companies	**199**	187	**1,894**
Other	**5,349**	4,081	**50,944**
Income taxes payable	**5,052**	3,746	**48,116**
Accrued expenses	**11,657**	10,178	**111,019**
Deferred tax liabilities (Note 8)	**949**	1,143	**9,034**
Other current liabilities	**3,968**	3,764	**37,788**
Total current liabilities	**65,015**	61,726	**619,193**
Long-term liabilities:			
Long-term debt (Note 5)	**4,507**	5,207	**42,919**
Liability for retirement benefits (Note 6)	**17,843**	18,379	**169,932**
Deferred tax liabilities (Note 8)	**1,678**	1,707	**15,981**
Other long-term liabilities	**1,311**	940	**12,489**
Total long-term liabilities	**25,339**	26,233	**241,321**
Minority interests	**13,269**	13,417	**126,367**
Shareholders' equity (Notes 7 and 11):			
Common stock— authorized, 700,000,000 shares; issued, 175,910,218 shares in 2004 and 2003	**31,118**	31,118	**296,359**
Capital surplus	**40,739**	40,661	**387,996**
Retained earnings	**121,770**	109,345	**1,159,718**
Unrealized gain on available-for-sale securities	**1,300**	340	**12,380**
Foreign currency translation adjustments	**(9,807)**	(6,310)	**(93,401)**
Treasury stock—at cost, 1,478,155 shares in 2004 and 305,104 shares in 2003	**(2,354)**	(327)	**(22,423)**
Total shareholders' equity	**182,766**	174,827	**1,740,629**
Total	**¥286,389**	¥276,203	**$2,727,510**

Consolidated Statements of Income

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥238,847**	¥242,740	**$2,274,736**
Cost of sales (Note 10)	**108,696**	112,005	**1,035,198**
Gross profit	**130,151**	130,735	**1,239,538**
Selling, general and administrative expenses (Note 10)	**113,756**	109,116	**1,083,397**
Operating income	**16,395**	21,619	**156,141**
Other income (expenses):			
Interest and dividend income	**1,127**	1,056	**10,730**
Interest expense	**(327)**	(468)	**(3,119)**
Royalty income	**2,563**	3,594	**24,412**
Foreign exchange gain	**661**	1,145	**6,295**
Gain on exemption from the future pension obligation of the governmental program (Note 6)	**5,908**		**56,265**
Equity in earnings of unconsolidated subsidiaries and associated companies	**2,711**	2,681	**25,815**
Charge for transitional obligations for retirement benefits	**(3,033)**	(3,942)	**(28,884)**
Other—net	**(412)**	255	**(3,914)**
Other income—net	**9,198**	4,321	**87,600**
Income before income taxes and minority interests	**25,593**	25,940	**243,741**
Income taxes (Note 8):			
Current	**9,342**	7,468	**88,973**
Deferred	**(263)**	2,231	**(2,507)**
Total income taxes	**9,079**	9,699	**86,466**
Minority interests in net income	**1,431**	1,858	**13,624**
Net income	**¥ 15,083**	¥ 14,383	**$ 143,651**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (m)):			
Basic net income	**¥85.27**	¥80.88	**$0.81**
Diluted net income		80.87	
Cash dividends applicable to the year	**15.00**	15.00	**0.14**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries   Years ended March 31, 2004 and 2003

	Outstanding 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, 2002	175,734	¥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)	
Repurchase of treasury stock	(183)						(252)
Disposal of treasury stock	31						27
Other decrease in treasury stock	23						22
Balance, March 31, 2003	175,605	31,118	40,661	109,345	340	(6,310)	(327)
Net income				**15,083**			
Surplus from disposal of treasury stock			**78**				
Adjustments to retained earnings for revaluation based on general price-level accounting				**136**			
Cash dividends, ¥15 per share				**(2,627)**			
Bonuses to directors and corporate auditors				**(167)**			
Net increase in unrealized gain on available-for-sale securities					**960**		
Net decrease in foreign currency translation adjustments						**(3,497)**	
Repurchase of treasury stock	**(1,226)**						**(2,044)**
Disposal of treasury stock	**112**						**89**
Other increase in treasury stock	**(59)**						**(72)**
Balance, March 31, 2004	**174,432**	**¥31,118**	**¥40,739**	**¥121,770**	**¥1,300**	**¥(9,807)**	**¥(2,354)**

	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, 2003	$296,359	$387,246	$1,041,385	$ 3,239	$(60,096)	$ (3,114)
Net income			**143,651**			
Surplus from disposal of treasury stock		**750**				
Adjustments to retained earnings for revaluation based on general price-level accounting			**1,291**			
Cash dividends, $0.14 per share			**(25,015)**			
Bonuses to directors and corporate auditors			**(1,594)**			
Net increase in unrealized gain on available-for-sale securities				**9,141**		
Net decrease in foreign currency translation adjustments					**(33,305)**	
Repurchase of treasury stock						**(19,465)**
Disposal of treasury stock						**846**
Other increase in treasury stock						**(690)**
Balance, March 31, 2004	**$296,359**	**$387,996**	**$1,159,718**	**$12,380**	**$(93,401)**	**$(22,423)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Operating activities:			
Income before income taxes and minority interests	**¥25,593**	¥25,940	**$243,741**
Adjustments for:			
Income taxes—paid	**(8,222)**	(4,864)	**(78,302)**
Depreciation and amortization	**7,985**	8,348	**76,044**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(2,711)**	(2,681)	**(25,815)**
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	**(2,580)**	1,499	**(24,570)**
Increase in inventories	**(5,524)**	(1,666)	**(52,613)**
Decrease in trade payables	**(538)**	(3,474)	**(5,124)**
Increase (decrease) in liability for retirement benefits	**(537)**	5,981	**(5,111)**
Other—net	**4,633**	3,883	**44,120**
Total adjustments	**(7,494)**	7,026	**(71,371)**
Net cash provided by operating activities	**18,099**	32,966	**172,370**
Investing activities:			
Decrease in time deposits	**1,741**	4,413	**16,579**
Purchases of property, plant and equipment	**(7,753)**	(10,405)	**(73,837)**
Proceeds from sales of property, plant and equipment	**1,703**	917	**16,223**
Purchases of investment securities	**(3,046)**	(2,330)	**(29,006)**
Acquisition of controlling interest in a company	**303**	(226)	**2,882**
Acquisition of shares of subsidiaries	**(175)**	(64)	**(1,667)**
Increase in loans receivable	**(788)**	(214)	**(7,505)**
Collection of loans receivable	**246**	315	**2,345**
Other—net	**(1,893)**	299	**(18,035)**
Net cash used in investing activities	**(9,662)**	(7,295)	**(92,021)**
Financing activities:			
Net decrease in short-term loans	**(2,334)**	(1,654)	**(22,231)**
Proceeds from long-term debt	**13**	388	**126**
Payments for settlement of long-term debt	**(1,055)**	(973)	**(10,052)**
Repurchase of treasury stock	**(2,044)**	(252)	**(19,465)**
Disposal of treasury stock	**227**	41	**2,158**
Dividends paid	**(2,627)**	(2,638)	**(25,014)**
Other—net	**(556)**	(202)	**(5,291)**
Net cash used in financing activities	**(8,376)**	(5,290)	**(79,769)**
Foreign currency translation adjustments on cash and cash equivalents	**(2,803)**	(3,736)	**(26,692)**
Net increase (decrease) in cash and cash equivalents	**(2,742)**	16,645	**(26,112)**
Cash and cash equivalents, beginning of year	**78,391**	61,746	**746,577**
Cash and cash equivalents, end of year	**¥75,649**	¥78,391	**$720,465**

Notes to Consolidated Financial Statements

Yakult Honsha Co., Ltd. and consolidated subsidiaries Years ended March 31, 2004 and 2003

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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2003 financial statements to conform to the classifications and presentations used in 2004.

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 ¥105 to $1, the approximate rate of exchange at March 31, 2004. 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, 2004 include the accounts of the Company and its 62 (54 in 2003) 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 2003) 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.

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 fair value of the net assets at the respective dates of acquisition, is being amortized on a straight-line basis from 3 to 10 years (from 5 to 10 years in 2003).

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

(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, and 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 non-contributory and 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, 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.

Diluted net income per share for the year ended March 31, 2004 is not disclosed because the Company redeemed convertible bonds during the year ended March 31, 2003.

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.

(n) New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

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

The Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise	**¥ 4,129**	¥ 4,009	**$ 39,322**
Finished products	**1,256**	1,329	**11,964**
Work in process	**3,500**	2,487	**33,337**
Raw materials	**17,300**	13,942	**164,758**
Other	**837**	965	**7,973**
Total	**¥27,022**	¥22,732	**$257,354**

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Investment securities:			
Marketable equity securities	**¥6,449**	¥1,837	**$61,416**
Government and corporate bonds	**1**	1	**10**
Trust fund investments and other	**2,759**	2,792	**26,278**
Total	**¥9,209**	¥4,630	**$87,704**

The carrying amounts and aggregate fair values of investment securities at March 31, 2004 and 2003 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥4,269**	**¥2,210**	**¥ 30**	**¥6,449**
Debt securities	**1**			**1**
Other	**128**	**5**	**5**	**128**
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

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as—				
Available-for-sale:				
Equity securities	**$40,654**	**$21,050**	**$288**	**$61,416**
Debt securities	**10**			**10**
Other	**1,221**	**45**	**51**	**1,215**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Available-for-sale:			
Equity securities	**¥2,631**	¥2,671	**$25,063**
Total	**¥2,631**	¥2,671	**$25,063**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥23 million ($216 thousand) and ¥3 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥2 million ($15 thousand) for the year ended March 31, 2004. Gross realized loss was ¥3 million ($26 thousand) for the year ended March 31, 2004 and ¥3 million 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, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
Available-for-sale:		
Due after one year through five years	¥1	$10
Total	¥1	$10

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

Short-term bank loans at March 31, 2004 and 2003 were ¥11,719 million ($111,612 thousand) and ¥12,372 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2004 and 2003 ranged from 0.59% to 3.65% and 0.59% to 4.31%, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans from banks and other financial institutions, 1.23% to 18.00% (1.42% to 18.00% in 2003), due serially to 2025:			
Collateralized	**¥1,764**	¥1,576	**$16,799**
Unsecured	**3,717**	4,384	**35,399**
Total	**5,481**	5,960	**52,198**
Less current portion	**(974)**	(753)	**(9,279)**
Long-term debt, less current portion	**¥4,507**	¥5,207	**$42,919**

Annual maturities of long-term debt as of March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 974	$ 9,279
2006	2,596	24,721
2007	467	4,448
2008	524	4,985
2009	331	3,155
2010 and thereafter	589	5,610
Total	¥5,481	$52,198

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥5,721 million ($54,486 thousand) and the above collateralized long-term debt at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 500	$ 4,762
Land	5,202	49,545
Buildings and structures—net of accumulated depreciation	1,434	13,655
Total	¥7,136	$67,962

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.

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, 2004 and 2003, included amounts for directors and corporate auditors in the amount of ¥658 million ($6,266 thousand) and ¥799 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The Company and certain consolidated subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from the obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on July 25, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥5,908 million ($56,265 thousand) for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥13,066 million ($124,441 thousand) as at March 31, 2004.

The liability (asset) for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥58,383**	¥79,526	**$556,025**
Fair value of plan assets	**(28,525)**	(37,206)	**(271,668)**
Unrecognized actuarial loss	**(10,007)**	(16,889)	**(95,300)**
Unrecognized transitional obligation	**(2,730)**	(7,883)	**(25,999)**
Net liability	**17,121**	17,548	**163,058**
Prepaid pension cost	**64**	32	**608**
Liability for employees' retirement benefits	**¥17,185**	¥17,580	**$163,666**

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥2,460**	¥2,973	**$23,433**
Interest cost	**1,428**	2,084	**13,599**
Expected return on plan assets	**(664)**	(1,751)	**(6,325)**
Recognized actuarial loss	**1,500**	1,179	**14,281**
Amortization of transitional obligation	**3,033**	3,941	**28,884**
Net periodic benefit costs	**¥7,757**	¥8,426	**$73,872**
Gain on exemption from the future pension obligation of the governmental program	**(5,908)**		**(56,265)**
Total	**¥1,849**	¥8,426	**$17,607**

Assumptions used for the years ended March 31, 2004 and 2003, are set forth as follows:

	2004	2003
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	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 various amendments have become effective since 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 of the issuance 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. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amounts 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 ¥64,830 million ($617,425 thousand) as of March 31, 2004, 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, 2004 and 2003. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

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 40.69%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 40.69% and 40.49% as at March 31, 2004 and 2003, respectively.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Tax loss carryforwards	**¥ 2,850**	¥ 2,907	**$ 27,142**
Loss from revaluation of securities	**7,381**	7,353	**70,293**
Pension and severance costs	**6,754**	6,834	**64,323**
Allowance for doubtful receivables	**1,156**	1,190	**11,011**
Other	**4,966**	4,399	**47,302**
Less valuation allowance	**(2,575)**	(2,751)	**(24,526)**
Total	**¥20,532**	¥19,932	**$195,545**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**¥ 2,163**	¥ 2,074	**$ 20,601**
Inventories	**932**	1,130	**8,871**
Unrealized gain on land held by a consolidated subsidiary	**1,530**	1,305	**14,576**
Other	**1,782**	1,162	**16,967**
Total	**¥ 6,407**	¥ 5,671	**$ 61,015**
Net deferred tax assets	**¥14,125**	¥14,261	**$134,530**

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, 2004 and 2003 is as follows:

	2004	2003
Normal effective statutory tax rate	**42.05%**	42.05%
Equity in earnings of associated companies	**(4.45)**	(4.35)
Tax credit for investments in IT and R&D	**(1.71)**	
Permanently non-deductible expenses	**1.62**	1.44
Other—net	**(2.04)**	(1.75)
Actual effective tax rate	**35.47%**	37.39%

At March 31, 2004, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥7,598 million ($72,360 thousand), which are available to be offset against taxable income of 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
2005	¥ 65	$ 619
2006	1,264	12,037
2007	441	4,198
2008	113	1,078
2009 and thereafter	5,715	54,428
Total	¥7,598	$72,360

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 ¥6,475 million ($61,664 thousand) and ¥6,735 million for the years ended March 31, 2004 and 2003, 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, 2004 and 2003 was as follows:

	Millions of yen					
	2004			2003		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥24,260**	**¥4,658**	**¥28,918**	¥26,511	¥4,523	¥31,034
Accumulated depreciation	**13,672**	**3,115**	**16,787**	13,837	2,643	16,480
Net leased property	**¥10,588**	**¥1,543**	**¥12,131**	¥12,674	¥1,880	¥14,554

	Thousands of U.S. dollars		
	2004		
	Furniture and Fixtures	Other	Total
Acquisition cost	**$231,049**	**$44,366**	**$275,415**
Accumulated depreciation	**130,206**	**29,669**	**159,875**
Net leased property	**$100,843**	**$14,697**	**$115,540**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 5,258**	¥ 5,666	**$ 50,074**
Due after one year	**7,196**	9,261	**68,531**
Total	**¥12,454**	¥14,927	**$118,605**

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 ¥6,108 million ($58,175 thousand) and ¥6,290 million for the years ended March 31, 2004 and 2003, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥351 million ($3,339 thousand) and ¥432 million for the years ended March 31, 2004 and 2003, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥ 44**	¥41	**$ 421**
Due after one year	**80**	37	**764**
Total	**¥124**	¥78	**$1,185**

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,457 million ($61,492 thousand) and ¥5,801 million for the years ended March 31, 2004 and 2003, respectively.

11. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2004 were approved at the Company's shareholders meeting held on June 25, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥7.5 ($0.07) per share	¥1,309	$12,463
Bonuses to directors and corporate auditors	147	1,398

12. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

(1) Industry Segments

	Millions of yen				
	2004				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**¥206,424**	**¥18,181**	**¥14,242**		**¥238,847**
Intersegment sales					
Total sales	**206,424**	**18,181**	**14,242**		**238,847**
Operating expenses	**184,347**	**13,045**	**13,722**	**¥ 11,338**	**222,452**
Operating income (loss)	**¥ 22,077**	**¥ 5,136**	**¥ 520**	**¥(11,338)**	**¥ 16,395**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**¥174,340**	**¥23,178**	**¥ 8,990**	**¥ 79,881**	**¥286,389**
Depreciation	**6,642**	**297**	**151**	**895**	**7,985**
Capital expenditures	**8,101**	**87**	**94**	**426**	**8,708**

	Thousands of U.S. dollars				
	2004				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**$1,965,939**	**$173,156**	**$135,641**		**$2,274,736**
Intersegment sales					
Total sales	**1,965,939**	**173,156**	**135,641**		**2,274,736**
Operating expenses	**1,755,684**	**124,240**	**130,688**	**$ 107,983**	**2,118,595**
Operating income (loss)	**$ 210,255**	**$ 48,916**	**$ 4,953**	**$(107,983)**	**$ 156,141**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**$1,660,378**	**$220,744**	**$ 85,618**	**$ 760,770**	**$2,727,510**
Depreciation	**63,259**	**2,825**	**1,441**	**8,519**	**76,044**
Capital expenditures	**77,156**	**823**	**897**	**4,057**	**82,933**

	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

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, 2004 and 2003 are summarized as follows:

	Millions of yen					
	2004					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥198,878**	**¥22,205**	**¥ 8,758**	**¥9,006**		**¥238,847**
Interarea transfer	**4,077**				**¥ (4,077)**	
Total sales	**202,955**	**22,205**	**8,758**	**9,006**	**(4,077)**	**238,847**
Operating expenses	**184,865**	**16,604**	**6,549**	**7,173**	**7,261**	**222,452**
Operating income	**¥ 18,090**	**¥ 5,601**	**¥ 2,209**	**¥1,833**	**¥(11,338)**	**¥ 16,395**
Total assets	**¥142,786**	**¥30,086**	**¥30,244**	**¥5,021**	**¥ 78,252**	**¥286,389**

	Thousands of U.S. dollars					
	2004					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$1,894,080**	**$211,475**	**$ 83,408**	**$85,773**		**$2,274,736**
Interarea transfer	**38,828**				**$ (38,828)**	
Total sales	**1,932,908**	**211,475**	**83,408**	**85,773**	**(38,828)**	**2,274,736**
Operating expenses	**1,760,614**	**158,133**	**62,374**	**68,319**	**69,155**	**2,118,595**
Operating income	**$ 172,294**	**$ 53,342**	**$ 21,034**	**$17,454**	**$(107,983)**	**$ 156,141**
Total assets	**$1,359,868**	**$286,534**	**$288,038**	**$47,813**	**$ 745,257**	**$2,727,510**

	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

The Americas: Mexico, Brazil, Argentina
Asia and Oceania: Hong Kong, Guangzhou, Indonesia, Singapore, 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, 2004 and 2003 amounted to ¥55,048 million ($524,266 thousand) and ¥57,406 million, respectively.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23 Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3) 3457 7321
Fax: +81(3) 3457 1694
www.deloitte.com/jp

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, 2004 and 2003, 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 generally accepted 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 25, 2004

Member of
Deloitte Touche Tohmatsu

Global Network

(As of June 25, 2004)

BRANCHES

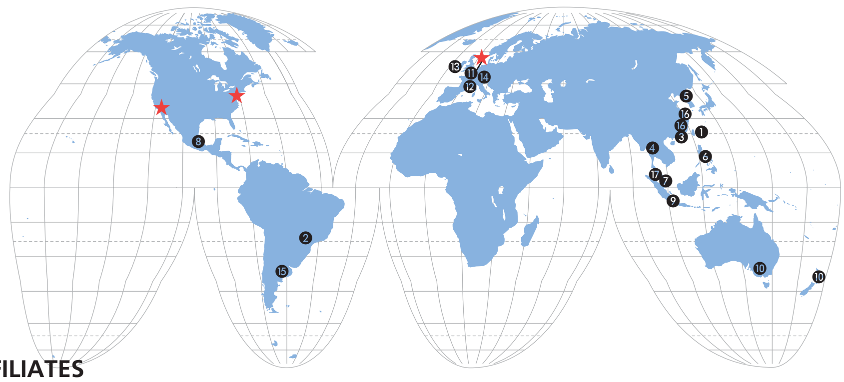
Hokkaido Branch
Tohoku Branch
Kanto Branch
Tokyo Branch
Chubu Kanagawa Branch
Tokai Branch
Kinki Branch
Chugoku Shikoku Branch
Kyushu Branch

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)
Alameda Santos, 771-10,
Andar Cep: 01419-001,
Cerqueira Cesar Sao Paulo,
Capital, Brazil
Phone: 55-11-32819900
Fax: 55-11-32819966

❸ Hong Kong Yakult Co., Ltd.
Room 609-610, Silvercord Tower-II,
30 Canton Rd., Tsim Shatsui,
Kowloon, Hong Kong
Phone: 852-23751103
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,
137-070 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.
7 Senoko Avenue,
Singapore 758300
Phone: 65-67561033
Fax: 65-67523817

❽ Yakult S.A. de C.V. (Mexico)
AV. Division Del Norte 1419,
Col. Santa Cruz Atoyac Deleg.,
Benito Juarez C.P. 03310,
Mexico D.F., Mexico
Phone: 52-55-5-000-1400
Fax: 52-55-5-601-0903

❾ P.T. Yakult Indonesia Persada
Wisma U.I.C.–Ground Floor,
JL. Jend. Gatot Subroto Kav. 6-7,
Jakarta 12930, Indonesia
Phone: 62-21-57905123
Fax: 62-21-57905126

❿ Yakult Australia Pty. Ltd.
10 Monterey Road.,
Dandenong, Victoria 3175,
Australia
Phone: 61-3-92384700
Fax: 61-3-92384799

• Yakult Australia Pty. Ltd.
New Zealand Branch
27B (H) Cain Road, Penrose,
Auckland 1006, New Zealand
Phone: 64-9-5730500
Fax: 64-9-5710495

⓫ Yakult Nederland B.V.
Bavinckstaete 5th Floor,
Prof. J.H. Bavincklaan 5,
1183 AT Amstelveen,
The Netherlands
Phone: 31-20-3472100
Fax: 31-20-6401632

⓬ Yakult Belgium S.A./N.V.
Riverside Business Park, Unit B1,
Internationalelaan 55 B-1070,
Brussels, Belgium
Phone: 32-2-5242092
Fax: 32-2-5243152

⓭ Yakult UK Ltd.
12-16 Telford Way, Westway Estate,
Acton, London W3 7XS, U.K.
Phone: 44-208-7404111
Fax: 44-208-7404999

⓮ Yakult Deutschland GmbH
Forumstraße 2,
41468 Neuss, Germany
Phone: 49-2131-3416-00
Fax: 49-2131-3416-16

⓯ Yakult Argentina S.A.
Av. Fondo De La Legua 2110
(B1640EEP) Martinez
Prov. De Buenos Aires, Argentina
Phone: 54-11-4735-2300
Fax: 54-11-4735-0202

⓰ Guangzhou Yakult Co., Ltd.
Dongpu Business Building Tower B6
Floor, Zhongshan Road 286 Tianhe
Guangzhou China
Phone: 86-20-82580692
Fax: 86-20-82521018

• Guangzhou Yakult Co., Ltd.
Shanghai Branch
Room 318, Bldg. A,
Far East International Plaza, No. 318,
Xianxia Road, Shanghai, China
Phone: 86-21-62702222, Ext. 341
Fax: 86-21-62351727

⓱ Yakult (Malaysia) Sdn. Bhd.
Lot No. 7, Jalan Jururancang
U1/21 Seksyen U1,
Hicom Glenmarie Industrial Park,
40150 Shah Alam,
Selangor Darul Ehsan, Malaysia
Phone: 60-3-5569-8960
Fax: 60-3-5569-8961

★ Yakult Europe B.V.
Schutsluisweg 1, 1332 En Almere,
The Netherlands
Phone: 31-36-5211300
Fax: 31-36-5329840

★ Yakult International (U.S.A.) Inc.
Los Angeles Office
3510 Torrance Blvd.,
Suite 216, Torrance,
CA 90503, U.S.A.
Phone: 1-310-7921422
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

(As of March 31, 2004)

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:
14,428

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

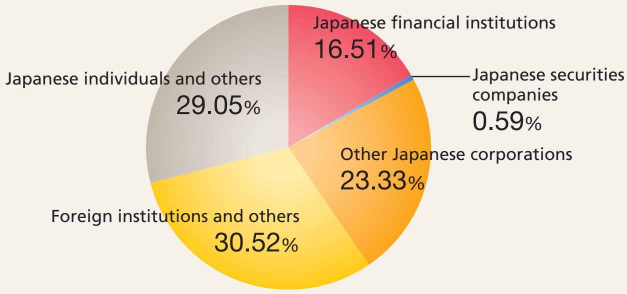
Number of Shareholders:
14,676

Offices:
1 institute, 9 branches, 12 plants,
7 pharmaceutical products sales offices

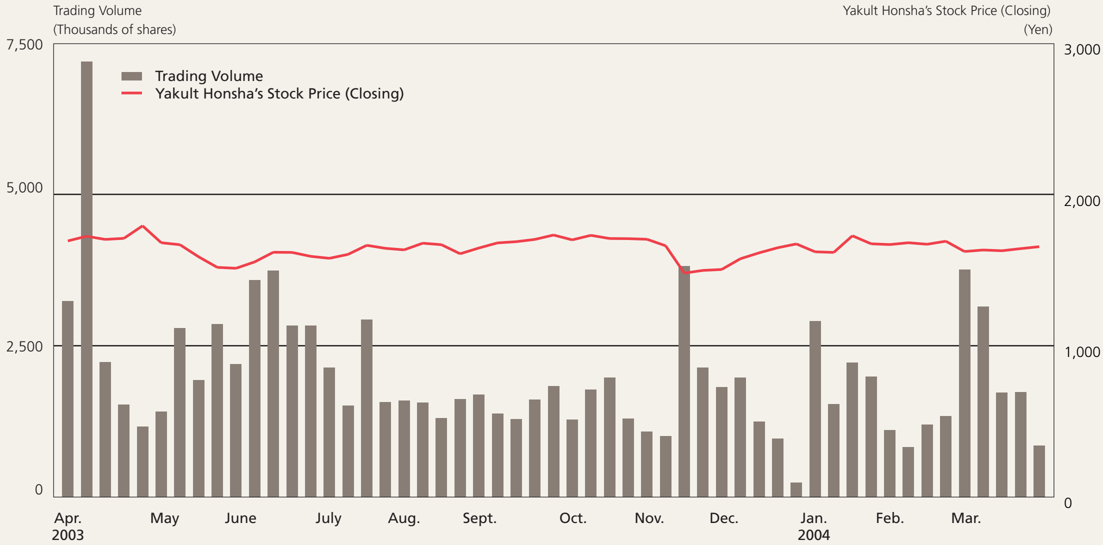
Major Shareholders:

	Percentage of Total Shares Issued
MLPFS NOMINEE/DANONE ASIA HOLDINGS PTE. LTD	20.02%
Matsusho Co., Ltd.	6.55
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
Fuji Television Network, Inc.	2.52
The Master Trust Bank of Japan, Ltd.	2.49
Kyoshinkai	2.10
Nippon Life Insurance Company	1.72
Japan Trustee Services Bank, Ltd.	1.55
Teruo Nakamura	1.15
Jun Kuwahara	1.05

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



Share Price Movement



Yakult Honsha Co., Ltd.
1-19 Higashi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8660, Japan
Phone: +81-3-3574-8960
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