

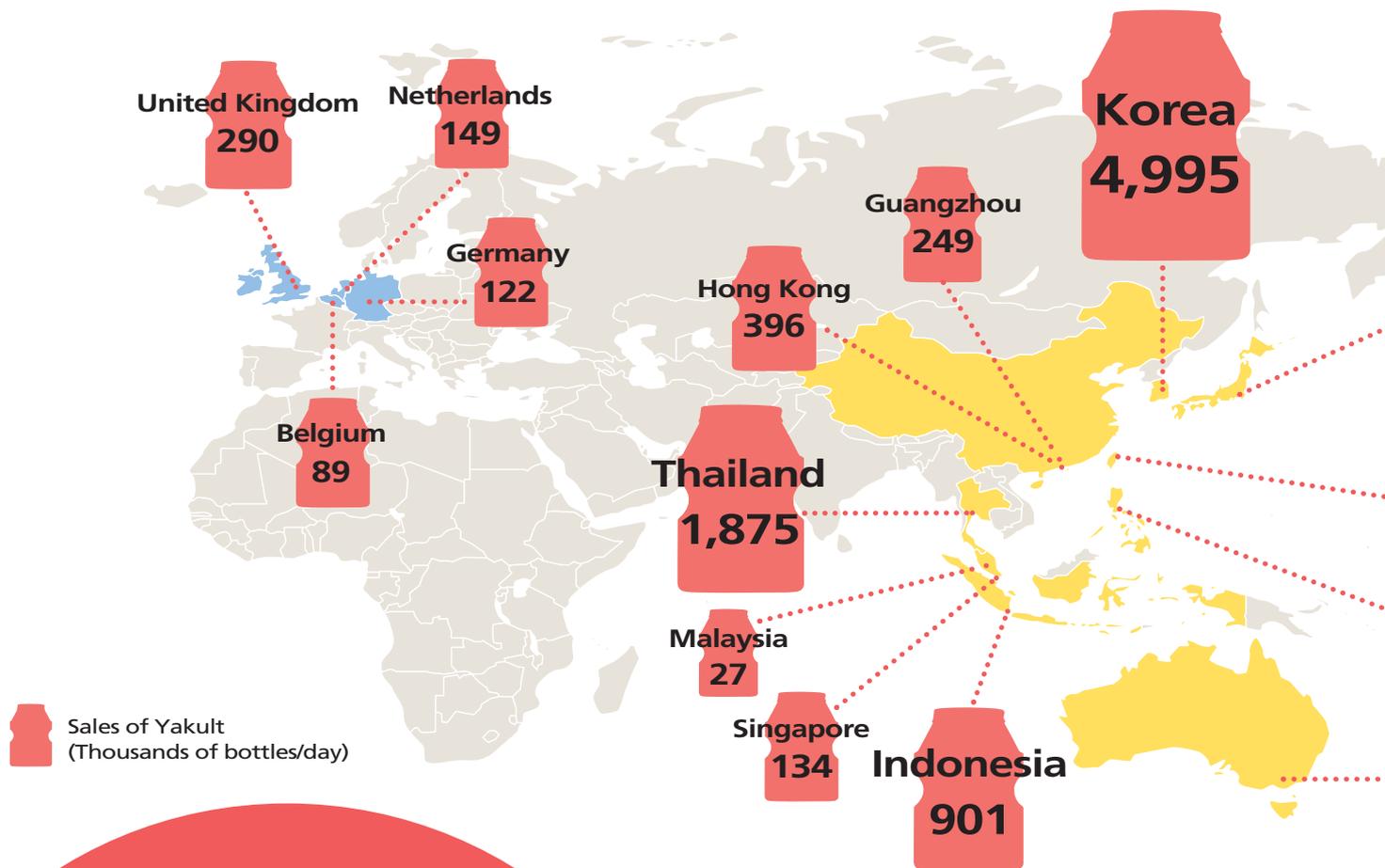
The Shape of Health



Annual Report 2005

Year ended March 31, 2005

The Shape of the Yakult World



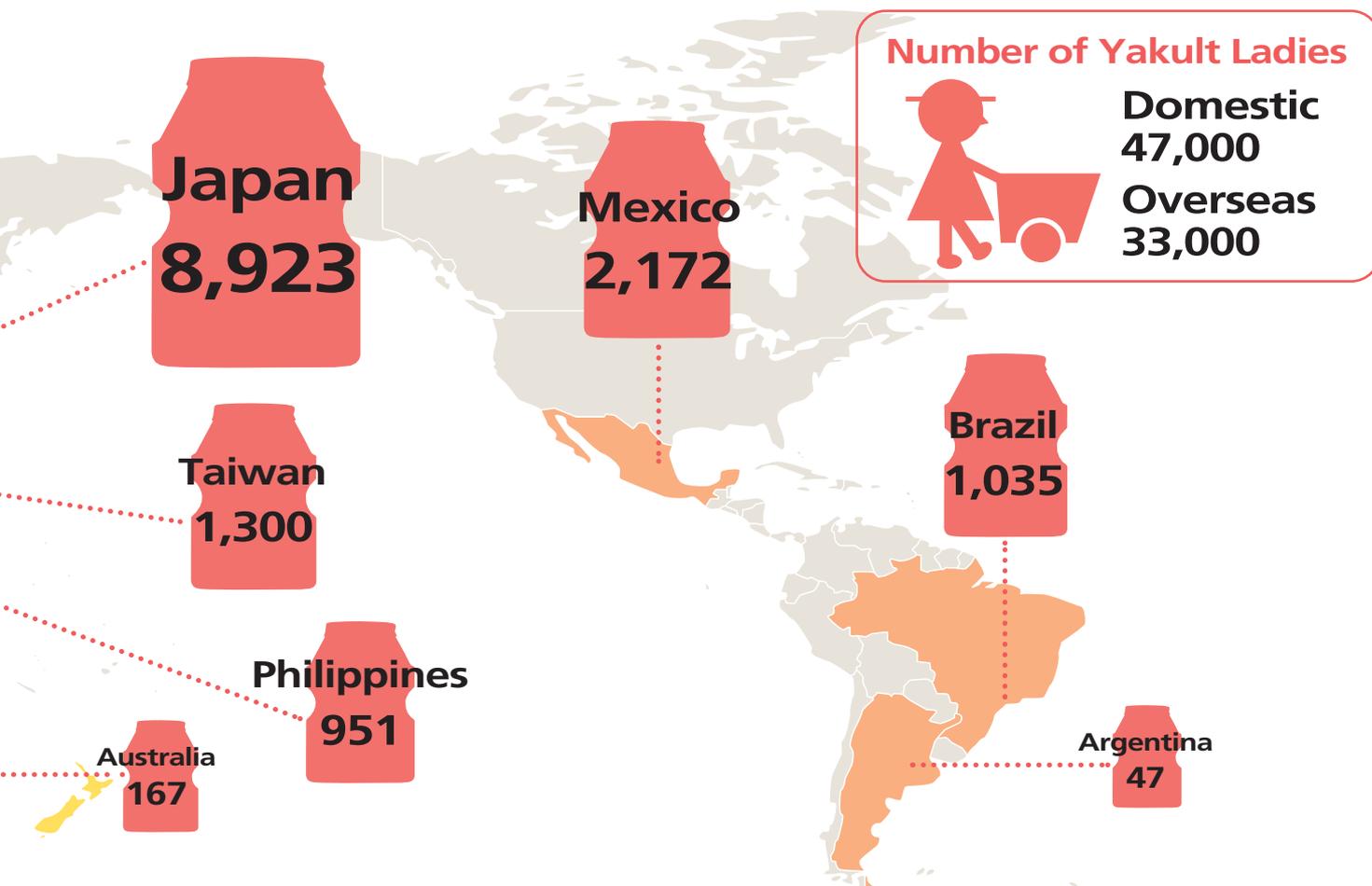
Profile

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.

Source of Yakult's Corporate Value



Yakult's development is rooted in probiotics research and highly functional products that leverage the fruits of this research. Outside of Japan, Yakult manufactures and sells approximately 15 million bottles of Yakult products per day in 25 countries and regions around the world. Around 47,000 Yakult Ladies in Japan and 33,000 Yakult Ladies in 11 other countries deliver Yakult products directly to customers.



Highlights

In fiscal 2005, ended March 31, 2005:

- Consolidated **net sales rose 3.6%**, to **¥247.5 billion**, **operating income climbed 10.6%**, to **¥18.1 billion**, and **ordinary income jumped 11.4%**, to **¥25.8 billion**.
- The new products *Pretio* and *Yakult 300V* got off to great starts.
- Focused efforts to promote *Yakult 400* as a mainstay product offered exclusively via Yakult Ladies supported a 7.8% rise in this product's sales.
- **Yakult (China) Co., Ltd.**, was established in April 2005.

CONTENTS

The Shape of the Future	02
Financial Highlights	03
Interview with the President	04
Seventy Years of Healthful Innovation	08
Our Heritage	09
Ongoing Development	10
Moving Forward	11
Review of Operations	12
Environment and Community Activities	24
Board of Directors and Corporate Auditors	26
Financial Section	27
Global Network	50
Corporate Data	51

The Shape of the Future

Our Tasks

- **Build a Solid Revenue Base for Our Domestic Dairy Products Business**
 - Restructure the home and office delivery framework: Increase the number of Yakult Ladies, strengthen the Yakult Lady brand image
 - Bolster the retail channel: Stimulate store sales
 - Strengthen R&D: Expand sales by launching new products
- **Actively Promote Yakult's Global Development**
 - Expand current overseas operations: Firmly establish the Yakult brand and gain a competitive edge in overseas markets
 - Expand operations in China, especially in the Shanghai area
 - Accelerate advancement into new markets via strategic alliance with Groupe DANONE
- **Strengthen and Expand Pharmaceutical Operations**
 - Rapidly expand sales of *Campto* in Japan
 - Develop the new drug *Elplat*
 - Bolster new drug development capabilities
- **Boost the Group's Organizational Effectiveness**
- **Enhance Corporate Value by Raising the Value of the Corporate Brand**

Our Vision

Contributing to the Health and Happiness of People around the World

- To boost our daily sales of dairy products to **10 million** bottles per day in Japan, and **25 million** bottles per day in **45 countries**
- To achieve a **10% ratio** of ordinary income to net sales on a non-consolidated basis

Financial Highlights

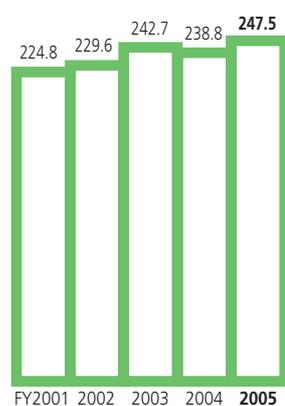
YAKULT HONSHA Co., Ltd. and consolidated subsidiaries March 31, 2005, 2004, 2003, 2002 and 2001

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2002	2001	2005
For the year:						
Net sales.....	¥247,506	¥238,847	¥242,740	¥229,623	¥224,795	\$2,313,142
Operating income.....	18,125	16,395	21,619	13,071	16,107	169,394
Net income.....	14,105	15,083	14,383	11,108	10,537	131,822
At the year-end:						
Total assets.....	¥293,922	¥286,389	¥276,203	¥269,094	¥242,247	\$2,746,932
Total liabilities.....	83,504	90,354	87,959	85,288	74,861	780,411
Total shareholders' equity.....	196,023	182,766	174,827	168,033	158,450	1,831,986
<hr/>						
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income.....	¥79.67	¥85.27	¥80.88	¥63.20	¥60.00	\$0.74
Diluted net income.....			80.87	63.19	59.99	
Cash dividends applicable to the year.....	17.50	15.00	15.00	15.00	15.00	0.16

- Notes: 1. Figures for 2001, 2002, 2003, 2004 and 2005 have been rounded to the nearest million.
 2. 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 ¥107 to U.S.\$1, the approximate rate of exchange at March 31, 2005.
 3. Diluted net income per share of common stock for 2004 and 2005 was not calculated due to the absence of dilutive stock.

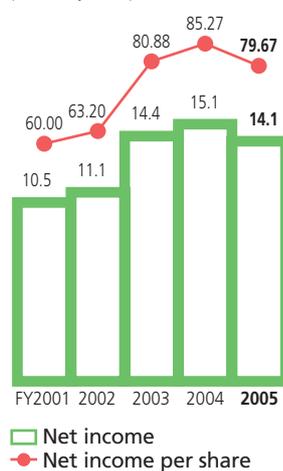
Net Sales

(Billions of yen)



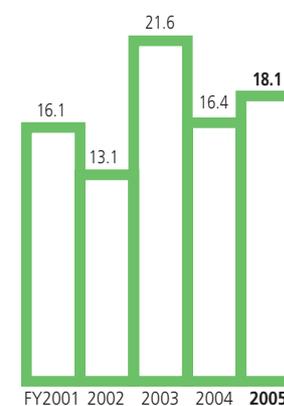
Net Income and Net Income per Share

(Billions of yen/Yen)



Operating Income

(Billions of yen)





Sumiya Hori, President

Interview with the President

In 2005, YAKULT HONSHA Co., Ltd., celebrated its 70th anniversary. Throughout our history, we have led the world in promoting the use of probiotics—living microorganisms with beneficial effects on human health—in line with our ongoing commitment to the ideals of preventive medicine and the idea that a healthy intestinal tract leads to a long life.

At this milestone, we will take a new step toward realizing our corporate philosophy “To contribute to the health and happiness of people around the world through the pursuit of excellence in life science in general and our research and experience in microorganisms in particular,” with an eye to furthering the development of the Yakult Group.

Looking Back on Fiscal 2005

Could you tell us about Yakult's activities during fiscal 2005?

During fiscal 2005, ended March 31, 2005, the Japanese economy was generally strong, supported by a recovery in consumer spending and a rise in corporate capital investment. In this climate, Yakult actively promoted a deeper and more widespread awareness of probiotics, focusing on communicating the advantages and benefits of its products while working to enhance its sales framework, new product R&D operations, and production facilities.

Our mainstay dairy products business performed well overseas, but experienced a slowdown in Japan. Sales in the juices and other beverages business outstripped

those of the previous year, thanks to growth in the sales of health-oriented drinks, the joint marketing of products sold through vending machines, and the hot summer weather. Performance in the pharmaceuticals business, however, fell short of the previous year's level due to sluggish sales overseas.

As a result, Yakult recorded consolidated net sales of ¥247.5 billion, a rise of 3.6% compared with the previous fiscal year, and operating income of ¥18.1 billion, up 10.6%.

Enhancing Corporate Brand Value

What new developments do you have in mind at this turning point—the Company's 70th anniversary?

We are currently moving forward with our second medium-term management plan. In addition, Yakult has designated 2005, in which the Company marks the 70th anniversary of its founding, as the starting point for focused initiatives to enhance its corporate brand value and will continue to endeavor to increase the corporate value of the Yakult Group. Specifically, Yakult will distribute a brand book to staff to encourage understanding of brand value while promoting Companywide measures to raise shareholder value, advance corporate social responsibility (CSR), and reinforce food product quality assurance.

As for business development, we aim to strengthen the Yakult Lady system by reevaluating the role of Yakult Ladies and expanding this channel's sales through the proactive marketing of *Pretio*, a new fermented milk drink with antihypertensive effects. *Pretio* is the first dairy product with benefits not related to intestinal health to bear the Food for Specified Health Uses (FOSHU) label and has been positioned alongside *Yakult 400* as a mainstay product offered exclusively through Yakult Ladies. In

addition, we are working to bolster performance in the retail channel with *Yakult 300V* and other store-oriented products, focusing in particular on such mass retailers as supermarkets and convenience stores.

In the pharmaceuticals business, we are taking steps to decrease our reliance on overseas operations and have reinforced our domestic base through the April 2005 launch of the anticancer drug *Elplat* (INN: oxaliplatin). Furthermore, we will continue to proactively enter promising overseas markets and have established Yakult (China) Co., Ltd., to oversee our operations in China and speed up business development in that country.

In addition, in June 2005, Yakult entered into a business alliance with Kirin Brewery Company, Limited, and Kirin Beverage Corporation, mainly for health and functional food operations. Going forward, we will work out the details of our partnership, which we anticipate to include the co-development of operations in this field and the use of each other's production and distribution capabilities.

Being an Attractive Investment Target

Could you tell us about Yakult's new shareholder measures and how they are consistent with efforts to enhance corporate brand value?

We have come to a point in time that calls for a revision in the shareholder measures that we have put forth to date. We are therefore proactively developing various strategies to make Yakult more appealing to investors. Focusing first and foremost on recruiting long-term individual investors from among the fans we have won through our products and services, we have

implemented the following three policies: paying dividends commensurate with performance, lowering the investment unit to 100 shares per unit, and enhancing the shareholder benefit program. Yakult seeks to gain support from an even larger shareholder base through these initiatives.

Alliance with Groupe DANONE

Where does the strategic tie-up with Groupe DANONE now stand?

For the time being, we are building a collaborative relationship focused on the overseas probiotics business.

In June 2004, we established a permanent liaison office in Tokyo where concrete collaborative measures will be discussed. In addition, the Global Probiotics Council, which was co-founded by Yakult and Groupe DANONE, is working to raise awareness of probiotics and support R&D in the field through education-, information-, and exchange-based activities. In 2004, the council convened once in Tokyo and once in Paris and

held numerous teleconferences. At these gatherings, participants actively discussed the idea of probiotics, measures to promote this field throughout the world, and other related matters.

In April 2005, Yakult and Groupe DANONE decided to make a foray into India and plan to establish a joint venture there in 2005. Yakult will announce plans for other joint business endeavors in new countries when specific details have been determined.

Transparent Management

What is Yakult doing to bolster corporate governance?

Our corporate governance policy is to "devote ourselves to achieving solid business development based on our core operations while promoting transparent management aimed at realizing financial soundness." Proactive information disclosure and transparent management that incorporates objective outside opinions are vital to maintaining public trust in companies.

At the ordinary general shareholders meeting held in June 2004, two outside directors from the global corporation Groupe DANONE were newly appointed to the

board of directors. The perspective that these directors bring to the Company will play an invaluable role in its achievement of true globalization. Regarding auditing functions, Yakult has adopted the "company with corporate auditors" system and is working to enhance internal control functions. Moreover, Yakult will continue to examine new forms of management and decision-making bodies, including the "company with committees" system and the corporate officer system, as an important management task.

Yakult has also taken various steps to ensure compliance. Our Corporate Ethics Committee, which includes two outside members, monitors the implementation of corporate ethics policies and our Compliance

Committee, which is composed of eminent people from outside the Company, meets regularly to provide fair, impartial advice regarding legal compliance.

Providing Safe Products

What steps is Yakult taking to ensure the safety of its products in light of consumers' heightened safety and security concerns?

Yakult has obtained Hazard Analysis and Critical Control Point (HACCP) and ISO 9001 certification and is advancing various Companywide initiatives with regard to quality assurance as part of efforts to enhance corporate brand value. The Food Product Quality Assurance Committee, which was established in April 2004, leads the Company's quality assurance activities: formulating

quality policies, creating quality management standards, and providing training and education on quality-related matters. In addition to initiatives at the production stage, Yakult is paving the way for the introduction of a traceability system to reinforce safety management in distribution.

Staying True to the Yakult Spirit

What are your thoughts on the Company's future direction?

Since our founding, we have expanded our business through the propagation of *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult with the aim of helping people to maintain good health. I believe that for a company to be of value, it must provide worthwhile service to both individuals and society as a whole while conducting operations in the most environment-friendly way possible. Yakult's founder, Dr. Minoru Shirota,

advocated the ideals of preventive medicine and the idea that a healthy intestinal tract leads to a long life, and the Company remains rooted in this wonderful philosophy to this day. Going forward, we will stay true these founding principles while promoting strategic and efficient management and solidifying our position as a leader in probiotics.

Yakult will blaze new trails with determination and courage, facing difficulties head on. We thank our shareholders and investors for their ongoing support and ask for their continued understanding in the future.

June 2005



Sumiya Hori, President



Seventy Years of Healthful Innovation

Yakult — A wonderful little container packed with Yakult's philosophy that fits perfectly in the palm of the hand and has fans around the world

The Shape of Health

Practical

Easy to make

Yakult's tubular bottle design facilitates product filling, collection, and safe transportation.

Easy to carry

Yakult's strong but lightweight plastic container is ideal for Yakult Ladies delivering the product to homes and offices, for box lunches, or for those on the go.

Easy to trust

The sturdy container is child safe and the seal ensures freshness while being tamper-proof.



User-Friendly

Easy to like

The Yakult bottle's simple, classic design is based on the shape of a traditional Japanese wooden *kokeshi* doll and harmonizes with table settings.

Easy to hold

Yakult's hourglass shape makes it easy for children and senior citizens to hold.

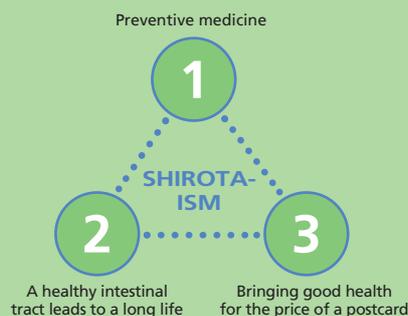
Easy to drink

It is simple to drink Yakult in two or three similar-sized swallows thanks to its hourglass shape.

SHIROTA-ISM

- Yakult bacteria (*Lactobacillus casei* strain Shirota) is delivered live to the intestine to help maintain good intestinal health. One bottle of Yakult contains 15 billion Yakult bacteria.
- Nearly all of Yakult's dairy products bear the FOSHU* mark.

* A product recognized by the Japanese Ministry of Health, Labour and Welfare as "a food product that can be expected to have positive health effects" is granted permission to carry the FOSHU mark. Yakult has attained permission to use the FOSHU label on 13 of its 14 dairy products and is currently working to attain permission to use this label on Yakult 300V.



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 the enjoyment of 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.

Our Heritage

The Yakult Tradition of Hand Delivery

The Yakult Lady system has been in existence for more than 40 years. Yakult Ladies constitute the face of the Company and an important asset.

Under this system, Yakult Ladies deliver products directly to customers at their homes and offices. This is an ideal distribution framework for probiotic products, which are most beneficial when consumed daily. In addition to delivering products, Yakult Ladies have the important task of fully explaining the scientific principles of lactobacilli probiotics and the functional characteristics of Yakult products to customers.

In Japan, there are currently around 47,000 Yakult Ladies employed by 137 domestic sales companies delivering our products. However, the number of Yakult Ladies has been declining, creating the need for structural reinforcement. Accordingly, we have been promoting the introduction of the



Center Clinic system at the 2,700 centers throughout Japan where Yakult Ladies are based in order to augment our organizational and marketing capabilities. To date, approximately 1,200 centers have implemented the system and, as a result, have raised their sales 20% to 30%. Overseas, 33,000 Yakult Ladies in the Republic of Korea, Mexico, Indonesia, the Philippines, China, and six other countries are working to promote good health through the delivery of Yakult products.

Yakult's founder Dr. Minoru Shirota advocated the ideals of preventive medicine and the idea that a healthy intestinal tract leads to a long life. He began selling the fermented milk product *Yakult* to provide a product that promotes health in an affordable, readily available form. With Shirota-ism at the core of our business, we continue to develop probiotics products that contribute to human health.

To date, we have created an array of fermented milk drinks, fermented milk, and functional beverages, including seven different kinds of *Yakult* with varying lactobacilli and calorie counts.

Our Products

40 billion lactobacilli per bottle

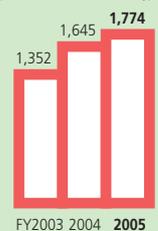
Yakult 400



- With 40 billion lactobacilli (*Lactobacillus casei* strain Shirota) in each bottle, *Yakult 400*, the most powerful product in the *Yakult* line, awakens the body's natural power to resist illness.

- Yakult 400* was introduced in 1999 for exclusive distribution by Yakult Ladies to stimulate performance in this sales channel. *Yakult 400* shares the fundamental characteristics of other products in the series and was created especially for middle-aged and older customers.

Sales of *Yakult 400*
(Thousands of bottles/day)



Ongoing Development

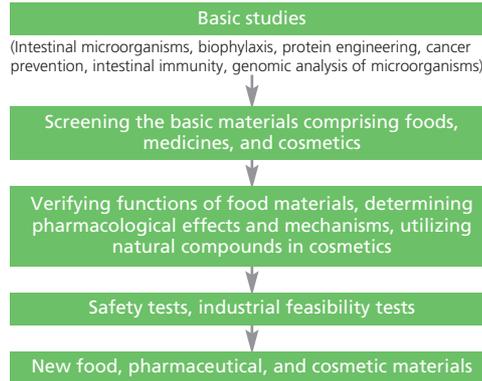
Although the work at Yakult Central Institute for Microbiological Research covers several areas, including healthful food ingredients, the institute's main focus is lactobacilli. Yakult has created numerous outstanding products by giving solid shape to research developments made at the institute.

Yakult was founded to promote human health by building widespread awareness of the benefits of Yakult bacteria, which had been discovered through research. For more than 70 years, this desire has remained the Company's primary objective. Yakult leverages results from research on lactobacilli and food materials in the development and enhancement of food products as well as pharmaceuticals and cosmetics.

In addition to promoting good intestinal health, lactobacilli have been shown through research to be useful in allergy and cancer prevention. In addition, recent clinical studies have demonstrated that synbiotics—combinations of such probiotics as lactobacilli and bifidobacteria and such prebiotics as oligosaccharide—reduce the incidence of infection following cancer surgery.

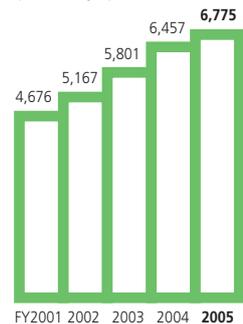
Going forward, Yakult will continue to work to uncover new possibilities for bacteria and develop products that promote health.

Yakult Central Institute for Microbiological Research



R&D Cost

(Millions of yen)



Yakult 300V

Bolstering store sales with "Yakult for Adults"



This highly functional product builds on *Yakult's* good intestinal health promotion benefits by incorporating vitamins C and E to add antioxidant and antiaging effects. *Yakult 300V* was designed to be not too sweet and thereby more appealing to middle-aged and older customers.

Yakult 300V was developed for sale via our retail channel and targets the expanding senior, single, and married couple customer segments. We introduced this product to boost sales at supermarkets and convenience stores.

Pretio

A fermented milk drink for the hypertension market



Pretio owes its antihypertensive properties to gamma-aminobutyric acid (GABA) produced from a mixed culture of two types of lactobacilli (*Lactobacillus casei* strain Shirota and *Lactococcus lactis*) through a process patented by Yakult.

Pretio evolved from the "seeds" of our research to meet the need for food products that help prevent lifestyle diseases. *Pretio* is marketed solely through Yakult Ladies to ensure that customers fully understand its benefits.

Moving Forward

Yakult aims to become a leader in probiotics research, both in name and reality, and is bolstering the capabilities of the Yakult Central Institute for Microbiological Research by increasing the scale of its staff and facilities threefold and moving forward with the establishment and proactive collection of data from overseas research centers.

In product development, we will utilize the “seeds” of our research results while working to accurately identify latent market needs. In addition, we will make the most of the advantages afforded by our Yakult Lady system by creating a framework for the compilation of customer feedback in database format so that this information can be reflected in product development.

In light of anticipated growth in demand for home delivery services in Japan stemming from the demographic graying of the population, we will shift the role of Yakult Ladies to health advisors whose purpose is not simply to deliver products but to build long-lasting relationships with customers. Furthermore, the Company is considering examining Yakult Ladies’ job functions and looking into new methods of delivery to enable flexible delivery times and facilitate the transport of heavy items and products by the case.

To enhance the value of its corporate brand, Yakult will continue to establish its research, products, and Yakult Ladies as brands in and of themselves based on the concept of “helping to keep the human body healthy.”

A health tea that helps control increases in blood sugar levels

Bansoreicha



Yakult developed *Bansoreicha*, a tea containing guava, in response to the growing market for health teas. The Yakult Central Institute for Microbiological Research created this product after discovering that guava tea helps curb rises in blood sugar levels after meals.

Toughman



A line of nutritious tonic beverages with triple ginseng power

In 1980, *Toughman* was launched for exclusive distribution through Yakult Ladies. In 2004, *Toughman V* was introduced for retail sale to recreate the product’s brand image.

Sales of *Toughman*
(Millions of bottles)



FY2003 2004 2005

Kurozu Drink

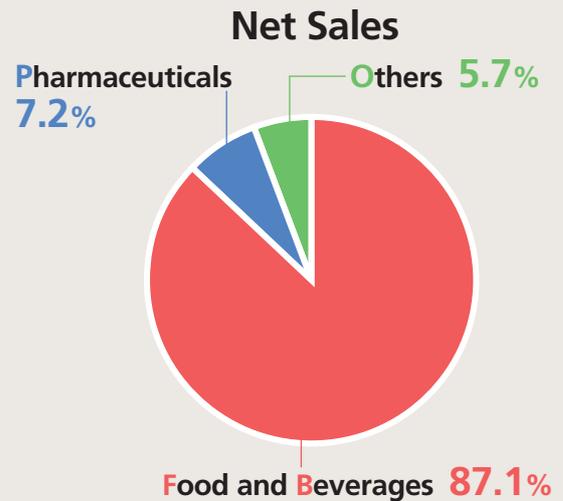


A popular black vinegar drink for health enthusiasts

In 2002, Yakult put *Kurozu Drink* on the shelves of stores in the Tokyo area in response to expansion in the market for black vinegar products, and in 2004 the success of the product propelled the Company to expand distribution to encompass stores throughout Japan as well as direct home and office deliveries.

Review of Operations

In Yakult's mainstay dairy product business, sales were robust overseas but flat in Japan. As for overseas operations, we established Yakult (China) Co., Ltd., in April 2005 to further accelerate business development in China. In our pharmaceuticals business, which experienced stagnant sales overseas, we launched the anti-cancer drug *Elplat* in April 2005 in Japan, reducing this segment's reliance on overseas operations.



Food and Beverages 87.1%

In fiscal 2005, sales in the food and beverages business came to ¥215.6 billion, up 4.4% from the previous fiscal year.

● Dairy Products

Domestic
Overseas



Business Areas

Products manufactured and marketed by this segment include such fermented milk drinks as *Yakult*. Yakult's dairy products contain lactobacilli and bifidobacteria, which promote good health when consumed daily.

Review and Outlook

In fiscal 2005, *Yakult 400* and *Joie* performed well in Japan. In addition, the new products *Pretio*, a fermented milk drink with anti-hypertensive properties that is distributed only by Yakult Ladies, and *Yakult 300V*, a fermented milk drink positioned as a mainstay product marketed through stores, contributed to domestic sales.

Overseas, sales remain strong in China's Guangzhou Province and we are considering introducing a Yakult Lady distribution system in Shanghai.

● Juices and Other Beverages



This segment's business encompasses functional beverages that promote good health as well as coffee, tea, and juice products. Flagship brands in this segment include the *Tougman* line of nutritious tonic beverages and *Bansoreicha*, a beverage that helps control the increases in blood sugar levels after meals.

Sales in the juices and other beverages segment outstripped those of the previous fiscal year, supported by the joint marketing of products sold through vending machines and an increase in beverage consumption spurred by hot summer weather. In April 2005, the Company launched the health tea beverage *Fucoidan-cha* as a mainstay functional drink to be positioned alongside *Bansoreicha*.

Pharmaceuticals

7.2%



Business Areas

The mainstay product *Campto* is approved to treat nine different types of cancer in Japan and has been approved in the United States and Europe for use in the first-line and second-line treatment of colorectal cancer. In addition, Yakult launched the anticancer drug *Elplat* in Japan after receiving authorization to import the agent. Both *Campto* and *Elplat* are recognized worldwide as standard treatments for colorectal cancer.

Review and Outlook

In fiscal 2005, sales in the pharmaceuticals business totaled ¥17.8 billion, edging down 2.1% from the previous fiscal year. In the future, we will continue to specialize in cancer and cancer-related ailments while working to expand sales channels and develop *Elplat* as an indispensable treatment for colorectal cancer in Japan to compensate for a decline in sales that is anticipated mainly due to the upcoming expiration of the Company's patent for *Campto* overseas.

Others

5.7%



Business Areas

The others business comprises cosmetics operations and the management of the Yakult Swallows, a professional baseball team in Japan. In its cosmetics business, Yakult employs know-how attained from its beverage research to develop cosmetic products that offer the same high level of quality and safety as its food and beverage products.

Review and Outlook

Sales of the reformulated *Revey* line of basic skin care products enjoyed solid growth and those of the high-end *Parabio* series of basic skin care products remained solid. As a result, sales in this business slipped 0.8% from the previous year, to ¥14.1 billion.

Sales of Dairy Products (Non-Consolidated Basis)

	Sales Volume (Thousands of bottles/day)	Percentage of Previous Year's Sales (%)
Yakult	3,475	90.8
Yakult LT	148	96.2
▲ Yakult 200	145	87.4
● Yakult 80Ace	624	81.1
● Yakult 80AceLT	173	91.0
▲ Yakult 300V	28	—
● Yakult 400	1,774	107.8
Total for Yakult products	6,368	94.3
● Pretio	154	—
Joie	852	103.9
Mil-Mil	188	86.5
● Mil-Mil E	117	85.1
● Biefel	324	89.9
Sofuhl	620	93.0
● Purela	299	82.9
Total for fermented milk	2,401	93.7
Total	8,923	95.8

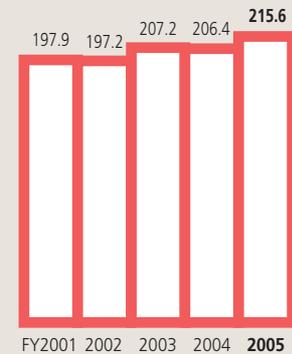
Note:
Products with ● are sold only by Yakult Ladies.
Products with ▲ are sold mainly via retail stores.

Food and Beverages

Our food and beverages manufacturing and marketing operations encompass such products as *Yakult* and other fermented milk drinks and fermented milk, including yogurt, as well as soft drinks and functional beverages.

In fiscal 2005, sales of dairy products were strong overseas, but stagnant in Japan, although sales of juices and other beverages outstripped those of the previous year, encouraged by the hot summer weather. As a result, the food and beverages business saw sales grow 4.4%, to ¥215.6 billion, and operating income increase 10.8%, to ¥24.5 billion.

Sales of Food and Beverages
(Billions of yen)



Dairy Products (Domestic)

FISCAL 2005 ACTIVITIES

Yakult's dairy products contain lactobacilli (*Lactobacillus casei* strain Shirota) and bifidobacteria (*Bifidobacterium breve* strain Yakult), which promote good health when consumed daily. With the exception of *Yakult 300V*, all of Yakult's dairy products have been granted permission by the Health, Labour and Welfare Minister to bear the Food for Specified Health Uses (FOSHU) mark. We are currently working to attain permission to label *Yakult 300V* as a FOSHU product.

Fiscal 2005 marked the third 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 while strengthening marketing systems and operations.

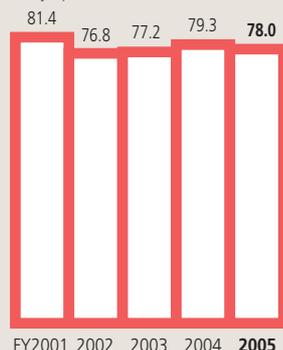
In November 2004, the Company launched and actively promoted the all-new fermented milk drink *Pretio*, which is distributed only by Yakult Ladies. Developed as a product to help combat lifestyle diseases, *Pretio* contains gamma-aminobutyric acid (GABA), the antihypertensive properties of which make its target customer base people with high blood pressure. Since *Pretio* is an entirely new type of beverage based on achievements gained through our research on lactobacilli, we took various initiatives to make its benefits known, including holding a press briefing and advertising the product prior to its introduction as well as conducting trials in which participants experienced the drink's effects firsthand.

With an eye to stimulating retail channel sales, in February 2005 the Company introduced *Yakult 300V*, a fermented milk drink that it has positioned as a mainstay product marketed through retail stores. This product was created as a "Yakult drink for adults who want to do something good for themselves." *Yakult 300V* offers all the key benefits of *Yakult 80Ace* in addition to the antioxidant properties provided by vitamins C and E. In the fiscal year under review, we strove to communicate the strengths of *Yakult 300V* to customers and to capture shelf space for this product by actively approaching buyers and store procurement staff in addition to running

Sales of Dairy Products

(Non-Consolidated Basis)

(Billions of yen)



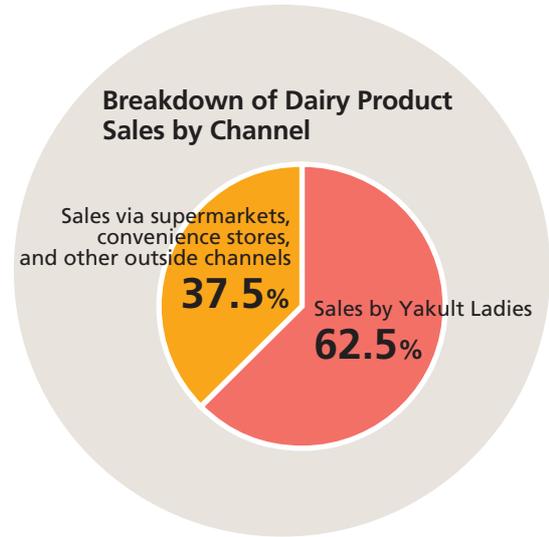
advertisements in distribution-related media. Furthermore, we began marketing *Yakult 300V* with an attached straw and printed bar code to facilitate single-unit sales in light of the growing convenience store market.

FISCAL 2005 PERFORMANCE

Non-consolidated sales in this segment amounted to ¥78.0 billion, edging down 1.6%. In April 2004, Yakult introduced a new package design for *Joie* drinkable yogurt. This contributed to a climb in sales of *Joie*, both through our direct delivery and store distribution routes. The new products *Pretio* and *Yakult 300V* got off to a good start and concentrated efforts to promote *Yakult 400* as a mainstay product offered exclusively via Yakult Ladies supported an increase in its sales.

STRATEGY AND OUTLOOK

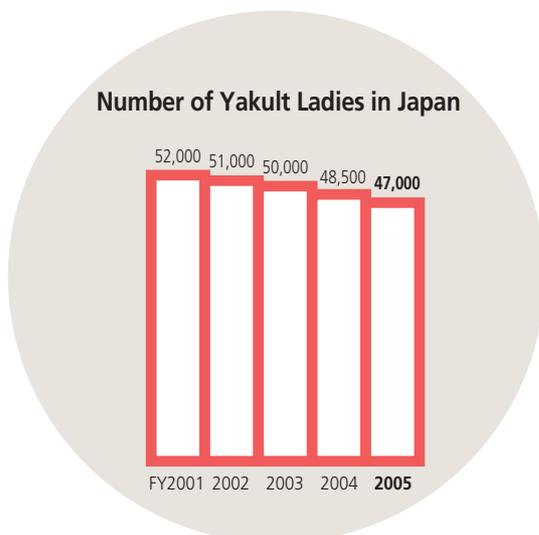
The ability to directly explain to customers the value of our products is one of the greatest strengths of our unique Yakult Lady system of direct delivery to homes and offices. Strengthening the Yakult Lady organization and building closer relationships with customers is key to improving the performance of our home and office delivery operations. To this end, Yakult takes various initiatives to support its Yakult Ladies—including providing thorough training courses and offering health seminars throughout Japan for Yakult Ladies to enhance their competencies—as part of its ongoing efforts to create a home and office distribution system that enjoys customer confidence and support. In addition, the Company will endeavor to bolster Yakult Ladies' sales capabilities by continuing to promote the introduction of the Center



Clinic system throughout Japan and enhancing the content of programs offered via this system. The Company aims to bring the number of Yakult Ladies back to 50,000—the level two years ago.

With respect to sales via large-scale retailers and other channels, the amount of shelf space allotted for fermented milk drinks is shrinking due to the diversification of health-oriented products. Against this backdrop, Yakult is proposing the establishment of effective sales display areas that not only offer our products but also serve as probiotic information centers in stores in order to strengthen the Yakult brand image. In addition, we are pushing forward with marketing programs aimed at schools, offices, hospitals, and other institutions, and we will endeavor to reinforce our business with such customers.

The Company also plans to revamp *Bifidobacterium breve* strain Yakult products to get sales of these items back on track.



Dairy Products (Overseas)

Yakult is offering better health to customers throughout the world, and it is recognized around the globe as a leading probiotics company. The Company has 18 overseas marketing companies and manufactures and sells approximately 15 million bottles of Yakult products per day in 25 countries and regions, excluding Japan.

Yakult has taken the same approach to building a strong brand presence overseas that it has in Japan, focusing on ensuring that customers fully understand the superior characteristics of *Lactobacillus casei* strain Shirota and the science of Yakult products.

On a non-consolidated basis, this segment recorded sales of ¥43.3 billion, a rise of 8.3% from the previous fiscal year, and operating income of ¥10.6 billion, an expansion of 9.7%.

1. The New Zealand Branch's operations commenced in June 2004
2. Yakult (Malaysia) Sdn. Bhd. started operations in February 2004
3. The Ireland Branch's operations commenced in September 2004
4. The Company held a 20% share in Yakult Co., Ltd. (Taiwan), as of January 2005

Performance from January to December 2004

	Sales Volume (Thousands of bottles/day)	Percentage of Previous Year's Sales (%)	Established
Asia and Oceania			
Taiwan	1,300	93.5	March 1964
Hong Kong	396	104.9	June 1969
Thailand	1,875	105.9	June 1971
Korea	4,995	96.9	August 1971
Philippines	951	128.2	October 1978
Singapore	134	95.0	July 1979
Indonesia	901	113.2	January 1991
Australia	167	100.6	February 1994
Guangzhou	249	131.6	June 2002
Malaysia	27	—	February 2004
Subtotal	10,995	102.5	
The Americas			
Brazil	1,035	77.5	October 1968
Mexico	2,172	100.7	October 1981
Argentina	47	105.8	May 1997
Subtotal	3,254	92.0	
Europe			
Netherlands	149	112.6	April 1994
Belgium	89	107.6	April 1995
United Kingdom	290	113.5	April 1996
Germany	122	115.5	April 1996
Subtotal	650	112.8	
Total	14,899	100.4	
Performance from April 2003 to March 2004			
Japan	8,923	95.8	1935

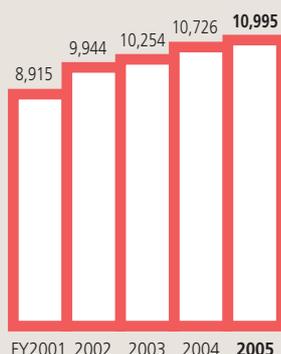
ASIA AND OCEANIA

Yakult's Asia and Oceania operations encompass production and sales of Yakult's fermented milk drinks in Taiwan, Hong Kong, Thailand, Korea, the Philippines, Singapore, Indonesia, Australia, Guangzhou Province (China), Shanghai, Malaysia, and New Zealand. In fiscal 2005, sales in the Asia and Oceania region edged up 16.7%, to ¥10.2 billion.

In China's Guangzhou Province, sales are continuing to grow and a strong Yakult Lady distribution system is in the making. There are currently six centers employing approximately 160 Yakult Ladies in the region. In Shanghai, the Company sells Yakult products supplied by Guangzhou Yakult Co., Ltd., through stores, and in August 2004, the Company established the wholly

Sales Volume in Asia and Oceania

(Thousands of bottles/day)



Malaysia

owned subsidiary Shanghai Yakult Co., Ltd. In addition, Yakult plans to bring its Shanghai plant on line at the beginning of 2006 and is considering introducing a Yakult Lady distribution system in this area.

In fiscal 2005, an event celebrating the 40th anniversary of our first overseas company—Yakult Co., Ltd. (Taiwan)—was held.

In Singapore, where health-consciousness is on the rise, we introduced *Yakult Ace Light*, a low-calorie calcium- and iron-fortified fermented milk drink, in October 2004. *Yakult Ace Light* is the first fermented milk drink to carry the Healthier Choice symbol, which was introduced by the Singapore government in 1998 with the aim of curbing the increase in the prevalence of such diseases as diabetes and hypertension. The *Yakult Ace Light* sold in Singapore is imported from Malaysia, where it has been manufactured at the Company's local factory since fiscal 2004.

In the Philippines, the monthly sales volume compared with the same month of the previous year has risen for 70 consecutive months. In Indonesia, the business is doing well, with the daily sales volume reaching one million bottles in two different months of the year under review. In Thailand, average daily sales volume for the year soared to an all-time high of around 1.87 million bottles.

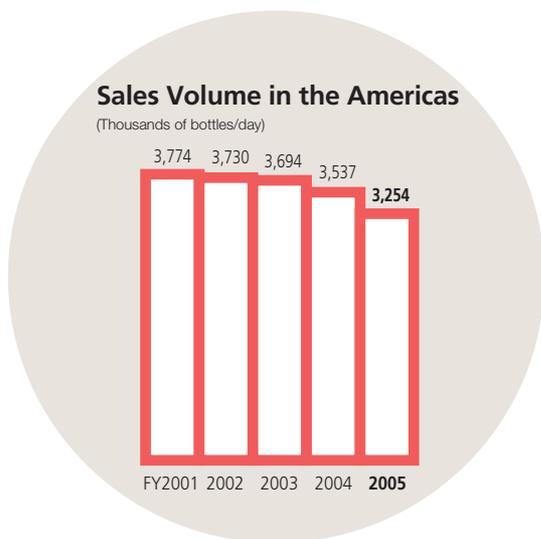
In June 2004, the Company began selling *Yakult* in stores in New Zealand, through a local branch of Yakult Australia Pty. Ltd. In New Zealand, we are working to firmly establish the Yakult brand and gain a competitive edge as the first company to bring fermented milk drinks to this market. In Australia, we launched the low-calorie product *Yakult Light* in September 2004 in response to the current health boom there. In fiscal 2005, the average daily sales volume for the year in Australia reached a record high of around 170 thousand bottles.

THE AMERICAS

Yakult's operations in the Americas consist of production and sales of Yakult's fermented milk products in Brazil, Mexico, and Argentina. Sales in the Americas amounted to ¥22.4 billion, edging up 1% from the previous fiscal year.

In Mexico, Yakult has established a name for itself with 23 years of operating experience and a 5,700-strong Yakult Lady network. Sales in the country have remained strong and the monthly sales volume compared with the same month of the previous year has

risen for 91 consecutive months, and, in October 2004, the Company brought on line its second production plant—the Guadalajara Plant—thus expanding its local production capacity. In Brazil, deteriorating economic conditions led to a marked decline in sales volume compared with the previous fiscal year. In Argentina, thanks to efforts to enhance the organization the number of Yakult Ladies grew to approximately 300, and we anticipate further expansion in the future.

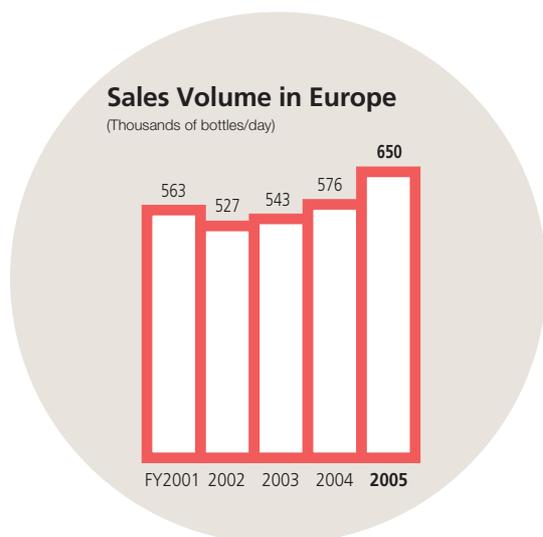


Brazil

EUROPE

In Europe, Yakult's fermented milk drinks are manufactured and sold in the Netherlands as well as marketed in the United Kingdom, Germany, Belgium, and Ireland. In fiscal 2005, the Company's net sales in this region jumped 18.2%, to ¥10.6 billion. This increase was supported by growth in sales of *Yakult Light*, which was launched in 2002 and maintained daily sales volumes of between 170 and 180 thousand bottles in Europe in fiscal 2005.

In September 2004, the Company began selling Yakult products in stores in Ireland through a local branch of Yakult UK Ltd. In the Netherlands, where Yakult has been operating for 10 years, sales rose as a result of earnest efforts to make the value of probiotics products known among consumers.



Germany

STRATEGY AND OUTLOOK

Overseas, Yakult is moving forward with four key strategies: bolstering existing business bases and diversifying product offerings; expanding operations in China, especially in the Shanghai area; achieving the goals set out in its long-term plan, including boosting sales to 1.5 times the fiscal 2005 level by 2010; and promoting probiotics through education-based activities, including holding R&D briefings and symposiums on the topic.

In China, the Company received permission in April 2005 to establish the sales and management-type umbrella company Yakult (China) Co., Ltd., under which its two previously existing China-based companies will be placed, facilitating the implementation of sales and marketing strategies targeting all of this country.

In Europe, where there is a large population of health-conscious adults, Yakult established a research center in Belgium in April 2005. The center is currently conducting academic research on the intestinal flora of Europeans in order to promote a greater understanding of Yakult products.

Advancing into Foreign Markets

Test sales

France, Spain, United States (East and West coasts)

Conducting local 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

Juice and Other Beverages

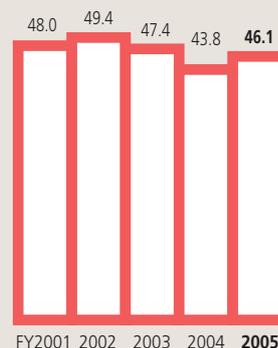
FISCAL 2005 ACTIVITIES

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

In fiscal 2005, Yakult focused its promotional efforts on functional health products, to this end strengthening the direct sales routes of its sales companies and expanding its network of vending machines. We also worked to realize the benefits of our alliance with Kirin Beverage Corporation, leveraging joint marketing to boost the sales volume of products sold through vending machines.

As for specific products, the March 2004 makeover of Yakult's mainstay *Toughman* line of nutritious tonic beverages has been a great success, winning support from new customer segments, including young consumers. In addition, to capitalize on the growing market for black vinegar products, the Company revamped its black vinegar health beverage *Kurozu Drink* in December 2003 and began offering the product through its home distribution channel in October 2004 in response to customer requests. Yakult also took steps to make the most of the ongoing boom in the market for soy milk products. In October 2004, we gave our soy milk drinks a new product design that drives home a key strength of these beverages—their natural, refreshing taste.

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



FISCAL 2005 PERFORMANCE

Non-consolidated sales rose 5.2%, to ¥46.1 billion, encouraged by the joint marketing of products sold through vending machines via our partnership with Kirin Beverage and robust beverage consumption fueled by the hot summer weather. Vending machine sales were especially strong, rising 5.1% from the previous fiscal year, to ¥36.4 billion. Average monthly sales per vending machine also gained substantial ground, up 7.6%. Looking at principal products, sales of the reformulated *Toughman* series and the new *Toughman V* continued to climb; however, those of *Bansoreicha*, a functional drink that helps control the increase in blood sugar after meals, lost ground amid fierce competition in the market for health tea beverages. *Kurozu Drink*, soy milk drinks, and black tea products also performed well.

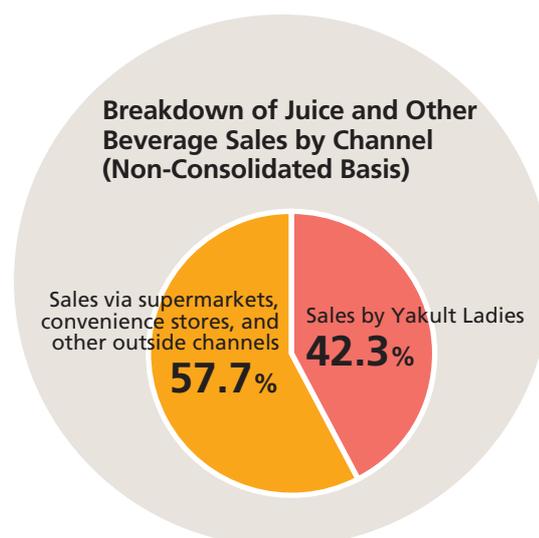


STRATEGY AND OUTLOOK

Yakult is maintaining its focus on functional beverages, particularly products bearing the FOSHU mark. Health-conscious consumers are willing to purchase products that are truly beneficial to health, even if such products are expensive. To capitalize on this trend, we are leveraging the strengths of our vending machine, home delivery, and store distribution channels and getting the word out about our products' health benefits to raise sales.

With vending machine operations accounting for roughly 40% of this segment's retail sales, Yakult is working to expand its sales base by proactively placing vending machines in such advantageous locations as government offices and hospitals. In addition, we are promoting a shift to larger-sized vending machines to bolster sales and enhance competitiveness.

Regarding product strategies, in April 2005 the Company launched *Furoidancha* as a mainstay functional drink to be positioned alongside *Bansoreicha*. This health tea beverage contains fucoidan, a substance derived from Okinawan *mozuku* seaweed. Yakult has conducted research on the functional ingredient fucoidan for years and introduced a stomach-friendly health tea beverage containing fucoidan in 2003 called *Itawaricha*. Although customers' stomach health-related needs have grown since *Itawaricha*'s launch, the general public's lack of familiarity with fucoidan has made it difficult to effectively communicate the product's concept. For this reason,



we have adopted a more direct approach to marketing this product, changing its name to *Furoidancha*, redoubling efforts to raise awareness of fucoidan's health benefits, and promoting the drink through advertisements.

In April 2005, the Company introduced a redesigned package for *Lemorea* that emphasizes the relaxing effects generated by theanine, which it contains. In June 2005, we plan to build upon this new category of relaxation beverages with the launch of a new series.

Yakult expects *Kininaruyasai 100 15 No Yasai*, a fruit and vegetable juice combination launched in April 2005, to experience solid future growth amid high demand for mixed fruit and vegetable juice drinks.

The Company is aggressively promoting *Bansoreicha* and *Toughman*, with an eye to giving these products even stronger footholds as flagship brands.

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

	Sales Volume (Thousands of bottles)	Percentage of Previous Year's Sales (%)
Juices	92,851	96.6
<i>Kininaruyasai Series</i>	61,327	95.9
<i>Toughman</i>	82,657	112.5
Coffee products	163,621	103.8
Black tea products	43,336	118.1
Soy milk drinks	60,824	138.8
<i>Bansoreicha</i>	72,084	75.4
<i>Lemorea</i>	35,755	86.5
<i>Kurozu Drink</i>	67,199	702.4

Review of Operations

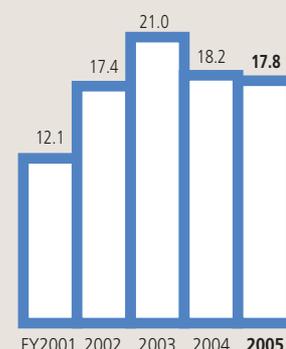
Pharmaceuticals

The Company's principal pharmaceutical product *Campto* (*Camptosar* in the United States) is approved for treating nine types of cancer in Japan and has been approved in the United States and Europe for both the first- and second-line treatment of colorectal cancer. In addition, Yakult recently launched *Elplat* (INN: oxaliplatin), an anticancer drug that has been approved for sale in more than 60 countries around the world, in Japan. Both *Campto* and *Elplat* are recognized worldwide as standard drugs for the treatment of colorectal cancer.

In fiscal 2005, Yakult's pharmaceuticals business recorded sales of ¥17.8 billion, dipping 2.1% from the previous fiscal year, and operating income of ¥3.9 billion, down 24.9%.

Sales of Pharmaceuticals

(Billions of yen)



FISCAL 2005 ACTIVITIES

During the fiscal year under review, Yakult continued to specialize in cancer and cancer-related ailments while working to expand sales channels.

In October 2004, the rights to market *Campto* in Europe and other regions were transferred to Pfizer Inc. (U.S.) with the acquisition of Aventis Pharma Inc. by Sanofi-Synthelabo S.A. (France). This transfer was made so that after the acquisition Sanofi-Synthelabo would not be in conflict with European antitrust law due to the holding of marketing rights on two drugs—*Campto* and oxaliplatin—with the same indication. Pfizer, which held the marketing rights for *Camptosar* in North America, South America, and Oceania prior to the transaction, now holds worldwide marketing rights for the drug, excluding Japan and the Republic of Korea. Thus, Pfizer will be able to establish unified marketing strategies for *Campto* (*Camptosar*).

In Japan, Yakult submitted an application for the approval of pancreatic cancer as an additional indication for *Campto*.

As for new pharmaceuticals, Yakult entered into a marketing alliance with Nisshin Kyorin Pharmaceutical Co., Ltd., for *Sinseron Tablets 8mg*, a 5-HT₃ receptor antagonist, launching the drug in Japan in September 2004. *Sinseron* is an oral antiemetic used for the prevention of nausea or vomiting associated with the administration of anticancer platinum compounds, such as cisplatin or *Elplat*. We foresee a bright future for this agent as the oral antiemetics market in Japan is still relatively small.

In addition, in April 2004, Yakult formed a partnership with the bioventure OncoTherapy Science Inc. for the development of antibody drugs to treat lung cancer. This alliance will facilitate the rapid development of promising new drugs.

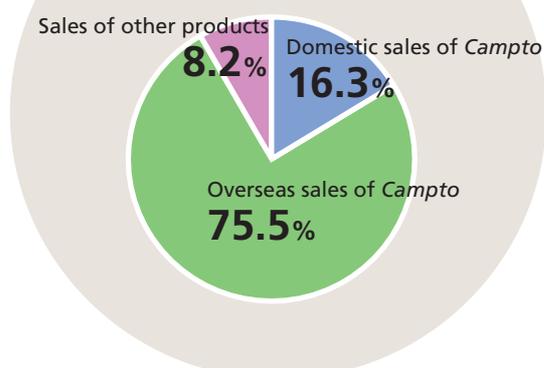
FISCAL 2005 PERFORMANCE

In fiscal 2005, overseas sales of the active pharmaceutical ingredient for *Campto* amounted to ¥13.4 billion, down 4.2% from the previous fiscal year, and remained relatively stable following the transfer of marketing rights. Sales in Japan climbed 12.6%, to ¥2.9 billion, in line with the revised performance forecasts announced in November 2004.

STRATEGY AND OUTLOOK

Going forward, Yakult will promote the anticancer drug *Elplat for Injection 100mg*, which was launched in April 2005, as an indispensable agent for the treatment of colorectal cancer in Japan. The approval and launch of *Elplat* have been long awaited in Japan. Yakult submitted a New Drug Application (NDA) for import approval in February 2004, receiving the approval in March 2005. *Elplat* has

Breakdown of Pharmaceuticals Sales



been approved for use in combination with the continuous intravenous infusion of fluorouracil and levofofolinate calcium, similar to its use in overseas countries. As priority must be given to ensuring the proper use of this drug, Yakult is primarily marketing *Elplat* to medical institutions or facilities specializing in cancer treatment. Furthermore, the Company has established a framework for the collection of safety information and a system that enables cancer specialists and medical representatives (MRs) to quickly contact each other via Internet or mobile phone. Yakult is targeting sales of ¥0.9 billion for *Elplat* in fiscal 2006. In the future, Yakult plans to submit supplemental NDAs for additional indications as well as the import of the drug's 50mg presentation and solution formulations.

Yakult anticipates a slight decline in overseas sales of *Campto* due to the expiration of the data exclusivity or patent for this agent in Italy in July 2004 and in Canada in April 2005. The patent for *Campto* also is due to expire in the United States in August 2007. However, Yakult expects sales of *Elplat* will offset these negative factors.

To bolster sales capabilities, Yakult will recruit MRs with expertise in the field of oncology and rapidly establish a

strong oncology franchise with 150 experienced MRs. Yakult will also recruit medical associates and other specialists to strengthen its relationships with medical institutions. In addition, Yakult plans to establish a network of 10 sales offices covering Japan and hold lecture meetings and similar events at the local level.

Moreover, Yakult will work to create highly efficient clinical development and production frameworks through the enhancement of personnel and proactive outsourcing.

In April 2005, the enforcement of the Pharmaceutical Affairs Law began. In response, Yakult reinforced its internal frameworks to ensure compliance, establishing a Pharmaceutical Regulatory Coordination Department under the direct supervision of the head of the Pharmaceutical Division and designating individuals responsible for overseeing the manufacture and sale of each pharmaceutical.

In fiscal 2006, the Company aims to generate overseas sales of *Campto* totaling ¥12.4 billion and raise domestic sales of pharmaceuticals to ¥6.7 billion, including ¥4.2 billion in sales from *Campto*.

Expansion of Indications for *Campto* and New Drug Development Pipeline

1. Expansion of *Campto* Indications

(As of May 31, 2005)

	Indications	Stage	Date of Application	Remarks
Japan (Yakult, Daiichi Pharmaceutical)	Pancreatic cancer	Applied for sNDA (supplemental New Drug Application) in May 2004		
Pfizer	Pancreatic cancer	Phase III completed (combination with GEM)	sNDA On hold	Superior response rate against GEM alone was observed, however, no survival benefit was demonstrated
	Gastric cancer	Phase III completed	sNDA under preparation	Combination with 5FU/FA, first-line*
	Lung cancer (small cell lung cancer)	Phase III ongoing	Undecided	Utilization of JCOG data**
	Pediatric cancer	Data exclusivity up to February 2008 procured in the U.S.		
	Breast cancer (oral formulation)	Phase II ongoing	Undecided	Phase III planned in 1Q 2006 (second-line)
	Colorectal cancer (adjuvant)	Phase II ongoing	Undecided	

* Folic acid

** Japan Clinical Oncology Group

2. Development Pipeline

(As of May 31, 2005)

Product	Indications	Licensor	Joint Development Partner	Stage	Remarks
<i>Elplat</i> (oxaliplatin) Development code: L-OHP	Colorectal cancer	Debio Pharm	(Independent development)	Launched in April 2005	
<i>Femiest</i> Development code: RG83933	Osteoporosis	Sanofi-Aventis (Aventis)	Teikoku Hormone Mfg. Co., Ltd.	Phase II completed Development on hold	Development on hold due to the publication of U.S. Phase III results indicating risk of long-term hormone replacement therapy exceeding benefit
<i>E2/NETA patch</i> Development code: RPR106522	Post-menopausal syndromes	Sanofi-Aventis (Aventis)	Teikoku Hormone Mfg. Co., Ltd.	Phase III ongoing	
	Osteoporosis			Development on hold	

Others

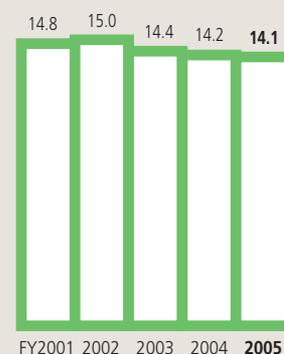
The others business segment comprises cosmetics operations and the management of the Yakult Swallows, a major league professional baseball team in Japan.

During fiscal 2005, sales in the others business segment slipped a slight 0.8% from the previous year, to ¥14.1 billion; however operating income expanded 39.8%, to ¥0.7 billion.

In its cosmetics business, Yakult employs know-how attained from its beverage research to develop cosmetic products that offer the same high level of quality and safety as its food and beverage products.

Sales of Others

(Billions of yen)



Cosmetics

FISCAL 2005 ACTIVITIES AND PERFORMANCE

Sales of *Revey* basic skin care products enjoyed solid growth following their September 2004 renewal. The reformulated *Revey* line boasts enhanced moisturizing and antioxidant properties, thanks to the addition of a unique moisturizing agent developed from aloe fermented with lactobacilli of plant origin. To promote this series, we brought to the fore our cosmetics operations' brand slogan "putting the power of lactobacilli to work for the skin" to emphasize the essence of Yakult. We also gave our original moisturizing agent *Natural SE Liquid* a new and improved name that provides a clearer image of what is in the product—*Lactobacillus Fermented Milk*. These initiatives enhanced customers' understanding of *Revey* products, boosting sales in turn.

Number of Cosmetics Marketing Staff

Type of Staff	Job Description	Number
Yakult Beauty Advisors	Home-visit marketing focused exclusively on cosmetics products	10,000
Esthetic Yakult Beauty Advisors	Yakult Beauty Advisors who also provide home esthetic treatments	1,300
Cosmetic Yakult Ladies	Yakult Ladies who also market cosmetics to existing dairy product customers	1,200

* In addition, there are 19,400 Yakult Ladies who market some cosmetics products along with dairy products.

The high-end *Parabio* series of basic skin care products performed well, albeit not as strongly as in the previous fiscal year.

Regarding sales channels, the number of Yakult Ladies who also market cosmetics products continued to climb.

STRATEGY AND OUTLOOK

Going forward, the Company will reinforce its focus on cosmetics products developed through lactobacilli research and spread the word that lactobacilli are good for the skin and the body. We aim to foster understanding of our cosmetics products and expand our customer base by proactively using a word that our beverage customers are already intimately familiar with—lactobacilli. In addition, we will aggressively promote the *Revey* trial set as part of efforts to win new customers.

In fiscal 2006, Yakult plans to expand the *Parabio* line's sales through the introduction of a new product. As for the *Poshmama* line, the Company is concentrating on repeat purchases and will pare down the number of products in this series while making the most of the advantages afforded by its home delivery system. In addition, Yakult intends to make mail-order operations a major sales channel in the future and will work to complete the shift from trial mail-order marketing operations to full-scale mail-order operations at an early date.

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 ENVIRONMENTAL POLICY

At Yakult, we believe that protecting the environment is key to operating in harmony with society and are committed to conducting our corporate activities in an environment-friendly manner. To this end, Yakult has established environmental management systems; worked to attain ISO 14001 certification, mainly for Group plants and other manufacturing facilities; and pushed forward with an array of proactive environmental initiatives, including activities promoting waste reduction and recycling, energy conservation, and green procurement. In April 2004, Yakult kicked off its Second Stage Environmental Action Plan, which is designed to further strengthen and broaden the scope of its environmental management systems.

Yakult also publishes the *Yakult Social and Environmental Report* annually, which presents information on the Company's environmental 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, primarily processes wastewater from food production and livestock operations, and has helped to 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.

SWITCHING OVER TO CFC-FREE VENDING MACHINES

The use of chlorofluorocarbons (CFCs) as refrigerants in vending machines contributes to ozone depletion. Therefore, Yakult is recovering CFCs from outdated vending machines and switching to the use of CFC substitutes in models that use specified CFCs*. In fiscal 2005, the Yakult Group's sales companies operated a total of 74,900 beverage vending machines. Yakult has completely recovered CFCs from 8,500 of these machines and switched to the use of CFC substitutes in 6,400 of these machines.

*Five CFCs that are especially harmful to the ozone layer.



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. Covering the entire country, Yakult Ladies currently conduct "Love Visitation Activities" in response to the requests of 260 local governments, with approximately 5,700 Yakult Ladies paying regular visits to 70,000 senior citizens throughout Japan.

PROMOTING RESEARCH ON INTESTINAL FLORA

The Yakult Bio-Science Foundation promotes and supports research on intestinal flora and their relationship to human health and sponsors the annual Intestinal Flora Symposium. In addition, Yakult operates the Lactobacilli Research Association, which supports the research of its members at universities and research organizations throughout Japan.

ENDOWMENT LECTURE SERIES ON PROBIOTICS RESEARCH

In April 2005, Yakult established its first endowment lecture series on probiotics at Juntendo University to promote research in the field. The Company will send researchers from the Yakult Central Institute for Microbiological Research to participate in the lecture series, which involves conducting clinical research to assess the ability of probiotics to protect against disease and aims to contribute to medical science through research on intestinal flora and probiotics.

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. Every year, approximately 6,000 children participate in these clinics, which are held at about 40 locations throughout Japan.

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

Board of Directors and Corporate Auditors

(As of June 28, 2005)

President



Sumiya Hori

General Managers



Tadashi Suzuki
General Manager,
Administrative Division,
Senior Managing Director



Norihiro Nagata
General Manager,
Food and Beverages Sales
Division,
Senior Managing Director



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



Akira Katsumata
General Manager,
Cosmetics Division,
Senior Managing Director



Naomasa Tsuritani
General Manager,
International Business Division
and Production Division,
Senior Managing Director

President

Sumiya Hori

Senior Managing Directors

Tadashi Suzuki

Norihiro Nagata

Teruo Yokokura

Akira Katsumata

Naomasa Tsuritani

Managing Directors

Ryuichiro Tanaka

Tamotsu Tomibe

Ryuji Chino

Kiyoshi Terada

Directors

Masaaki Watanuki

Kenji Taguchi

Katsumi Ohtsubo

Yoshihiro Kawabata

Tsuyoshi Kinugasa

Chizuka Kai

Takashige Negishi

Yasufumi Murata

Masahiro Negishi

Simon C. Israel

Marcel Bertaud

Shouji Ikegami

Masayuki Takemura

Toshihiro Araki

Tetsuya Hoshino

Yasuhisa Abe

Senior Corporate Auditor

Yasukuni Miura

Corporate Auditors

Teruo Nakamura

Akihiko Okudaira

Ryohei Sumiya

Masahiko Ikeda

Seijyuro Tanigawa

Financial Section

CONTENTS

Management's Discussion and Analysis	28
Consolidated Balance Sheets	32
Consolidated Statements of Income	34
Consolidated Statements of Shareholders' Equity	35
Consolidated Statements of Cash Flows	36
Notes to Consolidated Financial Statements	37
Independent Auditors' Report	49

Consolidated Five-Year Summary

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

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2005	2004	2003	2002	2001	2005
For the year:						
Net sales.....	¥247,506	¥238,847	¥242,740	¥229,623	¥224,795	\$2,313,142
Selling, general and administrative expenses.....	118,740	113,756	109,116	105,774	102,353	1,109,716
Operating income.....	18,125	16,395	21,619	13,071	16,107	169,394
Net income.....	14,105	15,083	14,383	11,108	10,537	131,822
Research and development costs.....	6,775	6,457	5,801	5,167	4,676	63,320
Capital investments.....	7,864	7,802	10,166	5,944	8,911	73,497
Depreciation and amortization.....	8,040	7,985	8,348	8,014	8,041	75,140
At the year-end:						
Total assets.....	¥293,922	¥286,389	¥276,203	¥269,094	¥242,247	\$2,746,932
Net property, plant and equipment.....	86,830	86,635	85,156	87,798	82,805	811,498
Total liabilities.....	83,504	90,354	87,959	85,288	74,861	780,411
Total shareholders' equity.....	196,023	182,766	174,827	168,033	158,450	1,831,986
<hr/>						
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income.....	¥ 79.67	¥ 85.27	¥ 80.88	¥ 63.20	¥ 60.00	\$ 0.74
Total shareholders' equity.....	1,123.03	1,047.78	995.51	956.18	901.62	10.50
Cash dividends per share.....	17.50	15.00	15.00	15.00	15.00	0.16
Financial ratios:						
Return on equity (ROE) (%).....	7.4	8.4	8.4	6.8	6.8	
Equity ratio (%).....	66.7	63.8	63.3	62.4	65.4	

Notes: 1. Figures for 2001, 2002, 2003, 2004 and 2005 have been rounded to the nearest million.

2. 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 ¥107 to U.S.\$1, the approximate rate of exchange at March 31, 2005.

Management's Discussion and Analysis

OVERVIEW

In fiscal 2005, the Japanese economy mustered a perceptible, albeit gradual, recovery that reflected companies' improved performance and stable capital investments, stemming from a rise in exports to markets centered on the United States and China as well as improvements in the employment environment and consumer spending.

Amid this environment, the Yakult Group maintained its policy of promoting healthy living in the 21st century and developing measures to improve performance by promoting greater knowledge and sales of its mainstay probiotics products (living micro-organisms with beneficial effects on human health) as well as emphasizing the superior characteristics of its products, strengthening its marketing systems, proceeding with R&D programs focused on new products, and bolstering its production facilities. In fiscal 2005, sales of juice and soft drink products were considerably increased by extremely hot summer weather—contrasting sharply with the unseasonable summer weather seen in fiscal 2004—and pharmaceutical product operations recovered from temporary problems associated with the reorganization of marketing systems.

As a result, on a consolidated basis, net sales increased 3.6%, to ¥247.5 billion, and operating income grew 10.6%, to ¥18.1 billion. Despite the rise in operating income, net income declined 6.5%, to ¥14.1 billion. While the Company recorded a ¥3.7 billion gain from the amortization of prior service cost arising from the adoption of a defined benefit pension plan, this was considerably less than the ¥5.9 billion gain on exemption from the future pension obligation of the governmental program recorded in fiscal 2004. The decline in net income principally reflected this difference and an increase in the actual effective tax rate, from 35.5% to 38.0%.

RESULTS OF OPERATIONS

Net Sales

Net sales increased 3.6%, to ¥247.5 billion. This rise in net sales—the first since fiscal 2003—reflected sales of a subsidiary newly included within the scope of consolidation from late in the previous fiscal year and the strong performance of overseas subsidiaries, particularly those in the European region. Looking at net sales

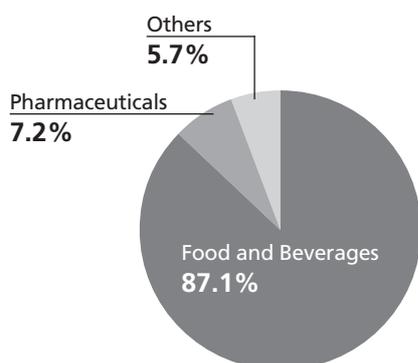
by industry segment, Food and Beverages accounted for 87.1% of sales, compared with 86.4% in the previous fiscal year; Pharmaceuticals accounted for 7.2%, down from 7.6%; and Others contributed 5.7%, down from 6.0%. As for operating income by industry segment, Food and Beverages accounted for 84.2% of operating income before eliminations/corporate, compared with 79.6% in the previous fiscal year; Pharmaceuticals accounted for 13.3%, down from 18.5%; and Others contributed 2.5%, up from 1.9%. The percentage of net sales and operating income accounted for by the Food and Beverages segment has been increasing. Sales to foreign customers grew 5.1%, to ¥57.8 billion, and the share of consolidated net sales contributed by sales to foreign customers grew smoothly, from 23.0% to 23.4%.

Sales by Business

Food and Beverages: Sales in the Food and Beverages segment rose 4.4%, to ¥215.6 billion. Regarding dairy products, we continued working to strengthen and expand our marketing organization and marketing operations through the sustained implementation of Companywide probiotics activities that spotlight Yakult's *Lactobacillus casei* strain Shirota and through efforts to explain to customers the ideas that led to Yakult's founding—the preventive medicine concept and the idea that a healthy intestinal tract leads to a long life.

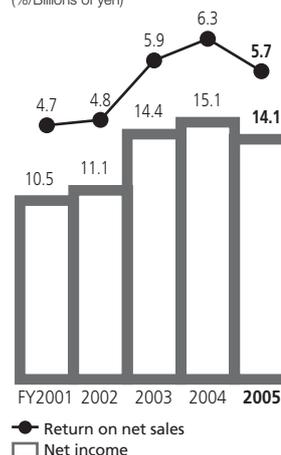
Sales of the mainstay fermented milk drink *Yakult 400* continued to show robust growth, reaching a level considerably higher than in the previous fiscal year. Steady growth was also recorded in the sales of *Joie* drinkable yogurt, which received a new package design in April 2004 to highlight its functional benefits and superior quality, and *Pretio*, a fermented milk drink launched in November 2004 that contains gamma-aminobutyric acid (GABA) and therefore has antihypertensive properties. Furthermore, in February 2005, Yakult introduced *Yakult 300V*, a fermented milk drink containing vitamin E, to respond to retail channel needs. Nevertheless, overall sales of dairy products edged down due to the harsh market conditions faced by such products as *Yakult* and *Yakult 80A*. With the exception of *Yakult 300V*, all of Yakult's dairy products have been granted permission by the Health, Labour and Welfare Minister to bear the Food for Specified Health Uses (FOSHU) mark.

Breakdown of Net Sales



Return on Net Sales and Net Income

(%/Billions of yen)



Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan), and have grown to include business bases in 18 countries and regions as well as other operations in 25 countries and regions, including those in which test sales are being conducted. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Daily average sales of Yakult products reached approximately 14.98 million bottles as of March 2005. Marketing operations in New Zealand and Ireland began in June 2004 and September 2004, respectively.

In juices and other beverages operations, we augmented marketing promotion activities focused primarily on functional foods while strengthening the direct sales routes of our sales companies, expanding our network of vending machines, and working to increase average sales per vending machine. Sales of such highly functional products as our mainstay *Toughman* and *Toughman V* nutritious tonic beverages; our premium black vinegar health beverage, *Kurozu Drink*; and our *Luck Me Drink* series of soy milk drinks, which provide the nutritional benefits of soybeans and are an excellent source of vegetable protein, grew markedly. Moreover, the joint marketing of products sold through vending machines via our partnership with Kirin enhanced marketing efficiency, along with hot summer weather, stimulated beverage consumption and created supportive conditions for beverage marketing activities. As a result, overall sales of juices and other beverages were considerably higher than in the previous fiscal year.

Pharmaceuticals: As a large rise in overseas sales in the latter half of the fiscal year was insufficient to offset the weakness of overseas sales in the first half, sales in this segment declined 2.1%, to ¥17.8 billion. Our marketing operations in this field placed particular emphasis on the anticancer drug *Campto*, and we also strove to boost sales of *Opeprim*, a chemotherapy agent for adrenal cancer and an adrenocortical hormone synthesis inhibitor; *FEMIEST*, an agent for treating post-menopausal symptoms; and *SPHEREX*, an agent for the treatment of arterial embolisms accompanying the use of medical devices. These activities, along with other initiatives in line with the Company's specialization in cancer, such as the September 2004 launch of *Sinseron*, an oral

medication used concurrently with cancer treatments to suppress nausea and vomiting, and efforts to expand marketing channels supported a year-on-year increase in the domestic sales of pharmaceuticals.

Campto has been approved in the United States and Europe as a first-line treatment for colorectal cancer and is sold throughout the world via licensing agreements with Pfizer and Aventis. At present, clinical trials to expand the drug's indications to include lung cancer and stomach cancer are being conducted in the United States and Europe. In October 2004, the rights to market *Campto* in Europe were transferred from Aventis to Pfizer, which is currently in the process of taking over sales of the drug in Europe. The application that Yakult submitted in February 2004 requesting permission to import the anticancer drug *Elplat* (oxaliplatin) was approved in March 2005. In addition, we have submitted an application for the approval of pancreatic cancer as an additional indication for *Campto* in Japan.

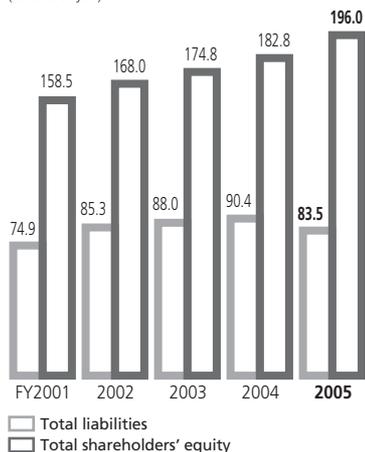
Others: Sales in the Others segment slipped 0.8%, to ¥14.1 billion. This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In cosmetics operations, the Company worked to increase customer awareness of the benefits of its original moisturizing agents, which leverage the power of lactobacilli, and enhance customer services that make use of esthetic treatments. Specifically, we boosted sales of core basic skin care products by focusing on the *Parabio* and *Revecy* series, expanding our lineup of highly functional *Parabio* products, and reformulating and adding a trial set to the *Revecy* series. In addition, we strove to expand sales of the *Poshmama* brand of family-oriented toiletries through the addition of new medicated hand cream as well as lipstick and liquid body shampoo offerings. As a result, overall sales of cosmetics surpassed the level in the previous fiscal year.

In its professional baseball operations, Yakult proactively developed strategies to attract more fans, but such factors as a decline in attendance at Company-sponsored games and the cancellation of two Company-sponsored games due to a player strike created harsh operating conditions.

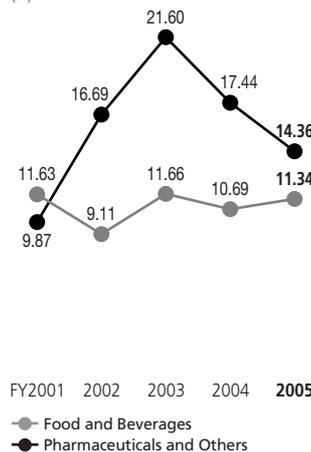
Total Liabilities and Total Shareholders' Equity

(Billions of yen)



Operating Margin by Business Segment

(%)



COSTS, EXPENSES, AND EARNINGS

Cost of sales rose 1.8%, to ¥110.6 billion, a rate of increase lower than the 3.6% increase in net sales. Consequently, the gross profit margin grew 0.8 percentage point, from 54.5% to 55.3%. Coupled with the increase in sales, this boosted gross profit 5.2%, to ¥136.9 billion. Selling, general and administrative expenses rose 4.4%, to ¥118.7 billion, largely reflecting the addition of a subsidiary to the scope of consolidation late in the previous fiscal year. The rate of growth in operating income reached double digits, as operating income surged 10.6%, to ¥18.1 billion. Looking at operating income by industry segment, operating income in the Food and Beverages segment advanced 10.8%, while operating income in Pharmaceuticals declined 24.9%. Operating income in the Others segment surged 39.8%.

Other income (expenses) declined ¥2.3 billion, to income of ¥6.9 billion. Although a ¥3.7 billion gain on the amortization of prior service cost arising from the adoption of a defined benefit pension plan was recorded in the fiscal year under review, this was considerably less than the ¥5.9 billion gain on exemption from the future pension obligation of the governmental program posted in the previous fiscal year.

The actual effective tax rate (income taxes as a percentage of income before income taxes and minority interests, which is recorded under provision for income taxes) rose to 38.0%, compared with 35.5% in the previous fiscal year. As a result, net income decreased 6.5%, to ¥14.1 billion, and return on net sales declined 0.6 percentage point, from 6.3% to 5.7%.

Capital investments amounted to ¥7.9 billion, approximately unchanged from the ¥7.8 billion level recorded in fiscal 2004, and R&D expenses rose 4.9%, to ¥6.8 billion.

FINANCIAL POSITION

Total assets at year-end were up 2.6%, or ¥7.5 billion, from fiscal 2004 year-end, to ¥293.9 billion. This rise was primarily attributable to a newly consolidated subsidiary. Current assets declined ¥6.9 billion, to ¥142.9 billion, mainly due to a ¥9.5 billion decrease in cash and cash equivalents. Net property, plant and equipment amounted to ¥86.8 billion, compared with ¥86.6 billion in the previous fiscal year. The stability of this figure reflected the approximate equivalence of depreciation and amortization

costs of ¥8.0 billion and capital investments of ¥7.9 billion. Investments and other assets increased ¥14.2 billion, to ¥64.2 billion, mainly as a result of a ¥19.0 billion rise in investment securities and investments in and advances to unconsolidated subsidiaries and associated companies, to ¥42.0 billion, which offset declines in deferred tax assets and other items in this category. Both the decrease in cash and cash equivalents and the increase in investment securities were primarily attributable to the parent company.

Total liabilities fell ¥6.9 billion, to ¥83.5 billion, reflecting a ¥1.3 billion decline in notes and accounts payable, a ¥2.3 billion decrease in income taxes payable, a ¥1.2 billion reduction in liability for retirement benefits, and a ¥3.2 billion drop in short- and long-term debt.

Shareholders' equity grew 7.3%, to ¥196.0 billion. This gain was mainly attributable to a ¥11.8 billion rise in retained earnings due to strong performance; however, a ¥0.8 billion improvement in foreign currency translation adjustments and a ¥0.8 billion rise in unrealized gain on available-for-sale securities also contributed to the increase. As a result, the equity ratio rose 2.9 percentage points, from 63.8% to 66.7%. Interest-bearing debt at year-end was down ¥3.2 billion from fiscal 2004 year-end, to ¥14.0 billion, and the debt-to-equity ratio was down a substantial 2.3 percentage points, to 7.1%.

Regarding asset profitability, return on equity (ROE) decreased 1.0 percentage point, from 8.4% to 7.4%; however, this mainly resulted from the aforementioned special circumstances related to other income (expenses) and the effective tax rate. Return on assets (ROA) rose from 5.7% to 6.2%. This reflects the further strengthening of the Company's already solid financial position as well as an increase in actual profitability achieved by leveraging assets.

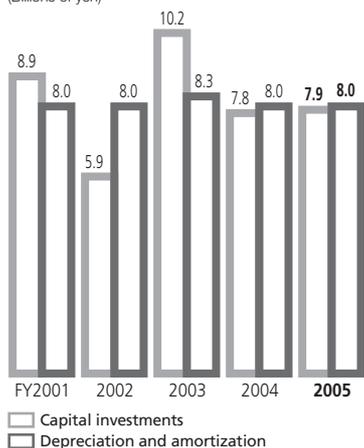
CASH FLOWS

Net cash provided by operating activities increased ¥1.2 billion, to ¥19.3 billion. This mainly reflected a substantially smaller increase in inventories as compared with the previous fiscal year, which offset a rise in income taxes paid.

Net cash used in investing activities came to ¥21.4 billion, up ¥11.8 billion. This was primarily due to increased purchases of

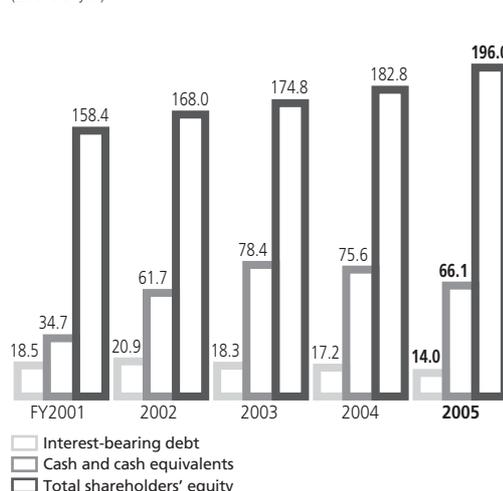
Capital Investments and Depreciation and Amortization

(Billions of yen)



Interest-Bearing Debt and Liquidity on Hand

(Billions of yen)



investment securities and a decline in proceeds from sales of property, plant and equipment as well as a decrease in time deposits.

Net cash used in financing activities totaled ¥6.9 billion, down ¥1.5 billion, largely as a result of a decline in the repurchase of treasury stock.

As a result, cash and cash equivalents at year-end amounted to ¥66.1 billion, a net decrease of ¥9.5 billion from fiscal 2004.

DIVIDENDS

Since 1990, Yakult has provided dividends of ¥15 per share in line with its fundamental policy of maintaining stable dividends, which it regards as an important part of its basic management strategy.

Going forward, we will endeavor to enhance shareholder returns by moving to a policy that takes fiscal year performance into account but remains primarily focused on maintaining stable dividends.

In accordance with this shift in policy, at the 53rd annual general shareholders' meeting in June 2005, we plan to propose supplementing our standard year-end dividend of ¥7.5 per share with a ¥1.0 per share performance-based dividend and a ¥1.5 per share commemorative dividend to mark the Yakult Group's 70th anniversary in 2005. These payments, along with the standard interim dividend of ¥7.5 per share, will result in an annual dividend of ¥17.5 per share for the fiscal year under review.

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

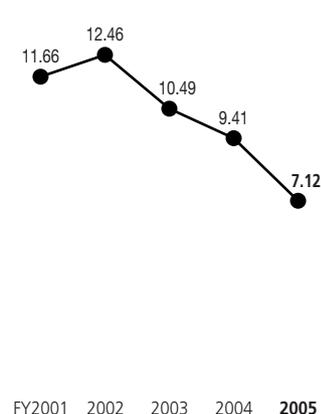
At the annual general shareholders' meeting held in June 2004, the Board of Directors approved a resolution amending the articles of incorporation to provide for the repurchase of treasury stock. However, the Company did not repurchase treasury stock in the fiscal year under review.

FORWARD-LOOKING STATEMENTS

Food and Beverages

As previously mentioned, 2005 marks Yakult's 70th anniversary. At this milestone in our corporate history, we are revisiting our founding concepts of preventive medicine and promoting knowledge of the link between a healthy intestinal tract and a long life, actively promoting the benefits of lactobacilli, and building a

Debt-to-Equity Ratio
(%)



Yakult Lady organization that is in tune with changes in the market. Through these initiatives, we aim to bring average daily sales of dairy products in Japan back to the 10 million bottle level.

In Juices and Other Beverages, Yakult will augment its marketing promotion programs centered on functional health products and continue efforts to strengthen the direct sales routes of its marketing companies.

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, the Company established Shanghai Yakult Co., Ltd., in August 2004, and that company has commenced construction of a Shanghai plant. Yakult began selling products in Shanghai in December 2002, and the establishment of a manufacturing base in the area will enable it to expand sales to other major cities on the coast when appropriate. To unify sales and marketing activities and expedite business development in China, we established the umbrella company Yakult (China) Co., Ltd., upon receiving permission from the city of Shanghai in April 2005.

In Europe, Yakult established a research center in Belgium in April 2005. The center is currently conducting research on the intestinal flora of Europeans.

Pharmaceuticals

In Japan, Yakult will continue to work to expand sales of *Campto* while moving forward with promotional activities that emphasize the proper use of *Elplat*, which was launched in April 2005.

Overseas, Pfizer will be able to establish unified marketing strategies for *Campto* as it holds marketing rights for the drug in major markets throughout the world. In addition, Yakult will focus on product life cycle management in light of the upcoming expiration of the Company's patent for this agent in the United States.

Others

In its cosmetics operations, Yakult will strive to increase the efficiency of its manufacturing departments and enhance customer satisfaction through additions to and subtractions from product lines.

The Company is implementing product launch-related campaigns to attract new customers, seasonal sales campaigns, and other measures aimed at boosting sales. At the same time, we are seeking to upgrade our marketing capabilities and augment the service we offer by strengthening education and training programs for sales companies' staff and Yakult Beauty Advisors.

In fiscal 2006, Yakult projects that net sales will increase 4.2%, to ¥258.0 billion; operating income will increase 2.1%, to ¥18.5 billion; and net income will rise 2.8%, to ¥14.5 billion, as a result of the aforementioned activities and initiatives. Overall profit growth is forecast to be lower than sales growth due to more proactive approach to investments aimed at generating large performance gains over the medium-to-long term. Specifically, we plan to increase capital investment 43.4% from fiscal 2005, to ¥11.3 billion, and raise R&D investment ¥0.9 billion, to ¥7.7 billion. We expect depreciation and amortization costs to edge up ¥0.5 billion, to ¥8.5 billion.

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

Consolidated Balance Sheets

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents.....	¥ 66,145	¥ 75,649	\$ 618,180
Time deposits (Note 5).....	1,599	2,112	14,945
Receivables:			
Notes and accounts receivable.....	35,875	35,277	335,279
Unconsolidated subsidiaries and associated companies.....	3,221	3,208	30,100
Other	2,819	1,767	26,342
Inventories (Note 3).....	27,115	27,022	253,417
Deferred tax assets (Note 8).....	3,961	3,199	37,016
Other current assets	2,656	1,976	24,822
Allowance for doubtful accounts.....	(538)	(464)	(5,026)
Total current assets	142,853	149,746	1,335,075
Property, plant and equipment:			
Land (Note 5)	32,367	31,986	302,494
Buildings and structures (Note 5)	73,217	71,535	684,272
Machinery, equipment and vehicles.....	80,527	77,593	752,587
Furniture and fixtures	14,061	13,881	131,414
Construction in progress	531	623	4,961
Total	200,703	195,618	1,875,728
Accumulated depreciation	(113,873)	(108,983)	(1,064,230)
Net property, plant and equipment	86,830	86,635	811,498
Investments and other assets:			
Investment securities (Note 4).....	23,987	9,209	224,176
Investments in and advances to unconsolidated subsidiaries and associated companies	18,059	13,819	168,778
Long-term loans	595	667	5,555
Goodwill	1,740	2,194	16,260
Deferred tax assets (Note 8).....	11,013	13,553	102,927
Other assets	8,845	10,566	82,663
Total investments and other assets	64,239	50,008	600,359
Total	¥293,922	¥286,389	\$2,746,932

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 11,323	¥ 11,719	\$ 105,822
Current portion of long-term debt (Note 5)	983	974	9,191
Payables:			
Notes and accounts payable	23,840	25,148	222,807
Unconsolidated subsidiaries and associated companies	232	199	2,170
Other	5,220	5,349	48,782
Income taxes payable	2,705	5,052	25,283
Accrued expenses	12,957	11,657	121,094
Deferred tax liabilities (Note 8)	843	949	7,875
Other current liabilities	4,108	3,968	38,391
Total current liabilities	62,211	65,015	581,415
Long-term liabilities:			
Long-term debt (Note 5)	1,653	4,507	15,450
Liability for retirement benefits (Note 6)	16,616	17,843	155,289
Deferred tax liabilities (Note 8)	1,521	1,678	14,211
Other long-term liabilities	1,503	1,311	14,046
Total long-term liabilities	21,293	25,339	198,996
Minority interests	14,395	13,269	134,535
Commitments and contingent liabilities (Note 9)			
Shareholders' equity (Notes 7 and 11):			
Common stock—authorized, 700,000,000 shares; issued, 175,910,218 shares in 2005 and 2004	31,118	31,118	290,819
Capital surplus	40,768	40,739	381,012
Retained earnings	133,602	121,770	1,248,620
Unrealized gain on available-for-sale securities	2,071	1,300	19,357
Foreign currency translation adjustments	(9,008)	(9,807)	(84,192)
Treasury stock—at cost, 1,549,285 shares in 2005 and 1,478,155 shares in 2004	(2,528)	(2,354)	(23,630)
Total shareholders' equity	196,023	182,766	1,831,986
Total	¥293,922	¥286,389	\$2,746,932

Consolidated Statements of Income

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥247,506	¥238,847	\$2,313,142
Cost of sales (Note 10)	110,641	108,696	1,034,032
Gross profit	136,865	130,151	1,279,110
Selling, general and administrative expenses (Note 10)	118,740	113,756	1,109,716
Operating income	18,125	16,395	169,394
Other income (expenses):			
Interest and dividend income	1,316	1,127	12,297
Interest expense	(229)	(327)	(2,143)
Royalty income	3,208	2,563	29,985
Foreign exchange gain	194	661	1,811
Gain on exemption from the pension obligation of the governmental program (Note 6)	49	5,908	463
Amortization of prior service cost (Note 6)	3,654		34,147
Equity in earnings of unconsolidated subsidiaries and associated companies	2,862	2,711	26,749
Charge for transitional obligations for retirement benefits	(2,490)	(3,033)	(23,272)
Other—net	(1,630)	(412)	(15,230)
Other income—net	6,934	9,198	64,807
Income before income taxes and minority interests	25,059	25,593	234,201
Income taxes (Note 8):			
Current	8,439	9,342	78,869
Deferred	1,073	(263)	10,034
Total income taxes	9,512	9,079	88,903
Minority interests in net income	1,442	1,431	13,476
Net income	¥ 14,105	¥ 15,083	\$ 131,822

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (m)):			
Basic net income	¥79.67	¥85.27	\$0.74
Cash dividends applicable to the year	17.50	15.00	0.16

Diluted net income per share of common stock for 2005 and 2004 was not calculated due to the absence of dilutive stock. See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005 and 2004

	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, 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)
Net income				14,105			
Surplus from disposal of treasury stock			29				
Adjustments to retained earnings for revaluation based on general price-level accounting				517			
Cash dividends, ¥15 per share				(2,617)			
Bonuses to directors and corporate auditors				(173)			
Net increase in unrealized gain on available-for-sale securities					771		
Net decrease in foreign currency translation adjustments						799	
Repurchase of treasury stock	(116)						(207)
Disposal of treasury stock	45						33
Balance, March 31, 2005	174,361	¥31,118	¥40,768	¥133,602	¥2,071	¥(9,008)	¥(2,528)

	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, 2004	\$290,819	\$380,744	\$1,138,041	\$12,149	\$(91,655)	\$(22,004)
Net income			131,822			
Surplus from disposal of treasury stock		268				
Adjustments to retained earnings for revaluation based on general price-level accounting			4,833			
Cash dividends, \$0.14 per share			(24,458)			
Bonuses to directors and corporate auditors			(1,618)			
Net increase in unrealized gain on available-for-sale securities				7,208		
Net decrease in foreign currency translation adjustments					7,463	
Repurchase of treasury stock						(1,932)
Disposal of treasury stock						306
Balance, March 31, 2005	\$290,819	\$381,012	\$1,248,620	\$19,357	\$(84,192)	\$(23,630)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥25,059	¥25,593	\$234,201
Adjustments for:			
Income taxes—paid	(11,019)	(8,222)	(102,981)
Depreciation and amortization	8,040	7,985	75,140
Equity in earnings of unconsolidated subsidiaries and associated companies ..	(2,862)	(2,711)	(26,749)
Changes in operating assets and liabilities:			
Increase in trade receivables.....	(552)	(2,580)	(5,157)
Increase in inventories.....	(488)	(5,524)	(4,559)
Decrease in trade payables.....	(2,160)	(538)	(20,191)
Decrease in liability for retirement benefits.....	(1,227)	(537)	(11,468)
Other—net	4,557	4,633	42,587
Total adjustments	(5,711)	(7,494)	(53,378)
Net cash provided by operating activities	19,348	18,099	180,823
Investing activities:			
Decrease in time deposits	513	1,741	4,792
Purchases of property, plant and equipment	(8,378)	(7,753)	(78,297)
Proceeds from sales of property, plant and equipment.....	647	1,703	6,043
Purchases of investment securities	(13,541)	(3,046)	(126,548)
Acquisition of controlling interest in a company.....		303	
Acquisition of shares of subsidiaries	(7)	(175)	(61)
Increase in loans receivable	(179)	(788)	(1,677)
Collection of loans receivable.....	303	246	2,830
Other—net	(777)	(1,893)	(7,259)
Net cash used in investing activities.....	(21,419)	(9,662)	(200,177)
Financing activities:			
Net decrease in short-term loans.....	(564)	(2,334)	(5,273)
Proceeds from long-term debt	400	13	3,737
Payments for settlement of long-term debt.....	(3,328)	(1,055)	(31,102)
Repurchase of treasury stock	(207)	(2,044)	(1,932)
Disposal of treasury stock	75	227	703
Dividends paid	(2,617)	(2,627)	(24,458)
Other—net	(626)	(556)	(5,856)
Net cash used in financing activities	(6,867)	(8,376)	(64,181)
Foreign currency translation adjustments on cash and cash equivalents.....	(566)	(2,803)	(5,283)
Net decrease in cash and cash equivalents.....	(9,504)	(2,742)	(88,818)
Cash and cash equivalents, beginning of year	75,649	78,391	706,998
Cash and cash equivalents, end of year	¥66,145	¥75,649	\$618,180

Notes to Consolidated Financial Statements

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries Years ended March 31, 2005 and 2004

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.

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 translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥107 to U.S.\$1, the approximate rate of exchange at March 31, 2005. Such translation should not be construed as a representation 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, 2005 include the accounts of the Company and its 65 (62 in 2004) 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 2004) 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 in 2005 and 2004.

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 as 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," 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 for the year ended March 31, 2005 and 2004 is not disclosed due to the absence of dilutive stock.

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 the 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 Group 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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Merchandise	¥ 3,640	¥ 4,129	\$ 34,023
Finished products	1,359	1,256	12,698
Work in process	2,294	3,500	21,442
Raw materials.....	18,913	17,300	176,756
Other	909	837	8,498
Total	¥27,115	¥27,022	\$253,417

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Investment securities:			
Marketable equity securities	¥21,170	¥6,449	\$197,845
Government and corporate bonds.....	1	1	10
Trust fund investments and other	2,816	2,759	26,321
Total	¥23,987	¥9,209	\$224,176

The carrying amounts and aggregate fair values of investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as—				
Available-for-sale:				
Equity securities	¥17,769	¥3,446	¥45	¥21,170
Debt securities	1			1
Other.....	128	8	4	132
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
Thousands of U.S. dollars				
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2005				
Securities classified as—				
Available-for-sale:				
Equity securities	\$166,066	\$32,202	\$423	\$197,845
Debt securities	9			9
Other.....	1,199	74	41	1,232

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥2,684	¥2,631	\$25,090
Total	¥2,684	¥2,631	\$25,090

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥10 million (\$93 thousand) and ¥23 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥4 million (\$34 thousand) for the year ended March 31, 2005. Gross realized loss for the year ended March 31, 2005 and 2004 were ¥1 million (\$7 thousand) and ¥3 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Available-for-sale:			
Due within one year	¥1		\$9
Total	¥1		\$9

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

Short-term bank loans at March 31, 2005 and 2004 were ¥11,323 million (\$105,822 thousand) and ¥11,719 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2005 and 2004 ranged from 0.59% to 8.75% and 0.59% to 3.65%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks and other financial institutions, 1.30% to 6.75% (1.23% to 18.00% in 2004), due serially to 2025:			
Collateralized	¥ 972	¥1,764	\$ 9,086
Unsecured	1,664	3,717	15,555
Total	2,636	5,481	24,641
Less current portion	(983)	(974)	(9,191)
Long-term debt, less current portion	¥1,653	¥4,507	\$15,450

Annual maturities of long-term debt as of March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 983	\$ 9,191
2007	473	4,419
2008	529	4,948
2009	348	3,253
2010	148	1,380
2011 and thereafter	155	1,450
Total	¥2,636	\$24,641

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥4,901 million (\$45,799 thousand) and the above collateralized long-term debt at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 400	\$ 3,738
Land	5,050	47,195
Buildings and structures—net of accumulated depreciation	1,214	11,345
Total.....	<u>¥6,664</u>	<u>\$62,278</u>

As is customary in Japan, the Company maintains substantial deposit balances with the 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, 2005 and 2004, included amounts for directors and corporate auditors in the amount of ¥874million (\$8,169 thousand) and ¥658 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 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 for the year ended March 31, 2004. In the current year, the Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on October 1, 2004.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on March 25, 2005 and recognized ¥49 million (\$463 thousand) as income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2005.

The liability (asset) for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥52,423	¥58,383	\$489,931
Fair value of plan assets.....	(28,471)	(28,525)	(266,083)
Unrecognized actuarial loss.....	(8,299)	(10,007)	(77,557)
Unrecognized transitional obligation		(2,730)	
Net liability.....	15,653	17,121	146,291
Prepaid pension cost	89	64	829
Liability for employees' retirement benefits.....	¥15,742	¥17,185	\$147,120

The components of net periodic retirement benefit costs for the years ended March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost.....	¥2,395	¥2,460	\$22,384
Interest cost.....	1,191	1,428	11,135
Expected return on plan assets.....	(644)	(664)	(6,019)
Amortization of prior service cost.....	(3,654)		(34,147)
Recognized actuarial loss	1,166	1,500	10,893
Amortization of transitional obligation.....	2,490	3,033	23,273
Net periodic retirement benefit costs	2,944	7,757	27,519
Gain on exemption from the pension obligation of the governmental program.....	(49)	(5,908)	(463)
Total.....	¥2,895	¥1,849	\$27,056

Assumptions used for the years ended March 31, 2005 and 2004, are set forth as follows:

	2005	2004
Discount rate.....	2.5%	2.5%
Expected rate of return on plan assets.....	2.5%	2.5%
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").

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

The 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 the amount of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the amount of 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 Code allows Japanese companies to repurchase treasury stock 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 amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

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. The amount of retained earnings available for dividends under the Code was ¥70,502 million (\$658,901 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

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 normal effective statutory tax rates of approximately 40.69% and 42.05% for the years ended March 31, 2005 and 2004, respectively. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Tax loss carryforwards	¥ 2,762	¥ 2,850	\$ 25,810
Loss from revaluation of securities	7,251	7,381	67,773
Pension and severance costs	6,149	6,754	57,474
Allowance for doubtful receivables	1,214	1,156	11,345
Other	5,591	4,966	52,250
Less valuation allowance	(2,164)	(2,575)	(20,227)
Total	¥20,803	¥20,532	\$194,425
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	¥ 3,490	¥ 2,163	\$ 32,617
Inventories	920	932	8,598
Unrealized gain on land held by a consolidated subsidiary	1,530	1,530	14,304
Other	2,253	1,782	21,049
Total	¥ 8,193	¥ 6,407	\$ 76,568
Net deferred tax assets	¥12,610	¥14,125	\$117,857

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, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	40.69%	42.05%
Equity in earnings of associated companies	(4.65)	(4.45)
Tax credit for investments in IT and R&D	(1.50)	(1.71)
Permanently non-deductible expenses	1.65	1.62
Other—net	1.77	(2.04)
Actual effective tax rate	37.96%	35.47%

At March 31, 2005, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥6,766 million (\$63,230 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
2006	¥ 902	\$ 8,432
2007	404	3,775
2008	108	1,012
2009	47	439
2010 and thereafter	5,305	49,572
Total	<u>¥6,766</u>	<u>\$63,230</u>

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 ¥6,098 million (\$56,988 thousand) and ¥6,475 million for the years ended March 31, 2005 and 2004, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and 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, 2005 and 2004 was as follows:

	Millions of yen					
	2005			2004		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	¥22,453	¥5,018	¥27,471	¥24,260	¥4,658	¥28,918
Accumulated depreciation	12,841	3,272	16,113	13,672	3,115	16,787
Net leased property.....	¥ 9,612	¥1,746	¥11,358	¥10,588	¥1,543	¥12,131

	Thousands of U.S. dollars		
	2005		
	Furniture and Fixtures	Other	Total
Acquisition cost	\$209,841	\$46,893	\$256,734
Accumulated depreciation	120,007	30,577	150,584
Net leased property	\$ 89,834	\$16,316	\$106,150

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Due within one year	¥ 4,727	¥ 5,258
Due after one year.....	6,882	7,196	64,317
Total	¥11,609	¥12,454	\$108,494

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 ¥5,734 million (\$53,589 thousand) and ¥6,108 million for the years ended March 31, 2005 and 2004, respectively.

Interest expense, which is not reflected in the accompanying consolidated statements of income, computed by the interest method was ¥292 million (\$2,732 thousand) and ¥351 million for the years ended March 31, 2005 and 2004, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥ 69	¥ 44	\$ 642
Due after one year.....	118	80	1,108
Total.....	¥187	¥124	\$1,750

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,775 million (\$63,320 thousand) and ¥6,457 million for the years ended March 31, 2005 and 2004, respectively.

11. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders meeting held on June 28, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10.0 (\$0.09) per share	¥1,744	\$16,295
Bonuses to directors and corporate auditors	178	1,664

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, 2005 and 2004 is as follows:

(1) Industry Segments

	Millions of yen				
	2005				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	¥215,585	¥17,796	¥14,125		¥247,506
Intersegment sales					
Total sales	215,585	17,796	14,125		247,506
Operating expenses	191,130	13,939	13,398	¥ 10,914	229,381
Operating income	¥ 24,455	¥ 3,857	¥ 727	¥(10,914)	¥ 18,125
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	¥181,281	¥25,173	¥ 7,901	¥ 79,567	¥293,922
Depreciation	6,787	258	125	870	8,040
Capital expenditures	7,585	264	118	848	8,815
	Thousands of U.S. dollars				
	2005				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	\$2,014,817	\$166,321	\$132,004		\$2,313,142
Intersegment sales					
Total sales	2,014,817	166,321	132,004		2,313,142
Operating expenses	1,786,268	130,273	125,209	\$ 101,998	2,143,748
Operating income	\$ 228,549	\$ 36,048	\$ 6,795	\$(101,998)	\$ 169,394
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	\$1,694,212	\$235,266	\$ 73,838	\$ 743,616	\$2,746,932
Depreciation	63,427	2,409	1,171	8,133	75,140
Capital expenditures	70,886	2,468	1,103	7,924	82,381
	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	¥ 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
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, 2005 and 2004 are summarized as follows:

	Millions of yen					
	2005					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/Corporate	Consolidated
Sales to customers	¥204,209	¥22,427	¥10,220	¥10,650		¥247,506
Interarea transfers	2,464				¥ (2,464)	
Total sales	206,673	22,427	10,220	10,650	(2,464)	247,506
Operating expenses.....	188,206	16,513	8,147	8,065	8,450	229,381
Operating income	¥ 18,467	¥ 5,914	¥ 2,073	¥ 2,585	¥(10,914)	¥ 18,125
Total assets	¥141,181	¥32,943	¥34,968	¥ 6,551	¥ 78,279	¥293,922

	Thousands of U.S. dollars					
	2005					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/Corporate	Consolidated
Sales to customers	\$1,908,503	\$209,598	\$ 95,510	\$99,531		\$2,313,142
Interarea transfers	23,024				\$ (23,024)	
Total sales	1,931,527	209,598	95,510	99,531	(23,024)	2,313,142
Operating expenses.....	1,758,939	154,330	76,136	75,369	78,974	2,143,748
Operating income	\$ 172,588	\$ 55,268	\$ 19,374	\$24,162	\$(101,998)	\$ 169,394
Total assets	\$1,319,444	\$307,882	\$326,807	\$61,224	\$ 731,575	\$2,746,932

	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 transfers	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

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, 2005 and 2004 amounted to ¥57,831 million (\$540,475 thousand) and ¥55,048 million, respectively.

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, 2005 and 2004, 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, 2005 and 2004, 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.



June 28, 2005

Global Network

(As of June 25, 2005)

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

- ① Yakult Co., Ltd. (Taiwan)
3F No. 261, Sung Chiang Road,
Taipei, Taiwan, R.O.C.
Phone: 886-2-25158960
Fax: 886-2-25168960
- ② 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
- ③ 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
- ④ Yakult (Thailand) Co., Ltd.
16th Fl. Yakult Building,
1025 Pahon Yothin Road,
Phaya Thai, Bangkok 10400,
Thailand
Phone: 66-2-6198008
Fax: 66-2-6198020
- ⑤ Korea Yakult Co., Ltd.
28-10, Chamwon-dong,
Socho-ku, 137-070 Seoul, Korea
Phone: 82-2-34496000
Fax: 82-2-34496655
- ⑥ Yakult Philippines, Inc.
1461F, Agoncillo Cor., Escoda Street,
Ermita, Metro Manila, Philippines
Phone: 63-2-5211722
Fax: 63-2-3382225
- ⑦ Yakult (Singapore) Pte., Ltd.
7 Senoko Avenue,
Singapore 758300
Phone: 65-67561033
Fax: 65-67523817
- ⑧ Yakult S.A. de C.V. (Mexico)
AV. Division Del Norte 1419,
Benito Juarez C.P. 03310,
Mexico D.F., Mexico
Phone: 52-55-5-000-1400
Fax: 52-55-5-601-0903
- ⑨ P.T. Yakult Indonesia Persada
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- ⑩ Yakult Australia Pty. Ltd.
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Fax: 61-3-92384799
• Yakult Australia Pty. Ltd.
New Zealand Branch
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Auckland 1006, New Zealand
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Fax: 64-9-5710495
- ⑪ Yakult Nederland B.V.
Bavinckstaete 5th Floor,
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Fax: 31-20-6401632
- ⑫ Yakult Belgium S.A./N.V.
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Brussels, Belgium
Phone: 32-2-5242092
Fax: 32-2-5243152
- ⑬ Yakult UK Ltd.
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Acton, London W3 7XS, U.K.
Phone: 44-208-7404111
Fax: 44-208-7404999
• Yakult UK Ltd.
Ireland Branch
Alexandra House,
The Sweepstakes, Ballsbridge,
Dublin, Ireland
Phone: 353-1-6641745
Fax: 353-1-6641809
- ⑭ Yakult Deutschland GmbH
Forumstraße 2,
41468 Neuss, Germany
Phone: 49-2131-3416-00
Fax: 49-2131-3416-16
- ⑮ 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
- ⑯ Guangzhou Yakult Co., Ltd.
Dongpu Business Building Tower B,
6th Floor, Zhongshan Road 286,
Tianhe, Guangzhou, China
Phone: 86-20-82580692
Fax: 86-20-82521018
- ⑰ Yakult (Malaysia) Sdn. Bhd.
Lot No. 7, Jalan Jururancang
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Hicom Glenmarie Industrial Park,
40150 Shah Alam,
Selangor Darul Ehsan, Malaysia
Phone: 60-3-5569-8960
Fax: 60-3-5569-8961
- ⑱ Shanghai Yakult Co., Ltd.
Room No. 1701, An Tai Building,
Zun Yi Road, Chang Ning District,
Shanghai, P.O. 200051, P.R. China
Phone: 86-21-6237-5757
Fax: 86-21-6237-5582
★ 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
★ Yakult (China) Co., Ltd.
15F-B Majesty Building,
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200120, P.R. China
Phone: 86-21-5887-4595
Fax: 86-21-5887-2025



Corporate Data

(As of March 31, 2005)

Corporate Name:

YAKULT HONSHA Co., Ltd.

Date Founded:

1935

Date Incorporated:

April 9, 1955

Head Office:

1-19, Higashi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8660, Japan

Phone: +81-3-3574-8960

URL: <http://www.yakult.co.jp/>

Paid-in Capital:

¥31,117,654,815

Annual Account

Settlement Date:

March 31

Number of Employees:

13,982

Number of Issued and Outstanding Shares:

175,910,218

Number of Shareholders:

14,147

* Including shareholders whose shares do not comprise full trading units

Offices:

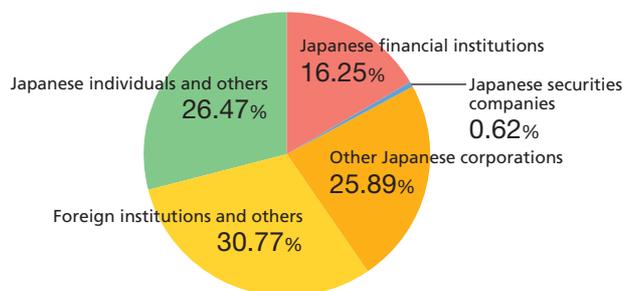
1 institute, 9 branches, 12 plants,
7 pharmaceutical product sales offices

Major Shareholders:

	Percentage of Total Shares Issued
MLPFS NOMINEE/DANONE ASIA HOLDINGS PTE. LTD	20.02%
Matsusho Co., Ltd.	6.55
Fuji Television Network, Inc.	3.69
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
The Master Trust Bank of Japan, Ltd.	2.33
Kyoshinkai	2.24
Nippon Life Insurance Company	1.66
Japan Trustee Services Bank, Ltd.	1.46
Teruo Nakamura	1.15
STATE STREET BANK AND TRUST COMPANY	1.00

Distribution of Ownership among Shareholders

(On a number of shares basis)



Share Price Movement



Yakult

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URL: <http://www.yakult.co.jp/>

