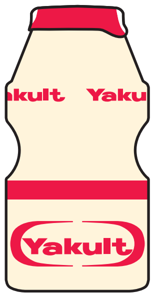
Yakult

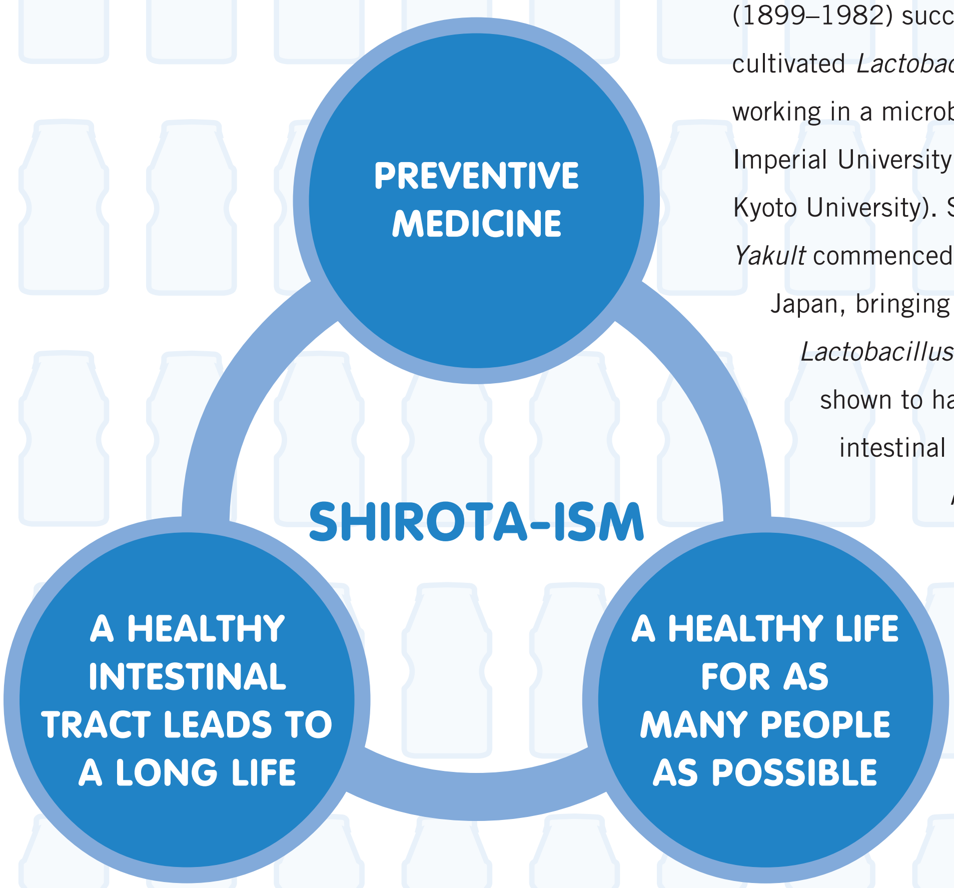
PUTTING PROBIOTICS ON THE MAP



ANNUAL REPORT 2007

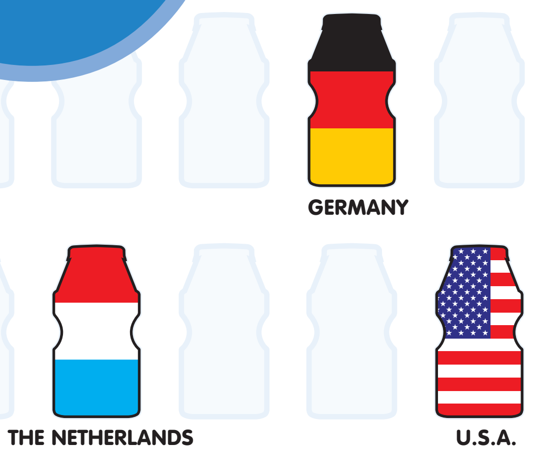
Year ended March 31, 2007

PROFILE



Yakult Honsha Co., Ltd. traces its roots to 1930, when the Company's founder, Dr. Minoru Shirota (1899–1982) successfully strengthened and cultivated *Lactobacillus casei* strain Shirota while working in a microbiology laboratory at Kyoto Imperial University School of Medicine (currently Kyoto University). Sales of the fermented milk drink *Yakult* commenced five years later in Fukuoka, Japan, bringing people the health benefits of *Lactobacillus casei* strain Shirota, which was shown to have beneficial effects on the intestinal tract.

After World War II, Japan was in chaos, and contagious diseases such as dysentery and typhoid fever were prevalent. In response to growing demand for *Yakult* as a preventive



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FORWARD-LOOKING STATEMENTS

Statements contained in the Annual Report 2007 regarding business results for fiscal 2007 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

measure, the production and sales of *Yakult* spread nationwide. Yakult Honsha Co., Ltd. was established in Tokyo in 1955 to manage this growing network.

Since then, Yakult Honsha has continued to strengthen basic and applied research into lactobacilli, diversify its range of dairy products, and expand its business domain into cosmetics and pharmaceuticals. We have also contributed to the health of people around the world by expanding aggressively overseas, starting with Taiwan in 1964. Yakult is currently sold in 28 countries and regions around the world, including Japan.

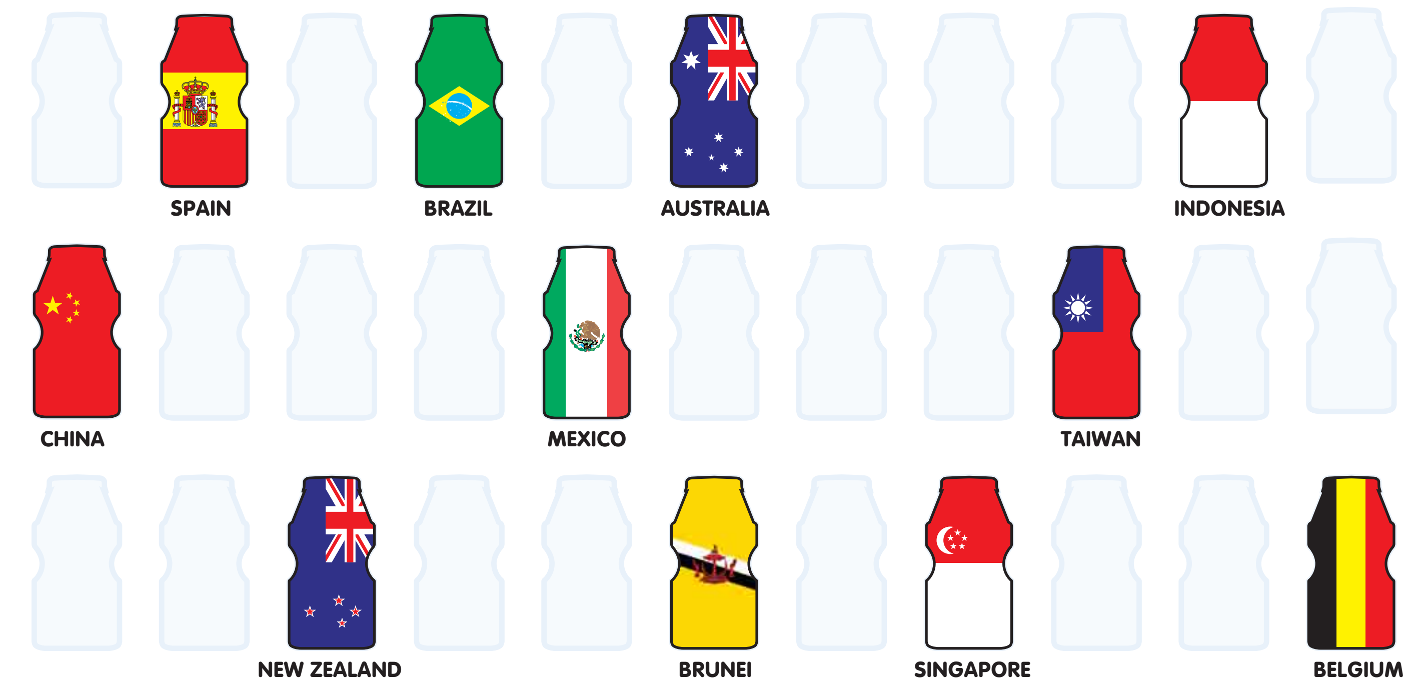
THE SOURCE OF YAKULT'S STRENGTH

The first source of our strength as a company is the fact that we possess *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, whose health benefits and safety have been confirmed through clinical trials.

The second source of our strength is the fact that all members of the Yakult Group are imbued with Shirota-ism—the ideals of Dr. Shirota, the founder of our business who succeeded in strengthening and cultivating *Lactobacillus casei* strain Shirota.

Shirota-ism refers to the ideals of preventive medicine, the concept that a healthy intestinal tract leads to a long life, and a commitment to providing a healthy life for as many people as possible, which Dr. Shirota always espoused. Shirota-ism lies at the heart of Yakult and forms the very foundation of our operations.

The third source of our strength is the Yakult Lady System—our unique home-delivery sales organization, which markets these strengths around the world.



MESSAGE FROM THE PRESIDENT

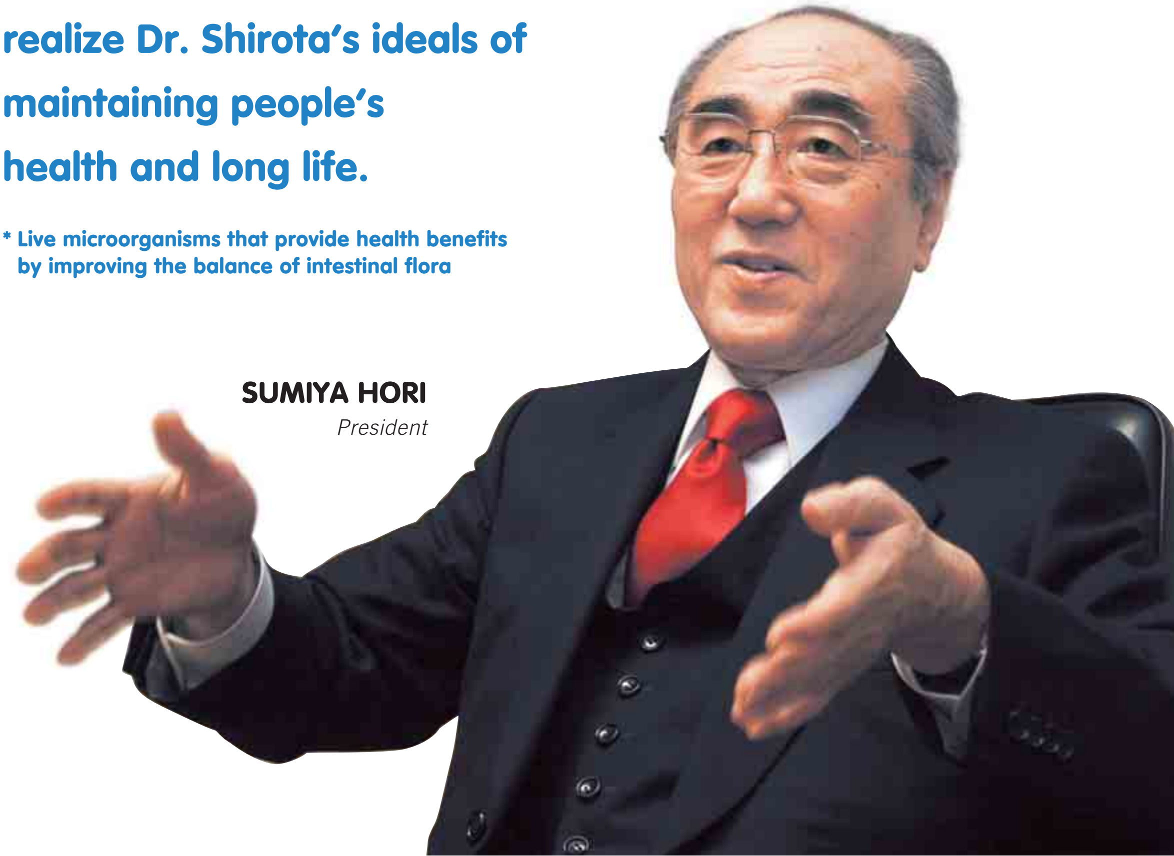
I would like to express my sincere gratitude to all of our shareholders for their support and encouragement.

Yakult Honsha Co., Ltd. traces its roots to 1930, when the Company's founder, Dr. Minoru Shirota, who advocated the ideals of preventive medicine and the concept that a healthy intestinal tract leads to a long life, successfully strengthened and cultivated *Lactobacillus casei* strain Shirota. Five years later, manufacturing and sales of the fermented milk drink *Yakult* commenced. Today, the Yakult name is associated around the world with the concept of Probiotics*.

We are working around the world to have more people drink Yakult in order to realize Dr. Shirota's ideals of maintaining people's health and long life.

* Live microorganisms that provide health benefits by improving the balance of intestinal flora

SUMIYA HORI
President



FINANCIAL HIGHLIGHTS

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
March 31, 2007, 2006, 2005, 2004 and 2003

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2007	2006	2005	2004	2003	2007
For the year:						
Net sales	¥ 273,100	¥ 267,707	¥ 247,506	¥ 238,847	¥242,740	$2,314,404
Operating income	23,893	21,754	18,125	16,395	21,619	202,486
Net income	14,806	14,442	14,105	15,083	14,383	125,471
At the year-end:						
Total assets	¥ 354,539	¥ 328,619	¥ 293,922	¥ 286,389	¥276,203	$3,004,570
Total liabilities	93,334	88,345	83,504	90,354	87,959	790,968
Total shareholders' equity		220,701	196,023	182,766	174,827	
Total equity	261,205					2,213,602

	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 84.93	¥ 81.67	¥ 79.67	¥ 85.27	¥ 80.88	$ 0.72
Total equity (Note 3)	1,356.68	1,264.65	1,123.03	1,047.78	995.51	11.50
Cash dividends applicable to the year	18.00	16.00	17.50	15.00	15.00	0.15

Notes: 1. Figures are 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 has been made at the rate of ¥118 to U.S.$1, the approximate rate of exchange at March 31, 2007.
3. Minority interests are not included in equity on process of calculation.

FISCAL 2007 PERFORMANCE

Our report on performance in fiscal 2007, ended March 31, 2007, will concentrate on consolidated results.

The Japanese and world economies remained strong in fiscal 2007, driven by economic growth in countries including China and India, and personal consumption was solid. In this environment, we focused worldwide on activities to inform people about Probiotics and spread their use, using the superiority of our dairy products as a selling point. We also strengthened our sales organization. As a result, we were able to achieve consolidated net sales of ¥273.1 billion (up 2.0% from the previous fiscal year), operating income of ¥23.9 billion (up 9.8%), all record highs, and net income of ¥14.8 billion (up 2.5%).

YAKULT'S STRENGTHS AND FUTURE VISION

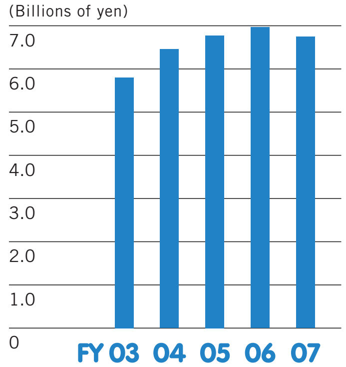
Cultures, customs, dietary habits and tastes differ between countries, but people throughout the world drink the fermented milk drink *Yakult,* which has the same flavor, and is provided in the same small bottle, wherever it is sold. We believe this shows how the world recognizes our ideals of preventive medicine and the concept that a healthy intestinal tract leads to a long life, as well as our brand value.

Going forward, we will continue to spread the Probiotics philosophy through our fermented milk drink, *Yakult*, and work toward our goal of selling it in 46 countries and regions around the world, including Japan, by fiscal 2011.

RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT COSTS

(Billions of yen)



The Yakult Central Institute for Microbiological Research, originally established in 1955 as the Shirota Institute for Research on Protective Bacteria, has been on the cutting-edge of preventive medicine, working on wide-ranging research into useful microorganisms, based on research into intestinal microflora, and has recorded many achievements, including the discovery and use of lactobacilli with high levels of functionality.

[Overview of Yakult Central Institute for Microbiological Research]

The Yakult Central Institute for Microbiological Research, located in Kunitachi, Tokyo, is a cutting-edge research facility in the Probiotics field with a staff of about 250 researchers working on life science for the benefit of human health.

We are currently performing a major renovation of the research facility, investing about ¥7.8 billion into the latest research facilities capable of meeting today's challenges. The renovation will be completed in March 2010.

ORGANIZATION OF YAKULT CENTRAL INSTITUTE FOR MICROBIOLOGICAL RESEARCH

Research & Development

Basic Studies

•Intestinal flora •Biophylaxis •Probiotics •Cancer prevention •Intestinal immunity •Genomic analysis of microorganisms •Discovery of yet-unknown intestinal bacteria

Screening of Basic Materials of Food, Pharmaceuticals, and Cosmetics

•Discovery and improvement of useful microorganisms •High-level purification and processing of enzymes
•Development of techniques for utilization of food materials •Discovery and utilization of effective components in natural organic substances
•Detection and improvement of useful components of milk •Chemical synthesis and modification of organic compounds

Verification of functions of food materials | **Determining pharmacological effects and mechanisms** | **Verification of functions of cosmetic ingredients**

Product Feasibility Tests

Safety testing | **Industrial feasibility tests**

New food materials | **New pharmaceutical materials** | **New cosmetic materials**

In May 2005, we established the Yakult Honsha European Research Center for Microbiology ESV in Ghent, Belgium, to gather scientific evidence on the benefits to European consumers of drinking our Probiotic products.

[Joint Research with Groupe Danone]

In May 2007, we announced the completion of the YIF-SCAN system. This cutting-edge system can analyze samples of intestinal flora from large numbers of people with unprecedented speed and accuracy. We also agreed to provide this YIF-SCAN technology to Groupe Danone free of charge. We will conduct joint basic research into human intestinal flora as well as Probiotics research using this system. We will also expand joint research with an eye to turning it into the global standard for intestinal flora analysis.

[Pharmaceutical R&D]

Currently, the development of new anticancer drugs is the core domain in Yakult's pharmaceutical R&D. The anticancer drug *Campto Injection* (irinotecan hydrochloride), developed by Yakult, is used in medical facilities around the world. Recently, we also developed a new anti-colorectal cancer drug *Elplat* (oxaliplatin), which is also widely used in the world to treat colorectal cancer. In addition, a new anticancer drug *Irinotecan liposome* (code: IHL-305, co-developed with Terumo Corporation) is being developed in Phase I clinical trials in the US. In 2007, we also acquired the global development and distribution rights for the anticancer drug *Soblidotin* (code: YHI-501) from ASKA Pharmaceutical Co., Ltd.

BUSINESS STRATEGIES

[Food and Beverages in Japan]

MAIN STRATEGIES FOR FOOD AND BEVERAGES IN JAPAN

- **Concentrate our marketing investment in the Yakult brand**
  -Core product for the home delivery channel: *Yakult 400*
- **Realignment and capital investment for our plants**
- **Modernize the Yakult sales companies**

In fiscal 2008, we will concentrate our marketing investments in the Yakult brand in order to provide even higher-quality products and customer service.

First, we will clearly position *Yakult 400* as the core product for the home delivery channel, and *Yakult 65* and *Yakult 300V* as core products for the retail store channel. We will focus advertising and promotional activities on communicating the product value of these selected brands.

We will also begin modernizing the Yakult sales companies that support on-site sales nationwide, and strengthen their management structures to build up a sales organization that can further enhance customer satisfaction.

Reorganizing Our Production Structure

We will conduct realignment and capital investments for our domestic dairy product plants in order to improve production efficiency and reduce production costs, and rebuild our production and distribution structures.

The plan is to move to a 14-plant structure by the end of March 2008, including capital investments of approximately ¥19.1 billion into new and existing plants by the end of March 2009. We plan to subsequently achieve an 11-plant structure by the end of March 2013, investing a total of more than ¥30.0 billion.

When this entire plan is completed, production costs will be reduced by approximately ¥2.0 billion annually.

[Cosmetics]

In the cosmetics business, we are embarking on a second beginning called the Restart Plan.

This will involve concentrating on skin care products, such as the *Parabio* brand. We will strengthen our customer counseling capabilities to help sell these products.

[Pharmaceuticals]

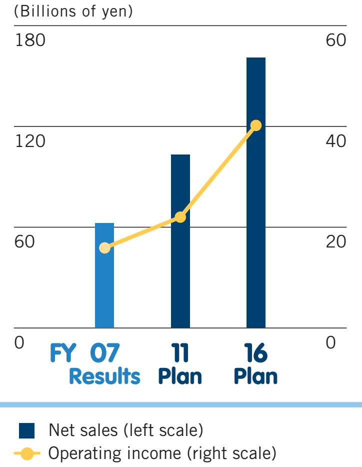
We aim to be a specialty pharmaceutical company concentrating on cancer and cancer-related ailments. The anticancer drug *Elplat* (oxaliplatin) has been sold well since its launch, becoming a major anticancer product second only to *Campto Injection* (irinotecan hydrochloride). In fiscal 2008, we will focus on domestic sales of these two main products.

[International Expansion]

We currently sell the fermented milk drink *Yakult* in 27 countries and regions in the world outside Japan, aiming to realize our corporate philosophy of contributing to people's health and to expand our business. Going forward, we will distribute our management resources effectively in international business to not only expand in countries where we are already present, but also to expand into new countries. We plan to sell Yakult in 45 countries and regions outside Japan in fiscal 2011.

* For the international business, "fiscal year" means from January 1 to December 31 each year.

NET SALES AND OPERATING INCOME IN INTERNATIONAL BUSINESS OVER MEDIUM AND LONG TERM (Consolidated basis)



DIVIDENDS

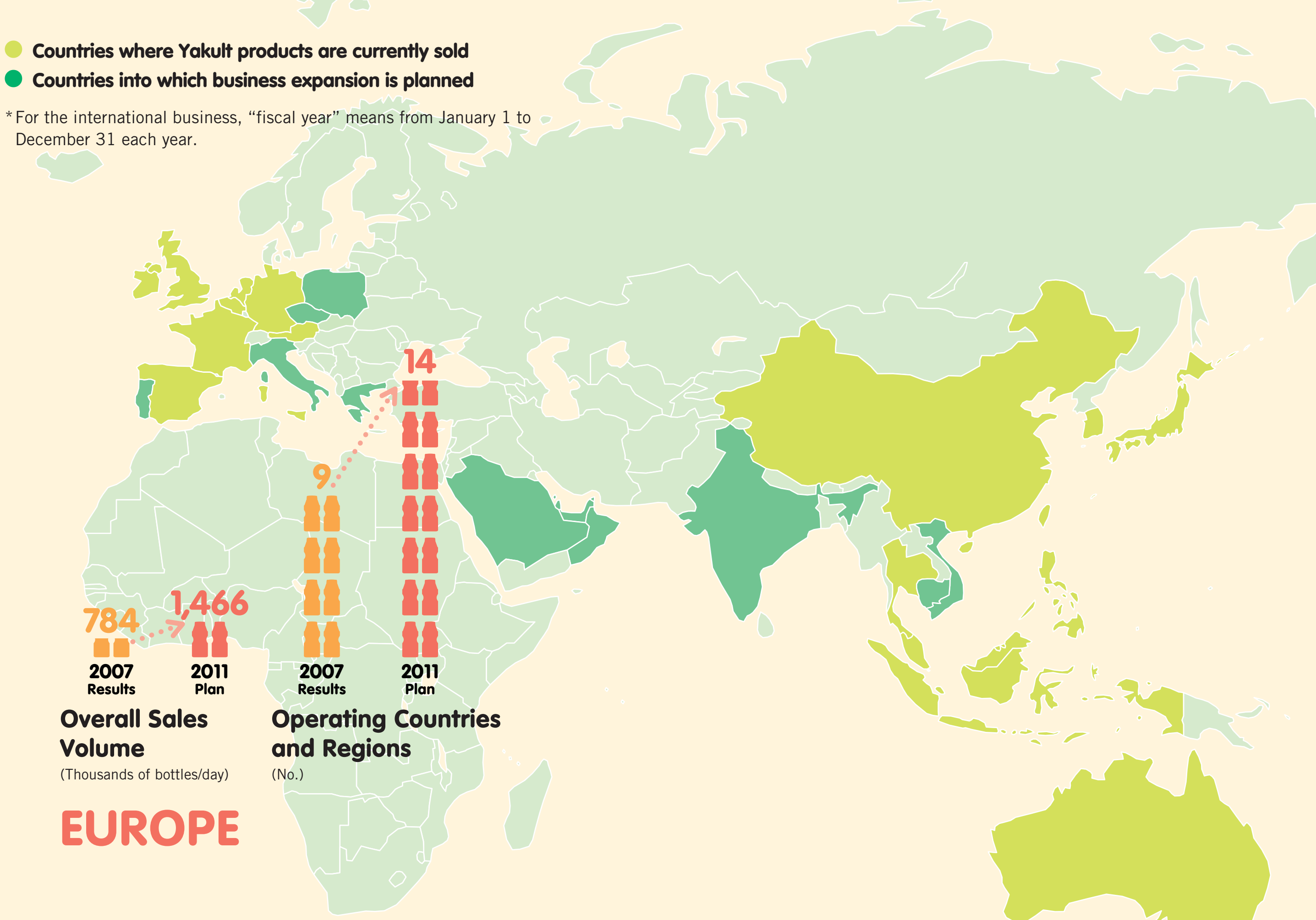
Since fiscal 2005, we have switched to a policy of paying dividends in line with each fiscal year's earnings while maintaining stable dividends, to return profits to our shareholders more actively. We have also paid out special dividends.

Until now, we have considered special dividends in light of nonconsolidated results, taking into account funding needs for future business expansion and earnings improvement as well as our overall financial status. However, as consolidated earnings have been strong, we have decided to also take them into account when paying dividends.

Accordingly, at the end of March 2007, we will pay an ordinary dividend of ¥7.5 and a special dividend of ¥3 for a total dividend of ¥10.5 per share, making our annual dividend ¥18 per share.

June 2007

SUMIYA HORI
President



SPECIAL FEATURE

PUTTING PROBIOTICS ON THE MAP —YAKULT'S INTERNATIONAL BUSINESS

Realizing Ideals of World Peace and Healthy Lives for People Around the World

HISTORY OF INTERNATIONAL EXPANSION

Our Company's international expansion can be traced back to the start of operations in Taiwan in 1964. During the period until 1990, we received many inquiries from countries that were suffering from a prevalence of contagious diseases, with poor sanitary conditions resulting from lagging development of social infrastructure. These countries expressed interest in the effects of the Probiotic drink *Yakult*, containing the *Lactobacillus casei* strain Shirota, in preventing contagious disease. This helped us advance into eight countries in Southeast Asia and Central and South America. During the period from 1991 to 2000, we

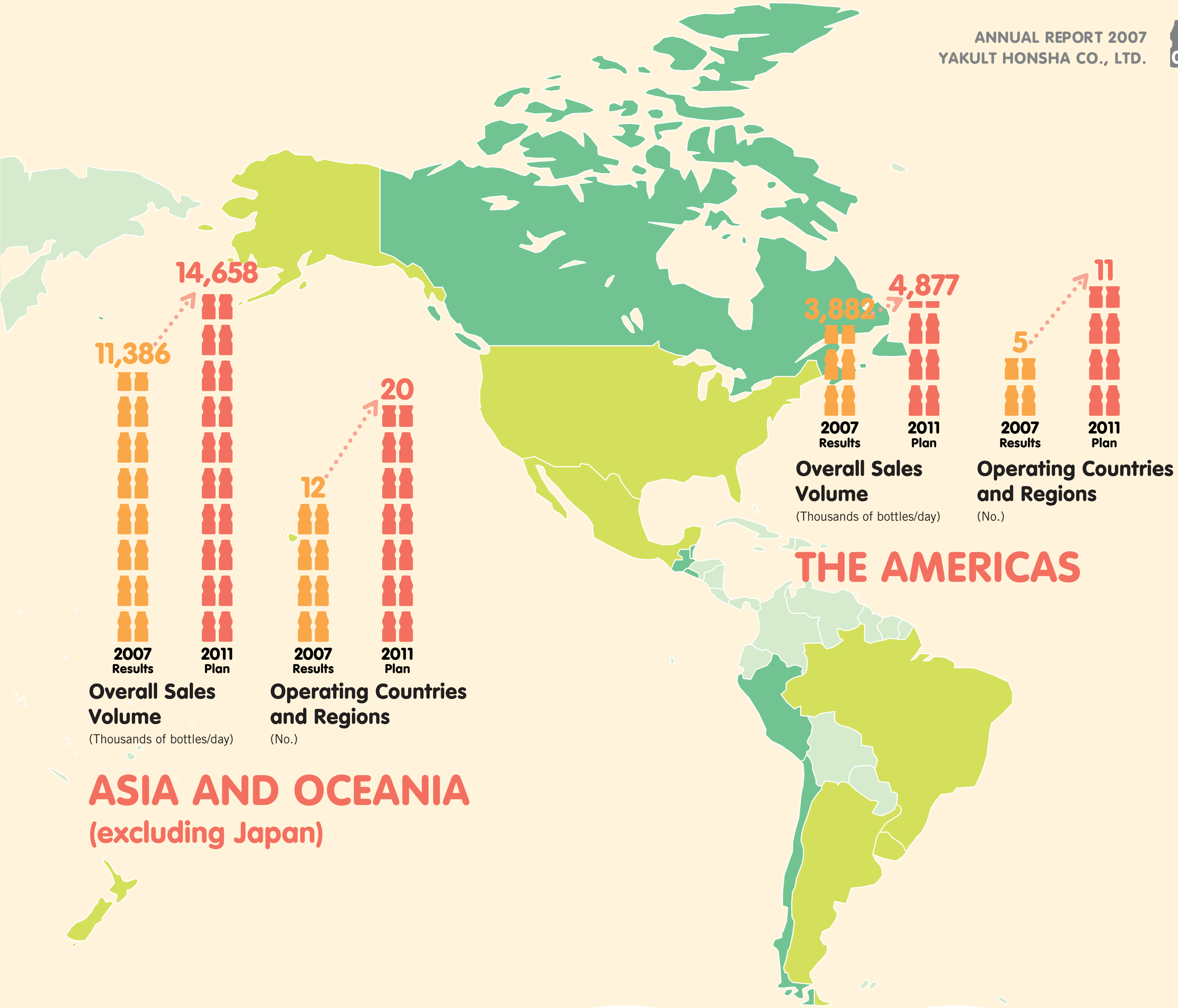
Hong Kong (early 1970s)

Taiwan (1960s)

began operations in countries with advanced dairy industries such as Australia, as well as the Netherlands and surrounding countries, establishing seven offices. From 2001 to the present, we have built Yakult into a global brand by rapidly expanding from countries with existing operating bases into surrounding areas, and have begun efforts to spread into populous countries such as China, India, and the United States. As a result, Yakult is sold in 27 countries and regions (excluding Japan) as of the end of March 2007.

MEDIUM AND LONG-TERM PLAN

We drew up a medium- and long-term business plan (FY2003-2011) in 2002 to realize our ideals of world peace and healthy lives for people around the world through the Probiotic drink *Yakult*,

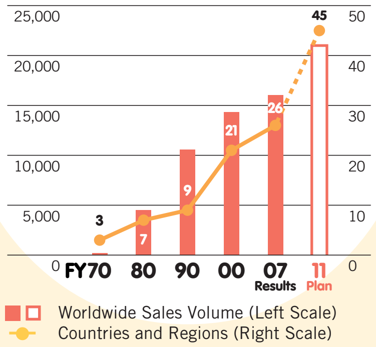


Overview of Overseas Operations

	2007 Results
Overseas Marketing Companies	21
Countries and Regions	26
Target Sales Population (millions)	785.8
Percentage of Target Sales Population Reached (%)	2.06
No. of Employees	10,374
Yakult Ladies	35,090
No. of Stores	238,142

Overall Worldwide Sales Volume and Operating Countries and Regions (excluding Japan)

(Thousands of bottles/day, No.)



containing the *Lactobacillus casei* strain Shirota. Under this plan, we aim to be operating in 45 countries and regions in fiscal 2011, compared to the current 27, comprising a total population of about 4.8 billion people (currently about 800 million). The plan calls for daily sales volumes of 21 million bottles (currently about 16 million).

At present, we are steadily building up our production structure in the huge markets of China and India, and we expect to achieve our target in fiscal 2011.

The Yakult Lady home delivery channel will be the major sales channel in achieving our target. Our advance overseas will be based on our healthy food and beverage products that use our proprietary Probiotics, such as the *Lactobacillus casei* strain Shirota. To increase our sales, it is important that customers fully understand and experience the health benefits and effectiveness of these products. To this end, we plan to expand the Yakult Lady home delivery system around the world, using the ability of Yakult Ladies to communicate directly with customers.

THE AMERICAS

Overview of Operations in the Americas

	2007 Results
Overseas Marketing Companies	4
Countries and Regions	5
Target Sales Population (millions)	157
Percentage of Target Sales Population Reached (%)	2.50
No. of Employees	4,551
Yakult Ladies	13,220
No. of Stores	31,664

Operating Countries and Regions

2007:
BRAZIL, MEXICO, ARGENTINA, U.S.A., URUGUAY

+

2011 (Plan):
CANADA, GUATEMALA, BELIZE, EL SALVADOR, PERU, CHILE

Total: **11**
Countries and Regions

In the Americas, we are selling a total of 4.25 million bottles of *Yakult* per day (a 12% increase compared to a year ago) in Mexico, Brazil, Argentina, the United States, and Uruguay as of the end of March 2007.

In the United States, we will step up from the California market, where most of our sales have been since 1990, and expand full-scale into the general market from summer 2007. Going forward, we will expand not only on the West Coast, mainly in California, but also on the East Coast, as well as in Canada. As for our production structure, we eventually plan on constructing a local plant, but until this is up and running, we will respond to growing demand by importing from our Mexican plant, which has a maximum production capacity of approximately 3.6 million bottles per day.

There has been a remarkable increase in health awareness among people in the United States, and interest in Probiotics is also increasing. We recognize that success in the U.S. market is very important in developing Yakult as a global brand. Going forward, we will continue to work on informing customers about the value of our products and brand development, while also linking up with educational and medical institutions.


Mexico

In Mexico, we have continued to grow since entering the market in 1981. We will work to break the market down into smaller segments in existing sales areas, mainly the Mexico City region, while focusing on spreading information on Yakult and Probiotics and developing new sales channels. We also plan to gradually expand sales into undeveloped territories, mainly smaller regional cities.

In Brazil, which we entered in 1968, sales volume had been decreasing in recent years, but is now recovering as a result of economic revitalization and efforts to rebuild our sales organization, mainly through the Yakult Lady sales channel. To expand sales in the future, we will continue to strengthen and build up our operating base, and aim to acquire new customers using new products as a catalyst.


Brazil

EUROPE

Overview of Operations in Europe

	2007 Results
Overseas Marketing Companies	5
Countries and Regions	9
Target Sales Population (millions)	180
Percentage of Target Sales Population Reached (%)	0.44
No. of Employees	261
Yakult Ladies	0
No. of Stores	28,280

Operating Countries and Regions

2007:
THE NETHERLANDS, BELGIUM, UNITED KINGDOM, GERMANY, AUSTRIA, LUXEMBOURG, IRELAND, FRANCE, SPAIN

+

2011 (Plan):
ITALY, CZECH REPUBLIC, PORTUGAL, POLAND, GREECE

Total: 14
Countries and Regions

Italy

In Europe, *Yakult* and *Yakult LT* fermented milk drinks are manufactured and sold in the Netherlands, and are also sold in countries including the United Kingdom, Germany, Belgium, Austria, and Italy exclusively through the retail store channel, mainly supermarkets.

In Europe, we are considering entering one new country each year. In February 2007, we began full-scale operations in Italy, which has a large population. We are currently continuing to concentrate management resources in Italy to cement our business base, including promoting recognition of the Yakult brand. During the same month we also launched the *Bifiene* series of bifidobacteria yogurt drinks, mainly in the Netherlands and Belgium. We will continue such efforts to strengthen our product lineup in Europe.

We use storefront sales, mainly at supermarkets, as our sales channel in Europe. We will work to expand sales by promoting the effectiveness of Probiotics and the Yakult brand through demonstrations at supermarkets and local informational activities.

At the Yakult Honsha European Research Center for Microbiology ESV, established in 2005, we plan to utilize world-class research technology on intestinal flora and conduct trials on Europeans using our fermented milk products to further research on intestinal flora and the beneficial effects of improved intestinal flora balance. We also plan to accumulate global test data in order to expand our business not only in Europe, but also in the Americas and Asia.

ASIA AND OCEANIA

Overview of Operations in Asia and Oceania

	2007 Results
Overseas Marketing Companies	12
Countries and Regions	12
Target Sales Population (millions)	44,884
Percentage of Target Sales Population Reached (%)	2.56
No. of Employees	5,562
Yakult Ladies	21,870
No. of Stores	178,198

Operating Countries and Regions

2007:
TAIWAN, HONG KONG, THAILAND, KOREA, THE PHILIPPINES, SINGAPORE, BRUNEI, INDONESIA, AUSTRALIA, NEW ZEALAND, MALAYSIA, CHINA

+

2011 (Plan):
INDIA, VIETNAM, CAMBODIA, U.A.E., STATE OF QATAR, BAHRAIN, OMAN, SAUDI ARABIA

Total: **20** Countries and Regions

CHINA

In China, with a total population exceeding 1.3 billion people, we will advance into key cities in the region and develop markets from there. We intend to develop both home delivery and retail store sales channels.

In China, we are accelerating our business expansion, starting with the establishment of Guangzhou Yakult Co., Ltd. in 2002, Yakult (China) Corporation and Shanghai Yakult Co., Ltd. in 2005, and Beijing Yakult Co., Ltd. in 2006. Beijing Yakult has started a home delivery service using 18 Yakult Ladies in its sales area centered on Beijing from spring 2007, and aims to deliver 150,000 bottles per day by fiscal 2009, when the Beijing Olympics will be held. As of the end of March 2007, we are selling 470,000 bottles per day throughout China through 500 Yakult Ladies and 10,000 stores. We are currently preparing to start sales in 17 additional cities, including Tianjin, Suzhou, Hangzhou, Ningbo, Qingdao, Jinan and Xiamen, by fiscal 2011, towards our goal of operating in 27 cities by fiscal 2016.

We added to our production structure with the July 2006 completion of our Shanghai plant, which joins our existing Guangzhou plant. Production capacity has now reached a total of 800,000 bottles per day at the two plants.

Guangzhou Yakult Co., Ltd.

Although Probiotic products are also being actively researched in China, they are still not well known among consumers, and we have not yet reached the point where customers drink our products in the hope of reaping the health benefits of Probiotics. Two-way communication with customers through home sales by Yakult Ladies will be essential for increasing sales of our products. We will also actively conduct tasting sessions and plant tours for local residents. Meanwhile, we will hold academic symposiums related to Probiotics for specialists in academia and industry to disseminate information widely.

Through these efforts, we will work toward recognition and development of the Yakult brand as well as differentiation from our rivals.

Guangzhou Yakult Co., Ltd.

INDIA

In India, with a total population exceeding 1 billion people, we will advance into key cities in the region and develop markets from there. Our plan is to start sales in Delhi by the end of 2007, and expand into Mumbai, Bangalore, Chennai, and Kolkata. We intend to develop both home delivery and retail store sales channels.

Yakult Danone India Private Limited was established in 2005 as the first local joint venture based on our strategic partnership with Groupe Danone, and in 2006 it began construction of its India plant. From now on, and with the cooperation of both parent companies, Yakult Danone India Private Limited will work to start operations in the booming India market as soon as possible.

India continues to exhibit remarkable economic growth, but at the same time, lagging development of social infrastructure has resulted in deteriorating living conditions, and contagious diseases are prevalent. The need for Probiotics is thus increasing. In the Indian market, we will conduct sales activities with a focus on customer understanding of what they are purchasing by allowing them to experience the effects of Probiotics and through strong appeals to the importance of preventive medicine and the value of our products.

SOUTH EAST ASIA

In South East Asia, we will advance into key cities in Vietnam and develop the Vietnamese domestic market from there. We will then expand sales into surrounding countries, and turn isolated sales locations into sales areas. We intend to develop both home delivery and retail store sales channels.

In Vietnam, we established Yakult Vietnam Co., Ltd. jointly with Groupe Danone in 2006, and began construction of a plant on the outskirts of Ho Chi Minh City in 2007.

Vietnam has enjoyed stable economic growth of 7-8% per year, thanks to the ‘Doi Moi’ reforms of 1986. The educational level of the industrious population is high, and dairy products are an established part of the dietary culture, so we believe that both home delivery and store sales are likely to grow steadily.

The new plant is scheduled to start operations in early 2008, and we plan to begin sales in Ho Chi Minh City, followed by Hanoi and Da Nang. We also plan to subsequently expand into neighboring Cambodia, Laos, and Myanmar.

Singapore

OTHER COUNTRIES AND REGIONS IN ASIA AND OCEANIA

We have a long history in Taiwan and Korea, into which we advanced at an early stage, and where our business base is now established. We are thus planning to expand sales in these countries including by introducing new products.

In Malaysia, which we entered in 2004, the lactobacillus market had already been created by a local manufacturer, so we were able to expand sales volume steadily, mainly in western Malaysia, and we currently hold the second highest domestic market share. On the other hand, awareness and understanding of Probiotics is still inadequate, so we will continue to focus on educational activities directed towards consumers. In terms of sales channels, we have started home delivery by Yakult Ladies in addition to sales at supermarkets and other stores.

In Indonesia, which we entered in 1991, working toward fiscal 2011, we plan to increase the number of Yakult Ladies and increase sales volume and value per Yakult Lady to realize more finely targeted customer service. We are also planning to introduce new products to strengthen the Yakult brand and differentiate our products from similar offerings.

REVIEW OF OPERATIONS

At a Glance

FOOD AND BEVERAGES

PROBIOTIC PRODUCTS

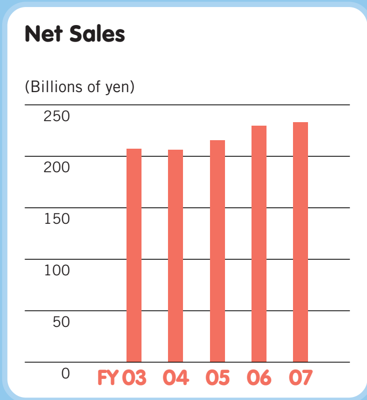
PRODUCT LINEUP

Yakult, Yakult LT, Yakult 80Ace, Yakult 80AceLT, Yakult 300V, Yakult 300VLT, Yakult 400, Pretio, Bifia, Joie, Bifiene M, Bifiene S, Sofuhl, Sofuhl LCS100, Purela

JUICES AND OTHER BEVERAGES

Bansoreicha, Toughman, Kurozu Drink, Benizu Drink, Soymilk drinks, *Lemorea, THORPEDO,* Coffee products, Black tea products, Juice products

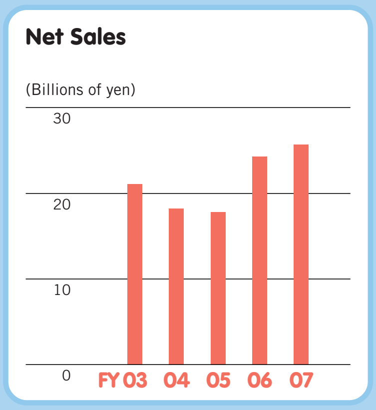
FINANCIAL HIGHLIGHTS BY BUSINESS SEGMENT



PHARMACEUTICALS

PRODUCT LINEUP

Campto, Elplat, Sinseron Tablets



OTHERS

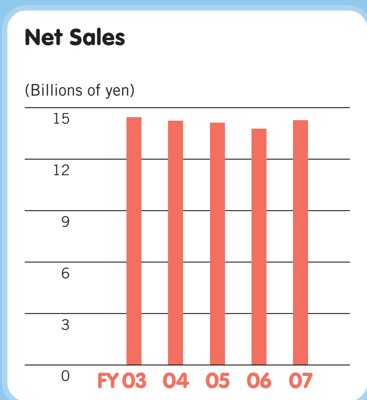
PRODUCT LINEUP

Cosmetics

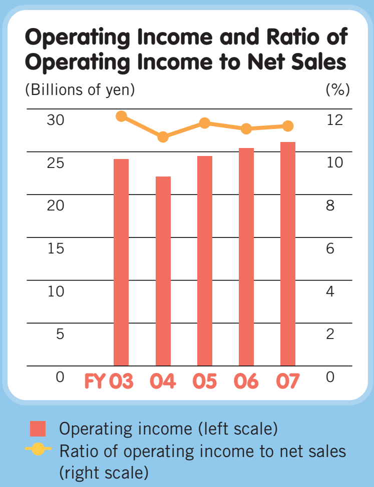
Parabio, Natural SE liquid

Professional Baseball Team

Tokyo Yakult Swallows Baseball Club



FISCAL YEAR IN REVIEW

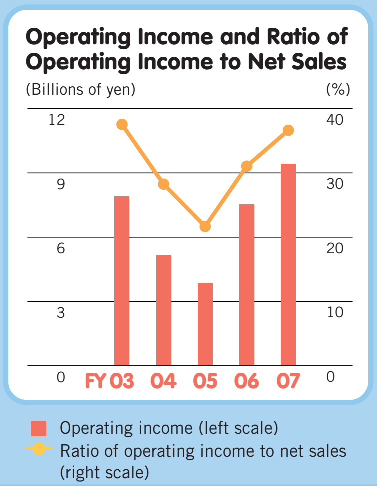


Consolidated segment sales amounted to ¥233.1 billion, up 1.5% year on year. Operating income was ¥26.1 billion, up 2.6% over the previous year.

Sales of Probiotic products in Japan declined due to intensifying competition. In spite of this, sales of *Yakult 400*, the Company's mainstay fermented milk drink, remained strong, leading to 5.6% growth in sales volume.

The Juices and Other Beverages business in Japan is shifting its focus from sales of beverages and food based on a strong sense of the fastidiousness to a strategy that utilizes the Company's strengths by focusing more narrowly on functional beverages. Consequently, overall sales of Juices and Other Beverages outperformed those of the previous year.

In the international market for Probiotic products (excluding Japan), we grew sales steadily by capturing a larger market share in regions where we already do business and expanding our sales area. As of the end of 2006, Yakult products were being sold in 26 countries and regions. Average daily sales volume in fiscal 2007 was 16.1 million bottles, up 4.2% year on year.

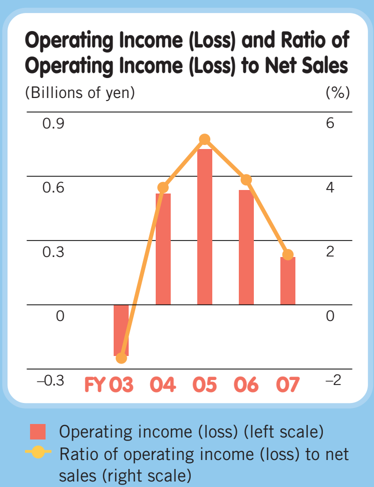


Consolidated sales in the Pharmaceuticals segment amounted to ¥25.7 billion, a 6.0% increase over the previous fiscal year. Operating income also rose, reaching ¥9.4 billion, up 25.1% year on year.

The Company's pharmaceuticals business specializes in cancer and cancer-related symptoms and disorders. Sales of *Elplat for Injection*, an anticancer drug, expanded significantly in Japan as a result of giving the highest priority to ensuring the proper use of this drug.

Sales by our partner, Pfizer Inc. of *Campto/Camptosar Injection*, a gold standard for the treatment of colorectal cancer, are stable at approximately ¥100 billion in overseas markets. However, sales turnover of exports of *Campto/Camptosar* dropped sharply, as the patent is due to expire soon. *Campto Injection* sales rose in Japan as a result of persistent sales efforts.

We plan to work aggressively to develop new oncology products and to expand indications for *Elplat*.

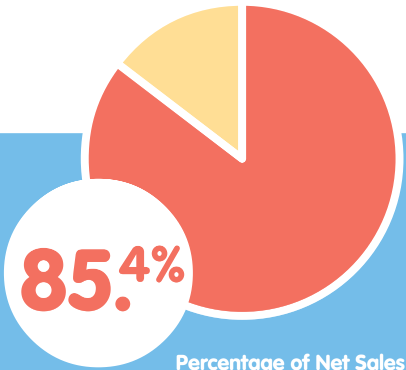


Consolidated sales in the Others segment, which includes manufacturing and sales of cosmetics, and management of the Tokyo Yakult Swallows Baseball Club, were ¥14.3 billion, up 3.5% year on year, while operating income was ¥0.2 billion, down 58.3% year on year.

Sales of cosmetics improved compared to the fiscal year ended March 31, 2006. This was attributable to home sales visits, mainly focused on our range of basic cosmetics, which are based on lactobacilli. These home visits provide individual counseling to meet the needs of each customer.

The baseball team enjoyed increased attendances at its games. This was a result of the name change to Tokyo Yakult Swallows, and of engaging in community-based activities led by the player-manager, Atsuya Furuta, and conducting events at each of its games.

FOOD AND BEVERAGES



Percentage of Net Sales

THE JAPANESE MARKET

PROBIOTIC PRODUCTS

(Fermented Milk Drinks and Fermented Milk)

Yakult 400

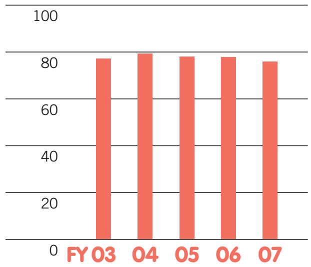
Yakult 300V

Sofuhl LCS100

Sales of Probiotic Products

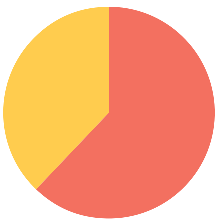
(Non-consolidated basis)

(Billions of yen)



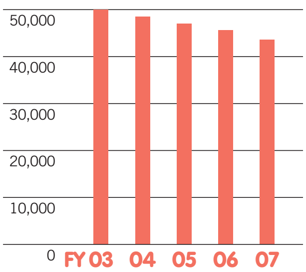
Breakdown of Probiotic Products Sales by Channel

(%)



Sales by Yakult Ladies	62.1
Sales via supermarkets, convenience stores, and other outside channels	37.9

Number of Yakult Ladies in Japan



FISCAL 2007 PERFORMANCE

Yakult manufactures and sells a range of Probiotic products, including fermented milk drinks and fermented milk, made using *Lactobacillus casei* strain Shirota, bifidobacteria, and *Bifidobacterium breve* strain Yakult, all of which are beneficial to health.

In the Japanese market, the aging society is seeing consumers become increasingly motivated by health issues. Many beverages and processed foods launched on the market are thus presented as health foods by manipulation of processed raw materials and ingredients. Accordingly, the market for Probiotic products, which has long promoted the health benefits of its products, has experienced intensifying competition not only from new offerings, but also from other categories of products. In such harsh market conditions, the Company endeavored to convey to consumers its founding concepts and philosophies of preventive medicine and long life through a healthy intestinal tract, and also to communicate the superiority of its products.

The result of these efforts was strong sales of *Yakult 400*, a fermented milk drink containing *Lactobacillus casei* strain Shirota, for which sales volume rose 5% year on year. In addition, the Company improved on the previous year's sales of *Sofuhl*, a dessert yogurt, by adding *Sofuhl LCS100* to its product line. This is a plain yogurt that allows the consumer to enjoy the real taste of yogurt without sugar. In spite of this, sales for the segment came in lower year on year because of generally flat sales of other fermented milk products.

As part of the Company's sales activities, we are enhancing the support we provide to the regional marketing companies which operate the key Yakult Lady home delivery business throughout Japan. Further, the Company is continuing its mass media advertising and publicity campaigns to promote the superiority of *Lactobacillus casei* strain Shirota, bifidobacteria, and *Bifidobacterium breve* strain Yakult, which are used in its products.

Yakult Center (Kamogawa in Japan)

FISCAL 2008 BUSINESS DEVELOPMENT

To overcome intensifying competition, the Company will work to fully inform consumers about the value of its products by concentrating marketing investment particularly on the Yakult brand. One specific step will be to position the home-delivery product, *Yakult 400*, and the store-marketed products, *Yakult* and *Yakult 300V*, as core products. To strengthen its sales organization, the Company aims to garner customer support for its home delivery channel by improving the level of service.

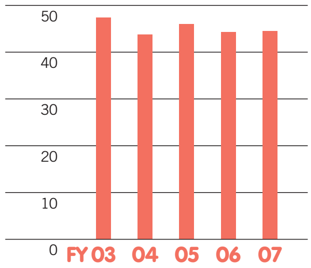
JUICES AND OTHER BEVERAGES

Bansoreicha

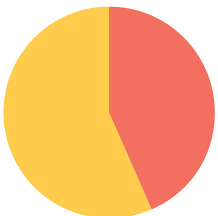
THORPEDO

Benizu Drink

Sales of Juices and Other Beverages
(Non-consolidated basis)
(Billions of yen)



Breakdown of Juice and Beverage Sales by Channel
(%)



Sales by Yakult Ladies	43.4
Sales via supermarkets, convenience stores, and other outside channels	56.6

FISCAL 2007 PERFORMANCE

In the Juices and Other Beverages segment, a variety of functional health drinks was offered under the "Another Yakult" banner.

During the year, the Company rolled out promotional activities, mainly for beverages that can be promoted on their health benefits. It also engaged in sales activities to strengthen delivery route-based sales at marketing companies, encourage the installation of vending machines and increase sales per machine.

Sales of *Bansoreicha*, which controls increases in blood sugar levels after eating, exceeded those of the preceding year due to a new package design and an increased product selection via a greater variety of types and sizes of container. The Company also strengthened its line of functional health products with the launch of *THORPEDO*, a functional drink which helps manage hydration and stamina levels during sporting activity. These efforts resulted in higher juice and other beverage sales compared to the preceding year.

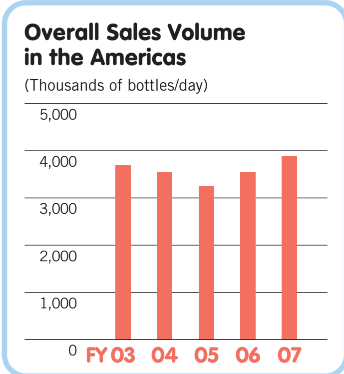
In August 2006, Kirin Yakult NextStage Company, Limited was set up to focus on health and functional foods. The joint venture began operating in October.

FISCAL 2008 BUSINESS DEVELOPMENT

The Company will further strengthen its brands with a strong functional health appeal such as *Bansoreicha* and *THORPEDO*, and will further enhance the marketing of the vinegar-based drinks *Kurozu Drink* and *Benizu Drink*. In addition, the Company will promote the installation of vending machines equipped with an automated external defibrillator (AED), a measure designed to contribute to local communities.

THE INTERNATIONAL BUSINESS

THE AMERICAS



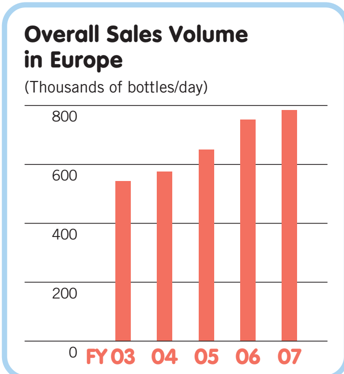
FISCAL 2007 PERFORMANCE

Yakult achieved steady sales growth in Mexico, reaching a record high for annual sales volume of approximately 2.63 million bottles per day. In Brazil, where the business climate remains stable and personal consumption is on the rise, we firmed up our operating base through such initiatives as a reorganization of the sales structure centered on the Yakult Lady division, achieving sales growth through successful proactive sales efforts. In the state of California in the United States, we conducted test sales of *Yakult* with products supplied by Yakult S.A. de C.V. (Mexico). As a result, sales of Probiotic products (mainly *Yakult*) in the Americas region totaled 3.9 million bottles per day (up 9.2% year on year).

FISCAL 2008 BUSINESS DEVELOPMENT

In Mexico, where growth has remained steady since the business was founded, we will introduce new products to follow the fermented milk drink, *Yakult*, and the hard-type yogurt, *Sofuhl*. In the United States we will expand into the general market, focusing on California, in a full-scale sales effort.

EUROPE



FISCAL 2007 PERFORMANCE

The Company's *Yakult* production line was expanded in March amid intensifying competition including offensives from rivals. In the Netherlands, Yakult received an award from a financial newspaper for superior annual growth. In the European region overall, sales volume of Probiotic products (mainly *Yakult*) continued to increase, reaching 784,000 bottles per day (up 4.2% year on year).

FISCAL 2008 BUSINESS DEVELOPMENT

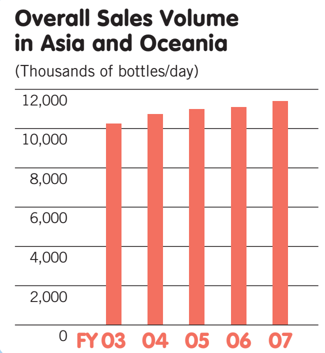
In Italy, where we commenced sales in February 2007, we will expand sales activities for Probiotic products, concentrating on supermarkets. In the Netherlands, Belgium and other countries, we will increase sales by enhancing our product lineup, commencing sales of *Bifiene*, a fermented milk containing bifidobacteria, in addition to the fermented milk drinks *Yakult* and *Yakult Light*.

Belgium

Bifiene (EU)

ASIA AND OCEANIA

China (Shanghai) **Australia** **Singapore** **Indonesia** **The Philippines**



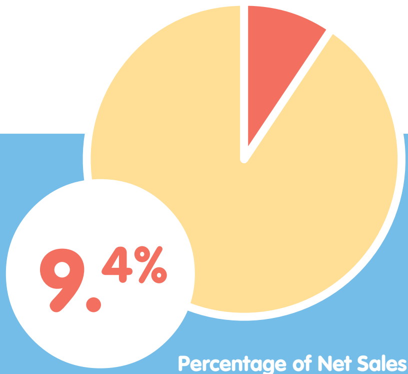
FISCAL 2007 PERFORMANCE

Yakult's sales rose steadily in all countries in the Asia and Oceania region, centered on areas where we have a long history of business, such as Taiwan, South Korea and Hong Kong. Particularly noteworthy were sales of Probiotic products (mainly *Yakult*), which reached approximately 11.4 million bottles per day (up 2.6% year on year) in line with increasingly active consumption arising from recent economic growth. In China, where sales began in 2002, we broadened and enhanced our operating base with the establishment of Beijing Yakult Co., Ltd. in June, and the start of production of *Yakult* at Shanghai Yakult Co., Ltd. in July. In Vietnam, the Company established Yakult Vietnam Co., Ltd. in June in a joint venture with Groupe Danone.

FISCAL 2008 BUSINESS DEVELOPMENT

In regions such as Taiwan, where the Company has been established for some time, we are considering such measures as the introduction of new Yakult products to achieve further sales growth. In Malaysia, where operations began in 2004, we have worked to quickly establish a sales base, while in India, we began construction of a new production plant for *Yakult* products in October 2006, soon after establishing a presence in the country, and plan to commence sales at the end of 2007. In China, we will expand our operating base with the systematic establishment of sales offices, beginning with a location in the city of Tianjin.

PHARMACEUTICALS



Campto Injection

Elplat for Injection

FISCAL 2007 PERFORMANCE

The pharmaceuticals business specializes in oncology. Consolidated sales for the year ended March 31, 2007 were ¥25.7 billion, a 6.0% increase over the previous fiscal year.

Sales of the anticancer drug *Elplat for Injection* (international non-proprietary name: oxaliplatin), which was launched in Japan in April 2005, rose steadily to become our second mainstay product after *Campto Injection* (international non-proprietary name: irinotecan hydrochloride), another anticancer drug.

Elplat for Injection is marketed in over 60 countries. In Europe and the United States, it has acquired the status of a standard therapy for colorectal cancer, together with *Campto Injection*. The launch of *Elplat* has heightened the importance of evidence-based medicine (EBM) in cancer treatment in Japan.

In this environment, Yakult has proactively engaged in activities to disseminate information to doctors, pharmacists and other medical personnel in Japan about administration methods for *Elplat for Injection* and measures to be taken against its side effects. Specifically, we organized and sponsored lectures at national-level academic meetings given by prominent medical oncologists invited from Europe and the United States to add the weight of international evidence to our efforts. We also organized and sponsored seminars across the country by Japanese doctors well experienced in administering *Elplat for Injection*. Although the understanding of anticancer drugs in Japan has deepened, there are still significantly fewer medical oncologists than in Europe or the United States. Yakult has thus taken positive steps in sponsoring many such seminars as a means of allowing as many physicians as possible to become knowledgeable about cancer chemotherapy as quickly as possible.

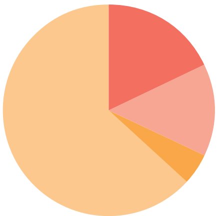
Campto Injection has been approved as a first-line treatment for colorectal cancer in the European Union and the United States. Worldwide sales, centered on those two regions, are around ¥100 billion per year for *Campto Injection*, which is distributed by our licensee, Pfizer Inc. As patents for *Campto Injection* will expire in 2008, export sales to Pfizer fell sharply due to inventory reductions and the impact of generic products in regions where the patent has already expired. In conjunction with this, royalty income also declined. In Japan, however, sales remain firm due to our marketing efforts and deeper understanding of cancer chemotherapy. Moreover, sales of *Sinseron Tablets 8 mg* (international non-proprietary name: indisetron hydrochloride), an oral antiemetic which controls nausea and other side-effects associated with anticancer drugs, grew strongly.

During the past year, we also began marketing our *Yakult BL Seichoyaku S-Tablet* for regulating intestinal function. The market in this product field is expected to remain stable in terms of size.

FUTURE BUSINESS DEVELOPMENTS

Yakult currently markets in Japan two of the three anticancer drugs used worldwide for colorectal cancer: *Campto Injection* and *Elplat for Injection*. Looking ahead to 2015, the prevalence of

Breakdown of Pharmaceutical Sales
(%)



Domestic sales of *Campto Injection*	17.9
Overseas sales of *Campto Injection/Camptosar*	14.1
Sales of other products	4.8
Sales of *Elplat*	63.2

colorectal cancer among Japanese is expected to surpass that of stomach cancer, resulting in an even greater responsibility and role for Yakult. We are determined to fulfill this responsibility and role by further developing our business specializing in cancer and cancer-related symptoms and disorders by drawing on our past achievements.

With *Elplat for Injection,* in particular, we will move forward with marketing and educational activities as we continue to emphasize its proper use. Moreover, we plan to expand its indications as soon as possible so that it can be used as a treatment in the adjuvant setting for colorectal cancer and stomach cancer. For the export business, we will support our licensees by offering rebates where the licensee has lost its market exclusivity due to the launch of generic versions of *Campto Injection*.

As for new anticancer drugs, we have begun development of a liposomal formulation of irinotecan (development code: IHL-305) in cooperation with Terumo Corporation, and have started Phase I clinical trials in the United States. In addition, we have obtained worldwide development and sales rights regarding the anticancer drug *Soblidotin* (development code: YHI-501) from ASKA Pharmaceutical Co., Ltd.

Regarding *Sinseron Tablets 8mg*, we will expand sales by taking advantage of the market trust cultivated with *Campto Injection* and *Elplat for Injection*.

Furthermore, to make the most of these efforts, we plan to bolster our systems, such as by dividing the current Pharmaceuticals Department into three separate departments arranged by function.

EXPANSION OF INDICATIONS AND NEW DRUG DEVELOPMENT PIPELINE

1. Expansion of *Campto* Indications

(As of May 2007)

	Indications	Stage	Date of Application	Remarks
North America, South America, Oceania (Pfizer)	① Gastric cancer	Phase III completed	Under preparation of sNDA	Combination with 5FU/FA, first-line*1
	② Lung cancer (Small cell lung cancer)	Phase III on-going	Undecided	Utilization of JCOG data*2
	③ Pediatric cancer	Data exclusivity up to February 2008 has been given in the USA		
	④ Breast cancer (Oral formulation)	Phase I on-going	Undecided	
Europe (Pfizer)	① Gastric cancer	Phase III completed	Under sNDA	Due to the transfer of *Campto* business to Pfizer, sNDA will be submitted in accordance with the progress of line extension studies.
	② Colorectal cancer (Adjuvant*3)	Phase III on-going	Undecided	
	③ Lung cancer (Small cell lung cancer)	Phase III on-going		

Note: *1 FA: Folic acid, *2 Japan Clinical Oncology Group, *3 Adjuvant: Post operation chemotherapy aiming for prevention of recurrence

2. Expansion of *Elplat* Indications

Under investigation of possibility for line extension with the following cancer			
Colorectal cancer (Adjuvant)	Gastric cancer	Lung cancer (Non-small cell lung cancer)	Pancreatic cancer

3. New drug development pipeline

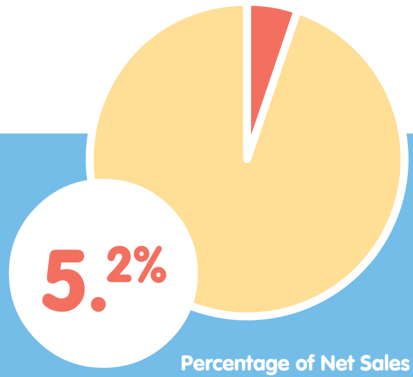
Product	Indications	Licensor	Co-Development Partner	Stage	Remarks
① *Elplat* (Oxaliplatin) Development Code: L-OHP	Colorectal cancer	Debiopharm	(Independent development)	Approved in March 2005, and Launched in April 2005	Safety confirmation study for FOLFOX4 regimen (combination with infusional 5-Fu/l-LV) and combination study with oral 5FU derivative are on-going
② *E2/NETA patch* Development Code: RPR106522	Post-menopausal syndromes	Sanofi·Aventis (Aventis)	ASKA Pharmaceutical. Co., Ltd.	Under preparation of NDA	
③ *Irinotecan liposome* Development Code: IHL-305	Solid tumors	In-house	Terumo Corporation	Phase I	
④ *Soblidotin* Development Code: YHI-501	Solid tumors	ASKA Pharmaceutical. Co., Ltd.	(Independent development)	Preparation of Phase II	

4. Patent expiration and data exclusivity

	Japan	North America	Europe
Patent expiration of *Campto* indications	Sep. 2007	Aug. 2007	Jul. 2009
Re-examination period for *Elplat* (Data exclusivity)	Mar. 2013*4	—	—

*4 Extended from 6 to 8 years after approval

OTHERS



Parabio **(Basic Product Cosmetics)**

FISCAL 2007 PERFORMANCE

The Others segment comprises the manufacturing and sales of cosmetics and the operation and management of the Tokyo Yakult Swallows Baseball Club. The cosmetics business mainly markets the Company's basic cosmetic products containing a range of original ingredients developed from lactobacillus research.

Home visits and counseling by Yakult Beauty Advisors provide suitable products for women who are interested in anti-aging cosmetics. A range of activities was implemented to promote the unique ingredients of the Company's lactobacilli-based cosmetic products, and differentiate them from offerings from other companies. The result was an increase in sales of basic cosmetics, which lifted overall results for the cosmetics business above those of the previous fiscal year.

As for the baseball team, catcher Atsuya Furuta was appointed player-manager and a project to reform the club, called the F-Project, got underway. In addition, the team was renamed the Tokyo Yakult Swallows to bring the Tokyo connections of the franchise to the fore. For these reasons, marketing strategies were pursued more aggressively than in previous years.

These efforts lifted consolidated segment sales 3.5% year on year to ¥14.3 billion.

Tokyo Yakult Swallows Baseball Club

FISCAL 2008 BUSINESS DEVELOPMENT

The cosmetics business will push forward with product development that pursues further advances in the anti-aging function. The Company will focus on women who wish to stay healthy and look young, as well as market its cosmetics to regular consumers of our dairy products. Furthermore, it will concentrate marketing support on regions that show the most enthusiasm for our products.

The baseball team plans to redouble its efforts to attract more fans to its home ground, Jingu Stadium in Tokyo. As part of this, elementary school children from the Tokyo area will be invited to the stadium. In this way they will experience the attractions of professional baseball, while cultivating future dreams through sport. Players will also visit local schools and hospitals as the team strives to win the affection of local people.

CORPORATE GOVERNANCE

1. BASIC STANCE

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

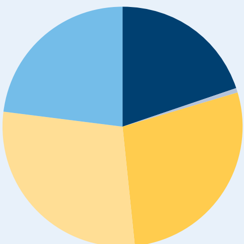
In pursuing our corporate philosophy, "we contribute to creating healthy and happy lives for people around the world," our belief is that it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management organization and decision-making processes. Furthermore, corporate governance at the Company is underpinned by a "company with corporate auditors" system.

2. CAPITAL COMPOSITION

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

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

(As of March 31, 2007)



Japanese financial institutions	**19.79%**
Japanese securities companies	**0.61%**
Other Japanese corporations	**27.96%**
Foreign institutions and others	**28.64%**
Japanese individuals and others	**23.00%**

Major Shareholders

(As of March 31, 2007)

	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
The Master Trust Bank of Japan, Ltd.	3.09
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
Japan Trustee Services Bank, Ltd. (Trust Account)	2.47
Kyoshinkai	2.26
Nippon Life Insurance Company	1.66
Kirin Beverage Corporation	1.40
Japan Trustee Services Bank, Ltd. (Trust Account 4)	1.36

3. GOVERNING BODIES, ORGANIZATIONAL OPERATIONS AND OPERATIONAL EXECUTION

Board of Directors

The Board of Directors is composed of 26 directors, including four outside directors, and holds meetings in principle at least seven times each year, in addition to convening special meetings as needed. The Board of Directors deliberates on matters within its jurisdiction as defined by law and company rules, and is responsible for supervising the status of business execution.

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

The four outside directors are listed in the chart below:

(As of June 27, 2007)

Jacques Vincent	Vice Chairman and COO Groupe Danone S.A.	Appointed to maximize the potential for success in our strategic partnership with Groupe Danone amid increasingly stronger ties with our company.
Emmanuel Faber	Executive Vice President Asia Pacific Groupe Danone S.A.	Same as above
Sven Thormahlen	Executive Vice President Research and Development Groupe Danone S.A.	Same as above
Marcel Bertaud	Vice President and CEO–North Asia Yeo Hiap Seng Limited	Same as above

Management Policy Council and the Managing Directors Committee

The Company has established a set of meetings, the Management Policy Council and the Managing Directors Committee, designed to promote effective management activities and accelerate decision making. These meetings are, in principle, convened on a weekly basis.

Corporate Auditors

The Company has six corporate auditors, including four outside corporate auditors. All corporate auditors attend meetings of the Board of Directors and other important company meetings and audit the operational execution of the directors by examining documents related to decision-making and other matters. The corporate auditors strive to enhance the effectiveness of their audits by forging close ties with the Internal Audit Department and the accounting auditor.

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

The four outside corporate auditors are listed in the chart below:

(As of June 27, 2007)

Name	Relationship to the Company	Reason for Appointment as Outside Corporate Auditor
Akihiko Okudaira	None	Appointed for insights expected from his experience as an attorney and his work for the Tokyo Family Court as a family reconciliation committee member.
Ryohei Sumiya	None	Appointed based on his professional career as a CPA, and his knowledge of our Company from his past experience as an employee at the Company's accounting auditor is expected to improve audit effectiveness.
Masahiko Ikeda	President of business partner Nishi-Shizuoka Yakult Sales Co., Ltd.	Appointed as part of efforts by our Company to promote outstanding personnel from Yakult sales companies; his assumption of audit duties as a corporate auditor is likely to the contribute immensely to the Group's overall development.
Seijyuro Tanigawa	President of business partner Kobe Yakult Sales Co., Ltd.	Same as above

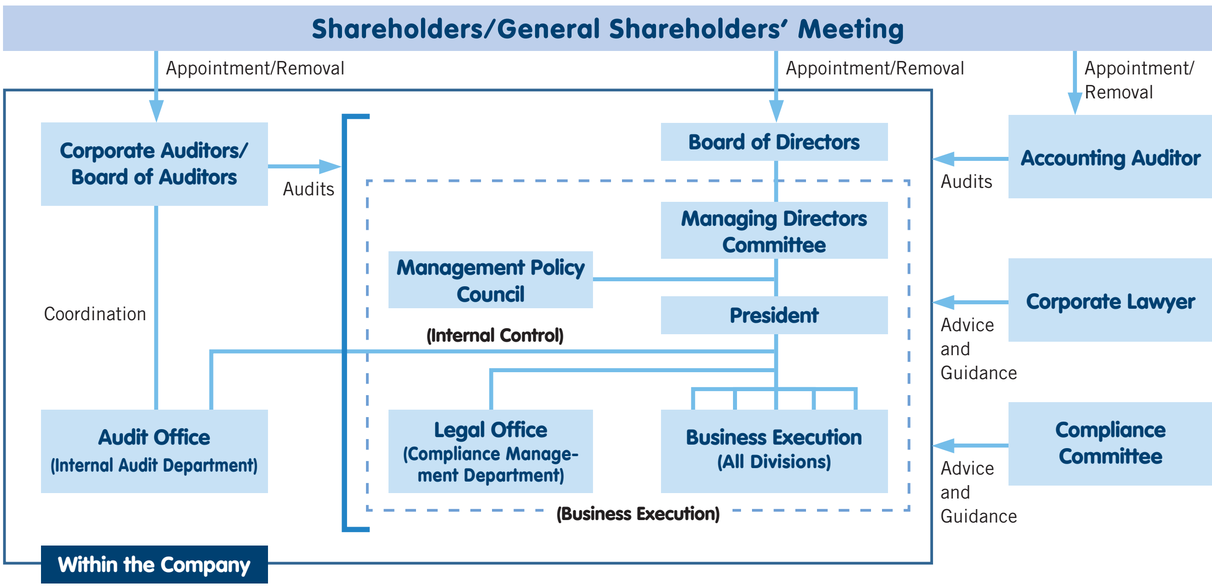
Internal Audits

Internal audits are conducted by the Audit Office, an organization that reports directly to the Company president and which performs financial and operational audits, including of Group companies in Japan and overseas. The head of the Audit Office currently oversees a nine-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issue concrete advice and warnings with respect to operational improvements.

Accounting Auditor

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

CORPORATE GOVERNANCE FRAMEWORK



4. INTERNAL CONTROL SYSTEMS AND POLICIES

Systems for ensuring that directors' execution of their duties is in compliance with the relevant laws and regulations, as well as with the Articles of Incorporation and systems securing the adequacy of other business activities, are described below.

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

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

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

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

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

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

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

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

Minutes of general shareholders meetings and board of directors meetings are preserved properly in accordance with law.

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

Directors and auditors can look through the minutes and the documents and other media at any time.

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

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

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

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

Meanwhile, in order to provide safe products to customers and establish a quality assurance system, the Food Quality Assurance Committee has been established and its meetings are being held. In addition, the Food Quality Assurance Promotion Office has been established as a division to carry out company-wide supervisory operations related to food quality assurance.

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

Our company's decision-making methods are stipulated in the Rules for Decision-Making, aiming to make decisions in line with the level of importance. At the same time, a management policy meeting and an executive committee meeting are held every week in principle, aiming to speed up decision making.

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

v) **Systems to ensure that operations at the concerned joint-stock company and the corporate group consisting of the joint-stock company's parent company and subsidiaries are appropriate**

Our company endeavors to ensure that operations at its subsidiaries are appropriate by sending its executives or employees to the subsidiaries and having them serve as executives of the subsidiaries.

In addition, the Rules for the Management of Affiliates include provisions to require the subsidiaries and affiliates to obtain advance approval and provide reports. At the same time, our company has established an internal support system by setting up a department in charge of the management of the subsidiaries for securing the appropriate operations.

Furthermore, the Auditing Department, which is our company's internal auditing department, carries out audits of subsidiaries and affiliates.

vi) **Matters regarding employees who support the duties of auditors in cases in which auditors make a request to assign such employees**

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

vii) **Matters regarding the independence of employees who support the duties of auditors, who are mentioned in the previous item, from directors**

To secure the independence of full-time employees who support the duties of auditors from directors, such employees do not belong to any department in the organization and are not under the supervision of directors.

In addition, full-time auditors directly evaluate the performance of such employees in order to respect their independence.

viii) **Systems for directors and employees to provide reports to auditors and other systems regarding reports provided to auditors**

Auditors attend board of directors meetings and other important meetings and read minutes of such meetings on an as-needed basis. In addition, auditors confirm the details of important requests. There is a system in which auditors can perceive the details of such requests. Furthermore, reports regarding the results of internal audits are provided to auditors on a regular basis. The Rules for Audits by Auditors also stipulate that auditors can request directors to provide business reports and request related departments, subsidiaries, and other parties to provide reports if necessary.

ix) **Other systems to ensure that audit operations of auditors are carried out effectively**

The Rules for Audits by Auditors ensure that auditors effectively exercise the authorities to "attend board of directors meetings and other important meetings," "ask for explanations in cases of failure to attend meetings and read minutes and documents," "read documents necessary to investigate business conditions and request related departments to provide reports," "request subsidiaries and affiliates to provide reports and investigate business and asset conditions."

In addition, they can hear opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 27, 2007)

President

SUMIYA HORI

Divisional General Managers

AKIRA KATSUMATA
Divisional General Manager,
Cosmetics Division,
Senior Managing Director

NAOMASA TSURITANI
Divisional General Manager,
Administrative Division,
International Business Division,
Senior Managing Director

RYUICHIRO TANAKA
Divisional General Manager,
Research & Development Division,
Senior Managing Director

TAMOTSU TOMIBE
Divisional General Manager,
Food and Beverages Sales Division,
Senior Managing Director

RYUJI CHINO
Divisional General Manager,
Production Division,
Senior Managing Director

KIYOSHI TERADA
Divisional General Manager,
Pharmaceuticals Division,
Managing Director

President
Sumiya Hori

Senior Managing Directors
Akira Katsumata*
Naomasa Tsuritani*
Ryuichiro Tanaka*
Tamotsu Tomibe*
Ryuji Chino*

Managing Directors
Kiyoshi Terada*
Katsumi Otsubo
Yoshihiro Kawabata
Tsuyoshi Kinugasa

Directors
Chizuka Kai
Takashige Negishi
Yasufumi Murata
Masahiro Negishi
Shigeyoshi Sakamoto
Hiroshi Narita
Haruji Sawada
Jacques Vincent
Emmanuel Faber
Sven Thormahlen
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

*Persons who have responsibilities as Divisional General Managers

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CORPORATE PHILOSOPHY

We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.

***Lactobacillus casei* strain Shirota**

***Bifidobacterium breve* strain Yakult**

As a leading Probiotics company, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy of "we contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." This is accomplished through the principles of Shirota-ism, which we have followed since the founding of the company.

In addition, considering the environmental crisis currently facing the Earth, working at the same time to create a resource-recycling, sustainable society is also a very important issue for us, and something that we recognize as one of the responsibilities we must fulfill.

Our environmental protection efforts are based on the "Yakult Basic Policy on the Environment," which we established in 1997. The year ended March 31, 2007 marked the end of our Second Stage Environmental Action Plan, in which we made steady progress in line with our action goals. We also publish the "Yakult Social and Environmental Report" each year to report the status of our environmental management efforts.

In the fiscal year ended March 31, 2007, we continued to engage in activities in local communities. These included the "Visit with Love Activities" by Yakult Ladies at our Group companies and crime prevention patrols providing security and peace of mind to local communities. We also cooperated with external organizations to implement other socially beneficial programs. Examples include co-sponsoring forums on health issues and cooperating with the Intestinal Flora Symposium.

The Environment

Electric vehicle

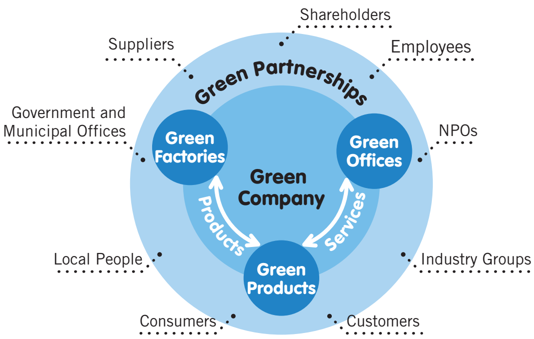
Delivery trucks with additional space for carrying empty bottles and cans to be recycled

ECO VISION 2010

Vision for 2010

All domestic offices to conform to **Green Company** principles, contributing to coexistence with the environment and the formation of a sustainable society.

- All products and services to exist in harmony with the environment
  >>Green Products
- Factories that do not release environmental pollutants, minimize their negative environmental impact and do not generate waste, at all sites
  >>Green Factories
- Minimize environmental impact at all offices
  >>Green Offices
- Speed up information disclosure and expand communication
  >>Green Partnerships



In 1997, Yakult established the "Yakult Basic Policy on the Environment," and in April 2001, created the "Yakult Environmental Action Plan." With this plan we aimed to strengthen the foundation for the Company's environmental management through specific actions based on the items set out in the basic policy.

To reduce the environmental burden caused by our business activities, we have implemented environmental protection measures across all business areas, including development, production, distribution, and administration. The year ended March 31, 2007 marked the end of our Second Stage Environmental Action Plan, and our directed efforts allowed us to essentially accomplish all of the plan's objectives. April 2007 marked the beginning of the Third Stage Environmental Action Plan.

In recognition of the need to continuously implement such activities, in 2004, we established Yakult Ecovision 2010 to develop a future vision of the environmental aspects of our businesses from a long-term perspective. With Ecovision, we are attempting to transform all of our companies in Japan into "green companies" by 2010 by promoting environmentally focused management. In this way, we aim to contribute to the formation of a society that allows the Earth's environment to be preserved and sustained.

More specifically, we aspire to have "green products," in which all products and services are in harmony with the environment, "green factories," in which none of our factories pollutes the environment and our facilities have minimal environmental impact, generating no garbage. We also aspire to have "green offices" with minimal environmental impact and "green partnerships," with rapid disclosure of information and wide-ranging communications.

Examples of our main "green factories," activities are "zero emissions" involving the complete recycling of waste matter generated by factories to minimize final processed quantities (refuse landfill), and restricted emissions of greenhouse gases.

Of our 12 plants, 8 achieved zero emissions, or a 100% level of recycling, in the year ended March 31, 2007. We also achieved our Second Stage Environmental Action Plan goals for greenhouse gases. As for green products, we are working mainly toward a reduction in the quantity of materials used for containers and packaging, part of our 3R (reduce, reuse, recycle) promotion, and encouraging recycling.

Community Activities

Visit with Love Activities

Yakult crime prevention patrols

Health Maintenance Advocacy Meeting

Since 1972, Yakult has been carrying out its "Visits with Love Activities," in which Yakult Ladies check on the wellbeing of elderly people in their area who live alone and chat with them while delivering their products. Yakult Ladies also contribute to safety and peace of mind in local communities by organizing crime prevention patrols and maintaining contact with the police.

In September 2006, the Yakult Ladies began a program, as part of these visiting activities, in which they present elderly people living alone with flowers and a message card. This has led many recipients to contact our Customer Support Center with expressions of gratitude. The program was even covered by local television stations and newspapers.

Each year we hold festivals at our Yakult Honsha plants and invite the local community and the families of our employees to participate with the aim of improving relations between plants and local communities. At these festivals, people gain a greater understanding of our business through activities such as factory tours and product samples while enjoying a number of attractions, including refreshment stands and movies. In the year ended March 31, 2007, a total of 27,255 people participated in festivals at seven plants.

We also conduct plant tours, mainly at parent company plants. We do this to give people a better understanding of our products and our corporate stance of considering the environment and providing safe, trouble-free products. In the year ended March 31, 2007, we conducted tours at 17 of our facilities: 9 parent company plants and 8 subsidiary plants. A total of 212,000 people took the tours.

In addition, to mark World Health Day each year on April 7, Yakult cosponsors a Health Maintenance Advocacy Meeting with the Japan Dietetic Association. This event is held at Yakult Hall, an event space available for public use that is part of the Yakult Honsha building in Tokyo. In the year ended March 31, 2007, the theme was the Basic Law on Nutrition, which came into force the previous year. Over 550 people attended, including nutritionists and members of the public with a keen interest in health matters.

In October 2006, the sixth 21st Century Food and Health Forum was held under the theme "A Healthy Intestinal Tract from the Perspective of Food: the Probiotics Frontline." There were approximately 1,500 participants, a record for the venue, who came to increase their understanding of the relationship between Probiotics and health.

CONSOLIDATED FIVE-YEAR SUMMARY

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004 and 2003

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2007	2006	2005	2004	2003	**2007**
For the year:						
Net sales	**¥ 273,100**	¥ 267,707	¥ 247,506	¥ 238,847	¥242,740	**$2,314,404**
Selling, general and administrative expenses	**124,110**	122,827	118,740	113,756	109,116	**1,051,775**
Operating income	**23,893**	21,754	18,125	16,395	21,619	**202,486**
Net income	**14,806**	14,442	14,105	15,083	14,383	**125,471**
Research and development costs	**6,745**	6,966	6,775	6,457	5,801	**57,158**
Capital investments	**16,786**	11,652	7,864	7,802	10,166	**142,258**
Depreciation and amortization	**9,025**	8,407	8,040	7,985	8,348	**76,487**
At the year-end:						
Total assets	**¥ 354,539**	¥ 328,619	¥ 293,922	¥ 286,389	¥276,203	**$3,004,570**
Net property, plant and equipment	**101,590**	92,269	86,830	86,635	85,156	**860,935**
Total liabilities	**93,334**	88,345	83,504	90,354	87,959	**790,968**
Total shareholders' equity		220,701	196,023	182,766	174,827	
Total equity	**261,205**					**2,213,602**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	**¥ 84.93**	¥ 81.67	¥ 79.67	¥ 85.27	¥ 80.88	**$ 0.72**
Total equity (Note 3)	**1,356.68**	1,264.65	1,123.03	1,047.78	995.51	**11.50**
Cash dividends applicable to the year	**18.00**	16.00	17.50	15.00	15.00	**0.15**
Financial ratios:						
Return on equity (ROE) (%)	**6.5**	6.9	7.4	8.4	8.4	
Equity ratio (%)	**66.6**	67.2	66.7	63.8	63.3	

Notes: 1. Figures are 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 has been made at the rate of ¥118 to U.S.$1, the approximate rate of exchange at March 31, 2007.
3. Minority interests are not included in equity on process of calculation.

FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In fiscal 2007, the Japanese economy continued to grow, albeit at a moderate pace. Although growth in consumer spending was somewhat weak, capital investment and exports expanded as corporate earnings remained high, leading to an improved job market.

Against this backdrop, the Yakult Group (the Group) worked to build awareness and understanding of the Probiotics—living microorganisms that provide health benefits by improving the balance of intestinal flora—that constitute the bedrock of its operations while striving to communicate the superiority of its products. In addition, the Group endeavored to improve its performance by taking steps to shore up its sales organization, develop new products, upgrade its production facilities, and enhance its overseas operations and pharmaceuticals business.

As a result, on a consolidated basis, net sales rose 2.0% from the previous fiscal year, to ¥273.1 billion, and operating income climbed 9.8%, to ¥23.9 billion. The operating margin improved by 0.6 of a percentage point year on year, to 8.7%. In addition, net income increased 2.5%, to ¥14.8 billion, and the return on net sales was 5.4%, the same level as in the previous fiscal year.

SALES, COSTS, EXPENSES AND EARNINGS

Sales

Net sales increased 2.0%, to ¥273.1 billion. This chiefly reflected robust performances by overseas subsidiaries in the Food and Beverages segment and brisk sales of the anticancer drug *Elplat* in the Pharmaceuticals segment. Looking at net sales by industry segment, Food and Beverages accounted for 85.4% of sales, a decrease of 0.4 of a percentage point from the previous fiscal year; Pharmaceuticals accounted for 9.4%, a rise of 0.3 of a percentage point; and Others contributed 5.2%, an increase of 0.1 of a percentage point. Sales overseas reached ¥62.3 billion, an increase of ¥6.2 billion year on year. This increase was driven primarily by favorable performances in Brazil and Mexico.

Costs, Expenses and Earnings

The consolidated cost of sales rose only 1.6%, to ¥125.1 billion. Consequently, the cost of sales ratio improved 0.2 of a percentage point, to 45.8%. Gross profit increased 2.4%, to ¥148.0 billion, leading the gross profit margin to improve 0.2 of a percentage point, to 54.2%.

Selling, general and administrative (SG&A) expenses rose 1.0%, to ¥124.1 billion. Consequently, the SG&A expense ratio improved 0.4 of a percentage point, to 45.5%. However, research and development costs, which are included in general and administrative expenses and manufacturing expenses for the fiscal year under review, decreased ¥0.2 billion, to ¥6.7 billion.

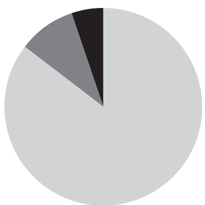
As a result, operating income grew 9.8%, to ¥23.9 billion, and the operating margin improved 0.6 of a percentage point, to 8.7%.

Net other income rose 2.5%, to ¥7.8 billion, despite lower pharmaceutical royalty income. This reflected mainly a gain of ¥1.1 billion on the sale of property, plant and equipment and the absence of a loss on the disposal of raw materials 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 0.2 of a percentage point, to 41.6%. Minority interests in net income grew 34.2%, to ¥3.7 billion. As a result, net income increased 2.5%, to ¥14.8 billion, and return on net sales was unchanged at 5.4%.

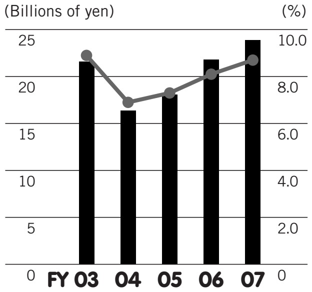
Breakdown of Net Sales

(%)



Food and Beverages **85.4**
Pharmaceuticals **9.4**
Others **5.2**

Operating Income and Operating Margin



Operating income
Operating margin

OVERVIEW BY BUSINESS SEGMENT

Food and Beverages: Consolidated sales in the Food and Beverages segment, both in Japan and overseas, rose 1.5% compared to the previous fiscal year, to ¥233.1 billion, and operating income increased 2.6%, to ¥26.1 billion.

In Probiotic products, we worked to strengthen and expand our marketing organization and marketing operations 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 steady growth. Similarly, *Yakult*, another mainstay fermented milk drink, recorded sales growth in the second half due to the introduction of 10-bottle multipacks from September 2006, although sales were down in the first half. In addition, we took various steps to invigorate the market. For example, in September 2006, we launched the low calorie-type *Yakult 300V LT*, and in March 2007, we introduced *Bifia*, a fermented milk drink containing bifidobacteria, in the store channel. Furthermore, we strongly emphasized the functionality and safety of Yakult products by mentioning labeling authorization as Food for Specified Health Uses on packages of drinking yogurts *Bifiene M and Bifiene S*.

As a result, although overall Probiotic product sales grew in the second half, this did not sufficiently compensate for slow sales in the first half, leading annual sales to fall year on year.

On the other hand, in juices and other beverages, we augmented marketing promotion activities focused primarily on functional foods while strengthening the direct marketing routes of our sales companies, expanding our network of vending machines, and working to increase average sales per vending machine.

The health tea *Bansoreicha*, a mainstay product, recorded strong sales, as we revamped the packaging design and increased product selection via a greater variety of types and sizes of container. In May 2006, we launched *THORPEDO*, a functional drink which helps manage hydration and stamina levels. This was followed in June by the launch of *Benizu Drink* to augment the existing vinegar-based drink *Kurozu Drink*. Through these and other measures, we endeavored to expand the lineup of functional food products.

As a result, overall sales of juices and other beverages were up year on year.

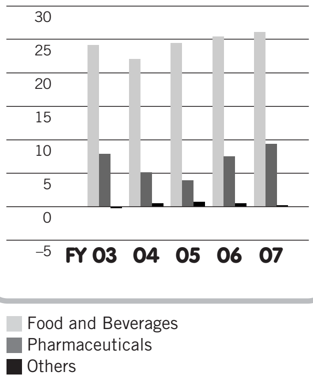
Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 27 countries and regions outside Japan including those in which test sales are being conducted, and are centered on 24 business bases and one research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*.

Sales have grown steadily, and daily average overseas sales of all Yakult products reached approximately 16.42 million bottles as of March 2007.

As for operations in Asia and Oceania, we established Yakult Vietnam Co., Ltd., a joint venture with Groupe Danone, in June 2006 in Vietnam. This company is now preparing to commence sales in Vietnam. This is the second country after India we have entered in conjunction with Groupe Danone.

In China, we launched sales in Beijing in June 2006, as an addition to sales in Guangzhou, Shanghai, and Nanjing. In August 2006, we also started production at the Shanghai factory, and in September, we established Shanghai Yakult Marketing Co., Ltd. Thus, we have established a network to expand the supply of products in each of the eastern, northern, and inland regions of China.

Operating Income (Loss) by Business Segment
(Billions of yen)



In Europe, we established the sales and marketing company Yakult Italia S.R.L. in Italy in December 2006.

Pharmaceuticals: Although overseas sales were lower, reflecting the impact of continued inventory reductions at a licensing partner in the United States, consolidated sales in the Pharmaceuticals segment rose 6.0%, to ¥25.7 billion, due to a robust sales performance in Japan. In addition, operating income jumped 25.1%, to ¥9.4 billion.

We endeavored to strengthen our 10 domestic marketing bases for pharmaceuticals and we developed sales activities by putting the greatest priority on promoting the correct use of the cancer drug *Elplat*. We also strove to focus on the cancer field and expand sales channels with such products as *Campto Injection*, an anticancer drug, and *Sinseron Tablets*, an oral antiemetic.

In non-pharmaceutical products, we started selling *Yakult BL Seichoyaku S-Tablet* in June 2006 eyeing the stable market for products that regulate intestinal function. As a result, domestic sales surged about 60%, far exceeding last fiscal year's level.

Campto Injection is primarily used as a first-line treatment for colorectal cancer, and our licensing partner Pfizer Inc. (U.S.) distributes the drug mainly in Europe and the United States in addition to other countries worldwide. Generic versions of *Campto Injection* have been introduced in some countries in Europe and South America, but due to the approval of sales of molecular targeted therapies, which can be used in combination with *Campto Injection*, we are expanding sales activities aimed at the combined use of these drugs.

Others: Consolidated sales in the Others segment grew 3.5%, to ¥14.3 billion, but operating income fell 58.3%, to ¥0.2 billion.

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

In cosmetics operations, we launched the new brand *Yakult Beautiens*. We also attempted to achieve differentiation from our competitors by strongly promoting to customers the brand value of the cosmetics business and working to increase customer awareness of the benefits of our original moisturizing agents, which leverage the power of lactobacilli.

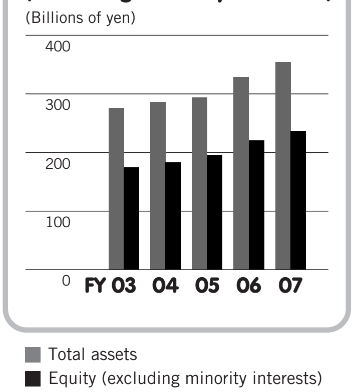
On the product front, in May 2006, we launched a new line of basic skin care cosmetics, the *Uruou* series, and in November, we released the essence *Moisture Essence Concentrate* as an addition to the *Revecy* series, a mainstay product line. In March 2007, we also released four basic care products as newly developed items in the *Parabio* series, a core brand. Through such measures, we expanded sales activities centered on basic skin care series. As a result, overall sales of cosmetics exceeded the level of the previous fiscal year.

In our professional baseball operations, we started a project to reform the club called F-Project, on the occasion of the appointment of Atsuya Furuta as player-manager, and we proactively provided services for fans. In addition, the team changed its name to Tokyo Yakult Swallows, and in combination with this we ran events with a stronger regional emphasis than in previous years.

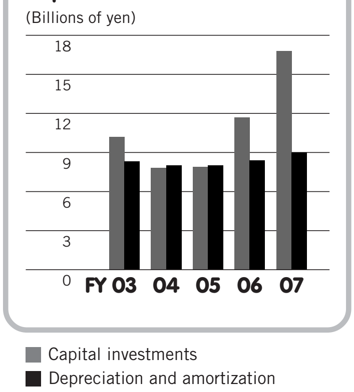
FINANCIAL POSITION

Total assets at year-end were up 7.9%, to ¥354.5 billion. The parent company's total assets at year-end increased 4.1%, to ¥231.0 billion. Current assets climbed ¥9.7 billion, to ¥165.6 billion, mainly due to an increase in cash and cash equivalents at overseas subsidiaries. Net property, plant and equipment grew ¥9.3 billion, to ¥101.6 billion. This was mainly because

Total Assets and Equity (excluding Minority Interests)



Capital Investments and Depreciation and Amortization



property, plant and equipment (acquisition cost basis), excluding ¥125.5 billion in accumulated depreciation and amortization, increased ¥14.5 billion from the end of the previous fiscal year, to ¥227.1 billion. This increase mainly comprised buildings and structures and resulted from capital investments by the parent company and overseas subsidiaries. Investments and other assets were up ¥6.9 billion, to ¥87.4 billion, mainly because of a rise in investment securities associated with the application of the equity method. Capital investment during the year rose 44.1%, to ¥16.8 billion.

Total liabilities rose 5.6%, to ¥93.3 billion. This mainly reflected an increase in notes and accounts payable related to parent-company equipment in current liabilities and increased allowance for loss on plant reorganization in long-term liabilities. Interest-bearing debt rose 2.0%, to ¥10.7 billion, and the debt-to-equity ratio improved 0.3 of a percentage point, to 4.5%.

Equity (excluding minority interests) increased 7.1%, to ¥236.3 billion, from ¥220.7 billion at the end of the previous fiscal year. This increase was mainly attributable to a rise in retained earnings associated with the posting of net income and an increase in foreign currency translation adjustments. As a result, the equity ratio deteriorated 0.6 of a percentage point, to 66.6%. Return on equity (ROE) declined 0.4 of a percentage point, to 6.5%, primarily because equity grew, whereas net income was flat. Return on assets (ROA) was 7.0%, almost the same level as a year earlier.

CASH FLOWS

Net cash provided by operating activities decreased ¥1.2 billion, to ¥25.7 billion. This decrease was mainly attributable to a rise in income taxes—paid, even though operating income increased.

Net cash used in investing activities rose ¥5.8 billion, to ¥24.9 billion. Cash was mainly used for purchases of property, plant and equipment.

Net cash used in financing activities decreased ¥4.9 billion, to ¥2.1 billion.

As a result, cash and cash equivalents at year-end amounted to ¥71.0 billion, a net decrease of ¥0.3 billion.

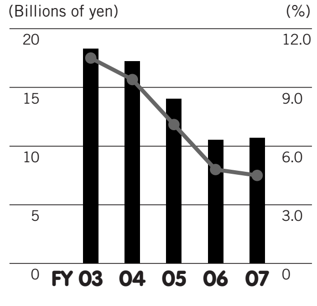
DIVIDENDS

We regard profit distribution as an important part of our basic management strategy. In March 2005, we took an even more proactive stance on profit sharing by moving to a policy that takes fiscal year performance into account but remains primarily focused on maintaining stable dividends.

Based on a resolution at the 55th annual general shareholders' meeting held in June 2007, we supplemented our standard year-end dividend of ¥7.5 per share with a ¥3.0 per share dividend reflecting our earnings performance in fiscal 2007. This, along with the standard interim dividend of ¥7.5 per share, resulted in an annual dividend of ¥18 per share for the fiscal year under review. Furthermore, in fiscal 2008, we plan to supplement the standard annual dividend of ¥15 per share with a ¥3.0 per share dividend based on non-consolidated and consolidated earnings performance, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as financial position. Accordingly, we plan to pay an annual dividend of ¥18 per share, as in fiscal 2007.

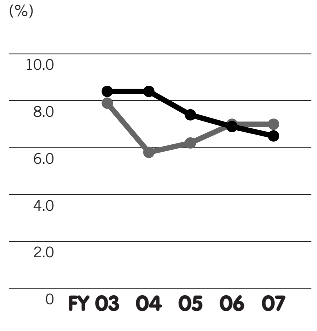
Internal reserves are to be used for R&D investment and facility renewal projects designed to strengthen us and enhance our competitiveness.

Interest-Bearing Debt and Debt-to-Equity Ratio



■ Interest-bearing debt
Debt-to-equity ratio

ROE and ROA



ROE
ROA

Note: ROA is calculated based on operating income.

FORWARD-LOOKING STATEMENTS

Food and Beverages

Regarding Probiotic products, the Group will continue to spread the word about its founding concepts of preventive medicine and the link between a healthy intestinal tract and a long life. In juices and other beverages, we will augment our marketing promotion programs centered on functional health products (Food for Specified Health Uses) and continue efforts to strengthen the direct sales routes of our marketing companies by separating sales functions from distribution functions to facilitate focus on a single business activity. Overseas, there are still numerous promising markets remaining to be developed. As the leading company in the field of probiotics, based on the objective of making Yakult a household name all over the world, we plan to continue to vigorously expand internationally in order to turn the Yakult founding principles into reality.

Pharmaceuticals

In Japan, we will move forward with promotional activities that emphasize the proper use of *Elplat*, and work to expand sales of *Campto Injection* and *Sinseron Tablets*. In addition, we will initiate sales of *Levofolinate*, an agent to diminish the toxicity and counteract the action of folic acid antagonists, and further concentrate our efforts on sales activities that focus on the cancer field.

Furthermore, in April 2007, we separated the Pharmaceuticals Department into three departments along functional lines: Pharmaceuticals Business, Pharmaceuticals Marketing, and Pharmaceuticals Development. We will also turn our 10 sales bases (previously sales offices) throughout Japan into pharmaceutical branches as part of efforts to improve and reinforce our domestic sales organization.

Overseas, as only Pfizer Inc., our licensing partner for *Campto*, holds marketing rights for the drug in major markets throughout the world, it is able to carry out sales based on unified marketing strategies in Europe and the United States, including the combined use of *Campto* with molecular targeted therapies. Consequently, by further strengthening the agent's position as a first-line treatment, we aim to increase overseas sales. In addition, we will concentrate on product life cycle management in light of the upcoming expiration of our patent for this agent.

Others

In our cosmetics operations, we will continue to strongly promote the *Yakult Beautiens* brand to customers and strive to set us apart from the competition.

In addition, we will work to develop product launch-related campaigns centered on basic skin care products to enhance customer satisfaction and breathe new life into marketing activities. At the same time, we are seeking to upgrade our marketing capabilities and augment the service we offer via education and training programs designed to bolster the consulting skills of sales companies' staff and Yakult Beauty Advisors.

BUSINESS RISKS

1. Risks that may cause abnormal fluctuations in financial position and/or operating results

The Group's reliance on profits from overseas operations has been increasing annually as a result of the strong performance of overseas entities. However, there is no guarantee that such risks as exchange rate fluctuations and unstable political and economic conditions in countries where the Group operates will not affect our performance.

2. Risks pertaining to a high degree of reliance on products for which future potential is uncertain

Our principal pharmaceutical product *Campto* has been approved for the first-line treatment of colorectal cancer in the United States and Europe, and is sold virtually worldwide. However, the impact of business integration and other realignments on the part of our licensing partner for this drug as well as the projected decline in royalty income subsequent to the expiration of the patent for *Campto* in fiscal 2008 may affect our performance.

Other risks and factors that could affect the future performance of the Group include, but are not limited to, abnormal weather and natural disasters. The Group is committed to maintaining an awareness of and working to avoid such risks.

CONSOLIDATED BALANCE SHEETS

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥70,999**	¥ 71,299	**$ 601,688**
Time deposits (Note 6)	**6,368**	899	**53,962**
Receivables:			
Notes and accounts receivable	**45,430**	43,107	**385,002**
Unconsolidated subsidiaries and associated companies	**3,560**	3,252	**30,164**
Other	**1,380**	2,786	**11,693**
Inventories (Note 3)	**30,549**	28,740	**258,889**
Deferred tax assets (Note 9)	**4,254**	4,166	**36,056**
Other current assets	**4,065**	2,443	**34,449**
Allowance for doubtful accounts	**(1,024)**	(850)	**(8,678)**
Total current assets	**165,581**	155,842	**1,403,225**
Property, plant and equipment:			
Land (Note 6)	**32,889**	32,276	**278,726**
Buildings and structures (Note 6)	**79,744**	74,704	**675,796**
Machinery, equipment and vehicles	**91,592**	86,358	**776,208**
Furniture and fixtures	**15,600**	14,677	**132,199**
Construction in progress	**7,293**	4,621	**61,804**
Total	**227,118**	212,636	**1,924,733**
Accumulated depreciation	**(125,528)**	(120,367)	**(1,063,798)**
Net property, plant and equipment	**101,590**	92,269	**860,935**
Investments and other assets:			
Investment securities (Note 5)	**39,399**	37,825	**333,888**
Investments in and advances to unconsolidated subsidiaries and associated companies	**30,654**	24,562	**259,785**
Long-term loans	**875**	611	**7,419**
Goodwill	**1,458**	1,508	**12,355**
Deferred tax assets (Note 9)	**4,348**	5,620	**36,845**
Other assets	**10,634**	10,382	**90,118**
Total investments and other assets	**87,368**	80,508	**740,410**
Total	**¥354,539**	¥328,619	**$3,004,570**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 8,293**	¥ 8,367	**$ 70,278**
Current portion of long-term debt (Note 6)	**734**	545	**6,216**
Payables:			
Notes and accounts payable	**26,172**	27,135	**221,794**
Unconsolidated subsidiaries and associated companies	**191**	167	**1,621**
Other	**5,567**	5,603	**47,179**
Income taxes payable	**4,311**	4,514	**36,533**
Accrued expenses	**14,164**	13,374	**120,038**
Deferred tax liabilities (Note 9)	**695**	845	**5,892**
Other current liabilities	**7,647**	4,662	**64,803**
Total current liabilities	**67,774**	65,212	**574,354**
Long-term liabilities:			
Long-term debt (Note 6)	**1,673**	1,574	**14,179**
Liability for retirement benefits (Note 7)	**17,356**	17,269	**147,084**
Allowance for loss on plants reorganization	**2,372**	1,120	**20,102**
Deferred tax liabilities (Note 9)	**2,156**	1,354	**18,275**
Other long-term liabilities	**2,003**	1,816	**16,974**
Total long-term liabilities	**25,560**	23,133	**216,614**
Minority interests		19,573	
Commitments and contingent liabilities (Notes 10 and 11)			
Equity (Notes 8 and 13)**:**			
Common stock— authorized, 700,000,000 shares; issued, 175,910,218 shares in 2007 and 2006	**31,118**	31,118	**263,709**
Capital surplus	**40,956**	40,956	**347,082**
Retained earnings	**158,053**	145,746	**1,339,433**
Unrealized gain on available-for-sale securities	**5,970**	6,601	**50,592**
Foreign currency translation adjustments	**2,936**	(1,170)	**24,885**
Treasury stock—at cost 1,743,630 shares in 2007 and 1,558,899 shares in 2006	**(2,745)**	(2,550)	**(23,259)**
Total	**236,288**	220,701	**2,002,442**
Minority interests	**24,917**		**211,160**
Total equity	**261,205**		**2,213,602**
Total	**¥354,539**	¥328,619	**$3,004,570**

CONSOLIDATED STATEMENTS OF INCOME

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales	**¥273,100**	¥267,707	**$2,314,404**
Cost of sales (Note 12)	**125,097**	123,126	**1,060,143**
Gross profit	**148,003**	144,581	**1,254,261**
Selling, general and administrative expenses (Note 12)	**124,110**	122,827	**1,051,775**
Operating income	**23,893**	21,754	**202,486**
Other income (expenses):			
Interest and dividend income	**3,072**	2,824	**26,038**
Interest expense	**(122)**	(163)	**(1,037)**
Royalty income	**2,696**	3,283	**22,850**
Foreign exchange gain	**881**	1,316	**7,464**
Equity in earnings of unconsolidated subsidiaries and associated companies	**3,448**	3,442	**29,217**
Provision for loss on plants reorganization	**(1,310)**	(1,120)	**(11,102)**
Impairment loss (Note 4)	**(1,002)**	(1,437)	**(8,496)**
Other—net	**122**	(551)	**1,035**
Other income—net	**7,785**	7,594	**65,969**
Income before income taxes and minority interests	**31,678**	29,348	**268,455**
Income taxes (Note 9):			
Current	**11,257**	10,135	**95,396**
Deferred	**1,934**	2,028	**16,389**
Total income taxes	**13,191**	12,163	**111,785**
Minority interests in net income	**3,681**	2,743	**31,199**
Net income	**¥ 14,806**	¥ 14,442	**$ 125,471**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (q)):			
Basic net income	**¥84.93**	¥81.67	**$0.72**
Cash dividends applicable to the year	**18.00**	16.00	**0.15**

Diluted net income per share of common stock for 2007 and 2006 was not calculated due to the absence of dilutive stock.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

		Millions of yen								
	Outstanding number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, April 1, 2005	174,361	¥31,118	¥40,768	¥133,602	¥2,071	¥(9,008)	¥(2,528)	¥196,023		¥196,023
Net income				14,442				14,442		14,442
Surplus from disposal of treasury stock			177					177		177
Increase (decrease) resulting from merger of consolidated subsidiaries			11	(11)				0		0
Adjustments to retained earnings for revaluation based on general price-level accounting				971				971		971
Cash dividends, ¥17.5 per share				(3,051)				(3,051)		(3,051)
Bonuses to directors and corporate auditors				(207)				(207)		(207)
Net increase in unrealized gain on available-for-sale securities					4,530			4,530		4,530
Net decrease in foreign currency translation adjustments						7,838		7,838		7,838
Repurchase of treasury stock	(10)						(22)	(22)		(22)
Disposal of treasury stock	158						213	213		213
Other increase in treasury stock	(158)						(213)	(213)		(213)
Balance, March 31, 2006	174,351	31,118	40,956	145,746	6,601	(1,170)	(2,550)	220,701		220,701
Reclassified balance as of March 31, 2006 (Note 2 (h))									**19,573**	**19,573**
Net income				**14,806**				**14,806**		**14,806**
Adjustments to retained earnings for revaluation based on general price-level accounting				**498**				**498**		**498**
Cash dividends, ¥16.0 per share				**(2,790)**				**(2,790)**		**(2,790)**
Bonuses to directors and corporate auditors				**(207)**				**(207)**		**(207)**
Repurchase of treasury stock	**(5)**						**(16)**	**(16)**		**(16)**
Other increase in treasury stock	**(179)**						**(179)**	**(179)**		**(179)**
Net change in the year					**(631)**	**4,106**		**3,475**	**5,344**	**8,819**
Balance, March 31, 2007	**174,167**	**¥31,118**	**¥40,956**	**¥158,053**	**¥5,970**	**¥2,936**	**¥(2,745)**	**¥236,288**	**¥24,917**	**¥261,205**

	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	Total	Minority interests	Total equity
Balance, April 1, 2006	$263,709	$347,082	$1,235,133	$55,940	$(9,911)	$(21,607)	$1,870,346		$1,870,346
Reclassified balance as of March 31, 2006 (Note 2(h))								**$165,872**	**165,872**
Net income			**125,471**				**125,471**		**125,471**
Adjustments to retained earnings for revaluation based on general price-level accounting			**4,219**				**4,219**		**4,219**
Cash dividends, $0.14 per share			**(23,640)**				**(23,640)**		**(23,640)**
Bonuses to directors and corporate auditors			**(1,750)**				**(1,750)**		**(1,750)**
Repurchase of treasury stock						**(134)**	**(134)**		**(134)**
Other increase in treasury stock						**(1,518)**	**(1,518)**		**(1,518)**
Net change in the year				**(5,348)**	**34,796**		**29,448**	**45,288**	**74,736**
Balance, March 31, 2007	**$263,709**	**$347,082**	**$1,339,433**	**$50,592**	**$24,885**	**$(23,259)**	**$2,002,442**	**$211,160**	**$2,213,602**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Operating activities:			
Income before income taxes and minority interests	**¥31,678**	¥29,348	**$268,455**
Adjustments for:			
Income taxes—paid	**(11,603)**	(9,317)	**(98,334)**
Depreciation and amortization	**9,025**	8,407	**76,487**
Impairment loss	**1,002**	1,437	**8,496**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(3,448)**	(3,442)	**(29,217)**
Changes in operating assets and liabilities:			
Increase in trade receivables	**(1,882)**	(6,438)	**(15,952)**
Increase in inventories	**(1,986)**	(647)	**(16,829)**
Increase (decrease) in trade payables	**(1,246)**	3,286	**(10,565)**
Increase in liability for retirement benefits	**87**	653	**735**
Other—net	**4,098**	3,632	**34,726**
Total adjustments	**(5,953)**	(2,429)	**(50,453)**
Net cash provided by operating activities	**25,725**	26,919	**218,002**
Investing activities:			
Decrease (increase) in time deposits	**(5,468)**	700	**(46,339)**
Purchases of property, plant and equipment	**(16,868)**	(13,454)	**(142,950)**
Proceeds from sales of property, plant and equipment	**2,483**	1,586	**21,042**
Purchases of investment securities	**(3,402)**	(6,782)	**(28,828)**
Acquisition of controlling interest in a company	**(363)**	(254)	**(3,075)**
Acquisition of shares of subsidiaries	**(60)**	(35)	**(508)**
Increase in loans receivable	**(671)**	(330)	**(5,688)**
Collection of loans receivable	**350**	158	**2,966**
Other—net	**(940)**	(731)	**(7,968)**
Net cash used in investing activities	**(24,939)**	(19,142)	**(211,348)**
Financing activities:			
Net decrease in short-term loans	**(370)**	(3,071)	**(3,134)**
Proceeds from long-term debt	**1,000**	967	**8,475**
Payments for settlement of long-term debt	**(772)**	(1,547)	**(6,544)**
Repurchase of treasury stock	**(16)**	(22)	**(134)**
Disposal of treasury stock		390	
Dividends paid	**(2,790)**	(3,051)	**(23,640)**
Other—net	**874**	(626)	**7,406**
Net cash used in financing activities	**(2,074)**	(6,960)	**(17,571)**
Foreign currency translation adjustments on cash and cash equivalents	**988**	4,337	**8,375**
Net increase (decrease) in cash and cash equivalents	**(300)**	5,154	**(2,542)**
Cash and cash equivalents, beginning of year	**71,299**	66,145	**604,230**
Cash and cash equivalents, end of year	**¥70,999**	¥71,299	**$601,688**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAKULT HONSHA Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007 and 2006

1. BASIS OF PRESENTING THE 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yakult Honsha Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to U.S.$1, the approximate rate of exchange at March 31, 2007. Such translations 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, 2007 include the accounts of the Company and its 72 (68 in 2006) 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 4 (3 in 2006) 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 have been prepared based on general price-level accounting. The related revaluation adjustments made to reflect the effect of inflation in Mexico 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 2007 and 2006.

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	5 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) Long-lived Assets

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

(f) 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 marketable available-for-sale securities at fair value with unrealized gains and losses (net of applicable taxes) as a separate component of 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.

(g) Retirement and Pension Plans

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

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.

(h) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(i) Research and Development Costs

Research and development costs are charged to income as incurred.

(j) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer the 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.

(k) Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥206 million ($1,746 thousand).

(l) 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.

(m) Appropriations of Retained Earnings

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

(n) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(o) Foreign Currency Financial Statements

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

The differences arising from such translation were shown as “Foreign currency translation adjustments” and “minority interests” in a separate component of equity.

[Changes in accounting policy]

While the revenue and expense accounts of consolidated foreign subsidiaries and affiliates had been translated into Japanese yen at the current exchange rate as of the balance sheet date, in the current period such amounts are translated at the average exchange rate for the year. The change was due to reflect revenue and expense accounts into consolidated financial statements more correctly, because the significance of consolidated foreign subsidiaries’ and affiliates’ contribution has increased. As a result, net sales decreased by ¥3,147 million, operating income decreased by ¥515 million, and income before corporate income taxes decreased by ¥759 million compared to the previous accounting policy.

In addition, the effect on the segments is stated in Segment Information.

(p) 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 years ended March 31, 2007 and 2006 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.

(q) New Accounting Pronouncements

Measurement of Inventories

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

The Group expects to adopt this pronouncement as of April 1, 2008 and is currently in the process of assessing the effect of adoption.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

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

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

The Group expects to adopt this pronouncement as of April 1, 2008 and is currently in the process of assessing the effect of adoption.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise	**¥ 4,052**	¥ 3,691	**$ 34,338**
Finished products	**2,163**	1,558	**18,333**
Work in process	**2,192**	2,389	**18,577**
Raw materials	**20,925**	20,005	**177,331**
Other	**1,217**	1,097	**10,310**
Total	**¥30,549**	¥28,740	**$258,889**

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2007 and 2006, and recognized impairment loss as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Investment properties		¥ 188	
Idle assets	**¥ 795**	112	**$6,736**
Leased assets		291	
Assets in a professional baseball team	**207**	846	**1,760**
Total	**¥1,002**	¥1,437	**$8,496**

The relevant properties were written down to the recoverable amount due to a continuous operating loss or a decrease of their fair market value. The recoverable amounts were measured at their net realizable value mainly based on appraisals estimated by independent appraisers or their value in use, and the discount rate used for computation of present value of future cash flows was 5%.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Investment securities:			
Marketable equity securities	**¥36,563**	¥35,214	**$309,858**
Government and corporate bonds			
Trust fund investments and other	**2,836**	2,611	**24,030**
Total	**¥39,399**	¥37,825	**$333,888**

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥26,924**	**¥ 9,914**	**¥275**	**¥36,563**
March 31, 2006				
Securities classified as—				
Available-for-sale:				
Equity securities	¥24,366	¥10,852	¥ 4	¥35,214

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2007				
Securities classified as—				
Available-for-sale:				
Equity securities	**$228,173**	**$84,019**	**$2,334**	**$309,858**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥2,836**	¥2,611	**$24,030**
Total	**¥2,836**	¥2,611	**$24,030**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥715 million ($6,059 thousand) and ¥189 million, respectively. Gross realized gains on these sales for the years ended March 31, 2007 and 2006, computed on the moving average cost basis, were ¥161 million ($1,367 thousand) and ¥37 million, respectively. Gross realized loss for the year ended March 31, 2007 and 2006 were ¥0 million ($0 thousand) and ¥6 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2007 are not disclosed due to the absence of them.

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

Short-term bank loans at March 31, 2007 and 2006 were ¥8,293 million ($70,278 thousand) and ¥8,367 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2007 and 2006 ranged from 0.61% to 1.58% and 0.60% to 8.75%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from banks and other financial institutions, 0.80% to 14.00% (0.87% to 14.00% in 2006), due serially to 2025:			
Collateralized	**¥ 606**	¥1,096	**$ 5,135**
Unsecured	**1,801**	1,023	**15,260**
Total	**2,407**	2,119	**20,395**
Less current portion	**(734)**	(545)	**(6,216)**
Long-term debt, less current portion	**¥1,673**	¥1,574	**$14,179**

Annual maturities of long-term debt as of March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 734	$ 6,216
2009	535	4,532
2010	351	2,974
2011	173	1,470
2012	143	1,209
2013 and thereafter	471	3,994
Total	¥2,407	$20,395

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥5,000 million ($42,373 thousand) and the above collateralized long-term debt at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 20	$ 169
Land	4,249	36,005
Buildings and structures—net of accumulated depreciation	1,111	9,417
Total	¥5,380	$45,591

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.

7. RETIREMENT AND PENSION PLANS

The Company and its certain 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 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, 2007 and 2006, included the amounts of ¥898 million ($7,614 thousand) and ¥763 million for directors and corporate auditors, 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 liability (asset) for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥56,252**	¥54,949	**$476,710**
Fair value of plan assets	**(35,030)**	(34,130)	**(296,862)**
Unrecognized actuarial loss	**(4,964)**	(4,458)	**(42,072)**
Net liability	**16,258**	16,361	**137,776**
Prepaid pension cost	**200**	145	**1,694**
Liability for employees' retirement benefits	**¥16,458**	¥16,506	**$139,470**

The components of net periodic retirement benefit costs for the years ended March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service cost	**¥1,997**	¥2,236	**$16,922**
Interest cost	**1,266**	1,172	**10,724**
Expected return on plan assets	**(1,145)**	(660)	**(9,701)**
Amortization of prior service cost		12	
Recognized actuarial loss	**941**	1,199	**7,978**
Net periodic retirement benefit costs	**3,059**	3,959	**25,923**
Total	**¥3,059**	¥3,959	**$25,923**

Assumptions used for the years ended March 31, 2007 and 2006, were set forth as follows:

	2007	2006
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**3.5%**	2.5%
Amortization period of prior service cost		1 year
Recognition period of actuarial gain/loss	**10 years**	10 years

8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

(b) Increases/decreases and transfer of common stock, reserve and surplus

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

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. 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% for the years ended March 31, 2007 and 2006. 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Tax loss carryforwards	**¥ 2,004**	¥ 2,380	**$ 16,986**
Loss from revaluation of securities	**7,219**	7,515	**61,176**
Pension and severance costs	**6,188**	6,345	**52,446**
Allowance for doubtful receivables	**1,357**	1,232	**11,497**
Other	**8,245**	6,878	**69,870**
Less valuation allowance	**(3,370)**	(3,346)	**(28,562)**
Total	**¥21,643**	¥21,004	**$183,413**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**¥ 7,599**	¥ 5,673	**$ 64,396**
Inventories	**698**	749	**5,919**
Unrealized gain on land held by consolidated subsidiaries	**1,886**	1,601	**15,984**
Unrealized gain on available-for-sale securities	**3,912**	4,415	**33,153**
Other	**1,797**	979	**15,227**
Total	**¥15,892**	¥13,417	**$134,679**
Net deferred tax assets	**¥ 5,751**	¥ 7,587	**$ 48,734**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates is not disclosed because the reconciliation for the year ended March 31, 2007 was less than 5% in the normal effective statutory tax rates.

At March 31, 2007, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥6,290 million ($53,301 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
2008	¥ 88	$ 742
2009	120	1,020
2010	62	525
2011	1,098	9,302
2012 and thereafter	4,922	41,712
Total	¥6,290	$53,301

10. 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 ¥5,394 million ($45,709 thousand) and ¥5,777 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, 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, 2007 and 2006 were as follows:

	Millions of yen					
	2007			2006		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥19,260**	**¥5,772**	**¥25,032**	¥21,102	¥4,037	¥25,139
Accumulated depreciation	**9,398**	**1,704**	**11,102**	11,541	1,360	12,901
Accumulated impairment loss	**13**	**76**	**89**	7	31	38
Net leased property	**¥ 9,849**	**¥3,992**	**¥13,841**	¥ 9,554	¥2,646	¥12,200

	Thousands of U.S. dollars		
	2007		
	Furniture and Fixtures	Other	Total
Acquisition cost	**$163,222**	**$48,916**	**$212,138**
Accumulated depreciation	**79,646**	**14,440**	**94,086**
Accumulated impairment loss	**112**	**646**	**758**
Net leased property	**$ 83,464**	**$33,830**	**$117,294**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥ 4,577**	¥ 4,525	**$ 38,784**
Due after one year	**9,557**	7,943	**80,993**
Total	**¥14,134**	¥12,468	**$119,777**

Allowance for impairment loss on leased property of ¥69 million ($585 thousand) and ¥30 million at March 31, 2007 and 2006 are not included in obligations under finance leases.

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

Depreciation expense, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method were ¥5,093 million ($43,164 thousand) and ¥5,454 million for the years ended March 31, 2007 and 2006, respectively.

Interest expense, which are not reflected in the accompanying consolidated statements of income, computed by the interest method were ¥310 million ($2,630 thousand) and ¥287 million for the years ended March 31, 2007 and 2006, respectively.

Reversal of allowance for impairment loss on leased property were ¥20 million ($173 thousand) and ¥8 million for the years ended 2007 and 2006 respectively.

Impairment loss were ¥52 million ($436 thousand) and ¥38 million for the years ended March 31, 2007 and 2006 respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥115**	¥ 69	**$ 970**
Due after one year	**561**	107	**4,757**
Total	**¥676**	¥176	**$5,727**

11. CONTINGENT LIABILITIES

At March 31, 2007, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	**¥717**	**$6,076**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,745 million ($57,158 thousand) and ¥6,966 million for the years ended March 31, 2007 and 2006, respectively.

13. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2007 were approved at the Company's share-holders' meeting held on June 27, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10.5 ($0.09) per share	**¥1,831**	**$15,514**

14. 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, 2007 and 2006 were as follows:

(1) Industry Segments

	Millions of yen				
	2007				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**¥233,139**	**¥25,698**	**¥14,263**		**¥273,100**
Intersegment sales					
Total sales	**233,139**	**25,698**	**14,263**		**273,100**
Operating expenses	**207,033**	**16,284**	**14,040**	**¥ 11,850**	**249,207**
Operating income	**¥ 26,106**	**¥ 9,414**	**¥ 223**	**¥(11,850)**	**¥ 23,893**
b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures					
Total assets	**¥236,315**	**¥32,201**	**¥ 7,910**	**¥78,113**	**¥354,539**
Depreciation	**7,580**	**218**	**125**	**1,102**	**9,025**
Impairment loss			**207**	**795**	**1,002**
Capital expenditures	**16,232**	**458**	**421**	**1,027**	**18,138**

	Thousands of U.S. dollars				
	2007				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**$1,975,753**	**$217,782**	**$120,869**		**$2,314,404**
Intersegment sales					
Total sales	**1,975,753**	**217,782**	**120,869**		**2,314,404**
Operating expenses	**1,754,519**	**137,997**	**118,979**	**$ 100,423**	**2,111,918**
Operating income	**$ 221,234**	**$ 79,785**	**$ 1,890**	**$(100,423)**	**$ 202,486**
b. Total Assets, Depreciation Impairment Loss and Capital Expenditures					
Total assets	**$2,002,674**	**$272,892**	**$ 67,031**	**$ 661,973**	**$3,004,570**
Depreciation	**64,237**	**1,852**	**1,058**	**9,340**	**76,487**
Impairment loss			**1,760**	**6,736**	**8,496**
Capital expenditures	**137,557**	**3,884**	**3,566**	**8,708**	**153,715**

	Millions of yen				
	2006				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	¥229,684	¥24,246	¥13,777		¥267,707
Intersegment sales					
Total sales	229,684	24,246	13,777		267,707
Operating expenses	204,252	16,717	13,241	¥ 11,743	245,953
Operating income	¥ 25,432	¥ 7,529	¥ 536	¥(11,743)	¥ 21,754
b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures					
Total assets	¥211,836	¥28,321	¥ 6,781	¥ 81,681	¥328,619
Depreciation	7,146	246	130	885	8,407
Impairment loss	106		846	485	1,437
Capital expenditures	11,368	99	91	1,631	13,189

Food and Beverages: Fermented milk drinks, juice, noodles, etc.

Pharmaceuticals: Anticancer drugs, other medical products

Others: Cosmetics, operating a professional baseball team

As presented in Section 2 "Summary of significant accounting policies," while the revenue and expense accounts of consolidated foreign subsidiaries had historically been translated into Japanese yen at the current exchange rate as of the balance sheet date, in the current period such amounts were translated at the average exchange rate for the year.

As a result, net sales decreased by ¥3,147 million and operating income decreased by ¥515 million in Food and Beverages segment compared to the previous accounting policy.

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen					
	2007					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥210,802**	**¥34,429**	**¥14,767**	**¥13,102**		**¥273,100**
Interarea transfers	**4,245**				**¥ (4,245)**	
Total sales	**215,047**	**34,429**	**14,767**	**13,102**	**(4,245)**	**273,100**
Operating expenses	**195,205**	**23,178**	**12,340**	**10,879**	**7,605**	**249,207**
Operating income	**¥ 19,842**	**¥11,251**	**¥ 2,427**	**¥ 2,223**	**¥(11,850)**	**¥ 23,893**
Total assets	**¥155,260**	**¥52,858**	**¥60,875**	**¥10,855**	**¥ 74,691**	**¥354,539**

	Thousands of U.S. dollars					
	2007					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$1,786,460**	**$291,770**	**$125,139**	**$111,035**		**$2,314,404**
Interarea transfers	**35,978**				**$ (35,978)**	
Total sales	**1,822,438**	**291,770**	**125,139**	**111,035**	**(35,978)**	**2,314,404**
Operating expenses	**1,654,280**	**196,426**	**104,574**	**92,193**	**64,445**	**2,111,918**
Operating income	**$ 168,158**	**$ 95,344**	**$ 20,565**	**$ 18,842**	**$(100,423)**	**$ 202,486**
Total assets	**$1,315,758**	**$447,953**	**$515,889**	**$ 91,994**	**$ 632,976**	**$3,004,570**

	Millions of yen					
	2006					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥211,654	¥30,744	¥13,133	¥12,176		¥267,707
Interarea transfers	4,340				¥ (4,340)	
Total sales	215,994	30,744	13,133	12,176	(4,340)	267,707
Operating expenses	196,164	22,097	10,562	9,727	7,403	245,953
Operating income	¥ 19,830	¥ 8,647	¥ 2,571	¥ 2,449	¥(11,743)	¥ 21,754
Total assets	¥145,946	¥46,641	¥49,045	¥ 7,620	¥ 79,367	¥328,619

The Americas: Mexico, Brazil, Argentina

Asia and Oceania: Hong Kong, China, Indonesia, Singapore, Malaysia, Australia

Europe: The Netherlands, the UK, Germany, Belgium, Austria

As presented in Section 2 "Summary of significant accounting policies," while the revenue and expense accounts of consolidated foreign subsidiaries had historically been translated into Japanese yen at the current exchange rate as of the balance sheet date, in the current period such amounts were translated at the average exchange rate for the year.

As a result, sales decreased by ¥1,150 million in the Americas, ¥675 million in Asia and Oceania and ¥1,322 million in Europe.

In addition, operating income decreased by ¥290 million in the Americas, ¥87 million in Asia and Oceania and ¥138 million in Europe compared to the previous accounting policy.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2007 and 2006 amounted to ¥66,676 million ($565,054 thousand) and ¥67,318 million, respectively.

As presented in Section 2 "Summary of significant accounting policies," while the revenue and expense accounts of consolidated foreign subsidiaries had been translated into Japanese yen at the current exchange rate as of the balance sheet date, were translated into Japanese yen at the average exchange rate.

As a result, sales for the Americas decreased by ¥1,150 million and sales for other region decreased by ¥1,997 million compared to the previous accounting policy.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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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, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

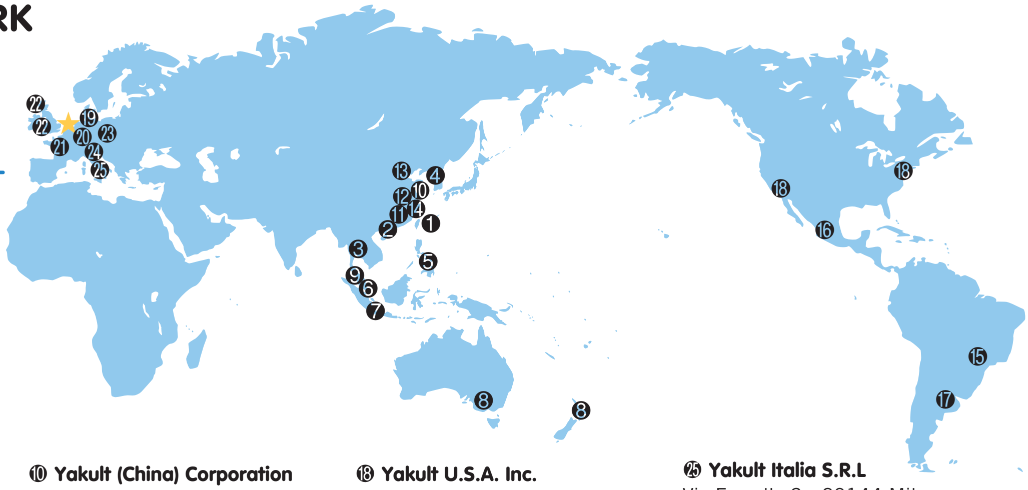
Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2007

GLOBAL NETWORK

(As of May 31, 2007)



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BRANCHES

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

PLANTS

Fukushima Plant
Ibaraki Plant
Shonan 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.

CORPORATE DATA

(As of March 31, 2007)

CORPORATE NAME
YAKULT HONSHA Co., Ltd.

DATE FOUNDED
1935

DATE INCORPORATED
April 9, 1955

HEAD OFFICE
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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
15,429

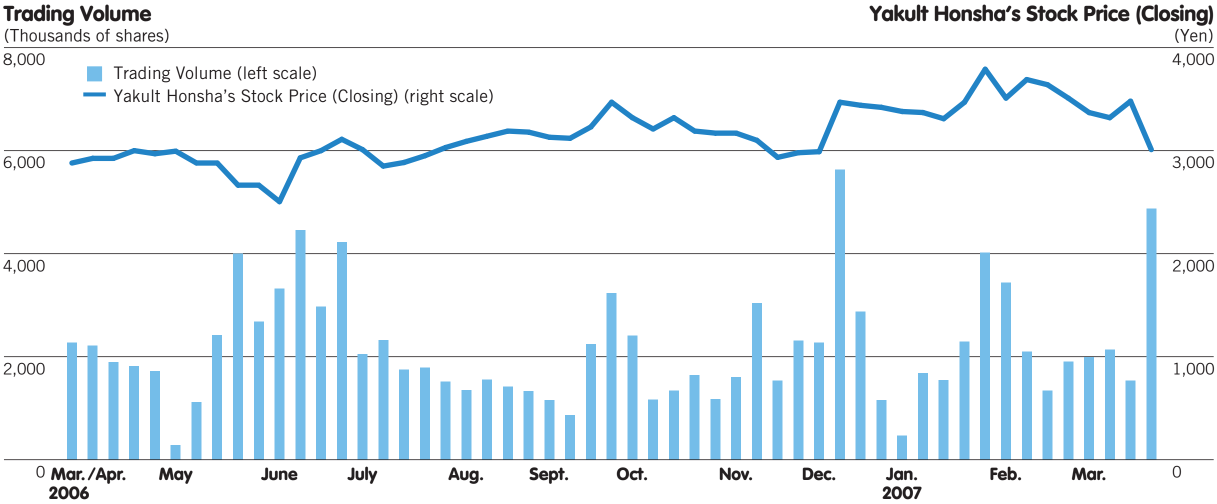
NUMBER OF ISSUED AND OUTSTANDING SHARES
175,910,218

NUMBER OF SHAREHOLDERS
18,312

* Including shareholders whose shares do not comprise full trading units

OFFICES (As of May 31, 2007)
1 institute, 9 branches, 10 plants,
10 pharmaceuticals branch offices

SHARE PRICE MOVEMENT



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