Yakult

Enriching Lives for Everyone Everywhere

Annual Report 2008
Year ended March 31, 2008

Yakult is a Company That Enriches via *Lactobacillus casei* strain

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 positive effects on the intestinal tract.

Since then, Yakult has conducted business activities in ways that promote Dr. Shirota's vision

The Story of Yakult Honsha

From its launch in 1935, *Yakult* soon gained a reputation as a product that protects people's health. 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 measure, the production and sales of the product spread nationwide. YAKULT HONSHA CO., LTD. was established in Tokyo in 1955 to manage this growing network.

People's Lives
Shirota

of providing a healthy life for as many people as possible. As of March 31, 2008, we were promoting good health and enriching lives for people in 31 countries and regions including Japan as a leading Probiotics* company. In addition to fermented milk drinks, Yakult operations today include a pharmaceuticals business, in which we handle an anticancer drug widely used worldwide, as well as a cosmetics business.

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

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.

Contents

Forward-looking statements
Statements contained in the Annual Report 2008 regarding business results for fiscal 2008 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.

Yakult Consumption Around the World

Sales Volume by Country in FY2008

(Thousands of bottles/day)

The Americas	
Brazil*[1]	1,255
Mexico	2,968
Argentina	41
U.S.A.*[1]	44
TOTAL	4,308

Europe	
The Netherlands	323
Belgium*[1]	96
United Kingdom*[1]	242
Germany	152
Austria	21
Italy	13
TOTAL	847

Asia and Oceania	
Taiwan	991
Hong Kong	505
Thailand	1,902
Korea	4,736
The Philippines	1,003
Singapore*[1]	158
Indonesia	1,006
Australia*[1]	166
Malaysia	110
Vietnam	1
India*[2]	–
China	663
Guangzhou	439
Shanghai	146
Beijing	49
Shanghai Marketing	29
TOTAL	11,241

Japan	8,470

*1 The sales bottles of the following countries are included: Uruguay (Brazil), Canada (U.S.A.), France (The Netherlands), Luxembourg (Belgium), Ireland (United Kingdom), Brunei (Singapore), New Zealand (Australia), Spain (The Netherlands)
*2 India: Sales commenced in January 2008

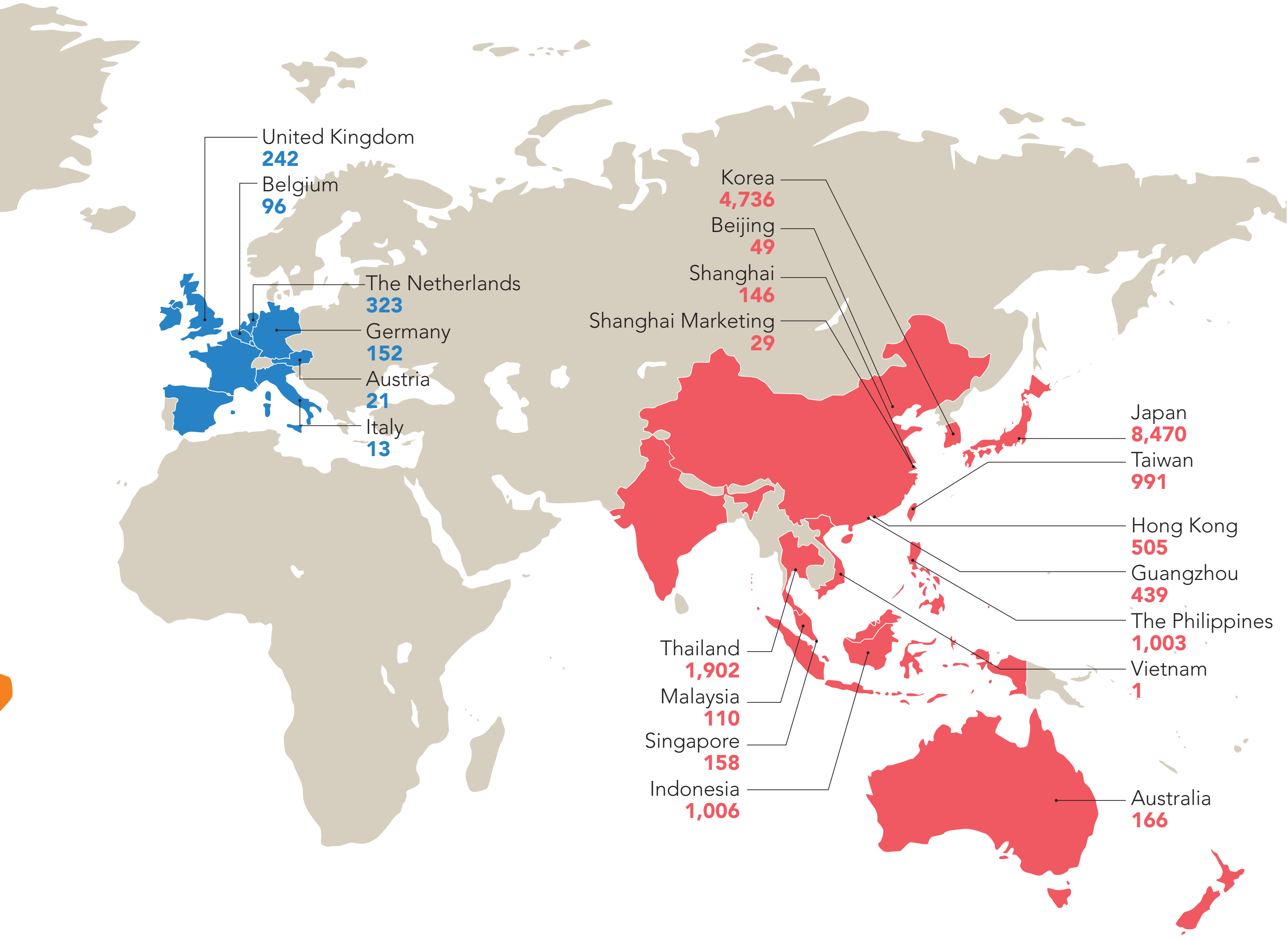
Financial Highlights

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
March 31, 2008, 2007, 2006, 2005 and 2004

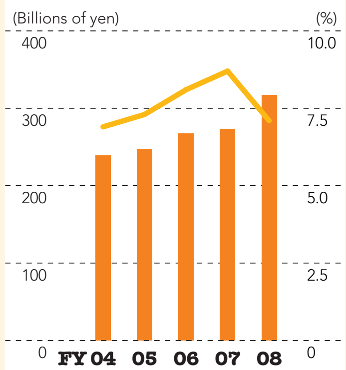
	Millions of yen					Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2007	**2008**	**2008**
For the year:						
Net sales	¥ 238,847	¥ 247,506	¥ 267,707	¥ 273,100	**¥ 317,335**	**$3,173,354**
Operating income	16,395	18,125	21,754	23,893	**22,502**	**225,024**
Net income	15,083	14,105	14,442	14,806	**16,675**	**166,750**
At the year-end:						
Total assets	¥ 286,389	¥ 293,922	¥ 328,619	¥ 354,539	**¥ 384,569**	**$3,845,686**
Total liabilities	90,354	83,504	88,345	93,334	**118,566**	**1,185,655**
Total shareholders' equity	182,766	196,023	220,701			
Total equity				261,205	**266,003**	**2,660,031**
Financial ratio:						
Return on equity (ROE) (%)	8.4	7.4	6.9	6.5	**7.0**	

	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 85.27	¥ 79.67	¥ 81.67	¥ 84.93	**¥ 95.93**	**$ 0.96**
Total equity (Note 3)	1,047.78	1,123.03	1,264.65	1,356.68	**1,376.41**	**13.76**
Cash dividends applicable to the year	15.00	17.50	16.00	18.00	**20.00**	**0.20**

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 ¥100 to U.S.$1, the approximate rate of exchange at March 31, 2008.
3. Minority interests are not included in equity on process of calculation.

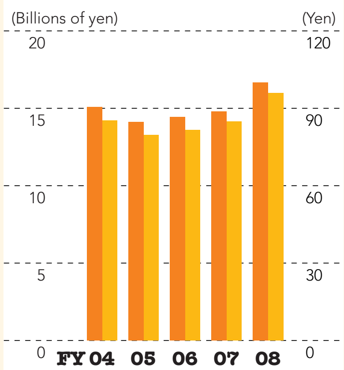


Net Sales and Operating Margin



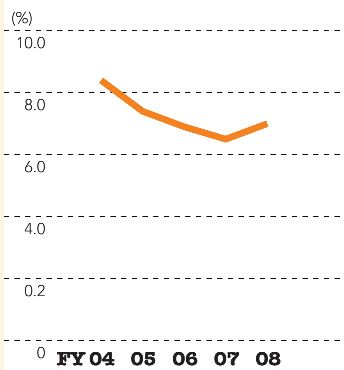
Net sales (left scale)
Operating margin (right scale)

Net Income and Net Income Per Share (Basic)



Net income (left scale)
Net income per share (basic) (right scale)

ROE



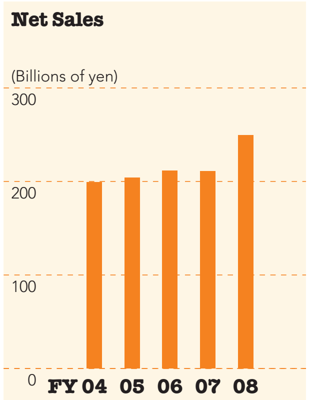
Operating Performance Highlights

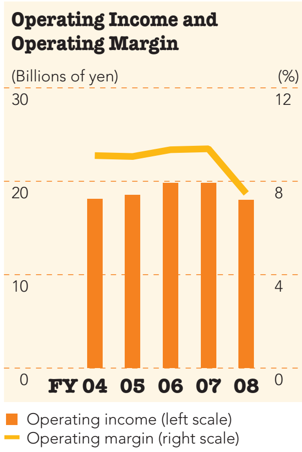
At a Glance

Japan

Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on Yakult dairy products, we are involved in a Pharmaceuticals business aimed at transforming Yakult into a pharmaceuticals specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our 'Others' business segment. During the fiscal year under review, sales in Japan rose 16.1% year on year to ¥249.6 billion, while operating income declined 9.1% to ¥18.0 billion.

(Figures exclude intersegment sales and eliminations/corporate.)



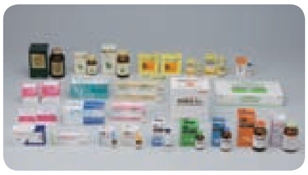


[Food and Beverages]

We upgraded the sales organization and bolstered marketing activities for Yakult dairy products, actively emphasizing the value that live *Lactobacillus casei* strain Shirota cultures have for the intestinal tract. As a result, daily average sales volume rose 2.0% compared to the previous fiscal year. Sales of Yakult products increased year on year thanks particularly to the home delivery channel, where we conducted beverage taste-testing promotions specifically for *Yakult 400* in a drive to spur sales growth. This outcome also reflected efforts to strengthen field sales of *Yakult* fermented milk drink to stores in the retail store channel.

In Juices and Other Beverages, the Company conducted marketing activities designed to promote shipments to retail stores, as well as to encourage the installation of vending machines and increase sales per machine.

[Pharmaceuticals]



Consolidated sales in the Pharmaceuticals segment were ¥31.0 billion, up 20.6% year on year. Operating income also grew steadily, climbing 18.5% to ¥11.2 billion.

For sales activities in Japan, Yakult prioritized informing the market on the proper use of chemotherapy drug *Elplat for Injection*. Attention was also given to enhancing Yakult's specialization in oncology and expanding sales channels with the launch of activated folic acid drug *Levofolinate Yakult* in July 2007.

Internationally, *Campto* is sold in the United States, Europe and markets worldwide under license to Pfizer Inc. as a first-line treatment for colorectal cancer. *CAMPTO for I. V. infusion* generics are also sold in countries in Europe and South America where the patent has already expired. Nevertheless, Yakult is solidifying *CAMPTO for I. V. infusion* as a first-line treatment through marketing that highlights its efficacy in combination with molecular targeted therapies.

[Others]

Consolidated sales in the Others segment, which includes manufacturing and sales of cosmetics, and management of the Tokyo Yakult Swallows Baseball Club, were ¥15.2 billion, up 6.6% year on year, while operating income was ¥0.3 billion, up 30.0% year on year.

In cosmetics, we sought to enhance the evolving lineup of products in the *Parabio* series, our core cosmetics brand. This was paired with sales activities centered on proposing ways to revitalize the skin that saw Yakult proactively offer advice on total skin care solutions to customers interested in anti-aging cosmetics.

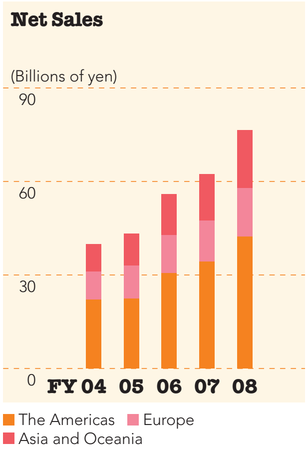
In managing the baseball team, we worked to increase attendance at games by vigorously sponsoring fan services and publicizing information, as well as conducting a variety of events at the stadium.

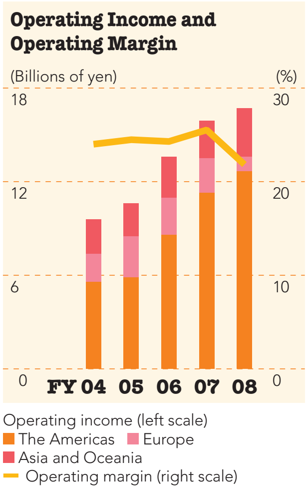
• Business Alliance with the Kirin Group •

Yakult entered a business alliance with the Kirin Group in 2005. By pooling the strengths of both corporate groups, Yakult and Kirin are helping customers to enjoy happier and healthier lives.

International Business

In Probiotic products, sales grew steadily during the year as we made further inroads among customers both in regions where we already do business and throughout new sales areas. As of March 31, 2008, our *Yakult* fermented milk drinks and other products were being sold in 30 countries and regions outside of Japan. Daily average sales volume in fiscal 2008 was 16 million bottles, up 2.2% year on year. Sales rose 22.8% to ¥76.5 billion, with operating income up 5.0% to ¥16.7 billion.





[The Americas]

In the Americas, sales rose sharply over the previous fiscal year thanks to steady sales growth in Mexico and Brazil. Full-scale sales of *Yakult* fermented milk drinks have also been under way in the U.S. state of California since September of last year.

As a result, sales in the Americas rose 23.2% year on year to ¥42.4 billion, with operating income up 13.1% to ¥12.7 billion.

Operating Countries and Regions

Brazil, Mexico, Argentina, U.S.A., Uruguay, Canada

[Europe]

In addition to brisk growth in sales volume in Europe for *Yakult* fermented milk drinks since sales were first launched, we are conducting aggressive marketing activities, including the unveiling of a new product, *Bifiene*, in February of last year. Also in February, we commenced full-scale sales of our *Yakult* fermented milk drink in Italy.

These efforts in Europe resulted in sales of ¥15.5 billion, up 18.5% year on year, while operating income declined 59.9% to ¥0.9 billion.

Operating Countries and Regions

The Netherlands, Belgium, United Kingdom, Germany, Austria, Italy, France, Spain, Luxembourg, Ireland

[Asia and Oceania]

In Asia and Oceania, sales of *Yakult* fermented milk drinks and other products continue to grow steadily in Hong Kong and other parts of China, Indonesia, Singapore, Malaysia, Australia, India, and Vietnam. Consequently, sales in the Asia and Oceania region increased 25.6% to ¥18.6 billion. Meanwhile, operating income increased 27.2% to ¥3.1 billion. Sales commenced at Yakult Vietnam Co., Ltd. in September 2007, followed by the start of production and sales at Yakult Danone India Pvt. Ltd. in January 2008.

Operating Countries and Regions

Taiwan, Hong Kong, Thailand, Korea, The Philippines, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, Brunei, New Zealand

• Cooperative Strategic Alliance with Groupe DANONE •

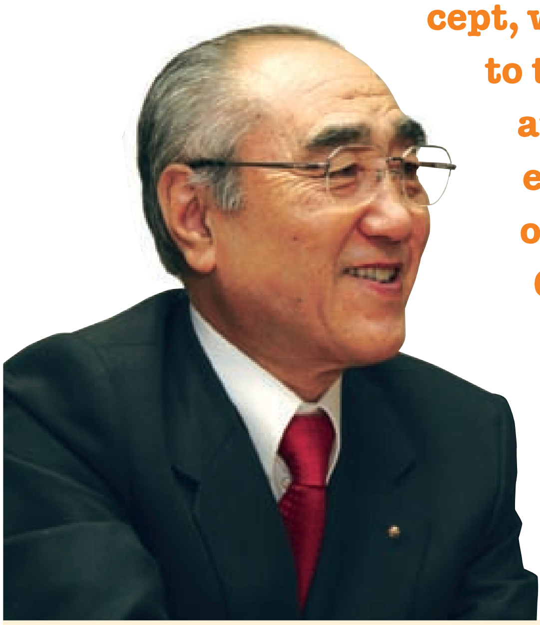
Yakult has entered into an agreement with Groupe DANONE for a cooperative strategic alliance that leverages its own unique strengths, culture and business model with those of Groupe DANONE. Taking full advantage of this agreement will accelerate the uptake of Probiotics, enabling Yakult to contribute to better health worldwide.

Our Goal is to Enrich Even More People's Lives

"I would like to express my sincere gratitude to all of our shareholders for their support and encouragement. It is my belief that nothing is more important in allowing people to live full and enriched lives than good health.

We first began operating in 1930, when Yakult founder Dr. Minoru Shirota successfully strengthened and cultivated *Lactobacillus casei* strain Shirota, which he recognized as conducive to good human health. Dr. Shirota was a staunch advocate of the idea that a healthy intestinal tract leads to a long life. Guided by this concept, we have long sought to "contribute to the health and happiness of people around the world through pursuit of excellence in life science"—as per our corporate philosophy.

Going forward, we are committed to ensuring that Yakult remains a company that will enrich the lives of even more people in the years to come."



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.

[Capital Policies]

Q1. Please tell us about your approach regarding return on equity (ROE).

A1. ROE is an indicator of how efficiently capital was used in generating profit. As such, we view ROE as an important management indicator in our business operations. In fiscal 2008, along with posting record-high net income, we repurchased about ¥4.8 billion in treasury stock in a move to reduce shareholders' equity. As a result, ROE rose 0.5 of a percentage point for the year to 7.0%.

Going forward, we will maintain our ROE-centric approach to management in order to sustain the confidence of our shareholders over the long term.

Q2. What is your policy on returning profits to shareholders?

A2. Yakult considers the return of profits to be an important management policy. As part of a more proactive stance in returning profits to our shareholders, we are dedicated to ensuring the payment of stable dividends, which we supplement with a special dividend depending on business performance each term. We use this policy as the basis for deciding the specific dividend to be paid.

Given this position, and in light of record-high consolidated net sales and net income for the year, we decided to pay a standard year-end dividend of ¥7.5 per share of common stock for fiscal 2008. To this we added a special dividend of ¥5.0, for a total year-end dividend of ¥12.5 per share. As a result, we paid an annual dividend of ¥20.0 per share, up ¥2.0 from the previous fiscal year.

By pursuing this kind of proactive profit return, we are striving to meet the expectations of our shareholders in this regard.

[Fiscal Year in Review]

Q3. Please give a brief overview of activities in fiscal 2008.

A3.

On the positive side, growing health consciousness remained a driving force in fiscal 2008. On the whole, however, we confronted a severe business environment due to unexpectedly sharp jumps in raw material prices and intensifying competition. In this climate, we positioned the year as a time for upfront investments for growth, enacting a range of measures designed to help Yakult beat out stiff international competition as a global company.

In Japan, we conducted investment aimed at enhancing profitability, including the accelerated realignment of our domestic plant network, as well as investments to spur sales growth. The latter included investments designed to expand R&D and bolster advertising and promotion activities. Overseas, we made the investments necessary to establish business bases worldwide, as well as those required to advance Yakult operations in new countries. In this way, we put the Company on a solid footing for achieving steady progress in the quest for future growth.

While these upfront investments for growth resulted in operating income of ¥22.5 billion, 5.8% lower than the previous fiscal year, net sales climbed 16.2% to ¥317.3 billion, and net income rose 12.6% to ¥16.7 billion. Both net sales and net income ended the year as record highs.

Q4. What successes did business segments report?

A4. In Food and Beverages in Japan, we recorded year-on-year sales volume growth in our core dairy products, effectively halting a gradual but persistent decline reported over the last few years. Among other factors, this outcome reflected the success of our "getting back to basics" strategy, centered on monthly contracts, which are the basis of the home delivery business, and a commitment to paying residential visits to all service area customers.

In Pharmaceuticals, our anti-cancer drug *Elplat for Injection* continued to record brisk sales. The same was true for another anti-cancer drug formulated by Yakult, *CAMPTO for I. V. infusion*, which posted sales growth despite the adverse impact of patent expiration. In Cosmetics, we pushed ahead with rebuilding our core brand in this business. As for the international business, our efforts to expand business in population-rich China, the start of full-scale retail sales in the U.S., and other initiatives met with notable success. Production plants in India and Vietnam were also brought onstream, helping Yakult make a good start towards future growth.

Q5. How are R&D activities progressing?

A5. With respect to R&D fields, Yakult is testing *Lactobacillus*-based drinks in Europe, the United States, India and a number of other regions across the globe as Probiotics-related research gains momentum worldwide.

In fiscal 2008, one of our greatest successes was the development of YIF-SCAN, a cutting-edge system for analyzing intestinal flora samples. We have also shared the technology for this system with Groupe DANONE, with whom we are pursuing joint research aimed at establishing YIF-SCAN as the global standard for intestinal flora analysis.

[Key Management Issues]

Q6. What is the outlook for Yakult going forward?

A6. Upfront investments for growth were a major focus in the previous fiscal year. To reap the expected benefits in the shortest possible timeframe, we will be eyeing initiatives designed to boost sales in fiscal 2009. In Japan, "getting

back to basics" will remain the fundamental strategy underpinning our Food and Beverages operations. From this stance, our task will be to mount a more decisive recovery to put this business on a firm growth track. In Pharmaceuticals, along with promoting greater use of *Elplat for Injection* by ensuring its proper usage, we will focus on developing new drugs that will establish Yakult as Japan's leading company in the field of oncology.

In our International Business, two key goals are to expand markets and entrench Yakult's presence by advancing operations in 45 countries and regions by March 31, 2011, compared to 30 countries and regions as of March 31, 2008. Our aim here is to establish Yakult as a global brand.

Naturally, we will continue to leverage alliances with the Kirin Group and Groupe DANONE to accelerate growth in Japan and overseas.

Through these initiatives, we will work to enhance corporate value further as a company committed to enriching even more people's lives. Moreover, as we prepare to celebrate Yakult's 75th anniversary in fiscal 2011, we are determined to achieve a consolidated net sales target for that year of ¥350.0 billion. In this way, we want to show that Yakult is a company where we all enjoy the enriched lives that we strive to offer to others.

In closing, I invite you to expect great things from Yakult and the initiatives we hope to pursue going forward.

June 2008

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Sumiya Hori
President

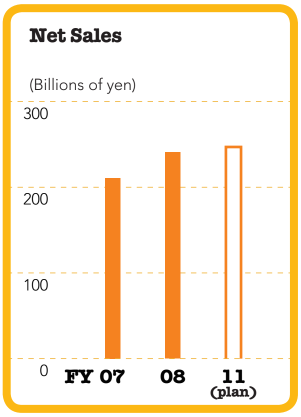
Enriching Lives for Everyone Everywhere

Good health is key to enriching people's lives. We believe that with good health, life is more enjoyable, and one can better share that joy with family and other members of the community. This trend, in turn, increases the possibility of creating a happy and well-adjusted society. For more than 70 years now, Yakult has worked diligently to make this belief a reality for people worldwide. Going forward, our hope is to continue to realize corporate growth by helping people across the globe to maintain good health through the use of Yakult products.

[Japan]

Enriching People's Lives in Various Ways

From Dairy Products to Pharmaceuticals —Growth Through Product Diversification



From the very beginning, our business has thrived on the strengthening and cultivation of the *Lactobacillus casei* strain Shirota by Yakult founder Dr. Shirota. The driving force behind this work was Dr. Shirota's conviction that a healthy intestinal tract leads to long life, and his commitment to providing a healthy life for as many people as possible. These beliefs, known as Shirota-ism, find tangible form in the fermented milk drink *Yakult*.

In Japan, *Yakult* is the mainstay product in the food and beverage business we operate there. We also have a pharmaceuticals business specializing in anti-cancer drugs, through which we are developing Yakult into a drug manufacturer capable of contributing to the advancement of global medical treatment in this field.

Through actions of this kind, we are pursuing growth through businesses that enrich the lives of people everywhere in a variety of ways.

Probiotic Products

(Fermented Milk Drinks and Fermented Milk)

• *Yakult* • • *Yakult 400* • • *Bifiene M* • • *Sofuhl* •

Getting Back to Yakult Basics to Advance Further

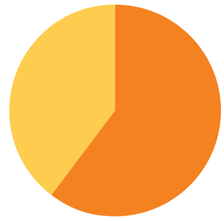
The business history of Yakult has been an ongoing quest to contribute to good health by transforming the ideals of Shirota-ism into reality. In recent years, however, intensifying competition, changing customer tastes and other major changes in the business environment have meant continuing challenges for the Probiotic products business in Japan.

Faced with this climate, Yakult embarked on a move to "get back to basics" from fiscal 2007. By this we mean taking a fresh look at Shirota-ism, and working diligently to promote the most fundamental element of Yakult business—our home delivery service. Centered on our nationwide force of roughly 42,000 Yakult Ladies, this will entail home visits by Yakult Ladies to every customer in their respective delivery areas to explain the benefits of Yakult products and provide samples. This drive will enable customers to experience for themselves the beneficial effects of intestinal regularity. Having customers consume Yakult products with a deeper understanding of their intrinsic value in mind will promote greater trust, promoting a virtuous cycle that will lead to stronger sales.

To facilitate this move "back to basics," we have aggressively promoted sales of *Yakult 400*, which we have positioned as a core product. Launched in 1999, *Yakult 400* is one of our flagship Probiotic drinks and contains some 40 billion *Lactobacillus casei* strain Shirota bacilli in each bottle. Having customers understand the value that *Yakult 400* offers has encouraged greater trust in Yakult. Consequently, *Yakult 400* posted double-digit growth year on year in fiscal 2008, emerging as a leading product in this business with a daily average sales volume of 2,239 thousand bottles, compared to 8,470 thousand bottles a day (up 2.0%) for all of our Probiotic products in Japan.

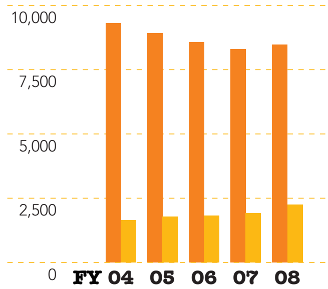
Remaining committed to the "back to basics" concept, Yakult's mission in fiscal 2009 is to work to transform the resurgence in our Probiotic products business into a more permanent trend. Our goal is to once again convey to people the extraordinary feeling that comes from a life enriched by Yakult products.

Breakdown of Probiotic Products Sales by Channel
(%)



Sales by Yakult Ladies	60.4
Sales via supermarkets, convenience stores, and other outside channels	39.6

Probiotic Products Sales Volume
(Thousands of bottles/day)



All Probiotic products
Yakult 400

Pharmaceuticals

CAMPTO100mg for I. V. infusion

CAMPTO40mg for I. V. infusion

Elplat for Injection

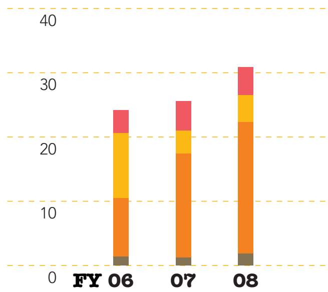
Delivering Choice in Treatment Options Through a Strategy as a Pharmaceutical Specialist in Oncology

Since inheriting the principles of Shirota-ism, Yakult has enriched people's lives through the field of preventive medicine. Our initiatives, however, have expanded beyond preventive medicine to the manufacture and sale today of pharmaceuticals that contribute to unmet medical needs worldwide.

In the development and marketing of pharmaceuticals, Yakult operates as a specialist in the field of oncology with *Elplat for Injection* (international non-proprietary name: oxaliplatin) and *CAMPTO for I. V. infusion* (international non-proprietary name: irinotecan hydrochloride trihydrate) as current mainstay products.

Sales of Pharmaceuticals

(Billions of yen)



Campto (Domestic) *Campto* (Overseas)
Elplat Other

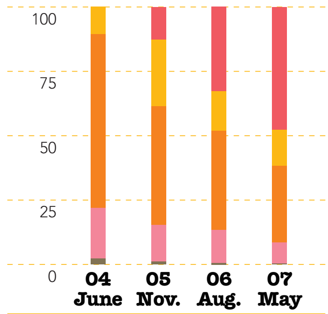
Camptosar/CAMPTO for I. V. infusion, a drug invented by Yakult, has been approved as a first-line treatment for colorectal cancer in the European Union and the United States. World-wide sales, mainly generated in those two regions, have been around ¥100,000 million per year for *Camptosar/CAMPTO for I. V. infusion*, which is distributed by our licensee, Pfizer Inc. Although the patent for *Camptosar/CAMPTO for I. V. infusion* has expired in North and South America and generic erosion is occurring, in Japan, we conducted marketing activities focused on colorectal, gastric, lung and gynecological cancers, and sales remained firm, partly due to improved understanding of cancer chemotherapy.

Sales of *Elplat for Injection* have risen steadily since its launch in Japan in April 2005 under license from Swiss pharmaceutical company, the Debiopharm Group. The product is a key growth driver in Yakult's pharmaceutical business. *Elplat for Injection* is marketed in over 60 countries, including the United States and Europe, and has become a gold standard treatment for colorectal cancer, together with *Camptosar/CAMPTO for I. V. infusion*. The launch of *Elplat for Injection* has also 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, nurses, pharmacists and other medical personnel about administration methods for *Elplat for Injection* and measures to be taken against its side effects.

Moreover, sales of *Sinseron Tablets 8mg* (international non-proprietary name: indisetron hydrochloride), an oral antiemetic which prevents nausea, vomiting and other side-effects associated with anticancer drugs, grew strongly, as did sales of *Levofolinate for I.V. Infusion Yakult*, an activated folic acid preparation launched in July 2007 and given as part of a drug cocktail therapy with *Elplat for Injection or Camptosar/CAMPTO for I. V. infusion*. As a result, consolidated sales in the Pharmaceuticals segment rose steadily in fiscal 2008, growing 20.6% year on year to ¥31,003 million.

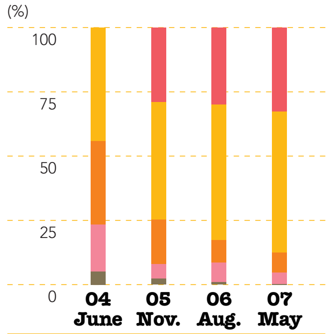
Yakult currently markets in Japan two of the three key anticancer drugs used worldwide to treat colorectal cancer: *Camptosar/CAMPTO for I. V. infusion* and *Elplat for Injection*. Looking ahead to 2015, the prevalence of colorectal cancer among Japanese people is expected to surpass that of stomach 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-associated disorders by drawing on our past achievements.

The Realities of Colorectal Cancer Treatment (1st Line)



Source: IMS questionnaire survey

The Realities of Colorectal Cancer Treatment (2nd Line)



Source: IMS questionnaire survey

Expansion of Indications and New Drug Development Pipeline

(1) Expansion of *Elplat* indications

Under investigation of possibility for line extension with the following cancer				
Colorectal cancer (Adjuvant*1)	Gastric cancer	Bilary tract cancer	Esophageal cancer	Pancreatic cancer

*1 Adjuvant: Post operation chemotherapy aiming for prevention of recurrence

(2) New drug development pipeline

Product	Indications	Licensor	Co-development partner	Stage	Remarks
① *Irinotecan liposome* Development Code:IHL-305	Solid tumors	In-house	Terumo Corporation	Phase I	
② *Satraplatin* Development Code:YHI-601	Hormone-refractory prostate cancer	GPC Biotech	(Independent development)	Preparation of Phase I	
③ Development Code:YHO-13351	Solid tumors	In-house	(Independent development)	Non-Clinical Stage	BCRP Inhibitor

(3) National Health Insurance reimbursement price revision information (*CAMPTO for I. V. infusions* and *Elplat for Injection*)

	Since April 2008 (yen)	As of the end on March 2008 (yen)	Revision rate (%) (Decrease)	Reference (yen)
CAMPTO for I. V. infusion (40mg/Vial)	8,168	8,520	(4.1)	FOLFIRI: About 165,000 yen/month*2
CAMPTO for I. V. infusion (100mg/Vial)	18,189	19,022	(4.4)	
Elplat for Injection 100mg	70,544	72,768	(3.1)	FOLFOX4: About 356,000 yen/month*2 m-FOLFOX6: About 358,000 yen/month*2

*2 Monthly treatment cost including 5-FU and calcium levofolinato is calculated on an assumption that body surface area is 1.5 square meters.

(4) Patent expiration and data exclusivity

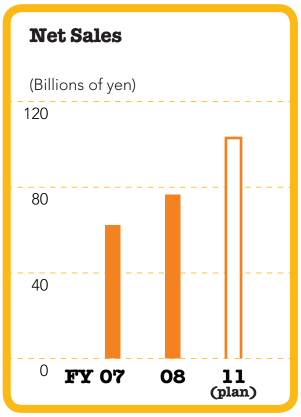
	Japan	North America	Europe
Patent expiration of *Campto* indications	Sep. 2007	Feb. 2008	Jul. 2009
Re-examination period for *Elplat* (Data exclusivity)	Mar. 2013*3	—	—

*3 Extended from 6 to 8 years after approval

[International Business]

Enriching People's Lives in Various Regions

—Growth Through Probiotics Penetration and Area Expansion

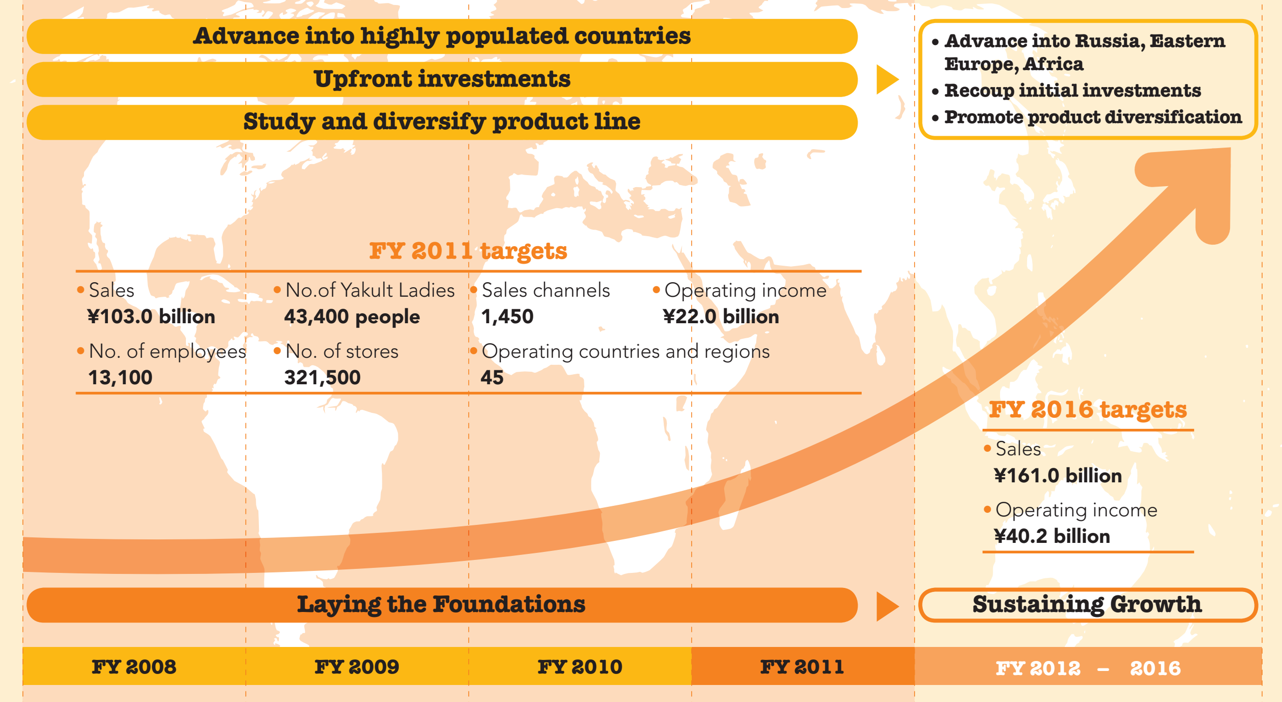


Yakult has been contributing to the health of people worldwide through our trademark *Yakult* fermented milk drink for more than four decades, beginning with the start of business operations at Yakult Co., Ltd. (Taiwan) in 1964.

Today, *Yakult* is enjoyed in 30 countries and regions across Asia and Oceania, the Americas and Europe (as of March 31, 2008), with daily average overseas sales volume reaching 7,765 thousand bottles on a consolidated basis. This success has enabled Yakult to assist in creating good health for people across the globe as a pioneer in Probiotics. Our medium and long-term plan targeting 45 countries and regions calls for consolidated sales of ¥103,000 million, operating income of ¥22,000 million, an operating margin of 21.4%, and daily average overseas sales volume of 12,000 thousand bottles in fiscal 2011, ending March 31, 2011.

By bringing *Yakult* to people worldwide, our goal is to enrich the lives of everyone everywhere. To promote this spread, we intend to aggressively channel management resources into our international operations going forward.

International Business Growth Scenario (Consolidated Basis)



The Americas

Brazil, Mexico, Argentina, U.S.A., Uruguay, Canada

• Brazil • • Mexico • • Argentina • • U.S.A. •

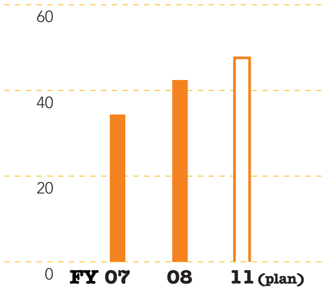
In the Americas, we are selling *Yakult* in the United States, Mexico, Brazil, Argentina, and other countries, with sales for fiscal 2008 up 23.2% year on year to ¥42,417 million, operating income up 13.1% to ¥12,720 million, and daily average sales volume up 11.0% to 4,308 thousand bottles, all on a consolidated basis. For fiscal 2011, ending March 31, 2011, we are targeting sales of ¥47,575 million, operating income of ¥14,538 million and daily average sales volume of 5,015 thousand bottles.

In the United States, we have advanced operations full-scale with the start of sales at major retail chains in the state of California since September 2007. There has been a remarkable increase in health awareness among people in the United States, and media interest in Probiotics is also increasing. We recognize that success in the U.S. market is very important in developing Yakult into a truly global brand. Going forward, we will work even harder to fully explain the value of Yakult products to customers and enhance brand development by promoting a better understanding of Probiotics. Consequently, we are targeting daily average sales volume of 288 thousand bottles in the United States in fiscal 2011.

In Mexico, daily average sales volume has grown steadily each year since we entered the market in 1981. In fiscal 2008, daily average sales volume rose 13.2% year on year to 2,968 thousand bottles. Home delivery by Yakult Ladies and retail store sales through supermarkets comprise the main sales channels for Yakult in Mexico. Along with sales channel expansion, we are focused heavily on the training of Yakult Ladies, enabling thorough explanation of the beneficial effects of Probiotics to customers in order to firmly entrench the Yakult corporate philosophy. In addition to this stronger sales base, we are diligently diversifying our product line with the unveiling of *Sofúl* drinkable yogurt and other new products, with the aim of achieving further growth.

Whether the purpose is to prevent lifestyle-related diseases or enhance one's health, people can improve the balance of their intestinal flora and live longer, healthier lives by regularly drinking just one bottle of *Yakult* every day. In a region as broad and diverse as the Americas, we believe that delivering products like Yakult that are conducive to good health is our most vital mission.

Overall Sales in the Americas
(Billions of yen)



Europe

The Netherlands, Belgium, United Kingdom, Germany, Austria, Italy, France, Spain, Luxembourg, Ireland

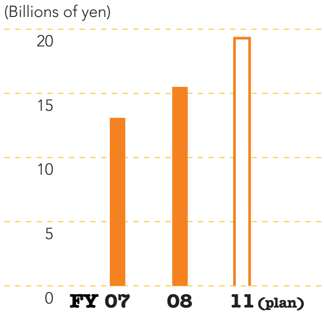
• The Netherlands • • Belgium • • United Kingdom • • Austria • • Italy •

In Europe, we have gradually expanded operations since opening our first office in the Netherlands in 1994. Today, *Yakult* and *Yakult LT* are manufactured in the Netherlands for distribution locally and to the United Kingdom, Germany, Belgium, Austria, Italy and other countries. In Europe, we are developing retail store sales, particularly through supermarkets, as the main sales channel for these products. In fiscal 2008, consolidated sales were ¥15,524 million, up 18.5% year on year and operating income declined 59.9% to ¥891 million, with daily average sales volume up 8.1% to 847 thousand bottles. For the fiscal year ending March 31, 2011, we are targeting sales of ¥19,286 million, operating income of ¥866 million, and daily average sales volume of 1,137 thousand bottles.

In Italy, the fourth most populous country in the EU, we initiated full-scale business development in February 2007. Through active steps to raise awareness of Yakult, including product demonstrations at supermarkets and participation in symposiums, we intend to work diligently to explain the beneficial effects of Probiotics and raise the profile of the Yakult brand. We have also been enhancing our product lineup elsewhere in Europe since February 2007, with the launch of the *Bifiene* series of bifidobacteria fermented milk , mainly in the Netherlands and Belgium.

Europe today is a region where ancient history and diverse cultures converge. By helping to familiarize people with Probiotics as an innovation of genuine value, we hope to propose ways for promoting good health through an approach grounded in preventive medicine.

Overall Sales in Europe
(Billions of yen)



The Netherlands

Ireland

Asia and Oceania

Taiwan, Hong Kong, Thailand, Korea, The Philippines, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, Brunei, New Zealand

• Indonesia • • Australia • • China (Shanghai) • • India • • Vietnam •

From Taiwan and Hong Kong, where Yakult has a long history, we have expanded across the Asia and Oceania region to Southeast Asia, Australia (home to a highly developed dairy industry), and into the world's most populous countries—China and India. In fiscal 2008, sales in the region increased 25.6% year on year to ¥18,552 million, operating income rose 27.2% to ¥3,086 million, and daily average sales volume increased 14.7% to 2,609 thousand bottles, all on a consolidated basis. For fiscal 2011, we are targeting sales of ¥36,139 million, operating income of ¥6,596 million, and daily average sales volume of 5,848 thousand bottles.

In China, where the total population exceeds 1.3 billion, we are advancing into Guangzhou, Shanghai and other key cities, making use of both the home delivery and retail store sales channels to develop the market. In fiscal 2008, we made steady progress in enacting plans to start sales in Hangzhou, Suzhou and other cities, lifting daily average sales volume by 60.6% year on year to 663 thousand bottles. By fiscal 2011, our aim is to operate in 17 cities, targeting daily average sales volume of 2,145 thousand bottles.

In Vietnam, we began importing *Yakult* from P.T. Yakult Indonesia Persada in September 2007, for home delivery by Yakult Ladies and sale in supermarkets and other retail stores. To further develop operations, we jointly established Yakult Vietnam Co., Ltd. through a strategic partnership with Groupe DANONE in June 2006. A plant for the joint venture was constructed on the outskirts of Ho Chi Minh City, and production commenced in April 2008. In parallel with the development of markets in Hanoi and other cities in Vietnam, we plan to launch sales in neighboring countries to establish a broader presence in the region.

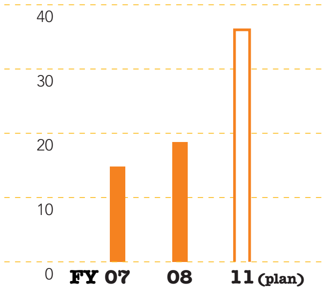
In India, with a population rivaling that of China, we launched *Yakult* production and sales in Delhi in January 2008. Here too, we established a joint venture, Yakult Danone India Pvt. Ltd., through our strategic alliance with Groupe DANONE, building a plant on the outskirts of Delhi and launching sales both through the Yakult Ladies and retail store sales channels. Sales activities will initially focus on Delhi, with gradual sales area expansion to follow. As the recent rise in health consciousness in India gains momentum, the ability of Yakult products to strengthen immunity is fueling growing anticipation in the country.

As part of efforts to enter new markets and expand operations in new regions, we launched a full-scale feasibility study on business potential in the Middle East during the year under review. In September 2007, we established a representative office in the United Arab Emirates (UAE), and began researching infrastructural development, market potential and other aspects of the business environment in the UAE, Qatar, Bahrain, Oman and Saudi Arabia, to lay the groundwork for future business operations.

As a region, Asia and Oceania is poised to make significant progress towards becoming a major player in the 21st century. By supporting the enrichment of people's lives, we will contribute to promoting growth in the region.

Overall Sales in Asia and Oceania

(Billions of yen)



Sales from equity-method affiliates Yakult Co., Ltd. (Taiwan), Yakult (Thailand) Co., Ltd., Korea Yakult Co., Ltd. and Yakult Philippines, Inc. are not included in the above sales figures.

Research & Development

R&D activities play an important role at Yakult. As the wellspring of our ability to promote good health and enrich people's lives, these activities are essential to the ideals of Shirota-ism and our corporate philosophy. The R&D Division uses the results of basic studies conducted with a long-term outlook to support developmental research into food, pharmaceuticals, cosmetics and other products.

Yakult Central Institute and Yakult Honsha European Research Center

Located in Kunitachi, Tokyo, the Yakult Central Institute for Microbiological Research, originally established in Kyoto in 1955 as the Shirota Research Institute Foundation, is a cutting-edge research facility in the Probiotics field. The institute has a staff of about 250 researchers investigating life science for the benefit of human health. The study of useful microorganisms, particularly intestinal microflora, is the guiding theme of research, with the institute having recorded many achievements, including the discovery and use of lactic acid bacteria with high levels of functionality.

We are currently investing roughly ¥9.2 billion in reconstruction of this research facility's aging main building, housing its administrative department and developmental research facilities for Probiotic foods. Once work is complete in March 2010, we plan to re-launch the institute as a cutting-edge food research facility equipped with multipurpose research rooms and labs. These upgrades will enable our researchers to tackle project issues and joint research in a more efficient and flexible manner.

The Yakult Honsha European Research Center for Microbiology ESV, which we established in Ghent, Belgium, in May 2005, is working to accumulate scientific evidence regarding the benefits of drinking our Probiotic products. By establishing a research base in the birthplace of the Probiotics concept, our goal is to support global business expansion encompassing not only Europe, but the Americas and Asia as well.

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

Qualities of Immunity-restoring *Lactobacillus casei* strain Shirota

Yakult's *Lactobacillus casei* strain Shirota has five main effects, and these offer benefits that contribute to maintaining good health. Specific benefits include restoring optimum digestive function, and reducing risk of contagious diseases and cancer. One of the most significant effects is its ability to restore the human immune system, our bodies' natural defense against harmful bacteria, viruses, cancer and other pathogens. Natural killer (NK) cells, known as the front line of immune defense, are generally thought to grow less active due to advanced age or smoking and other poor habits. However, *Lactobacillus casei* strain Shirota has been shown to help stimulate a recovery in compromised NK activity. The five most distinctive characteristics of *Lactobacillus casei* strain Shirota are described below.

1. ***Lactobacillus casei* strain Shirota is resistant to gastric juice and bile, allowing it to reach the intestinal tract still alive.**
2. **By increasing the number of good flora (lactobacilli and bifidobacteria) and hindering the reproduction of harmful bacteria (*Clostridium perfringens* and *E. coli* strains) maintains the optimal balance of intestinal flora.**
3. **Prevents deterioration in the intestinal environment by hindering the production of harmful substances.**
4. **Regulates intestinal activity to improve regularity.**
5. **Regulates the immune system to restore compromised immunity.**

Recent R&D Accomplishments

One of our most significant recent accomplishments is the development of the *B. bifidum* strain BF-1. This proprietary Yakult bifidobacterium has potential as a Probiotic drink offering benefits for the stomach. Strengthened to maintain high numbers of the bacteria in the product, it inhibits the growth of *Helicobacter pylori* and production of ammonia, creating a gastric environment hostile to *Helicobacter pylori*.The bifidobacterium is also known to prevent damage to the stomach and relieve discomfort. With the development of *B. bifidum* strain BF-1, Yakult is now able to extend beyond intestinal health alone to encompass combined gastric and intestinal health as well.

***B. bifidum* strain BF-1**

YIF-SCAN Cutting-edge Intestinal Flora Analysis System

In May 2007, Yakult completed development of the state-of-the-art YIF-SCAN system for analyzing intestinal flora samples. With this equipment, it has become possible to quantify intestinal flora with considerably greater sensitivity than previously. Moreover, compared with existing methods of analysis using petri-dishes, it enables far faster, simpler, more accurate analysis of intestinal flora.

Yakult has licensed the YIF-SCAN system to Groupe DANONE, with which it is pursuing joint research with an eye to turning intestinal flora analysis using this system into the global standard.

R&D Successes and Awards in Fiscal 2008

2007	Apr.	**Development of irinotecan hydrochloride (CPT-11) won a Prize for Science and Technology (Development Category) in the 2007 Commendation for Science and Technology by the Minister of Education, Culture, Sports, Science and Technology**
	June	**Research on intestinal flora won the Research Encouragement Prize at the 11th Scientific Meeting for Intestinal Microbiology sponsored by the Japan Bifidus Foundation**
	Sept.	**R&D of anticancer drug won the Prize for Medicine at the 18th Workshop on Prostate Cancer**

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.

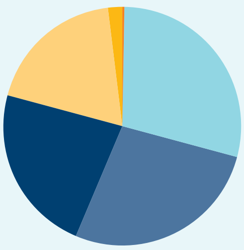
In pursuing our corporate philosophy, "we contribute to creating healthy and happy lives for people around the world," our belief is that it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management 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, 2008)



Japanese securities companies	**0.27%**
Other Japanese corporations	**28.84%**
Foreign institutions and others	**27.28%**
Japanese individuals and others	**22.90%**
Japanese financial institutions	**18.83%**
Treasury stock	**1.88%**

Major Shareholders

(As of March 31, 2008)

	Percentage of Total Shares Issued
MLPFS NOMINEE/ DANONE ASIA HOLDINGS PTE. LTD.	20.02%
Matsusho Co., Ltd.	6.55
Fuji Television Network, Inc.	3.69
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
Kyoshinkai	2.32
Japan Trustee Services Bank, Ltd. (Trust Account)	2.25
Nippon Life Insurance Company	1.66
The Master Trust Bank of Japan, Ltd. (Trust Account)	1.63
Kirin Beverage Corporation	1.40
Teruo Nakamura	1.15

Note: In addition to the above, the Company holds 1.88% of its own shares.

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 25, 2008)

Name	Relationship to the Company	Reason for Appointment as Outside Director
Jacques Vincent	Vice Chairman and President of the Strategic Committee 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	Director and CO-COO 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 of Far East and Indochina Yeo Hiap Seng Limited (previously at Groupe DANONE S.A.)	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 seven 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 functions 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 by 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 25, 2008)

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 the Company; from his past experience as an employee of the Company's accounting auditor, he is expected to improve audit effectiveness.
Masahiko Ikeda	President of business partner Nishi-Shizuoka Yakult Sales Co., Ltd.	Appointed as part of efforts by the Company to promote outstanding personnel from Yakult sales companies; his assumption of audit duties as a corporate auditor is likely to contribute immensely to the Group's overall development.
Seijyuro Tanigawa	President of business partner Kobe Yakult Sales Co., Ltd.	Same as above

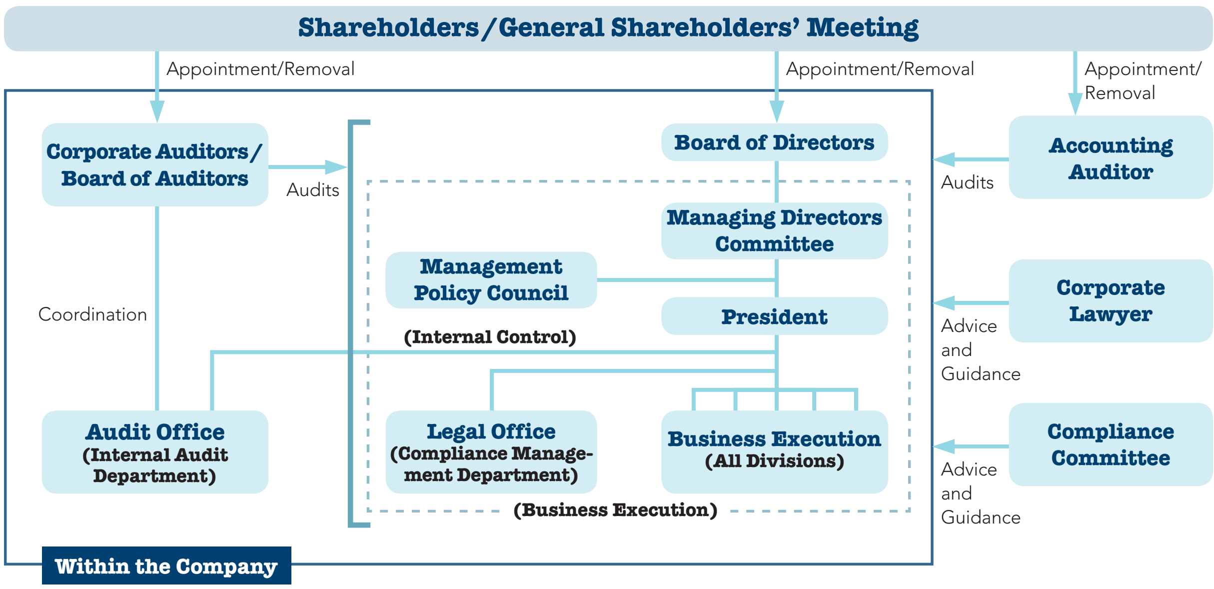
Internal Audits

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 those of Group companies in Japan and overseas. The head of the Audit Office currently oversees an eleven-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu 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

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

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 current situation 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.

In addition, our company will resolutely block and repudiate anti-social forces that pose a threat to the business activities. We shall also maintain a close relationship with the police under normal circumstances and shall tackle any unreasonable claims organizationally and take all possible legal measures.

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.

Furthermore, 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 & Beverages Quality Assurance Department has been established as an independent department to carry out exclusive company-wide supervisory operations related to food quality assurance.

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

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 25, 2008)

President

Sumiya Hori

Divisional General Managers

Akira Katsumata
Divisional General Manager of Cosmetic Business Division

Naomasa Tsuritani
Divisional General Manger of Management Support Division

Ryuichiro Tanaka
Divisional General Manager of Research & Development Division

Tamotsu Tomibe
Divisional General Manager of Food and Beverages Business Division

Ryuji Chino
Divisional General Manager of Production Division

Kiyoshi Terada
Divisional General Manager of Pharmaceutical Business Division

Yoshihiro Kawabata
Divisional General Manager of International Business Division

Tsuyoshi Kinugasa
Divisional General Manager of Administrative Division

President
Sumiya Hori

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

Managing Directors
Yoshihiro Kawabata*
Tsuyoshi Kinugasa*
Chizuka Kai
Takashige Negishi

Directors
Yasufumi Murata
Masahiro Negishi
Shigeyoshi Sakamoto
Hiroshi Narita
Haruji Sawada
Akinori Abe
Jacques Vincent
Emmanuel Faber
Sven Thormahlen
Marcel Bertaud
Shouji Ikegami
Masayuki Takemura
Toshihiro Araki
Tetsuya Hoshino
Yasuhisa Abe

Senior Corporate Auditors
Katsumi Ohtsubo
Takeyoshi Tanaka

Corporate Auditors
Teruo Nakamura
Akihiko Okudaira
Ryohei Sumiya
Masahiko Ikeda
Seijyuro Tanigawa

*Persons who have responsibilities as Divisional General Managers

Corporate Social Responsibility (CSR)

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, we must work at the same time to create a resource-recycling, sustainable society – this is a very important issue for us, and something that we recognize as one of the responsibilities we must fulfill.

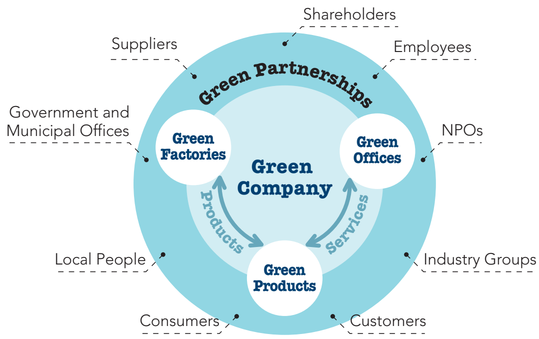
[The Environment]

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



Yakult first established an internal organization dedicated to preserving the global environment back in November 1991. This was followed in June 1997 by the creation of the "Yakult Basic Policy on the Environment," which encompasses the entire Group. Guided by the environmental philosophy and directives for action found in this policy, we promote environmental protection activities in every aspect of our business activities. In March 2004, our directives for action were revised to add a greater level of detail to these guidelines.

In fiscal 2002, the Company drafted the "Yakult Environmental Action Plan," and we have implemented environmental protection measures across all business areas, including development, production, sales and administration, in a bid to reduce the environmental burden caused by our business activities. The year ended March 31, 2008 marked the launch of our Third Stage Environmental Action Plan, which includes measures for reducing greenhouse gas emissions and waste, and cutting the volume of printer paper the Company uses, among other initiatives.

In recognition of the need to continuously implement such activities in tandem with business operations, in March 2004, we established Yakult Eco Vision 2010 to develop a future vision of the environmental aspects of our businesses from a long-term perspective. With Eco Vision, 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 global environment to be preserved and sustained. More specifically, we aspire to have "green products," (whereby all products and services are in harmony with the environment), and "green factories," (meaning that none of our factories pollute the environment and that our facilities have minimal environmental impact, generating no unnecessary waste). We also aspire to have "green offices" with minimal environmental impact and "green partnerships," with rapid disclosure of information and wide-ranging communications.

The year ended March 31, 2008 also saw Yakult take measures to reduce greenhouse gases in its dairy product plants and logistics operations, and to ensure zero waste emissions, with successful results.

Courtesy Visit Activities

Yakult Crime Prevention Patrols

Health Maintenance Advocacy Meeting

[Community Activities]

Initiatives by Yakult Ladies

Since 1972, the Yakult Ladies have been carrying out their "Courtesy Visit Activities," which entail checking on the wellbeing of elderly people in their area who live alone–and chatting 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 2007, the Yakult Ladies conducted a program, as part of these visiting activities, in which they presented elderly people living alone with flowers and a message card. The Yakult Ladies first began this program, carried out in alliance with local governments, as part of events marking Yakult Honsha's 70th anniversary in fiscal 2006. Because the program has brought such joy both to the Yakult Ladies presenting the flowers and to elderly recipients alike, we plan to continue these activities in the hope that everyone involved will continue to enjoy happy and healthy lives.

Public Access to Plants

We conduct plant tours to give people a better understanding of our products and our corporate stance of considering the environment and providing safe, reliable products. In the year ended March 31, 2008, approximately 190,000 people participated in these tours.

Each year we also 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, 2008, a total of 20,000 people participated in these festivals.

Promoting Good Health

To mark World Health Day each year on April 7, Yakult cosponsors a Health Maintenance Advocacy Meeting with the Japan Dietetic Association, held in Yakult Hall. In the year ended March 31, 2008, the theme of the meeting was "Preventing Metabolic Syndrome," an issue that aroused strong public interest, with over 600 people in attendance.

In October 2007, Yakult organized the 21st Century Food and Health Forum, which it also sponsors. The theme of the forum, now in its seventh year, was "Intestinal Age and Chronic Lifestyle Diseases: Intestinal Health and Probiotics." There were around 1,000 participants, who came to increase their understanding of the relationship between Probiotics and health.

In another initiative to encourage good health, Yakult helps to promote swimming, which it regards as a good lifelong form of exercise accessible to everybody, whatever their age or gender. As a global corporation contributing to the health of people around the world, Yakult is proud to sponsor FINA (Fédération Internationale de Natation) swimming contests.

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2008, 2007, 2006, 2005 and 2004

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2008	2007	2006	2005	2004	**2008**
For the year:						
Net sales	**¥ 317,335**	¥ 273,100	¥ 267,707	¥ 247,506	¥ 238,847	**$3,173,354**
Selling, general and administrative expenses	**146,693**	124,110	122,827	118,740	113,756	**1,466,925**
Operating income	**22,502**	23,893	21,754	18,125	16,395	**225,024**
Net income	**16,675**	14,806	14,442	14,105	15,083	**166,750**
Research and development costs	**8,952**	6,745	6,966	6,775	6,457	**89,522**
Capital investments	**28,973**	16,786	11,652	7,864	7,802	**289,734**
Depreciation and amortization	**12,054**	9,025	8,407	8,040	7,985	**120,538**
At the year-end:						
Total assets	**¥ 384,569**	¥ 354,539	¥ 328,619	¥ 293,922	¥ 286,389	**$3,845,686**
Net property, plant and equipment	**116,078**	101,590	92,269	86,830	86,635	**1,160,777**
Total liabilities	**118,566**	93,334	88,345	83,504	90,354	**1,185,655**
Total shareholders' equity			220,701	196,023	182,766	
Total equity	**266,003**	261,205				**2,660,031**

	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	**¥ 95.93**	¥ 84.93	¥ 81.67	¥ 79.67	¥ 85.27	**$ 0.96**
Total equity (Note 3)	**1,376.41**	1,356.68	1,264.65	1,123.03	1,047.78	**13.76**
Cash dividends applicable to the year	**20.00**	18.00	16.00	17.50	15.00	**0.20**
Financial ratios:						
Return on equity (ROE) (%)	**7.0**	6.5	6.9	7.4	8.4	
Equity ratio (%)	**61.7**	66.6	67.2	66.7	63.8	

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 ¥100 to U.S.$1, the approximate rate of exchange at March 31, 2008.
3. Minority interests are not included in equity on process of calculation.

Financial Section

Contents

Management's Discussion and Analysis

OVERVIEW

In the first half of fiscal 2008, the Japanese economy continued its mild expansion supported by improved employment conditions and growth in capital investment against the backdrop of strong corporate performances. In the second half, the stock price slump and yen appreciation spurred by financial anxieties in the United States coupled with rising oil and other basic material prices to deepen uncertainty about the direction of the economy.

Under these circumstances, 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 advanced 16.2% from the previous fiscal year, to ¥317.3 billion. On the other hand, operating income declined 5.8%, to ¥22.5 billion. The operating margin retreated 1.6 of a percentage point year on year, to 7.1%. Nevertheless, net income increased 12.6%, to ¥16.7 billion, and the return on net sales was 5.3%, edging down 0.1 of a percentage point from the previous fiscal year.

SALES, COSTS, EXPENSES AND EARNINGS

Sales

Net sales climbed 16.2%, to ¥317.3 billion. The growth can be attributed to robust performances by overseas subsidiaries in the Food and Beverages segment, brisk sales of the anticancer drug *Elplat* in the Pharmaceuticals segment, and the effects of a change in fiscal year-end for domestic consolidated subsidiaries. Looking at net sales by industry segment, Food and Beverages accounted for 85.4% of sales, the same as in the previous fiscal year; Pharmaceuticals generated 9.8%, edging up 0.4 of a percentage point; and Others contributed 4.8%, falling 0.4 of a percentage point.

Sales overseas amounted to ¥76.5 billion, rising ¥14.2 billion year on year. The contribution of overseas sales to total Group net sales rose 1.3 percentage points, to 24.1%. In the Americas, sales surged 23.2%, to ¥42.4 billion because of substantial sales growth in Brazil and Mexico and a full-scale entry into the U.S. market. In Asia and Oceania, sales jumped 25.6%, to ¥18.6 billion, supported by considerable sales growth in China. Europe also posted growth despite intense competition. Based on such strategies as launching new products, regional sales expanded, rising 18.5% from the previous fiscal year, to ¥15.5 billion.

Costs, Expenses And Earnings

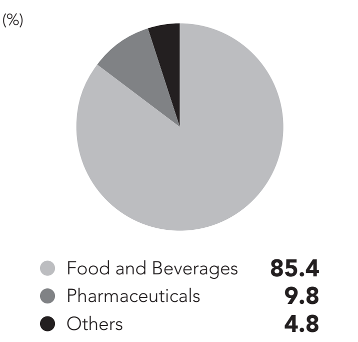
Consolidated cost of sales expanded 18.4%, to ¥148.1 billion. The increase was primarily due to a steep rise in the prices of raw materials and inventory stock. As a result, the cost of sales ratio rose 0.9 percentage points, to 46.7%. Although gross profit increased 14.3%, to ¥169.2 billion, the gross profit margin fell 0.9 of a percentage point, to 53.3%.

Selling, general and administrative (SG&A) expenses climbed 18.2%, to ¥146.7 billion. This increase resulted from higher expenses, including those for sales promotion at overseas subsidiaries and to greater R&D expenses. Consequently, the SG&A expense ratio increased 0.7 of a percentage point, to 46.2%. R&D expenses expanded ¥2.2 billion year on year, to ¥9.0 billion. As a percentage of net sales, R&D expenses increased 0.3 of a percentage point, to 2.8%.

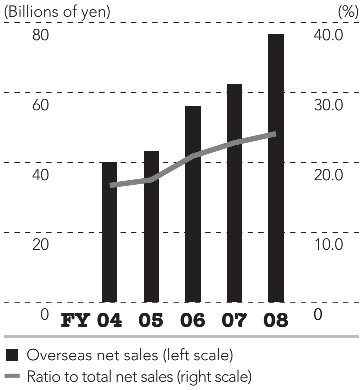
As a result, operating income declined 5.8%, to ¥22.5 billion, and the operating margin fell 1.6 percentage points, to 7.1%.

Net other income grew 48.3%, to ¥11.5 billion. The increase reflected mainly interest income and the proceeds from out-of-court settlement of a case brought by the parent company regarding private bonds issued by the Princeton Economics International Ltd. group, reduced somewhat by lower translation gains and pharmaceutical royalty income.

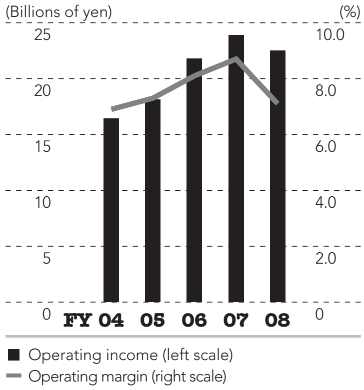
Breakdown of Net Sales



Overseas Net Sales/Ratio to Total Net Sales



Operating Income and Operating Margin



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) decreased 3.0 percentage points, to 38.6%. Minority interests in net income rose 14.6%, to ¥4.2 billion.

As a result, net income increased 12.6%, to ¥16.7 billion, and return on net sales declined 0.1 of a percentage point, to 5.3%.

OVERVIEW BY BUSINESS SEGMENT

Food and Beverages: Consolidated sales in the Food and Beverages segment, both in Japan and overseas, grew 16.3% compared to the previous fiscal year, to ¥271.1 billion, but operating income decreased 10.8%, to ¥23.3 billion because of higher operating expenses related to sales expansion. The operating income ratio declined 2.6 percentage points, to 8.6%.

In Probiotic products, we endeavored to strengthen and expand our marketing organization and marketing operations through full-scale efforts to promote the health value of being able to deliver living *Lactobacillus casei* strain Shirota to the intestinal tract.

In our home delivery channel, we focused on expanding sales activities, particularly for the fermented milk drink *Yakult 400*. Specifically, we worked to solidify our customer base using sales activities that get people to try our products through samples or trial use. As a result of a great many promotional activities to promote the value of our products, such as plant tours and events to attract customers across the nation, daily average sales volume of *Yakult 400* considerably surpassed sales in the previous fiscal year, rising 16.4%. In our retail store channel, we strengthened our sales promotion activities, vigorously promoting the value of *Lactobacillus casei* strain Shirota. Consequently, daily average sales of the fermented milk drink *Yakult* also exceeded those of last year, posting a 6.0% year-on-year increase.

We also introduced new products to vitalize the markets, launching such products as *Rurela Peach*, a soft yogurt containing pieces of white peach.

Overall Probiotic product sales rose slightly year on year, breaking the chain of successive sales declines for the past few years. Despite a downward trend in sales volume for fermented milk drinks, sales of *Yakult* products were firm.

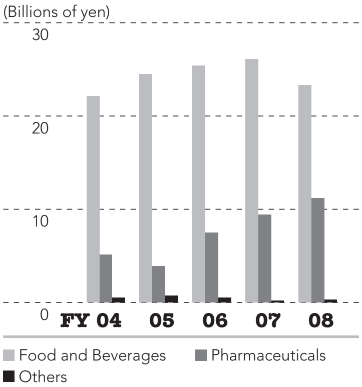
In juices and other beverages, we carried out marketing activities aimed at expanding our retail store and vending machine networks and increasing the average sales per vending machine. In June 2007, we launched a renewed version of *THORPEDO*, a low glycemic index (GI) sports drink. Sales of the health tea *Bansoreicha* fell below last year's performance in the first half, but rebounded to record growth in the second half, supported by a sales promotion drive started in October 2007.

Other products in this category, however, failed to achieve sales growth despite efforts to reinforce marketing, resulting in an overall decline in sales of juices and other beverages.

Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 30 countries and regions outside Japan including those in which test sales are being conducted, and are centered on 27 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 were approximately 15.58 million bottles as of March 2008.

In Asia and Oceania, we commenced Vietnamese sales of *Yakult* in September 2007 based on imports from Indonesia. Vietnam is undergoing rapid economic development and has become an official member of the World Trade Organization (WTO). From April 2008, we also began local production of our products in Vietnam. In January 2008, our operations in India began production of *Yakult* in a suburb of Delhi. Centered on this city, we started sales through our Yakult Lady home delivery and our retail store channels. In China, we continued to steadily expand our sales area, launching sales in Tianjin in April 2007, Suzhou and Wuxi in June 2007, and Hangzhou in September 2007. We also have sales operations

Operating Income by Business Segment



in Guangzhou, Shanghai, Nanjing, and Beijing.

In the Americas, in July 2007, we began test sales of *Yakult* in Vancouver, Canada. Furthermore, in September 2007, we commenced full-scale sales of *Yakult* in the U.S. state of California, working to increase awareness of the Yakult brand, and established a sales base on the West Coast of the United States.

Pharmaceuticals: Boosted by growth in both domestic and overseas sales, consolidated sales in the Pharmaceuticals segment climbed 20.6%, to ¥31.0 billion. Operating income increased 18.5%, to ¥11.2 billion, and the operating income ratio decreased 0.6 of a percentage point, to 36.0%.

Beginning in April 2007, we divided the Pharmaceuticals Department into three departments along functional lines: Pharmaceuticals Business, Pharmaceuticals Marketing, and Pharmaceuticals Development. Furthermore, we strengthened our domestic sales organization by converting our 10 marketing bases nationwide (previously sales offices) into pharmaceutical branches.

In Japan, we developed sales activities by putting the greatest priority on promoting the correct use of the cancer drug *Elplat*. Moreover, we concentrated on increasing our focus on the cancer field, expanding our product line by adding *Levofolinate Yakult*. This product is an agent that diminishes the toxicity and counteracts the action of folic acid antagonists and is often used in conjunction with the anticancer drugs *Elplat* and *Campto Injection* and the oral antiemetic *Sinseron Tablets*. In non-pharmaceutical products, we endeavored to expand sales of such products as *Yakult BL Seichoyaku S-Tablet*.

Overseas, our licensing partner Pfizer Inc. (U.S.) distributes *Campto Injection* (branded overseas as *Campto* or *Camptosar*) around the world, including the United States and Europe. *Campto Injection* is primarily used as a first-line treatment for colorectal cancer. Of these overseas markets, the priority protection period for test data regarding the indication for use of *Campto Injection* in infants ended in the United States, resulting in the start of price competition due to the sales of generic products. Generic products also appeared in some countries in Europe and South America. However, by focusing marketing activities on *Campto Injection*'s use in conjunction with molecular targeted therapy, we were able to enhance its standing as a first-line treatment. Also in some countries in Europe, we sought to differentiate ourselves from generic products by launching sales of shockproof plastic vials (receptacles containing the product for injection) to protect medical staff from being contaminated by toxic substances.

Others: Consolidated sales in the Others segment rose 6.6%, to ¥15.2 billion, and operating income surged 30.0%, to ¥0.3 billion. The operating income ratio improved 0.3 of a percentage point, to 1.9%.

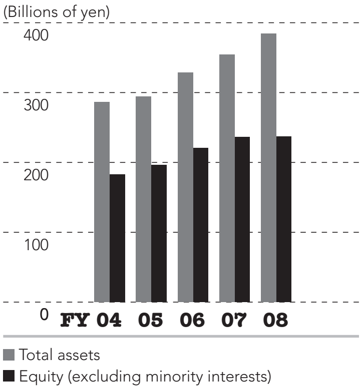
This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations. In cosmetics operations, in October 2007, we launched one basic care product and four special products as part of the launch of an advanced series of our core brand *Parabio*. In March 2008, we further expanded the series by introducing three makeup base products with skincare benefits. Along with these new products, we developed our sales activities around skin regeneration, recommending total skin care for customers in the anti-aging care generations. Based on these activities, overall cosmetic sales were almost the same as in the previous fiscal year.

In our professional baseball operations, we continued to proactively provide services for fans and provide information. At the same time, we worked to increase game attendance by conducting various types of events at Jingu Stadium.

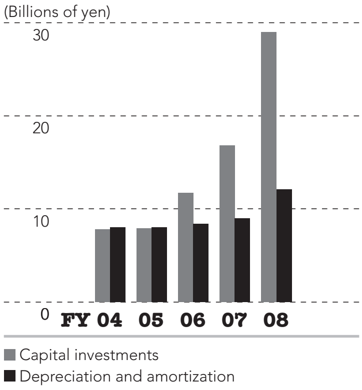
FINANCIAL POSITION

Total assets at year-end amounted to ¥384.6 billion, rising 8.5% year on year. The parent company's total assets at year-

Total Assets and Equity (excluding Minority Interests)



Capital Investments and Depreciation and Amortization



end grew 5.3%, to ¥243.2 billion.

Current assets expanded ¥19.1 billion from the prior fiscal year, to ¥184.7 billion, principally due to increases in cash and cash equivalents at overseas subsidiaries, inventories of the parent company, and deferred tax assets. Net property, plant and equipment rose ¥14.5 billion, to ¥116.1 billion. This was primarily because of an increase in buildings and structures at domestic and parent company plants and the purchase of additional machinery, equipment and vehicles for the parent company and subsidiaries. Investments and other assets decreased ¥3.5 billion, to ¥83.8 billion, mainly because of decreases in the deferred tax assets of the parent company. In the fiscal year under review, capital investment surged 72.6%, to ¥29.0 billion.

Total liabilities grew 27.0%, to ¥118.6 billion. The major components of the increase were a rise in short-term bank loans of the parent company due to the conclusion of a commitment line agreement and growth in long-term debt related to funding capital expenditures for subsidiary plants. As a result, interest-bearing debt climbed substantially from the previous fiscal year, to ¥34.1 billion, while the debt-to-equity ratio deteriorated 9.9 percentage points, to 14.4%.

Equity (excluding minority interests) advanced 4.0%, to ¥237.3 billion, from ¥236.3 billion a year earlier. This increase was primarily due to higher retained earnings associated with the posting of net income, reduced somewhat by a lower unrealized gain on available-for-sale securities.

As a result, the equity ratio declined 4.9 percentage points, to 61.7%. Return on equity (ROE) improved 0.5 of a percentage point, to 7.0%, principally due to repurchase of the parent company's own stock. Return on assets (ROA) deteriorated 0.9 of a percentage point, to 6.1%.

CASH FLOWS

Net cash provided by operating activities edged down ¥0.5 billion, to ¥25.2 billion. The decline in net cash provided primarily resulted from an increase in inventories and a decrease in trade payables eroding the gain in income before income taxes and minority interests.

Net cash used in investing activities expanded ¥9.5 billion, to ¥34.4 billion. Cash was mainly used for purchases of property, plant and equipment and of investment securities.

Net cash provided by financing activities rose ¥16.6 billion from net cash used in the previous fiscal year, to ¥14.5 billion. Growth in net cash provided can mainly be attributed to increases in short-term loans and in long-term debt offsetting expenditures on the repurchase of treasury stock.

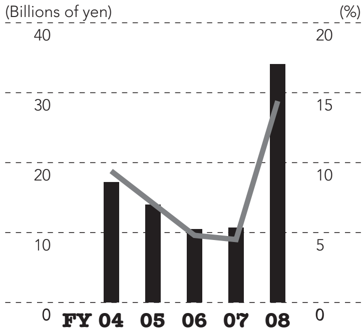
As a result, cash and cash equivalents at year-end amounted to ¥74.9 billion, a net increase of ¥3.9 billion.

DIVIDENDS

We regard profit distribution as an important part of our basic management strategy. In March 2005, we took a 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. We supplemented our standard year-end dividend of ¥7.5 per share with a ¥5.0 per share special dividend reflecting our earnings performance in fiscal 2008. This, along with the standard interim dividend of ¥7.5 per share, resulted in an annual dividend of ¥20.0 per share for the fiscal year under review, up ¥2.0 per share from the previous fiscal year.

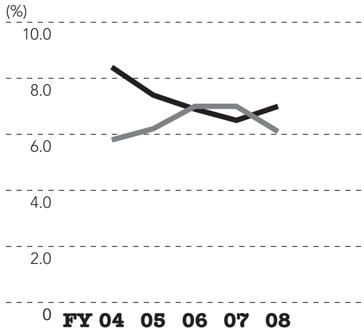
Furthermore, in fiscal 2009, we plan to supplement the standard annual dividend of ¥15.0 per share with a ¥5.0 per share dividend based on non-consolidated and consolidated earnings performance, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as financial position. Accordingly, we plan to pay an annual dividend of ¥20.0 per share, as in fiscal 2008. 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 (left scale)
— Debt-to-equity ratio (right scale)

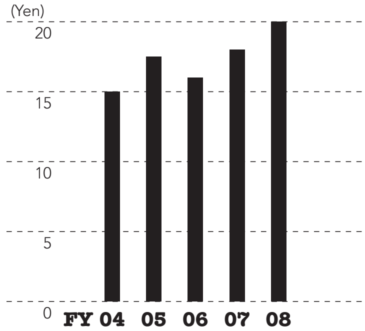
ROE and ROA



— ROE
— ROA

Note: ROA is calculated based on operating income.

Dividends



FORWARD-LOOKING STATEMENTS

Food and Beverages

In our Probiotics operations, we will continue marketing activities focused on advertising and promoting product sampling and trials built around our *Yakult 400* product. In addition, we will aim to expand sales by developing our "Meet as many people as possible and spread the word" activities, the origin of the Yakult business, on a nationwide basis.

Sales of the new Probiotic product *BF-1*, which restrains the growth of *Helicobacter pylori* bacteria, have been favorable. The product was introduced on a trial basis in limited areas. Based on the success of the trials, we plan to expand the sales area for the product in stages.

In our retail store channel, we will continue to concentrate on sales of *Yakult*, using the introduction of new products (*Yakult* series) and the renewal of existing brands to spread the word about the Group's founding concepts of preventive medicine and the link between a healthy intestinal tract and a long life.

In juices and other beverages, we will aim to reinforce our brand power by launching new products, renewing existing products, and developing sales promotion measures. These efforts will be especially aimed at products with healthcare functions.

Furthermore, we will conduct sales activities that meet the healthcare needs of customers by utilizing our total lineup of Probiotic products and juices and other beverages.

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 target increasing market share of *Levofolinate Yakult*, an agent that diminishes the toxicity and counteracts the action of folic acid antagonists, and further concentrate our efforts on sales activities that focus on the cancer field. We will also aim to augment our domestic sales organization through such measures as the introduction of a medical representative support system (MRSS) to support the activities of MRs and display performance records.

Overseas, we will endeavor to maintain the price competitiveness of *Campto Injection* in the U.S. market by being flexible with supply prices in response to the start of generic product sales. Since we expect that sales of generic products will also commence in some countries in Europe due to the July 2009 end to the priority protection period for test data, we will continue efforts to strengthen sales of the plastic vial version of the product to differentiate ourselves from generic products.

Others

In our cosmetics operations, we will continue to promote a marketing strategy stressing a shift in emphasis from volume to quality, targeting an increase in the degree of customer satisfaction and a vitalization of marketing activities.

We will set up public tours at the Shonan Cosmetics Plant, aiming to differentiate Yakult from its competitors by making a strong appeal for the concept of "Converting Lactobacillus Power into Skin Power," by opening up the plant for people to "feel with their five senses and see for themselves."

BUSINESS RISK

1. Risks accompanying global business operations

The Group conducts business operations worldwide, and is involved in production and sales activities overseas. As these overseas business sites gain stronger footing, the proportion of Group business results they account for grows each year.

This trend notwithstanding, consolidated business results as reported in the financial statements are impacted by currency exchange rate fluctuations. Moreover, the regions where the Group operates overseas include countries marked by political and economic instability. While we work to mitigate this risk in various ways, there is no guarantee that such risk can be completely avoided. Moreover, given the underlying social differences between many overseas countries and regions and Japan, there is a risk that the unforeseen establishment or amendment of certain laws and regulations could provoke problems with respect to Group business activities. The occurrence of such issues could adversely impact our business performance and financial condition.

2. Risks related to product safety

Growing concern regarding food safety and quality assurance among consumers today is placing strong pressure on companies to provide unquestionably reliable and safe food products. The Group recognizes that this trend demands even greater levels of safety and quality assurance for the products it handles, which are subject to Japan's Food Sanitation Law, Pharmaceutical Affairs Law, and other regulations. As a Group, we also strive to strengthen our quality assurance system, with the provision of safe products as our highest priority.

These efforts notwithstanding, the unexpected occurrence of incidents related to the Group's food products could have an extremely adverse impact on our business results and financial condition. For this reason, every available step is taken to improve the safety and quality of our food products.

3. Risks pertaining to raw material prices

The Group's main products consist of dairy products and lactobacillus-based drinks. Sharp increases in procurement prices for the raw materials required for these products, due largely to market supply and demand, could impact manufacturing costs, including costs for containers and other packaging. Moreover, further escalation in crude oil prices could adversely affect transportation costs related to our products. In the event that we are unable to cover the effects of higher crude oil prices through cost reductions, or are prevented from enacting price revisions due to market conditions, these trends could have a tremendously adverse impact on the Group's financial condition.

In addition to the aforementioned, the Group faces a range of other risks, including risk related to unseasonable weather conditions and natural disasters. As such, the aforementioned risks are not an exhaustive list of those that could negatively impact Group business operations. The Group is aware of these risks, however, and strives daily to mitigate or avoid their occurrence.

Consolidated Balance Sheets

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 74,895**	¥ 70,999	**$ 748,947**
Time deposits (Note 6)	**6,537**	6,368	**65,369**
Receivables:			
Notes and accounts receivable	**46,216**	45,430	**462,157**
Unconsolidated subsidiaries and associated companies	**3,108**	3,560	**31,083**
Other	**5,372**	1,380	**53,722**
Inventories (Note 3)	**34,880**	30,549	**348,798**
Deferred tax assets (Note 9)	**6,450**	4,254	**64,500**
Other current assets	**8,274**	4,065	**82,743**
Allowance for doubtful accounts	**(1,073)**	(1,024)	**(10,727)**
Total current assets	**184,659**	165,581	**1,846,592**
Property, plant and equipment:			
Land (Note 6)	**33,303**	32,889	**333,033**
Buildings and structures (Note 6)	**87,343**	79,744	**873,428**
Machinery, equipment and vehicles	**97,558**	91,592	**975,580**
Furniture and fixtures	**16,343**	15,600	**163,428**
Construction in progress	**4,770**	7,293	**47,696**
Total	**239,317**	227,118	**2,393,165**
Accumulated depreciation	**(123,239)**	(125,528)	**(1,232,388)**
Net property, plant and equipment	**116,078**	101,590	**1,160,777**
Investments and other assets:			
Investment securities (Note 5)	**32,939**	39,399	**329,395**
Investments in and advances to unconsolidated subsidiaries and associated companies	**37,454**	30,654	**374,537**
Long-term loans	**710**	875	**7,099**
Goodwill	**1,164**	1,458	**11,643**
Deferred tax assets (Note 9)	**1,799**	4,348	**17,988**
Other assets	**9,766**	10,634	**97,655**
Total investments and other assets	**83,832**	87,368	**838,317**
Total	**¥384,569**	¥354,539	**$3,845,686**

See notes to consolidated financial statements.

	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 28,643**	¥ 8,293	**$ 286,432**
Current portion of long-term debt (Note 6)	**949**	734	**9,486**
Payables:			
Notes and accounts payable	**23,769**	26,172	**237,696**
Unconsolidated subsidiaries and associated companies	**250**	191	**2,497**
Other	**9,477**	5,567	**94,769**
Income taxes payable	**1,553**	4,311	**15,527**
Accrued expenses	**14,708**	14,164	**147,079**
Allowance for loss on plants reorganization	**516**		**5,160**
Deferred tax liabilities (Note 9)	**599**	695	**5,992**
Other current liabilities	**8,527**	7,647	**85,274**
Total current liabilities	**88,991**	67,774	**889,912**
Long-term liabilities:			
Long-term debt (Note 6)	**4,473**	1,673	**44,725**
Liability for retirement benefits (Note 7)	**17,024**	17,356	**170,238**
Allowance for loss on plants reorganization		2,372	
Deferred tax liabilities (Note 9)	**5,534**	2,156	**55,338**
Other long-term liabilities	**2,544**	2,003	**25,442**
Total long-term liabilities	**29,575**	25,560	**295,743**
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 2008 and 2007	**31,118**	31,118	**311,177**
Capital surplus	**40,956**	40,956	**409,556**
Retained earnings	**172,273**	158,053	**1,722,734**
Unrealized gain on available-for-sale securities	**193**	5,970	**1,934**
Foreign currency translation adjustments	**323**	2,936	**3,235**
Treasury stock—at cost			
3,518,520 shares in 2008 and 1,743,630 shares in 2007	**(7,582)**	(2,745)	**(75,820)**
Total	**237,281**	236,288	**2,372,816**
Minority interests	**28,722**	24,917	**287,215**
Total equity	**266,003**	261,205	**2,660,031**
Total	**¥384,569**	¥354,539	**$3,845,686**

Consolidated Statements of Income

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales	**¥317,335**	¥273,100	**$3,173,354**
Cost of sales (Note 12)	**148,140**	125,097	**1,481,405**
Gross profit	**169,195**	148,003	**1,691,949**
Selling, general and administrative expenses (Note 12)	**146,693**	124,110	**1,466,925**
Operating income	**22,502**	23,893	**225,024**
Other income (expenses):			
Interest and dividend income	**3,929**	3,072	**39,292**
Interest expense	**(305)**	(122)	**(3,050)**
Royalty income	**2,560**	2,696	**25,598**
Foreign exchange gain	**216**	881	**2,162**
Equity in earnings of associated companies	**3,219**	3,448	**32,187**
Legal settlement	**1,962**		**19,619**
Provision for loss on plants reorganization	**(273)**	(1,310)	**(2,734)**
Impairment loss (Note 4)		(1,002)	
Other—net	**236**	122	**2,358**
Other income—net	**11,544**	7,785	**115,432**
Income before income taxes and minority interests	**34,046**	31,678	**340,456**
Income taxes (Note 9):			
Current	**5,491**	11,257	**54,907**
Deferred	**7,660**	1,934	**76,595**
Total income taxes	**13,151**	13,191	**131,502**
Minority interests in net income	**4,220**	3,681	**42,204**
Net income	**¥ 16,675**	¥ 14,806	**$ 166,750**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (o))**:**			
Basic net income	**¥95.93**	¥84.93	**$0.96**
Cash dividends applicable to the year	**20.00**	18.00	**0.20**

Diluted net income per share of common stock for 2008 and 2007 was not calculated due to the absence of dilutive securities. See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Thousands	Millions of yen								
	Outstanding number of shares of common stock	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	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
Net income				**16,675**				**16,675**		**16,675**
Adjustments to retained earnings for revaluation based on general price-level accounting				**719**				**719**		**719**
Cash dividends, ¥18.0 per share				**(3,111)**				**(3,111)**		**(3,111)**
Adjustment of retained earnings for newly consolidated subsidiaries				**(63)**				**(63)**		**(63)**
Repurchase of treasury stock	**(1,735)**						**(4,796)**	**(4,796)**		**(4,796)**
Other increase in treasury stock	**(40)**						**(41)**	**(41)**		**(41)**
Net change in the year					**(5,777)**	**(2,613)**		**(8,390)**	**3,805**	**(4,585)**
Balance, March 31, 2008	**172,392**	**¥31,118**	**¥40,956**	**¥172,273**	**¥ 193**	**¥ 323**	**¥(7,582)**	**¥237,281**	**¥28,722**	**¥266,003**

	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, March 31, 2007	$311,177	$409,556	$1,580,531	$59,699	$29,364	$(27,445)	$2,362,882	$249,169	$2,612,051
Net income			**166,750**				**166,750**		**166,750**
Adjustments to retained earnings for revaluation based on general price-level accounting			**7,187**				**7,187**		**7,187**
Cash dividends, $0.18 per share			**(31,103)**				**(31,103)**		**(31,103)**
Adjustment of retained earnings for newly consolidated subsidiaries			**(631)**				**(631)**		**(631)**
Repurchase of treasury stock						**(47,964)**	**(47,964)**		**(47,964)**
Other increase in treasury stock						**(411)**	**(411)**		**(411)**
Net change in the year				**(57,765)**	**(26,129)**		**(83,894)**	**38,046**	**(45,848)**
Balance, March 31, 2008	**$311,177**	**$409,556**	**$1,722,734**	**$ 1,934**	**$ 3,235**	**$(75,820)**	**$2,372,816**	**$287,215**	**$2,660,031**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Operating activities:			
Income before income taxes and minority interests	**¥34,046**	¥31,678	**$340,456**
Adjustments for:			
Income taxes—paid	**(11,789)**	(11,603)	**(117,893)**
Depreciation and amortization	**12,054**	9,025	**120,538**
Impairment loss		1,002	
Equity in earnings of unconsolidated subsidiaries and associated companies	**(3,219)**	(3,448)	**(32,187)**
Changes in operating assets and liabilities:			
Increase in trade receivables	**(386)**	(1,882)	**(3,854)**
Increase in inventories	**(4,271)**	(1,986)	**(42,714)**
Decrease in trade payables	**(2,513)**	(1,246)	**(25,132)**
(Decrease) increase in liability for retirement benefits	**(332)**	87	**(3,321)**
Other—net	**1,588**	4,098	**15,885**
Total adjustments	**(8,868)**	(5,953)	**(88,678)**
Net cash provided by operating activities	**25,178**	25,725	**251,778**
Investing activities:			
Increase in time deposits	**(168)**	(5,468)	**(1,681)**
Purchases of property, plant and equipment	**(25,486)**	(16,868)	**(254,855)**
Proceeds from sales of property, plant and equipment	**1,339**	2,483	**13,390**
Purchases of investment securities	**(3,435)**	(3,402)	**(34,350)**
Acquisition of controlling interest in a company	**(10)**	(363)	**(101)**
Acquisition of shares of subsidiaries	**(41)**	(60)	**(409)**
Increase in loans receivable	**(208)**	(671)	**(2,077)**
Collection of loans receivable	**153**	350	**1,531**
Other—net	**(6,553)**	(940)	**(65,533)**
Net cash used in investing activities	**(34,409)**	(24,939)	**(344,085)**
Financing activities:			
Net increase (decrease) in short-term loans	**20,291**	(370)	**202,904**
Proceeds from long-term debt	**4,055**	1,000	**40,550**
Payments for settlement of long-term debt	**(1,221)**	(772)	**(12,209)**
Repurchase of treasury stock	**(4,796)**	(16)	**(47,964)**
Dividends paid	**(3,111)**	(2,790)	**(31,103)**
Other—net	**(731)**	874	**(7,311)**
Net cash provided by (used in) financing activities	**14,487**	(2,074)	**144,867**
Foreign currency translation adjustments on cash and cash equivalents	**(1,525)**	988	**(15,249)**
Net increase (decrease) in cash and cash equivalents	**3,731**	(300)	**37,311**
Cash and cash equivalents of newly consolidated subsidiary, beginning of year	**165**		**1,644**
Cash and cash equivalents, beginning of year	**70,999**	71,299	**709,992**
Cash and cash equivalents, end of year	**¥74,895**	¥70,999	**$748,947**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2008 and 2007

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classification used in 2008.

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 ¥100 to U.S.$1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The accompanying consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 66 (72 in 2007) 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 5 (4 in 2007) 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 5 to 10 years in 2008 and 3 to 10 years in 2007.

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.

In addition, effective March 31, 2008, the domestic consolidated subsidiaries changed their fiscal year end from December 31 to March 31.

Accordingly, fiscal 2008 included 15 months of operations whereas fiscal 2007 consisted of 12 months.

The effect of this change increased net sales by 25,540 million yen ($255,405 thousand) for the year ended March 31, 2008. The effect on operating income and income before income taxes and minority interests was not material for the year ended March 31, 2008.

Additionally, the effect on the segments is stated in Segment Information.

(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 domestic consolidated subsidiaries is computed by the declining-balance method. Property, plant and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007. On the other hand, the straight line method is principally applied to the property, plant and equipment of foreign consolidated subsidiaries.

The effect of this treatment was to decrease operating income by 370 million yen ($3,696 thousand) and income before income taxes and minority interests by 371 million yen ($3,710 thousand) for the year ended March 31, 2008.

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of acquisition cost in accordance with the revised corporate tax law.

The effect of this treatment was to decrease operating income by 331 million yen ($3,315 thousand) and income before income taxes and minority interests by 340 million yen ($3,398 thousand) for the year ended March 31, 2008.

Additionally, the effect on the segments is stated in Segment Information.

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	5 to 50 years
Machinery, equipment and vehicles	3 to 15 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, 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 certain 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.

[Change in accounting policy]

Prior to April 1, 2007, retirement benefits to directors and corporate auditors of the domestic consolidated subsidiaries were expensed when paid. Effective April 1, 2007, retirement benefits to directors and corporate auditors of the domestic consolidated subsidiaries are provided at the amount that would be required if all directors and corporate auditors retired at the balance sheet date in accordance with a Report of the Auditing and Assurance Practice Committee, "An Auditing Treatment for Retirement Benefits to Directors and Corporate Auditors", which was published by the Japanese Institute of Certified Public Accountants on April 13, 2007 and is effective for fiscal years beginning on or after April 1, 2007.

The effect of this change was to decrease operating income by 69 million yen ($694 thousand) and income before income taxes and minority interests by 311 million yen ($3,108 thousand) for the year ended March 31, 2008. This cumulative effect was presented in other expenses in the 2008 consolidated statements of income.

(h) Presentation of Equity

On December 9, 2005, the Accounting Standards Board of Japan (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 balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

(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

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(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) 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.

(n) Foreign Currency Financial Statements

The balance sheet accounts of the foreign consolidated 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. Revenue and expense accounts of the foreign consolidated 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.

(o) 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, 2008 and 2007 is not disclosed due to the absence of dilutive securities.

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.

(p) 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.

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 shall 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise	¥ 3,769	¥ 4,052	$ 37,692
Finished products	3,032	2,163	30,323
Work in process	2,841	2,192	28,411
Raw materials	23,934	20,925	239,334
Other	1,304	1,217	13,038
Total	¥34,880	¥30,549	$348,798

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2008 and 2007, and recognized impairment losses as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Idle assets		¥ 795	
Assets in a professional baseball team		207	
Total		¥1,002	

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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Investment securities:			
Marketable equity securities	¥30,106	¥36,563	$301,067
Trust fund investments and other	2,833	2,836	28,328
Total	¥32,939	¥39,399	$329,395

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2008				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥30,376**	**¥6,006**	**¥6,276**	**¥30,106**
March 31, 2007				
Securities classified as—				
Available-for-sale:				
Equity securities	¥ 26,924	¥ 9,914	¥ 275	¥ 36,563

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2008				
Securities classified as—				
Available-for-sale:				
Equity securities	**$303,764**	**$60,059**	**$62,756**	**$301,067**

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Available-for-sale:			
Equity securities	**¥2,833**	¥2,836	**$28,328**
Total	**¥2,833**	¥2,836	**$28,328**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008 and 2007 were ¥35 million ($353 thousand) and ¥715 million, respectively. Gross realized gains on these sales for the years ended March 31, 2008 and 2007, computed on the moving average cost basis, were ¥22 million ($215 thousand) and ¥161 million, respectively. Gross realized losses for the year ended March 31, 2008 and 2007 were ¥2 million ($17 thousand) and ¥0 million, respectively.

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

Short-term bank loans at March 31, 2008 and 2007 were ¥28,643 million ($286,432 thousand) and ¥8,293 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2008 and 2007 ranged from 1.01% to 2.38% and 0.61% to 1.58%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans from banks and other financial institutions, 0.80% to 21.50% (0.80% to 14.00% in 2007), due serially to 2025:			
Collateralized	**¥4,315**	¥ 606	**$43,141**
Unsecured	**1,107**	1,801	**11,070**
Total	**5,422**	2,407	**54,211**
Less current portion	**(949)**	(734)	**(9,486)**
Long-term debt, less current portion	**¥4,473**	¥1,673	**$44,725**

Annual maturities of long-term debt as of March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 949	$ 9,486
2010	829	8,292
2011	573	5,729
2012	509	5,088
2013	437	4,365
2014 and thereafter	2,125	21,251
Total	¥5,422	$54,211

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥5,000 million ($50,000 thousand) and the above collateralized long-term debt at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 20	$ 200
Land	4,906	49,062
Buildings and structures—net of accumulated depreciation	2,636	26,358
Total	¥7,562	$75,620

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, 2008 and 2007, included the amounts of ¥1,054 million ($10,537 thousand) and ¥898 million respectively for directors and corporate auditors. 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥56,718**	¥56,252	**$567,183**
Fair value of plan assets	**(32,856)**	(35,030)	**(328,566)**
Unrecognized actuarial loss	**(7,972)**	(4,964)	**(79,720)**
Net liability	**15,890**	16,258	**158,897**
Prepaid pension cost	**80**	200	**804**
Liability for employees' retirement benefits	**¥15,970**	¥16,458	**$159,701**

The components of net periodic retirement benefit costs for the years ended March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥2,395**	¥1,997	**$23,949**
Interest cost	**1,300**	1,266	**13,005**
Expected return on plan assets	**(1,171)**	(1,145)	**(11,712)**
Recognized actuarial loss	**1,118**	941	**11,178**
Net periodic retirement benefit costs	**3,642**	3,059	**36,420**
Total	**¥3,642**	¥3,059	**$36,420**

Assumptions used for the years ended March 31, 2008 and 2007, were set forth as follows:

	2008	2007
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**3.5%**	3.5%
Recognition period of actuarial gain/loss	**10 years**	10 years

8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions 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 that 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 consolidated 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, 2008 and 2007. 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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Tax loss carryforwards	**¥ 4,986**	¥ 2,004	**$ 49,858**
Loss from revaluation of securities		7,219	
Pension and severance costs	**6,055**	6,188	**60,545**
Allowance for doubtful receivables		1,357	
Other	**8,069**	8,245	**80,694**
Less valuation allowance	**(3,665)**	(3,370)	**(36,647)**
Total	**¥15,445**	¥21,643	**$154,450**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**¥ 8,534**	¥ 7,599	**$ 85,341**
Inventories		698	
Unrealized gain on land held by consolidated subsidiaries	**1,839**	1,886	**18,387**
Unrealized gain on available-for-sale securities		3,912	
Other	**2,956**	1,797	**29,564**
Total	**¥13,329**	¥15,892	**$133,292**
Net deferred tax assets	**¥ 2,116**	¥ 5,751	**$ 21,158**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2008 was as follows:

	2008
Normal effective statutory tax rate	**40.69%**
Equity in earnings of associated companies	**(3.85)**
Expenses not deductible for income tax purposes	**1.23**
Other—net	**0.56**
Actual effective tax rate	**38.63%**

At March 31, 2008, certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥9,082 million ($90,824 thousand) which were 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
2009	¥ 49	$ 487
2010	458	4,584
2011	999	9,985
2012	714	7,136
2013 and thereafter	6,862	68,632
Total	¥9,082	$90,824

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 ¥6,300 million ($63,004 thousand) and ¥5,394 million for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 were as follows:

	Millions of yen					
	2008			2007		
	Furniture and Fixtures	Other	Total	Furniture and Fixtures	Other	Total
Acquisition cost	**¥19,147**	**¥9,003**	**¥28,150**	¥19,260	¥5,772	¥25,032
Accumulated depreciation	**9,133**	**2,606**	**11,739**	9,398	1,704	11,102
Accumulated impairment loss	**10**	**62**	**72**	13	76	89
Net leased property	**¥10,004**	**¥6,335**	**¥16,339**	¥ 9,849	¥3,992	¥13,841

	Thousands of U.S. dollars		
	2008		
	Furniture and Fixtures	Other	Total
Acquisition cost	**$191,471**	**$90,030**	**$281,501**
Accumulated depreciation	**91,331**	**26,057**	**117,388**
Accumulated impairment loss	**101**	**624**	**725**
Net leased property	**$100,039**	**$63,349**	**$163,388**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥ 5,229**	¥ 4,577	**$ 52,294**
Due after one year	**11,394**	9,557	**113,939**
Total	**¥16,623**	¥14,134	**$166,233**

Allowance for impairment loss on leased property of ¥43 million ($432 thousand) and ¥69 million at March 31, 2008 and 2007 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 ¥5,953 million ($59,529 thousand) and ¥5,093 million for the years ended March 31, 2008 and 2007, respectively.

Interest expense, which are not reflected in the accompanying consolidated statements of income, computed by the interest method were ¥416 million ($4,159 thousand) and ¥310 million for the years ended March 31, 2008 and 2007, respectively.

Reversal of allowance for impairment loss on leased property were ¥18 million ($177 thousand) and ¥20 million for the years ended 2008 and 2007 respectively.

Impairment loss were ¥0 million ($0 thousand) and ¥52 million for the years ended March 31, 2008 and 2007 respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥ 375**	¥115	**$ 3,748**
Due after one year	**728**	561	**7,285**
Total	**¥1,103**	¥676	**$11,033**

11. CONTINGENT LIABILITIES

At March 31, 2008, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	**¥1,632**	**$16,317**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥8,952 million ($89,522 thousand) and ¥6,745 million for the years ended March 31, 2008 and 2007, respectively.

13. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2008 were approved at the Company's board of directors' meeting held on May 13, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥12.5 ($0.13) per share	**¥2,158**	**$21,576**

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, 2008 and 2007 was as follows:

(1) Industry Segments

	Millions of yen				
	2008				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**¥271,134**	**¥31,003**	**¥15,198**		**¥317,335**
Intersegment sales					
Total sales	**271,134**	**31,003**	**15,198**		**317,335**
Operating expenses	**247,840**	**19,844**	**14,908**	**¥ 12,241**	**294,833**
Operating income	**¥ 23,294**	**¥11,159**	**¥ 290**	**¥(12,241)**	**¥ 22,502**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**¥267,052**	**¥37,879**	**¥ 8,153**	**¥ 71,485**	**¥384,569**
Depreciation	**10,402**	**240**	**322**	**1,090**	**12,054**
Capital expenditures	**27,365**	**735**	**902**	**1,008**	**30,010**

	Thousands of U.S. dollars				
	2008				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and Operating Income (Loss)					
Sales to customers	**$2,711,341**	**$310,031**	**$151,982**		**$3,173,354**
Intersegment sales					
Total sales	**2,711,341**	**310,031**	**151,982**		**3,173,354**
Operating expenses	**2,478,397**	**198,439**	**149,083**	**$ 122,411**	**2,948,330**
Operating income	**$ 232,944**	**$111,592**	**$ 2,899**	**$(122,411)**	**$ 225,024**
b. Total Assets, Depreciation and Capital Expenditures					
Total assets	**$2,670,519**	**$378,794**	**$ 81,528**	**$ 714,845**	**$3,845,686**
Depreciation	**104,018**	**2,402**	**3,215**	**10,903**	**120,538**
Capital expenditures	**273,653**	**7,344**	**9,019**	**10,081**	**300,097**

	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

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

As discussed in Note 2., the domestic consolidated subsidiaries changed their fiscal year end from December 31 to March 31. The effect of this change was to increase sales to customers of Food and Beverages by ¥24,673 million yen ($246,733 thousand) and sales to customers of Others by 867 million yen ($8,671 thousand), respectively for the year ended March 31, 2008. The effect on operating income was not material.

As discussed in Note 2., effective April 1, 2007, the Company and domestic consolidated subsidiaries changed their methods of accounting for depreciation of property, plant and equipment. The effect of these treatments was to decrease operating income of Food and Beverages by ¥624 million yen ($6,238 thousand), operating income of Pharmaceuticals by 2 million yen ($23 thousand), operating income of Others by 10 million yen ($97 thousand) and operating income of Eliminations/Corporate by 65 million yen ($653 thousand) for the year ended March 31, 2008.

(2) Geographical Segments

The geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen					
	2008					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥240,842**	**¥42,417**	**¥18,552**	**¥15,524**		**¥317,335**
Interarea transfers	**8,748**				**¥ (8,748)**	
Total sales	**249,590**	**42,417**	**18,552**	**15,524**	**(8,748)**	**317,335**
Operating expenses	**231,544**	**29,697**	**15,466**	**14,633**	**3,493**	**294,833**
Operating income	**¥ 18,046**	**¥12,720**	**¥ 3,086**	**¥ 891**	**¥(12,241)**	**¥ 22,502**
Total assets	**¥177,754**	**¥66,594**	**¥61,155**	**¥11,536**	**¥ 67,530**	**¥384,569**

	Thousands of U.S. dollars					
	2008					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$2,408,419**	**$424,173**	**$185,524**	**$155,238**		**$3,173,354**
Interarea transfers	**87,480**				**$ (87,480)**	
Total sales	**2,495,899**	**424,173**	**185,524**	**155,238**	**(87,480)**	**3,173,354**
Operating expenses	**2,315,440**	**296,969**	**154,664**	**146,326**	**34,931**	**2,948,330**
Operating income	**$ 180,459**	**$127,204**	**$ 30,860**	**$ 8,912**	**$(122,411)**	**$ 225,024**
Total assets	**$1,777,537**	**$665,937**	**$611,549**	**$115,362**	**$ 675,301**	**$3,845,686**

	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

The Americas: Mexico, Brazil, Argentina, U.S.A

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

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

As discussed in Note 2., the domestic consolidated subsidiaries changed their fiscal year end from December 31 to March 31. The effect of this change was to increase sales to customers of Japan by ¥25,540 million yen ($255,405 thousand) for the year ended March 31, 2008. The effect on operating income was not material.

As discussed in Note 2., effective April 1, 2007, the Company and its domestic consolidated subsidiaries changed their methods of accounting for depreciation of property, plant and equipment. The effect of these treatments was to decrease operating income of Japan by ¥636 million yen ($6,358 thousand) and operating income of Eliminations/Corporate by 65 million yen ($653 thousand) for the year ended March 31, 2008.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2008 and 2007 amounted to ¥81,451 million ($814,510 thousand) and ¥66,676 million, respectively.

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, 2008 and 2007, 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, 2008 and 2007, 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.

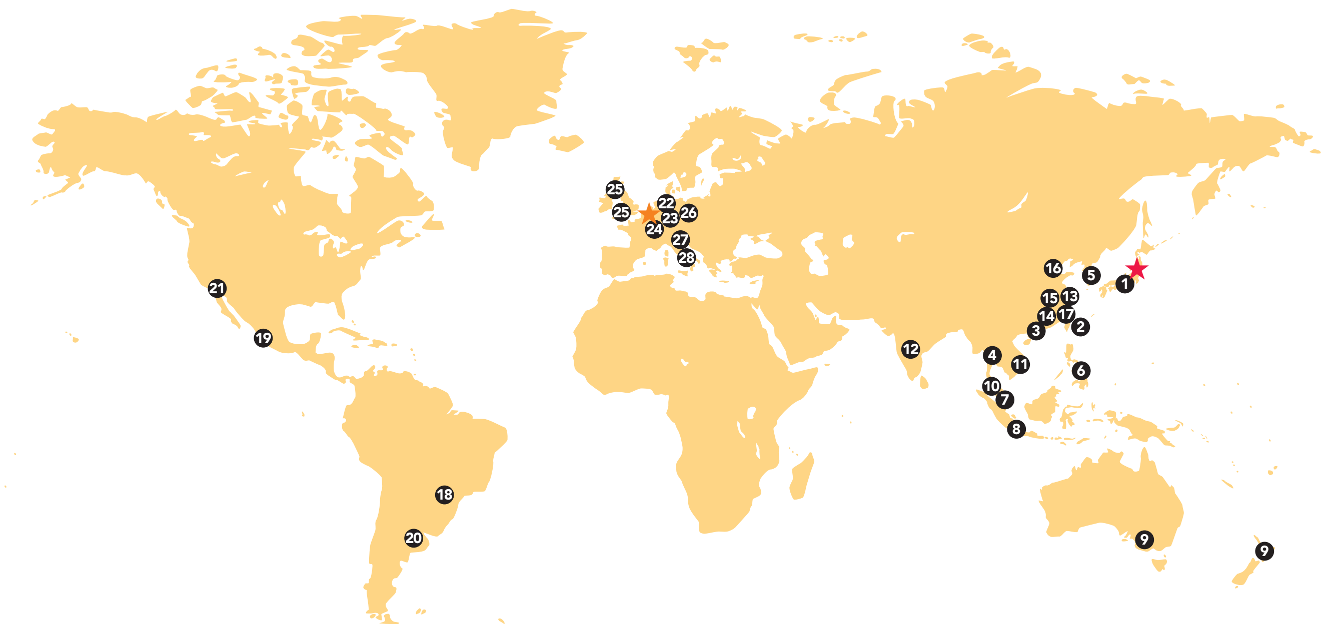
Deloitte Touche Tohmatsu

June 9, 2008

Member of
Deloitte Touche Tohmatsu

Global Network

(As of May 31, 2008)



International Subsidiaries and Affiliates

❶ YAKULT HONSHA CO., LTD.

★ YAKULT Central Institute for Microbiological Research

❷ Yakult Co., Ltd. (Taiwan)

❸ Hong Kong Yakult Co., Ltd.

❹ Yakult (Thailand) Co., Ltd.

❺ Korea Yakult Co., Ltd.

❻ Yakult Philippines, Inc.

❼ Yakult (Singapore) Pte., Ltd.

❽ P.T. Yakult Indonesia Persada

❾ Yakult Australia Pty. Ltd.
- New Zealand Branch

❿ Yakult (Malaysia) Sdn. Bhd.

⓫ Yakult Vietnam Co., Ltd.

⓬ Yakult Danone India Pvt. Ltd.

⓭ Yakult (China) Corporation

⓮ Guangzhou Yakult Co., Ltd.

⓯ Shanghai Yakult Co., Ltd.

⓰ Beijing Yakult Co., Ltd.

⓱ Shanghai Yakult Marketing Co., Ltd.

⓲ Yakult S/A Ind. E. Com. (Brazil)

⓳ Yakult S.A. de C.V. (Mexico)

⓴ Yakult Argentina S.A.

㉑ Yakult U.S.A. Inc.

㉒ Yakult Europe B.V.

㉓ Yakult Nederland B.V.

㉔ Yakult Belgium S.A./N.V.

㉕ Yakult UK Ltd.
- Ireland Branch

㉖ Yakult Deutschland GmbH

㉗ Yakult Oesterreich GmbH

㉘ Yakult Italia S.R.L.

★ Yakult Honsha European Research Center for Microbiology ESV

Corporate Data

(As of March 31, 2008)

Corporate Name

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Date Founded

1935

Date Incorporated

April 9, 1955

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Minato-ku, Tokyo 105-8660, Japan
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Paid-in Capital

¥31,117,654,815

Annual Account Settlement Date

March 31

Number of Employees

15,822

Number of Issued and Outstanding Shares

175,910,218

Number of Shareholders

24,272

* Including shareholders whose shares do not comprise full trading units

Offices (As of May 31, 2008)

1 institute, 9 branches, 10 plants

Branches

- A Hokkaido Branch
- B Tohoku Branch
- C Kanto Branch
- D Tokyo Branch
- E Chubu Kanagawa Branch
- F Tokai Branch
- G Kinki Branch
- H Chugoku Shikoku Branch
- I Kyushu Branch

Plants

1. Fukushima Plant
2. Ibaraki Plant
3. Shonan Cosmetics Plant
4. Fuji Susono Plant
5. Fuji Susono Pharmaceuticals Plant
6. Shizuoka Plant
7. Kyoto Plant
8. Fukuyama Plant
9. Saga Plant
10. Kumamoto Plant

Major Subsidiaries in Japan

Yakult Chiba Chuo Sales Co., Ltd.

Yakult Kobe Plant Co., Ltd.

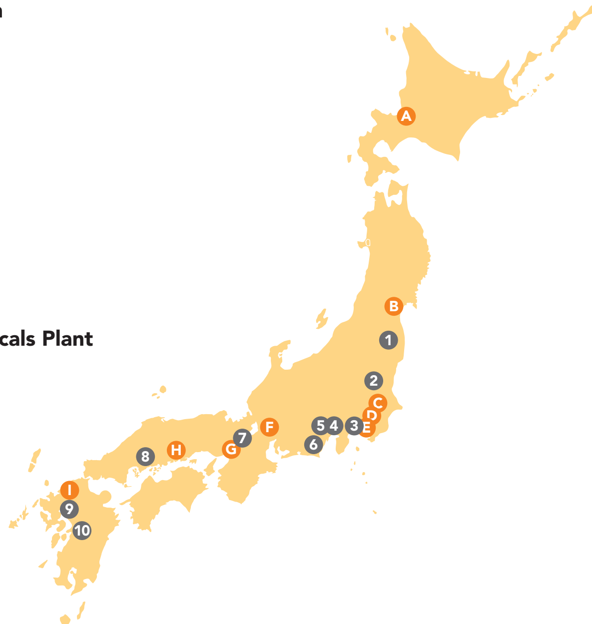
Yakult Corporation Co., Ltd.

Yakult Materials Co., Ltd.

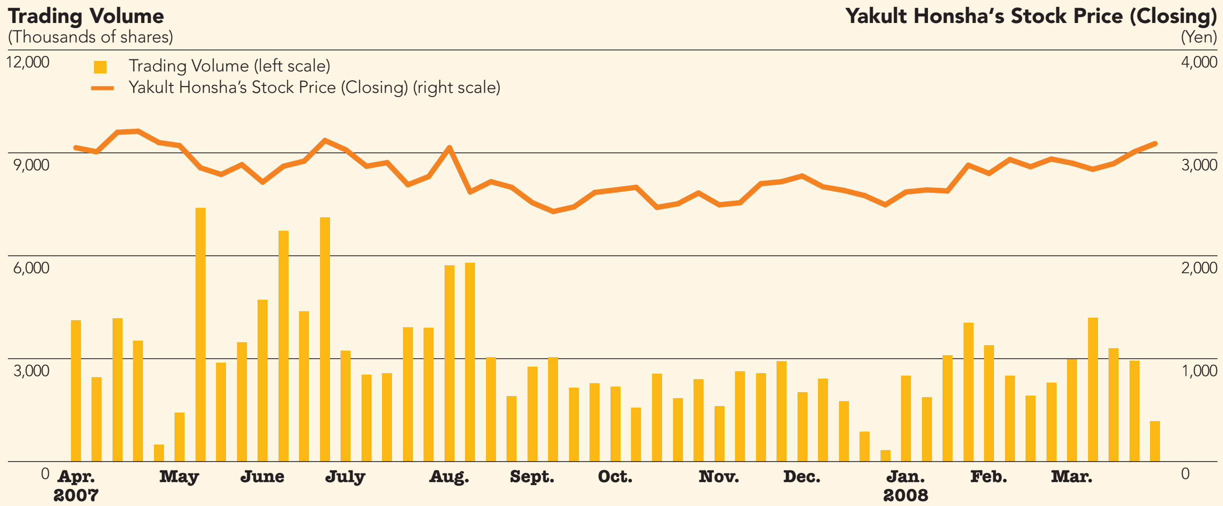
Yakult Food Industry Co., Ltd.

Yakult Chuo Logistics Co., Ltd.

Yakult Kyudan Co., Ltd.



Share Price Movement



Yakult

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