Yakult

Always Healthy, Always Yakult

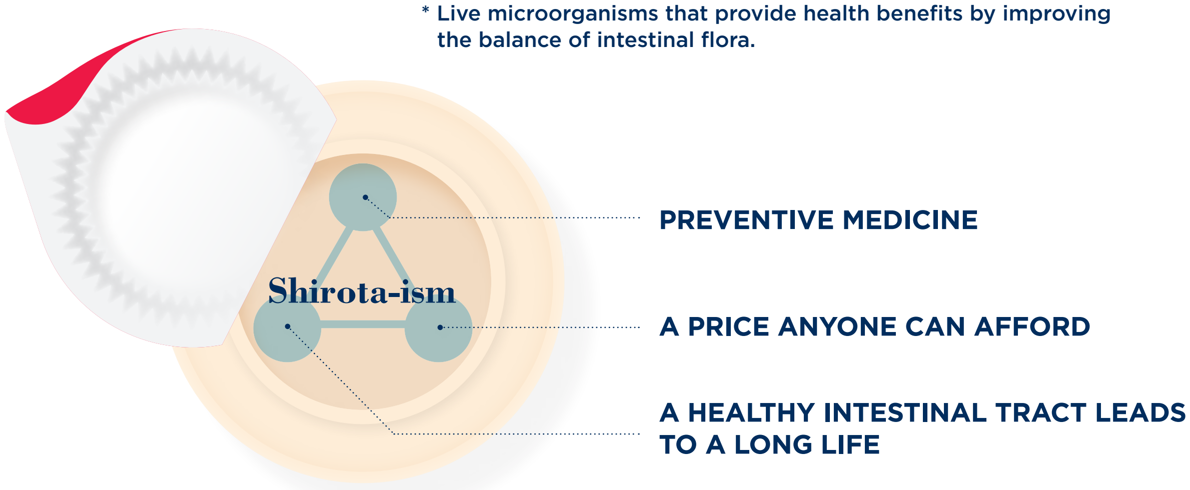
ANNUAL REPORT 2009 Year ended March 31, 2009

PROFILE

YAKULT HONSHA CO., LTD. traces its roots to 1930, when the Company's founder Dr. Minoru Shirota (1899–1982) successfully strengthened and cultivated *Lactobacillus casei* strain Shirota while working in a microbiology laboratory at Kyoto Imperial University School of Medicine (now Kyoto University). Five years later, in Fukuoka, Japan, Dr. Shirota began sales of a fermented milk drink under the brand name *Yakult*, so that people could benefit from the intestinal health effects of this unique bacterial strain. Since then, Yakult has conducted its business activities in ways that promote Dr. Shirota's vision of providing a healthy life for as many people as possible. Above all, the Company values Shirota-ism—a philosophy that emphasizes preventive medicine, the concept that a healthy intestinal tract leads to a long life, and a commitment to offering products at an affordable price. As of March 31, 2009, as a leading Probiotics* company, we help to guard people's health in 32 countries and regions including Japan.

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 STORY OF YAKULT HONSHA

Since its launch in 1935, *Yakult* has steadily gained popularity as a product that protects people's health. In the chaos immediately following World War II, contagious diseases such as dysentery and typhoid fever were prevalent in Japan, and demand grew for *Yakult* as a form of preventive medicine. In response to this demand, production and sales of the product spread nationwide, and YAKULT HONSHA CO., LTD. was established in Tokyo in 1955 to manage the growing network.

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FORWARD-LOOKING STATEMENTS

Statements contained in the Annual Report 2009 regarding business results for fiscal 2009 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.

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Our Ingredients for Health

The Sources of Yakult's Strength

The first source of Yakult's 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 our "Yakult Lady System," a home-delivery sales channel unique to Yakult that we are developing across the globe. And the third source of our strength is our powerful R&D division, which carries on the ideals of founder Dr. Minoru Shirota to generate the momentum we need for future development.

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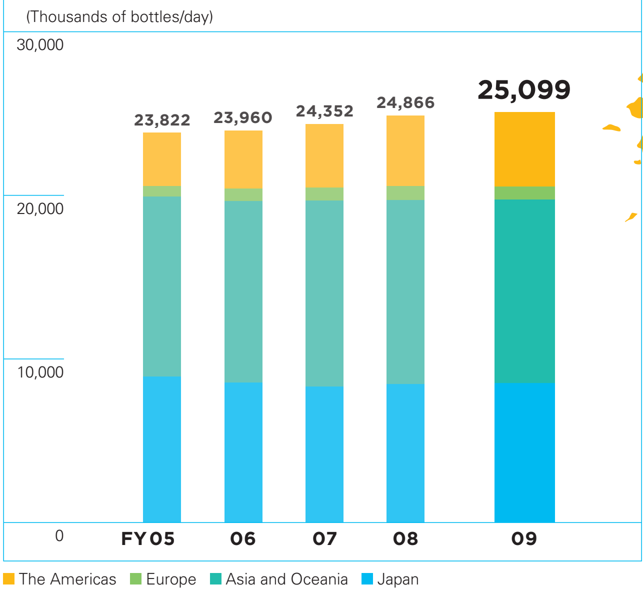
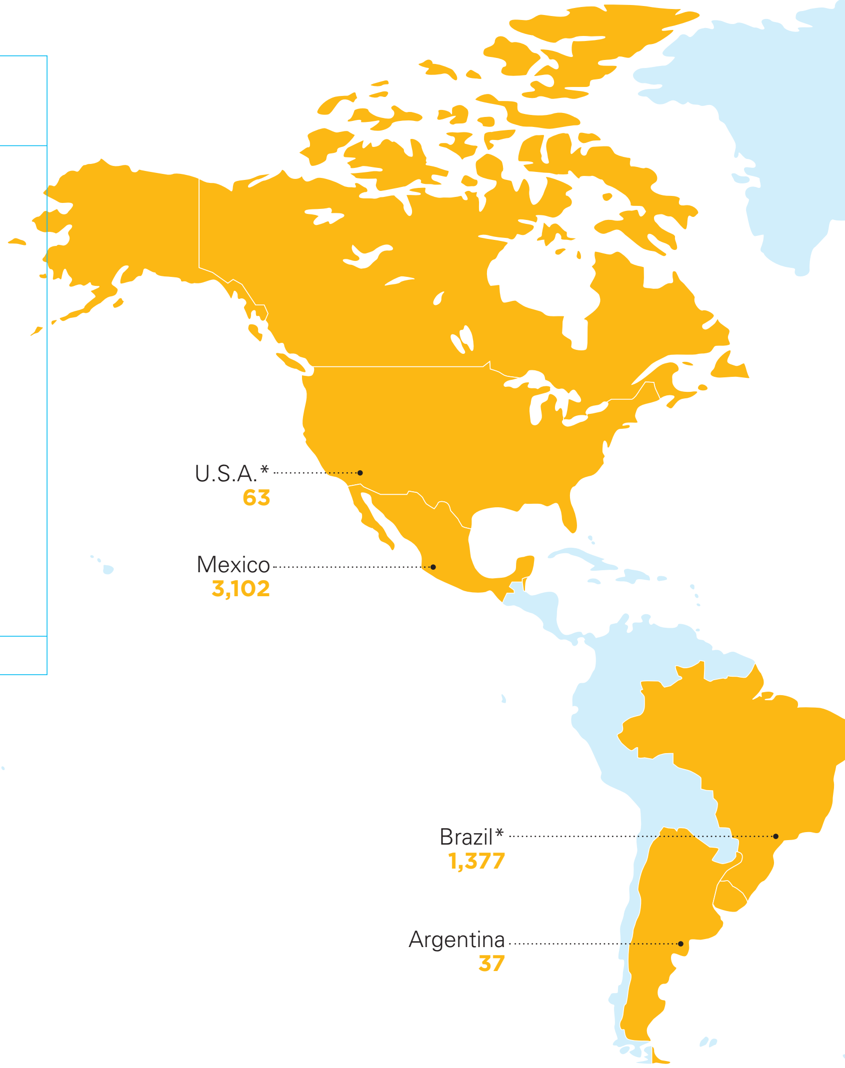
YAKULT CONSUMPTION AROUND THE WORLD

SALES VOLUME BY REGION IN FY2009





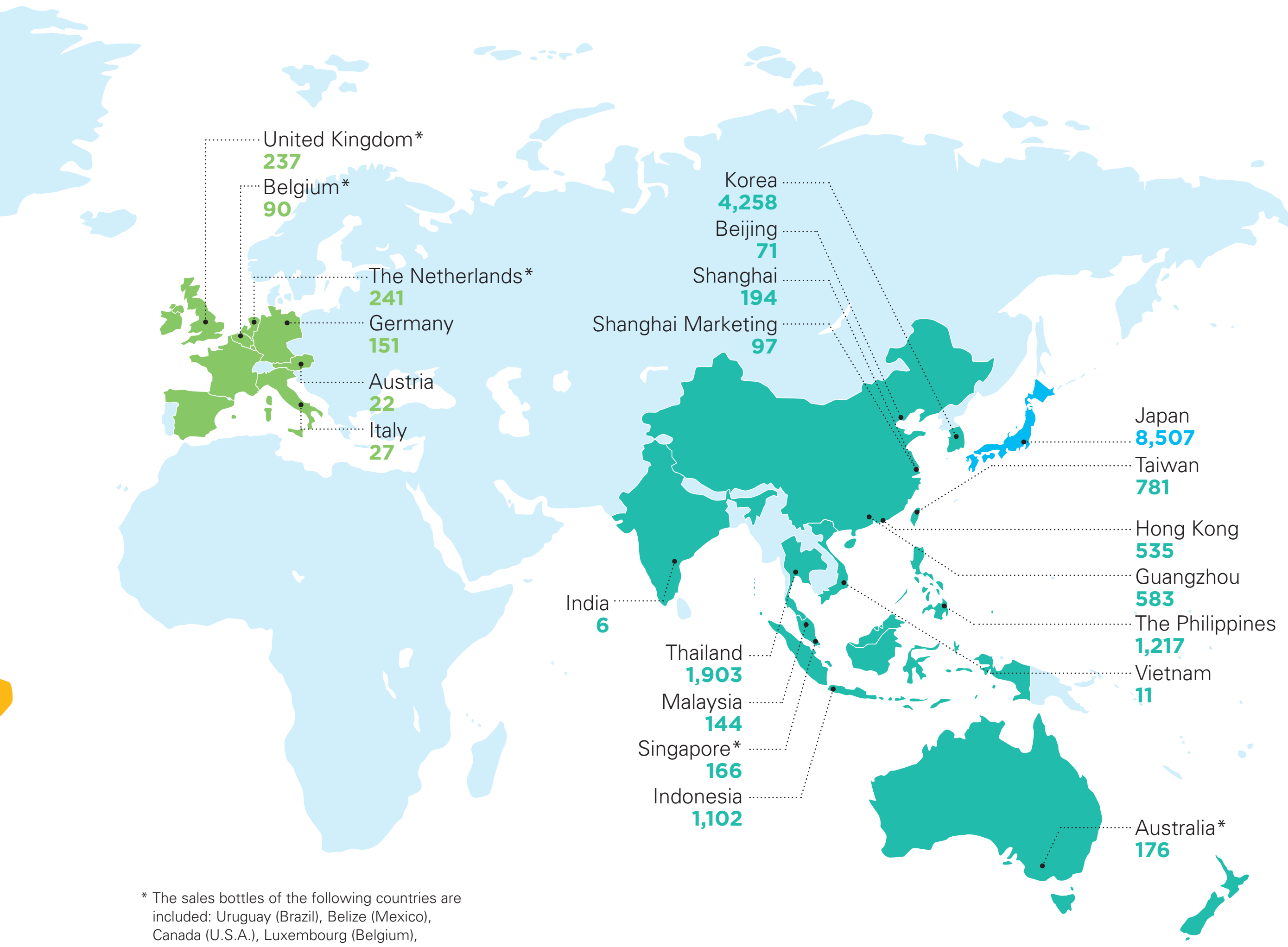
FINANCIAL HIGHLIGHTS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
March 31, 2009, 2008, 2007, 2006 and 2005

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2008	**2009**	**2009**
For the year:						
Net sales	¥ 247,506	¥ 267,707	¥ 273,100	¥ 317,335	**¥ 293,490**	**$2,994,797**
Operating income	18,125	21,754	23,893	22,502	**16,744**	**170,855**
Net income	14,105	14,442	14,806	16,675	**11,325**	**115,556**
At the year-end:						
Total assets	¥ 293,922	¥ 328,619	¥ 354,539	¥ 384,569	**¥ 361,902**	**$3,692,875**
Total liabilities	83,504	88,345	93,334	118,566	**134,936**	**1,376,897**
Total shareholders' equity	196,023	220,701				
Total equity			261,205	266,003	**226,966**	**2,315,978**
Financial ratio:						
Return on equity (ROE) (%)	7.4	6.9	6.5	7.0	**5.1**	

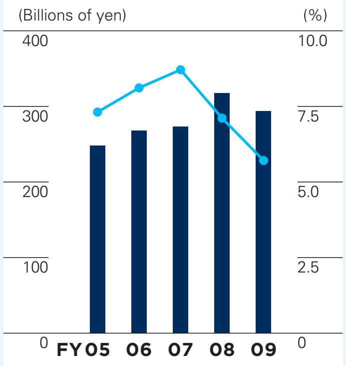
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 79.67	¥ 81.67	¥ 84.93	¥ 95.93	**¥ 65.75**	**$ 0.67**
Total equity (Note 3)	1,123.03	1,264.65	1,356.68	1,376.41	**1,195.60**	**12.20**
Cash dividends applicable to the year	17.50	16.00	18.00	20.00	**20.00**	**0.20**

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥98 to U.S.$1, the approximate rate of exchange at March 31, 2009.
3. Minority interests are not included in equity on process of calculation.



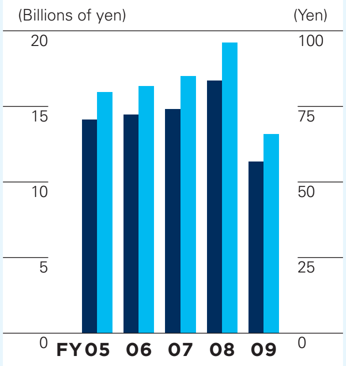
* The sales bottles of the following countries are included: Uruguay (Brazil), Belize (Mexico), Canada (U.S.A.), Luxembourg (Belgium), France (The Netherlands), Spain (The Netherlands), Ireland (United Kingdom), Brunei (Singapore), New Zealand (Australia)

NET SALES AND OPERATING MARGIN



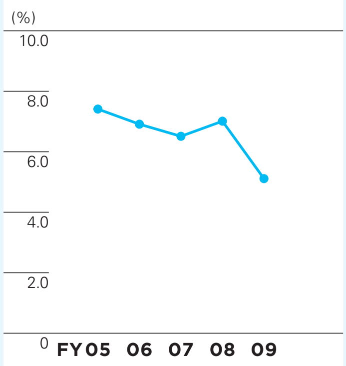
■ Net sales (left scale)
Operating margin (right scale)

NET INCOME AND NET INCOME PER SHARE (BASIC)



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

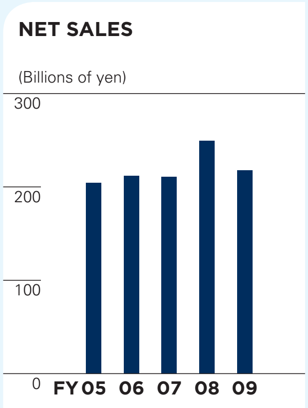
ROE

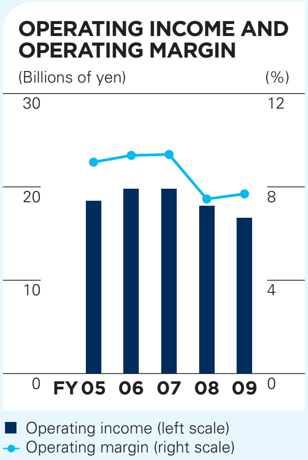


OPERATING PERFORMANCE HIGHLIGHTS

AT A GLANCE

JAPAN





Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on Probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing 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, consolidated sales in Japan came to ¥217.9 billion.

▶ FOOD AND BEVERAGES

In the Food and Beverages segment, we sell both Probiotic products and Juices and Other Beverages through our home delivery and retail store sales channels. In Probiotic products, business activities are centered on *Yakult*, which delivers live cultures of *Lactobacillus casei* strain Shirota to the intestinal tract. In Juices and Other Beverages, business operations emphasize products with functional properties. For the fiscal year ended March 31, 2009, consolidated sales in Food and Beverages were ¥168.6 billion.

▶ PHARMACEUTICALS

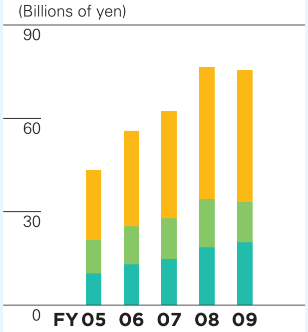
In Pharmaceuticals, Yakult specializes in the field of oncology business, especially focused on sales and marketing of *Campto* and *Elplat*, that are two key drugs for the treatment of colorectal cancer. Consolidated sales in this segment for the fiscal year under review were ¥35.2 billion.

▶ OTHERS

In Others, the Company is involved in the cosmetics business, founded on the beneficial effects of lactobacilli for the skin, as well as management of a professional baseball team, the Tokyo Yakult Swallows Baseball Club, which recently celebrated its 40th anniversary. Consolidated segment sales were ¥14.1 billion for the year.

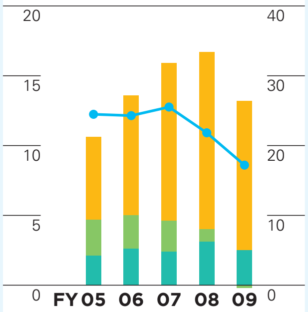
INTERNATIONAL BUSINESS

NET SALES



The Americas · Europe · Asia and Oceania

OPERATING INCOME AND OPERATING MARGIN



Operating income (left scale)
The Americas · Europe · Asia and Oceania
Operating margin (right scale)

Outside Japan, we are developing the Company's Probiotics operations in three regions—the Americas, Europe, and Asia and Oceania, with the goal of establishing Yakult as a truly global brand.

As of March 31, 2009, *Yakult* Probiotic drinks and other products are sold in 31 countries and regions outside of Japan, with an average of 16.6 million bottles of *Yakult* sold per day during the year under review. On a consolidated basis for this same period, the International Business recorded sales volume of 8.4 million bottles per day, and sales of ¥75.5 billion.

▶ THE AMERICAS

This area accounts for the most sales volume on a consolidated basis. In addition to steadily rising sales volumes in Brazil and Mexico, where Yakult has a long-established presence, the Company recently made a full-fledged advance into the United States. In the Americas, consolidated sales for the year were ¥42.4 billion.

OPERATING COUNTRIES AND REGIONS
BRAZIL, URUGUAY, MEXICO, BELIZE, ARGENTINA, U.S.A., CANADA

▶ EUROPE

Retail stores are the center of business activities in Europe, which Yakult entered in the 1990s. Consolidated sales for the region came to ¥12.9 billion for the year.

OPERATING COUNTRIES AND REGIONS
THE NETHERLANDS, BELGIUM, LUXEMBOURG, UNITED KINGDOM, IRELAND, GERMANY, AUSTRIA, ITALY, FRANCE, SPAIN

▶ ASIA AND OCEANIA

Yakult's first foray into the region, and first overseas expansion, was in Taiwan in 1964. More recently, the Company is also developing business in population-rich China, India and Vietnam. In Asia and Oceania, consolidated sales for the fiscal year ended March 31, 2009 were ¥20.2 billion.

OPERATING COUNTRIES AND REGIONS
TAIWAN, HONG KONG, THAILAND, SOUTH KOREA, THE PHILIPPINES, SINGAPORE, BRUNEI, INDONESIA, AUSTRALIA, NEW ZEALAND, MALAYSIA, VIETNAM, INDIA, CHINA

REALIZING OUR VISION BY DEVELOPING PROBIOTICS WORLDWIDE

I have a vision. That vision is to see people everywhere, regardless of their race, wealth, religion or food customs, able to drink *Yakult* every day, and, thanks to their intake of the *Lactobacillus casei* strain Shirota found in *Yakult*, to enjoy healthy and happy lives.

Today, *Yakult* is enjoyed in 32 countries and regions* worldwide, including, of course, in Japan. And while we have encountered many hardships in achieving this expansion, we have continued to operate without ever withdrawing from a single country.

Even in the severe business climate we face today, my commitment to realizing this vision remains unchanged. And I am convinced that while we may move one step at a time, one day we will deliver the benefits of Probiotics to every one of us in the world.

*As of March 31, 2009

▶ **QUESTION 1:**

PRESIDENT HORI, YOU STATED THAT YOUR VISION IS TO SEE PEOPLE EVERYWHERE ENJOY HEALTHY AND HAPPY LIVES THANKS TO THEIR CONSUMPTION OF THE *LACTOBACILLUS CASEI* STRAIN SHIROTA FOUND IN *YAKULT*. WHAT UNIQUE ADVANTAGES DOES YAKULT HAVE THAT WILL HELP YOU REALIZE THIS VISION?

▶ **ANSWER 1:** Yakult has three distinct strengths.

First, the Company has *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, two superior bacterium strains that clinical trials have confirmed are safe and beneficial to human health. The second strength is our "Yakult Lady System," a home-delivery sales channel unique to Yakult that we are developing across the globe. The third is powerful R&D capabilities which, guided by the original vision of Yakult founder Dr. Minoru Shirota, will enable Yakult to broaden its reach even wider in the future. With these three strengths in tow, I am determined to realize my vision.

SUMIYA HORI, President

▶ QUESTION 2:

HOW DO YOU INTEND TO PROMOTE DEVELOPMENT OVERSEAS IN MAKING YOUR VISION A REALITY?

▶ **ANSWER 2:** Right now, our operations in 31 countries and regions outside of Japan focus mainly on the sale of *Yakult*. Achieving my vision, however, calls for accelerating the creation of an operational base for realizing more sustainable growth into the future.

Specifically, our work will entail promoting greater product diversity to further entrench the Yakult brand at business sites where some years have passed since our initial market entry. In countries with large populations like China, India and the U.S., we will promote business expansion in order to create a more solid business base.

While challenges from the surrounding economic climate are mounting, we intend to keep Dr. Minoru Shirota's commitment to helping people everywhere live healthier lives close to heart as we deliver the benefits of Probiotics worldwide.

▶ QUESTION 3:

WHAT BUSINESS INITIATIVES ARE ON THE TABLE FOR THE FISCAL YEAR ENDING MARCH 31, 2010?

▶ **ANSWER 3:** Soaring prices for raw materials in Japan and elsewhere, coupled with the yen's appreciation and other concerns, are leading to an increasingly adverse operating environment for Yakult. In this climate, we will emphasize profit in fiscal 2010 more vigorously than ever before, and take appropriate action.

▶ QUESTION 4:

WHAT SPECIFIC INITIATIVES DO YOU HAVE IN MIND FOR JAPAN?

▶ **ANSWER 4:** First, as a priority measure targeting our Food and Beverages business in Japan, we plan to extend the in-depth work we began in fiscal 2009 to reexamine all operational tasks from every conceivable angle spanning the individual and divisional levels to the companywide level, in a bid to boost our capacity to generate profit.

As part of medium-term initiatives, meanwhile, we will first concentrate on a more narrow range of products. In Probiotic products, for example, we will focus our attention on high-value-added products like the *Yakult 400* series, the expected benefits of which include greater effects on immunity, and *BF-1*, which can help to improve indeterminate gastric complaints. We will also review our allocation of key personnel for product design and production lines for Probiotic products, and take steps to reduce costs related to raw materials and production processes even further. Put differently, we plan to exit from operations where profit generation is low as we take steps to operate with greater focus and selectivity.

At the same time, we will push ahead with modernizing the Group.

On the production side, in April 2009, we began the second stage of construction work called for in our plant realignment plan. This realignment will not only cut production costs, but will allow us to develop a more flexible production framework that can better withstand future changes in our business environment.

On the sales side, we are transitioning to a structure that can continuously raise customer satisfaction by integrating branches and realigning our sales companies.

Similarly, we are eyeing greater rationalization on the logistics and business administration sides of our operations. By combining these short- and medium-term initiatives, we will move steadily to expand earnings.

Another effort is expanding our Pharmaceuticals business, where we specialize in the field of oncology. First, let's talk about *Campto*, the widely used anti-cancer agent invented originally by Yakult. In Japan, competition around this drug is expected to heat up as a stream of generics hit the market. However, we intend to leverage the relationships of trust we've cultivated over the years in providing information to health professionals, *Campto*'s brand strength, and sales activities that promote *Campto*'s use in combination with molecular targeted agents, to realize further sales growth.

For *Elplat*, another anti-cancer drug handled by Yakult in use worldwide, we will promote sales activities that emphasize proper usage of the drug. Moreover, in August 2008, we applied for additional indications for Adjuvant setting (post-operative cancer chemotherapy), and we are working on the necessary preparations so as to be ready for the launch and quick penetration into the market as soon as the approval will be given.

▶ QUESTION 5:

NEXT, WHAT SPECIFIC INITIATIVES ARE ON TAP FOR THE INTERNATIONAL BUSINESS?

▶ ANSWER 5: We technically anticipate lower sales and earnings from the International Business from foreign currency effects. Excluding these effects, however, our plans call for top- and bottom-line growth, and steady expansion for our business sites in every country and region where we operate.

[THE AMERICAS]

Our full-scale advancement into the United States began in California in September 2007. Our current focus in the U.S. is on strengthening our exposure in major supermarkets. In February 2009, we launched sales at large retail group chains, including Wal-Mart and Kroger in the U.S. state of Texas, and Safeway stores in northern California, with sales growing steadily. In Mexico, while there was some concern about the impact of the global economic recession, our sales activities on the ground are holding firm. Our goal for fiscal 2010 is to expand sales in regional areas and enhance our product lineup to record additional growth. And in the robust Brazilian market, we will push ahead with market development to increase sales.

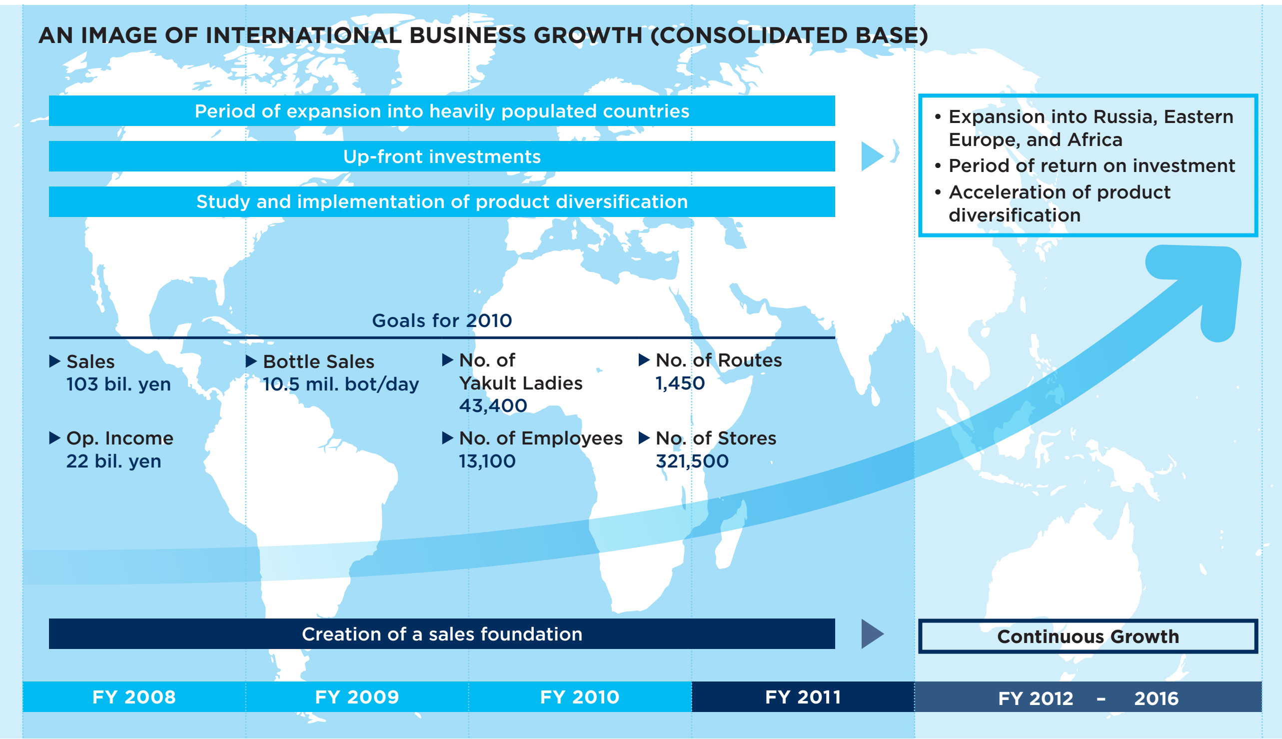
[EUROPE]

Our largest market in Europe is the Netherlands, where sales were significantly damaged by erroneous rumors that emerged in January 2008. With the economic recession, conditions are tough across Europe as a whole. Given this situation, we will go back to square one, extensively promoting activities to raise awareness of Probiotics, and thereby helping Yakult to gain greater market penetration.

[ASIA]

In fast-growing China, we will launch sales in two new areas—Wuhan and Wenzhou—in fiscal 2010. Through our 12-base network consisting of three coordinating offices and nine branches, we intend to push forward with our area expansion strategy to make operations in China profitable. On the production side, along with adding to our production facilities at two plants in Guangzhou and Shanghai, we plan to steadily develop our supply infrastructure by building a third plant in Tianjin in 2011.

In other Asian countries, sales continue to grow smoothly particularly in Indonesia, the Philippines, Malaysia, and Thailand. Encouraged by this, we are planning to enhance our product lineup in Asia as well in fiscal 2010, with the goal of boosting sales.



▶ QUESTION 6:

IN CLOSING, CAN YOU SHARE YOUR THOUGHTS ON SHAREHOLDER RETURNS AND ENHANCING SHAREHOLDER VALUE?

▶ ANSWER 6: Yakult considers the distribution of profits to be an important management policy. Since the fiscal year ended March 31, 2005, as part of a more proactive stance in returning profits to our shareholders, we have been 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.

From fiscal 2009, our priority is to pay a stable but higher dividend to shareholders. To this end, we opted to set the baseline dividend at ¥20 per share. The final amount of the dividend will be determined after considering a comprehensive range of factors, including funds required for future business expansion and earnings improvement, financial position, and business performance for the term.

For fiscal 2009, we will pay an annual dividend of ¥20 per share. This amount includes an initially projected dividend of ¥10 per share of common stock, coupled with an interim dividend already paid of ¥10 per share.

We intend to set dividends for fiscal 2010 based on the same policy mentioned above. The basic dividend is expected to be ¥20, the same as this year, but conditions during the year could potentially raise this amount.

We view ROE as an important management indicator in our business operations. Going forward, we will maintain our ROE-centric approach to management in order to enhance shareholder value.

In closing, I invite you to expect great things from Yakult in the year ahead.

June 2009

堀 澄也

SUMIYA HORI

President

Product Power:

More Than 70 Years of a Global Classic

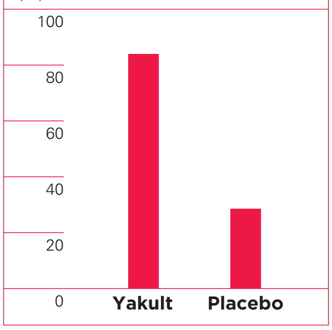
From its founding more than seven decades ago, Yakult has been a leading company in the field of Probiotics, delivering products that contribute to good health. Today, Yakult has expanded beyond food and beverages to play an active part in the pharmaceuticals and cosmetics businesses as well.

THE ORIGINS OF *YAKULT*: *LACTOBACILLUS CASEI* STRAIN SHIROTA

When Dr. Shirota began his medical studies at Kyoto Imperial University in 1921, Japan was still a developing nation where children frequently died from infectious diseases linked to unsanitary conditions. Troubled by this, Dr. Shirota embarked on the study of microorganisms, determined to derive preventive medicine that would help people avoid illness. Having discovered that lactobacilli suppress the number of harmful bacteria in the intestinal tract, he became first in the world to successfully strengthen and cultivate these beneficial bacteria, which are now known as *Lactobacillus casei* strain Shirota.

In 1935 he created the *Yakult* drink to make it easier for people to ingest *Lactobacillus casei* strain Shirota, which is especially beneficial because it reaches the intestines alive. It has now been more than 70 years since Yakult came into being, and it now has a loyal following in 32 countries and regions including Japan. In the years to come, *Yakult* will continue to contribute to the health and happiness of people around the world.

PERCENTAGE OF PEOPLE (IN GERMANY) WHOSE STOOL QUALITY IMPROVED AFTER DRINKING YAKULT



[Source: Köbnick C, et al (2001)]

BUSINESS OPERATIONS UNDERPINNED BY EXTENSIVE QUALITY ASSURANCE

Yakult believes that extensive quality assurance is itself a critical mission in supporting business operations dedicated to contributing to health. Accordingly, Yakult uses the same quality standards for production worldwide, and has put quality assurance mechanisms in place at each production site. The Company also promotes the acquisition of HACCP, ISO 9001 and other certifications.

In addition to these mechanisms, Yakult extensively trains its domestic and overseas workforce—the people ultimately responsible for making sure that these mechanisms work—on the basis that their education is an important element of quality

YAKULT RECEIVES THE GOOD DESIGN AWARD

GOOD DESIGN

Good Design Long Life Design Award

The product *Yakult* received the Fiscal 2008 Good Design Long Life Award sponsored by the Japan Industrial Design Promotion Organization. The current *Yakult* container was created in 1968, with the express purpose of developing a container that would retain its appeal over time, and that would make *Yakult* familiar to most people regardless of age. The container's key feature is its streamlined middle, which makes it easy to hold and encourages flavorful sipping, rather than gulping.

In bestowing the award, the judges raved that the *Yakult* container represents "a design that has permeated the public consciousness to the extent that the word '*Yakult*' at once conjures the image of the product's distinctive shape and taste."

Director	Chizuka Kai, Managing Director, Yakult Honsha Co., Ltd.
Designer	Isamu Kenmochi, Tetsuo Matsumoto, Eiji Fujimoto, Kenmochi Design Associates
In service	1968 / 10

assurance. Through education, Yakult ensures that quality-centric thinking permeates Companywide—from the management team and production line managers, to the Yakult Ladies responsible for sales—and that it remains dedicated to manufacturing retaining this ideal.

OFFERING SUPERIOR PRODUCTS IN PHARMACEUTICALS AND COSMETICS

Food and Beverages is not the only business where Yakult boasts excellent products. In the Pharmaceuticals business, the Company handles two key drugs used in cancer chemotherapy to treat colorectal cancer—*Campto* (international non-proprietary name: irinotecan hydrochloride trihydrate) and *Elplat* (international non-proprietary name: oxaliplatin).

Campto, which was invented and developed by Yakult, is the first commercially available anticancer agent in the world that inhibits topoisomerase I. It has been approved in the United States and the EU as a first-line treatment for colorectal cancer and is sold worldwide. *Elplat* was developed by Debiopharm S.A. of Switzerland as a standard treatment for colorectal cancer. After obtaining an import license, Yakult began marketing the drug in Japan in April 2005, with sales growing steadily ever since. Both *Campto* and *Elplat* are included in the standard treatment regimens for colorectal cancer, and are used widely throughout the world.

In the cosmetics field, Yakult conducts research guided by the slogan "Putting the Power of Lactobacilli to Work for the Skin" to develop and supply cosmetics tailored to the needs of each individual consumer.

ELPLAT

PARABIO (COSMETICS)

The Yakult Lady System:

Everywhere is Local

Yakult supplies its products via two sales channels: home delivery sales by Yakult Ladies, and retail sales via high-volume retailers, vending machines, and other points of sale. Together, these two channels are better than one, creating synergies that underpin Yakult's powerful sales capabilities.

Our unique home delivery system offers opportunities to meet customers face-to-face and explain to them how lactobacilli work to support good health. It also enables customers to experience for themselves the benefits of Yakult products.

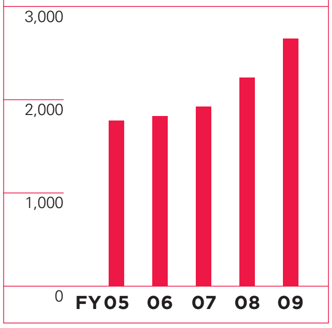
INITIATIVES IN JAPAN

First launched in 1963, Yakult's home delivery system in Japan today boasts some 42,000 Yakult Ladies (as of March 31, 2009).

Over the last several years, sales of Yakult's mainstay Probiotic products have faced persistently harsh conditions due to increased competition, more diverse preferences among customers, and other changes in the business environment. The fiscal year ended March 31, 2007, however, saw a shift in this trend, as modest signs of recovery began to emerge. The driving force behind this turnaround was *Yakult 400*, a product launched in 1999 and available exclusively through home delivery. On a sales volume basis, sales of *Yakult 400*, including other products in the series, rose 16.4% year on year in fiscal 2008. Sales volume was up 18.6% year on year for the fiscal year under review, and is projected to climb 15.4% in fiscal 2010, for an anticipated three consecutive years of double-digit growth. The *Yakult 400* series, in fact, is spearheading sales growth in Probiotic products.

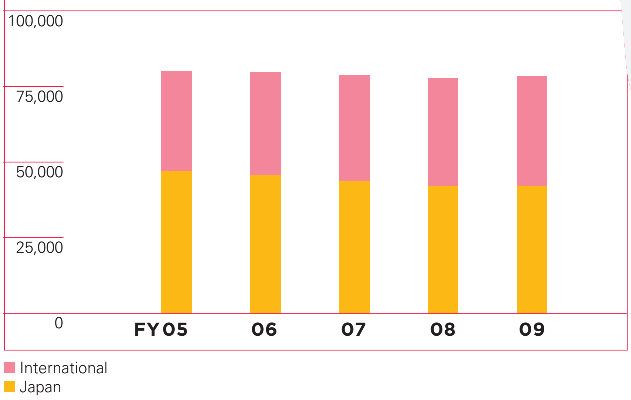
So how is it that a product can boast double-digit growth after nearly a decade on the market? This accomplishment is possible thanks to Yakult's unique sales system, whereby Yakult Ladies talk directly with customers about the advantages of Yakult products, and the wonderful health benefits of *Lactobacillus casei* strain Shirota.

YAKULT 400 SALES VOLUME
(Thousands of bottles/day)



JAPAN

NUMBER OF YAKULT LADIES WORLDWIDE



BELGIUM

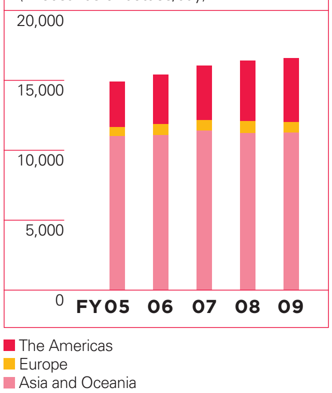
INITIATIVES IN THE INTERNATIONAL BUSINESS

Starting with the launch of its first operations outside Japan in Taiwan in 1964, the Company has since advanced into the Americas, Europe, and Asia and Oceania. Yakult employs home delivery systems in most countries where it operates, and as of March 31, 2009, there were roughly 36,700 Yakult Ladies. Whether it's one of the earliest countries that Yakult entered, or the most recent, the community-based efforts of Yakult Ladies to encourage the spread of *Yakult* is the same everywhere. Thanks to this approach, Yakult has never withdrawn from a single country, and today operates in 32 countries and regions worldwide, including Japan.

In the International Business today, the Company is promoting the "Yakult Penetration & Expansion Plan 45," a medium- to long-term plan that seeks to establish "Yakult" as a truly global brand both as a company and a product. The key objectives of the plan are to develop Yakult business operations in 45 countries and regions, and to leverage Yakult's unique sales system—home delivery via Yakult Ladies—to deliver products to more customers in more countries than ever before.

TOTAL WORLDWIDE SALES VOLUME

(Thousands of bottles/day)



ACTIVITIES SUPPORTING FACE-TO-FACE COMMUNICATION

Yakult approaches communication with customers from a variety of angles, including through promotional campaigns, symposiums and other academic public relations activities, and advertising. The mutual ties between these activities serve to back up the face-to-face communication with customers by Yakult Ladies.

KOREA

Dynamic R&D:

The Wellspring of Future Competitiveness

For Yakult, R&D activities vitally underpin its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.

YAKULT CENTRAL INSTITUTE AND YAKULT HONSHA EUROPEAN RESEARCH CENTER

Located in Kunitachi, Tokyo, since 1967, 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 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 constructing new research facilities for the Yakult Central Institute, with work set to complete in March 2010. We then plan to re-launch the institute as an innovative facility designed with concern for its lush green surroundings

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

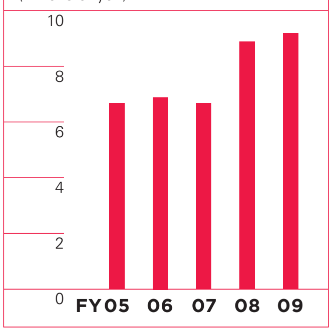
▶ Yakult Central Institute for Microbiological Research

▶ Yakult Honsha European Research Center for Microbiology ESV (YHER), Exterior view of bio-incubator facility located in the Technologiepark
*The YHER is located on the first floor of this building

that allows our researchers to tackle development projects and joint research in a more efficient 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.

RESEARCH AND DEVELOPMENT COSTS
(Billions of yen)



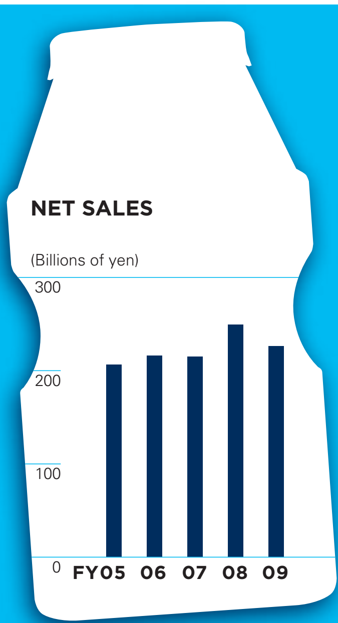
RECENT R&D ACCOMPLISHMENTS

YIF-SCAN CUTTING-EDGE INTESTINAL FLORA ANALYSIS SYSTEM

Yakult, using the Yakult Intestinal Flora Scan, an intestinal flora analysis system it developed, has conducted analyses of the intestinal flora of infants through a molecular biological approach that dispenses with the need for cultivation of flora. This work has revealed the formation process for the bifidobacterium in infants, and shown that this process can be affected by the method of birth delivery (vaginal or Caesarian), nutrition (breastfeeding or formula), and medications taken by the mother. Going forward, expectations are high that fundamental data collected using YIF-SCAN technology will spur greater knowledge on the link between intestinal flora and health.

DISCOVERY OF NEW BACTERIA STRAIN

Use of a molecular biological approach requiring no flora cultivation has enabled highly accurate analysis of intestinal flora. This research has revealed that the human intestinal tract is home to a host of bacteria that have yet to be isolated. In the course of isolating some of these unknown microorganisms, Yakult discovered and named a new flora strain, *Dialister succinatiphilus* sp. nov. This strain of bacteria assimilates succinic acid, a substance thought to negatively impact the intestinal tract. Three other new flora strains were also discovered—*Sutterella parvirubra* sp. nov., *Megamonas funiformis* sp. nov., and *Barnesiella intestinihominis* sp. nov.



JAPAN

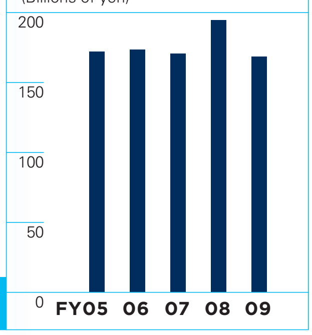
In the Food and Beverages business, while performance in Probiotic products was firm, Juices and Other Beverages struggled amid extremely low demand and increased competition.

In the Pharmaceuticals business, sales grew atop steady performance from Yakult's mainstay anti-cancer drugs *Elplat* and *Campto*.

Overall, sales declined year on year, primarily due to changed fiscal year-ends for domestic consolidated subsidiaries during the previous fiscal year.

FOOD AND BEVERAGES

Yakult *Yakult 400* *BF-1* *Joie*



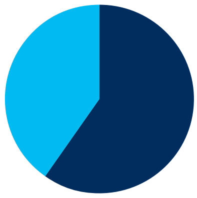
In Probiotic Products, our sales activities in Japan boldly highlighted the health value of *Lactobacillus casei* strain Shirota, which reaches the intestinal tract alive.

By product, sales performance for *Yakult 400* varieties remained robust, rising 18.6% over the previous fiscal year. This included both *Yakult 400* and *Yakult 400LT*, a new, low-calorie addition to the *Yakult 400* series launched in September 2008. The improvement reflected a drive to build trust for these products and a solid customer base through in-depth communication activities comprising face-to-face product explanations and samples given out by Yakult Ladies. Sales were similarly robust for *BF-1*, a Probiotic drink offering new health value, as well as for *Joie*, a series that was revamped and had new items added in October 2008. In June 2008, Yakult launched the sale of *Yakult SHEs*, a Probiotic drink containing collagen and targeted at women. Along with a stronger lineup of products for the retail store channel, we worked in this

▶ JAPAN

BREAKDOWN OF PROBIOTIC PRODUCTS SALES BY CHANNEL

(%)



Sales by Yakult Ladies	59.8
Sales via supermarkets, convenience stores, and other outside channels	40.2

channel to bolster marketing to staff in charge of stores' purchasing and used dedicated promotion staff to highlight the value of *Lactobacillus casei* strain Shirota. Despite struggling performance in other Probiotic products, these efforts lifted sales volume for Probiotic products year on year.

In Juices and Other Beverages, we upgraded our lineup of health and functional food products and strove to bolster sales beginning with the market launch in June 2008 of *Chosei Tonyu Kokusandaizu Shiyo* (Homogenized Soy Milk Using Japanese Soy Beans), a designated food for specified health uses. This was followed in October with the release of *Milouge Ca Plus*, a new addition to the *Milouge* series of lactic drinks. Sales growth, however, faltered as demand in the soft drinks market came largely to a standstill and competition intensified. The result was lower performance in Juices and Other Beverages compared to the previous fiscal year.

From the foregoing factors, consolidated sales in the Food and Beverages segment were ¥168.6 billion.

PHARMACEUTICALS

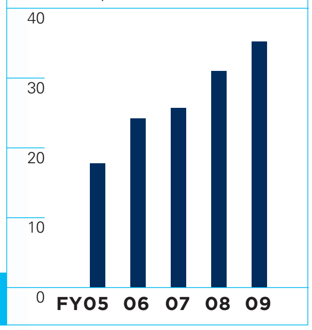
CAMPTO100mg for I. V. infusion

CAMPTO40mg for I. V. infusion

Elplat for injection 100mg

SALES OF PHARMACEUTICALS

(Billions of yen)



Sales of cancer chemotherapeutic agent, *Elplat* grew steadily by emphasizing proper use of it. In January 2009, *Elplat* for *injection 50mg* was launched to disseminate further proper use of *Elplat*. With respect to *Elplat*, supplemental new drug application (sNDA) was submitted in August 2008 to expand its indication to adjuvant setting (post-operative chemotherapy). Furthermore, for ease of preparation of infusion solution purpose, ready to use preparation (solution product) of *Elplat* has been filed to obtain its approval in August 2008. These filing activities will contribute to further sales increase in *Elplat*.

With respect to the other in-house invented cancer chemotherapeutic agent, *Campto*, due to a termination of domestic bulk business, the domestic gross sales of *Campto* were reduced; however, there was a dramatic increase in the bulk sales of *Campto* in the EU.

As a whole, revenue for *Campto* business increased. We remain committed to promoting further sales expansion of *Campto* by leveraging our state-of-the-art capabilities to offer cancer associated information and credibility as an innovative drug manufacturer, and through strong relationships we have developed with medical professionals.

In addition to these two products, we focused on sales expansion of the oral anti-emetic *Sinseron* and the activated folic acid drug *Levofolinate Yakult* to strengthen oncology business.

As far as a new pipeline product is concerned, Yakult has concluded an exclusive license agreement with US company, Celsion Corporation to develop and commercialize a cancer chemotherapeutic agent, *ThermoDox®* in Japan in December 2008. We are planning to complete the necessary clinical development in Japan to obtain the marketing authorization for the treatment of hepatocellular carcinoma and other tumors.

Consequently, consolidated sales in the Pharmaceutical segment became ¥35.2 billion.

EXPANSION OF INDICATIONS AND NEW DRUG DEVELOPMENT PIPELINE

(1) EXPANSION OF INDICATION FOR *CAMPTO*

Type of tumor	Remarks
Pancreatic	Phase II

(2) EXPANSION OF INDICATION FOR *ELPLAT*

Type of tumor	Remarks
Colorectal	Adjuvant setting with FOLFOX4 regimen Filed supplemental new drug application in August 2008
Gastric	Phase II
Pancreatic	Phase II
Biliary tract	Under investigation

(3) ADDITIONS OF POSOLOGY AND PRESENTATION FOR *ELPLAT*

Addition of posology	Addition of presentation
Combination with capecitabine (+bevacizumab) (Filed in February 2008)	Solution product (Filed in August 2008)

(4) NEW DRUG DEVELOPMENT PIPELINE

Product	Indication	Licensor	Co-development partner	Stage	Remarks
① Irinotecan liposome Development code: IHL-305	Solid tumors	In-house	Terumo Corp.	Phase I	Phase I in USA
② Satraplatin Development code: YHI-601	Hormone refractory prostate cancer	GPC Biotech A.G.		Phase I	Under discusson of registration pathway with GPC Biotech
③ ThermoDox Development code: YHI-801	Hepatocellular carcinoma	Celsion Corp., Inc.		Under preparation of development program	Global Phase III by Celsion

(5) NATIONAL HEALTH INSURANCE REINBURSEMENT INFORMATION

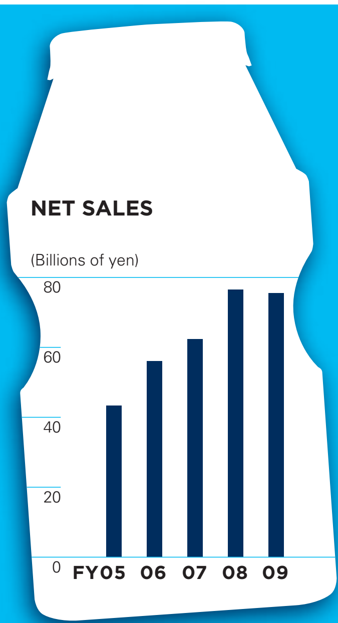
	Since April 2008 (Yen)	As of end of March 2008 (Yen)	Revision rate (%)	Reference
Campto Injection (40mg/Vial)	8,168	8,520	(4.1)	FOLFIRI regimen: About 162,000 Yen/Month*
Campto Injection (100mg/Vial)	18,189	19,022	(4.4)	
Elplat for injection 50mg	38,200	—	—	FOLFOX4 regimen: About 290,000 Yen/Month* mFOLFOX6 regimen: About 291,000 Yen/Month*
Elplat for injection 100mg	70,544	72,768	(3.1)	

*Monthly treatment cost including 5-FU and levofolinate calcium is calculated on an assumption.

(6) PATENT EXPIRATION AND DATA EXCLUSIVITY

	Japan	USA	Europe	Remarks
Campto	Sep. 2007	Feb. 2008	Jul. 2009	Data exclusivity for US and EU
Elplat	Mar. 2013	—	—	Re-examination period (Data exclusivity)

INTERNATIONAL BUSINESS



Sales declined as currency exchange rates shifted in favor of a sharply higher yen. Sales grew steadily, however, in terms of sales volume and on a local currency basis. In particular, growth held firm in Brazil and Mexico in the Americas, which led performance in the International Business.

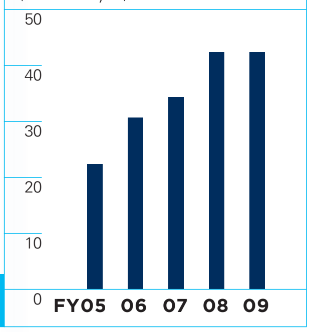
THE AMERICAS

BRAZIL, URUGUAY, MEXICO, BELIZE, ARGENTINA, U.S.A., CANADA

Brazil Mexico Argentina U.S.A.

OVERALL SALES IN THE AMERICAS

(Billions of yen)



In the Americas, we produce and sell *Yakult* Probiotic products in Brazil and Mexico, and import and sell products in Argentina, the United States, and other countries.

The number of bottles of *Yakult* sold has grown steadily in Brazil, Mexico and the United States, lifting sales for the entire Americas region higher year on year on a local currency basis. Upon conversion to yen, however, overall sales for the Americas were lower year on year, reflecting the impact of recent currency exchange rate fluctuations.

In Mexico, along with efforts to solidify our presence in the markets of major cities and more refined area marketing, we are striving to further entrench and expand the Yakult brand in provincial markets. In October 2008, we launched the sale of *Yakult 40LT* (known in Japan as *Yakult 400LT*) and expanded production capacity for *Soful*, a drinkable yogurt product first sold in 2007, as part of efforts to create a base for sales

▶ BRAZIL

growth going forward. As a result, sales volume rose 4.5% year on year to a firm 3,102 thousand bottles a day.

In Brazil, our continued push to develop the market and our steps to create a base for sales expansion lifted sales volume 9.7% year on year to 1,377 thousand bottles a day.

In the United States, sales are growing steadily following our full-scale advance into the U.S. state of California in September 2007 and our efforts to develop the retail store channel.

As a result, consolidated net sales in the Americas were ¥42.4 billion.

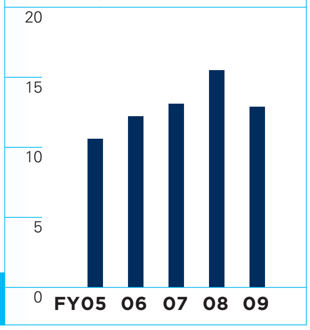
EUROPE

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

The Netherlands | Belgium | United Kingdom | Austria | Italy

OVERALL SALES IN EUROPE

(Billions of yen)



In Europe, we produce and sell *Yakult* Probiotic products in the Netherlands, and we sell *Yakult* products in Belgium, the United Kingdom, Germany, Austria, and Italy, among other countries.

In Italy and Austria, where Yakult arrived only recently, sales grew steadily atop a proactive drive to encourage the market penetration of the Yakult brand. With that said, growth in the Probiotics market has spawned greater competition with other companies across Europe. Coupled with the impact of erroneous information spread by the media in the Netherlands, Europe's largest Probiotics market, and greatly decreased activity in markets across Europe, sales edged slightly lower for the year.

As a result, consolidated net sales in Europe were ¥12.9 billion.

▶ FRANCE

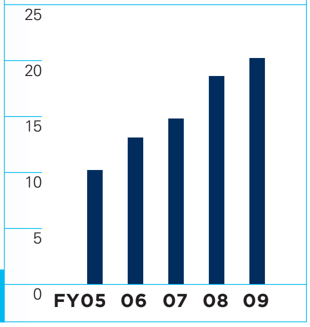
ASIA AND OCEANIA

TAIWAN, HONG KONG, THAILAND, SOUTH KOREA, THE PHILIPPINES, SINGAPORE, BRUNEI, INDONESIA, AUSTRALIA, NEW ZEALAND, MALAYSIA, VIETNAM, INDIA, CHINA

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

OVERALL SALES IN ASIA AND OCEANIA

(Billions of yen)



In Asia and Oceania, we produce and sell *Yakult* Probiotic products primarily in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, and China, with sales growing steadily on a local currency basis.

In China, along with entrenching and expanding our presence in existing markets, we took steps to extend our reach into new cities. This effort included the launch of *Yakult* sales in Ningbo in May 2008, Jinan in July, and Hainan Province in January 2009. Consequently, sales volume in China climbed 42.2% year on year to 944 thousand bottles a day.

In Vietnam, where our efforts began with limited advance sales in Ho Chi Minh City of imported *Yakult* in September 2007, we launched full-scale sales activities following the start of operations at our plant in Vietnam in April 2008. In India, we commenced sales in New Delhi in January 2008.

Consequently, consolidated net sales in Asia and Oceania were ¥20.2 billion.

*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.

▶ CHINA

CORPORATE GOVERNANCE

1. BASIC STANCE

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

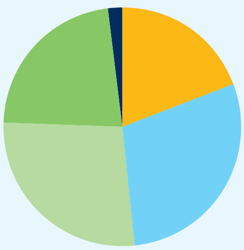
In pursuing our corporate philosophy, "we contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular," our belief is that it is important to implement transparent management 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, 2009)



Japanese financial institutions	**19.23%**
Japanese securities companies	**0.17%**
Other Japanese corporations	**28.96%**
Foreign institutions and others	**27.22%**
Japanese individuals and others	**22.53%**
Treasury stock	**1.88%**

MAJOR SHAREHOLDERS

(As of March 31, 2009)

	Percentage of Total Shares Issued
MLPFS NOMINEE· DANONE ASIA HOLDINGS PTE. LTD.	20.02%
Matsusho Co., Ltd.	6.55
Fuji Television Holdings, Inc.	3.69
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	3.01
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
Japan Trustee Services Bank, Ltd. (Trust Account)	2.38
Kyoshinkai	2.27
Nippon Life Insurance Company	1.66
Kirin Beverage Corporation	1.40
Mizuho Bank, Ltd	1.24

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 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 24, 2009)

Name	Relationship to the Company	Reason for Appointment as Outside Director
Jacques Vincent	Vice Chairman and President of the Strategic Committee DANONE S.A.	Appointed to contribute to further improving management by drawing on his extensive overseas business experience to offer appropriate advice on all aspects of management from a broad perspective.
Sven Thormahlen	Executive Vice President Research and Development DANONE S.A.	Same as above
Ryuji Yasuda	Professor, International Business Strategy, Graduate School of International Corporate Strategy, Hitotsubashi University	Appointed to offer recommendations on all aspects of management based on a specialist perspective gained through a broad range of past experience, including positions as a university professor and a consultant.
Richard Hall	President, DANONE Waters of Japan Co., Ltd.	Appointed to contribute to further improving management by drawing on his extensive overseas business experience to offer appropriate advice on all aspects of management from a broad perspective.

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 24, 2009)

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, Yakult Nishi Shizuoka 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, Yakult Kobe Sales Co., Ltd.	Same as above

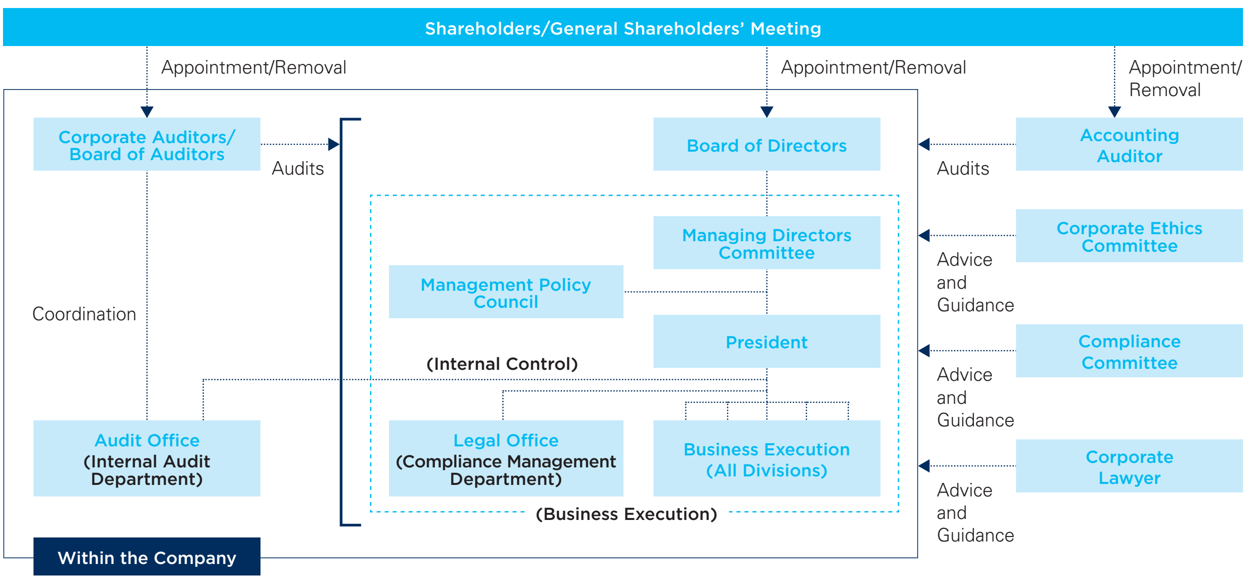
INTERNAL AUDITS

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 a thirteen-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 Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and 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 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 24, 2009)

PRESIDENT

SUMIYA HORI

DIVISIONAL GENERAL MANAGERS

KIYOSHI TERADA
Divisional General Manager of Pharmaceutical Business Division

YOSHIHIRO KAWABATA
Divisional General Manager of International Business Division

TSUYOSHI KINUGASA
Divisional General Manager of Management Support Division

CHIZUKA KAI
Divisional General Manager of Research & Development Division, and Production Division

TAKASHIGE NEGISHI
Divisional General Manager of Administrative Division

YASUFUMI MURATA
Divisional General Manager of Cosmetic Business Division

MASAHIRO NEGISHI
Divisional General Manager of Food and Beverages Business Division

President

Sumiya Hori

Senior Managing Directors

Kiyoshi Terada*
Yoshihiro Kawabata*
Tsuyoshi Kinugasa*
Chizuka Kai*
Takashige Negishi*

Managing Directors

Yasufumi Murata*
Masahiro Negishi*

Directors

Shigeyoshi Sakamoto
Hiroshi Narita
Haruji Sawada
Akinori Abe
Kenichi Shiino
Yoshiaki Tanaka
Kiyotaka Kikuchi
Hiroshi Wakabayashi
Masaki Tanaka
Fumiyasu Ishikawa
Jacques Vincent
Sven Thormahlen
Ryuji Yasuda
Richard Hall
Shouji Ikegami
Masayuki Takemura
Toshihiro Araki
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

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

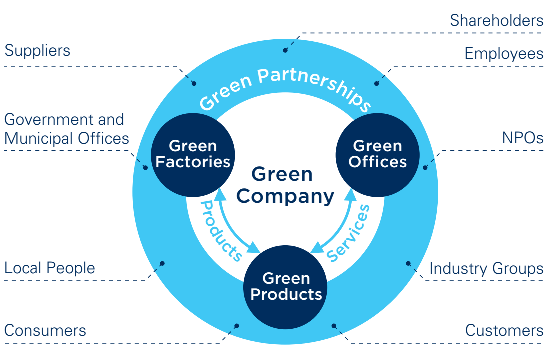
Yakult first established an internal organization dedicated to preserving the global environment back in November 1991. This was followed in June 1997 by the creation of the "Yakult Basic Policy on the Environment," which encompasses the entire Group. Guided by the environmental philosophy and directives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

From the year ended March 31, 2009, Yakult joined "Team Minus 6%." This domestic project, promoted by Japan's Ministry of the Environment, seeks to help Japan meet its greenhouse gas reduction commitment of 6% stipulated in the Kyoto Protocol. In conjunction, Yakult has begun to actively adopt solar, wind and other renewable energies. We have also enacted a Group-wide environmental preservation campaign designed to raise the environmental awareness of everyone involved with the Yakult Group. In addition, Yakult has taken measures to reduce greenhouse gases in its dairy product plants and logistics operations, and to ensure zero emission of waste, with successful results.

YAKULT ECO VISION 2010



- 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**

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.

▶ Courtesy Visit Activities

▶ Yakult Crime Prevention Patrols

▶ Health Maintenance Advocacy Meeting

COMMUNITY ACTIVITIES

INITIATIVES BY THE YAKULT LADIES

Since 1972, the Yakult Ladies have been carrying out "Courtesy Visit Activities," which entail checking on the well-being of elderly people in their area who live alone and chatting with them while delivering their products. In September 2008, as part of this initiative, the Yakult Ladies presented elderly people living alone with flowers and a message card, the fourth instance of a program in collaboration with local governments that began in fiscal 2006 as part of events marking YAKULT HONSHA's 70th anniversary. 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.

The Yakult Ladies also contribute to safety and peace of mind in local communities by organizing crime prevention patrols and maintaining contact with the police and local governments.

PUBLIC ACCESS TO PLANTS

In order to deepen understanding of Yakult's products and the Group's commitment to environmental awareness and safe, reliable products, we conduct tours of YAKULT HONSHA and other Group company plants. In fiscal 2009, tours were held at all domestic plants, with participation by approximately 180 thousand members of the public. Plant tours also take place at nearly all overseas plants.

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 sampling, while enjoying refreshment stands, movie screenings, and other attractions. In fiscal 2009, a total of about 20 thousand people participated in these festivals.

PROMOTING GOOD HEALTH

To mark World Health Day each year on April 7, Yakult co-sponsors a Health Maintenance Advocacy Meeting with the Japan Dietetic Association, held in Yakult Hall. In 2008, the 29th year of the program, the theme of the meeting was food education and food environments, a topic of rapidly growing interest to society. In total, the event was attended by approximately 450 nutritionists and others with a strong interest in health.

Also in April 2008, Yakult organized the 21st Century Food and Health Forum, which it sponsors. The theme of the forum, now in its eighth year, was " Dietary Habits that Strengthen the Intestinal Tract: Immunity and Probiotics." Around 1,300 participants came to the event 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 life-long form of exercise for everybody, regardless of 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, 2009, 2008, 2007, 2006 and 2005

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2008	**2009**	**2009**
For the year:						
Net sales	¥ 247,506	¥ 267,707	¥ 273,100	¥ 317,335	**¥ 293,490**	**$2,994,797**
Selling, general and administrative expenses	118,740	122,827	124,110	146,693	**138,113**	**1,409,322**
Operating income	18,125	21,754	23,893	22,502	**16,744**	**170,855**
Net income	14,105	14,442	14,806	16,675	**11,325**	**115,556**
Research and development costs	6,775	6,966	6,745	8,952	**9,248**	**94,368**
Capital investments	7,864	11,652	16,786	28,973	**27,967**	**285,379**
Depreciation and amortization	8,040	8,407	9,025	12,054	**18,571**	**189,498**
At the year-end:						
Total assets	¥ 293,922	¥ 328,619	¥ 354,539	¥ 384,569	**¥ 361,902**	**$3,692,875**
Net property, plant and equipment	86,830	92,269	101,590	116,078	**131,321**	**1,340,010**
Total liabilities	83,504	88,345	93,334	118,566	**134,936**	**1,376,897**
Total shareholders' equity	196,023	220,701				
Total equity			261,205	266,003	**226,966**	**2,315,978**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 79.67	¥ 81.67	¥ 84.93	¥ 95.93	**¥ 65.75**	**$ 0.67**
Total equity (Note 3)	1,123.03	1,264.65	1,356.68	1,376.41	**1,195.60**	**12.20**
Cash dividends applicable to the year	17.50	16.00	18.00	20.00	**20.00**	**0.20**
Financial ratios:						
Return on equity (ROE) (%)	7.4	6.9	6.5	7.0	**5.1**	
Equity ratio (%)	66.7	67.2	66.6	61.7	**56.8**	

Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥98 to U.S.$1, the approximate rate of exchange at March 31, 2009.
3. Minority interests are not included in equity on process of calculation.

FINANCIAL SECTION

▶ CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In fiscal 2009, ended March 31, 2009, an adverse climate surrounded the Japanese economy, which saw economic conditions continue to rapidly deteriorate. Among other factors, the economy was impacted by a sharp drop in corporate earnings due mainly to high prices for crude oil and raw materials, coupled with falling share prices and the yen's steady appreciation triggered by the global financial crisis centered on the United States. The subsequent employment uncertainty and decline in personal incomes culminated in weak consumption.

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.

Despite these repeated efforts, consolidated net sales declined 7.5% from the previous fiscal year, to ¥293.5 billion, due in part to the erosion in sales when converted into yen as a result of the impact of foreign currency fluctuations. Operating income declined 25.6%, to ¥16.7 billion, primarily from the effects of high prices for raw materials. The operating margin retreated 1.4 percentage points year on year, to 5.7%. Consequently, net income decreased 32.1%, to ¥11.3 billion, and the return on net sales was 3.9%, down 1.4 percentage points from the previous fiscal year.

SALES, COSTS, EXPENSES AND EARNINGS

SALES

Net sales fell 7.5%, to ¥293.5 billion. Despite brisk sales of the anticancer drug *Elplat* in the Pharmaceuticals segment, this outcome was largely due to the absence of the boost from a change in fiscal year-end for domestic consolidated subsidiaries in fiscal 2008. Looking at net sales by industry segment, Food and Beverages accounted for 83.2% of sales, or 2.2 points lower than in the previous fiscal year. Pharmaceuticals generated 12.0%, up 2.2 percentage points year on year; and Others contributed 4.8%, unchanged from a year earlier.

Sales overseas amounted to ¥75.5 billion, declining ¥1.0 billion year on year. The contribution of overseas sales to total Group net sales rose 1.6 percentage points, to 25.7%.

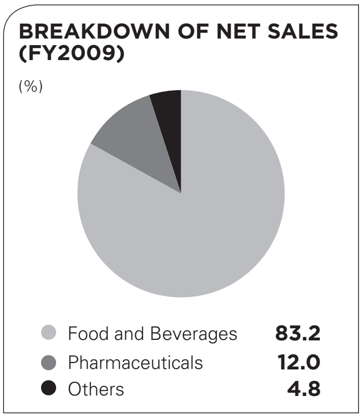
In the Americas, sales on a yen basis were flat, at ¥42.4 billion. On a local currency basis, sales rose because of sales growth in Brazil and Mexico and Yakult's steady advancement into the U.S. market. This growth was cancelled out, however, upon conversion into yen due to exchange rate volatility. In Asia and Oceania, sales climbed 9.1%, to ¥20.2 billion, supported by steady sales growth in China and other key countries and regions. In contrast, sales in Europe declined 16.8% to ¥12.9 billion, reflecting an adverse climate resulting from several factors, including reputation damage from malicious rumors spread during the previous fiscal year, the global economic recession, and intensifying competition.

COSTS, EXPENSES AND EARNINGS

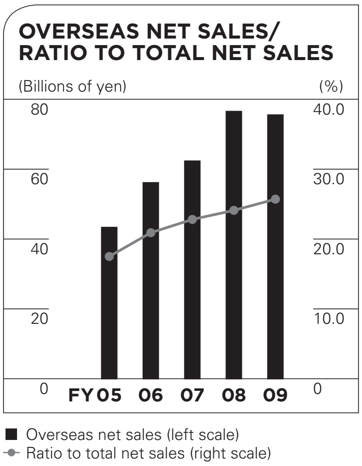
Consolidated cost of sales contracted 6.4%, to ¥138.6 billion. As a result, the cost of sales ratio rose 0.5 of a percentage point, to 47.2%. Gross profit decreased 8.5%, to ¥154.9 billion, and the gross profit margin fell 0.5 of a percentage point, to 52.8%.

Selling, general and administrative (SG&A) expenses declined 5.8%, to ¥138.1 billion. This decrease resulted mainly from a drive to cut advertising and sales promotion costs. This decrease, however, was insufficient to cover the decline in sales. Consequently, the SG&A expense ratio increased 0.9 of a percentage point, to 47.1%. R&D expenses edged up ¥0.3 billion year on year, to ¥9.2 billion. As a percentage of net sales, R&D expenses increased 0.4 of a percentage point, to 3.2%.

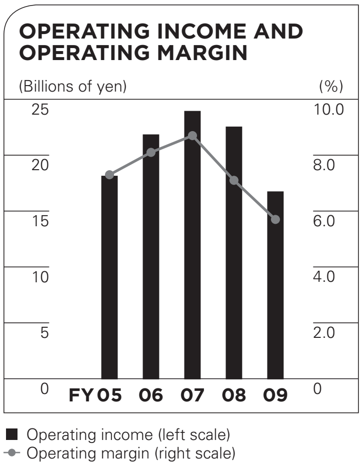
BREAKDOWN OF NET SALES (FY2009)



OVERSEAS NET SALES/ RATIO TO TOTAL NET SALES



OPERATING INCOME AND OPERATING MARGIN



As a result, operating income declined 25.6%, to ¥16.7 billion, and the operating margin fell 1.4 percentage points, to 5.7%.

Net other expenses amounted to ¥3.6 billion. Expenses reflected mainly the combination of a valuation loss on investment securities and a provision for loss on plants reorganization, as well as lower pharmaceutical royalty income and equity in earnings of associated companies.

Income taxes came to negative ¥2.6 billion, largely due to the reversal of deferred tax liabilities.

As a result, net income decreased 32.1%, to ¥11.3 billion, and the return on net sales declined 1.4 percentage points, to 3.9%.

OVERVIEW BY BUSINESS SEGMENT

FOOD AND BEVERAGES: Consolidated sales in the Food and Beverages segment, both in Japan and overseas, declined 9.9% compared to the previous fiscal year, to ¥244.2 billion, while operating income decreased 26.4%, to ¥17.1 billion.

In Probiotic products, we pursued marketing operations driven by 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 launched sales in September 2008 of *Yakult 400LT*, a less sweet and lower calorie addition to our fermented milk drink series *Yakult 400*, and worked to solidify our customer base using sales activities around both *Yakult 400* series products that get people to try our products through samples or trial use. As a result, daily average sales volume of *Yakult 400* considerably surpassed sales in the previous fiscal year, rising 18.6%.

Sales of *BF-1*, a Probiotic product delivering a new type of value to customers, were also far higher than in the previous year. This improvement reflected expansion in sales regions for the product, and sales activities that took advantage of *BF-1*'s unique effects to encourage people to try the product through samples or trial use.

In our retail store channel, sales of the fermented milk drink *Yakult* also exceeded those of last year, as we strengthened field sales in stores and sales promotion staff vigorously promoted the value of *Lactobacillus casei* strain Shirota at stores. In June 2008, we launched sales of the fermented milk drink *Yakult SHEs*, in a bid to further enhance the Yakult brand. In October, we added new items to our *Joie* line of drinkable yogurt and revamped existing products, together with a TV ad campaign, as part of efforts to draw in new customers.

Despite these actions, the overall performance in Probiotic products was essentially flat year on year because sales in other Probiotic products struggled.

In juices and other beverages, we reinforced our lineup of health and functional food products beginning with the sale in June 2008 of *Chosei Tonyu Kokusandaizu Shiyo* (Homogenized Soy Milk Using Japanese Soy Beans), a designated food for specified health uses. This was followed in October with the release of *Milouge Ca Plus*, a calcium-enhanced addition to the *Milouge* series of Lactic Drinks.

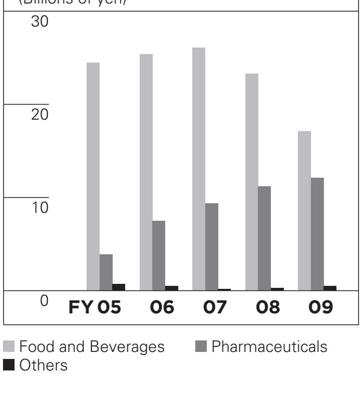
However, sales growth in other products faltered despite efforts to enhance sales as demand in the soft drinks market cooled. The result was lower performance overall in juices and other beverages compared to the previous fiscal year.

Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 31 countries and regions outside Japan including those in which test sales are being conducted, and are centered on 27 business bases and 1 research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Daily average overseas sales of all Yakult products were approximately 16.59 million bottles in fiscal 2009, up 1.7% year on year.

In Asia and Oceania, we commenced sales of *Yakult Ace Light* in Malaysia in January 2009. In China, we continued to steadily expand our sales area, particularly in the eastern part of the country, launching sales in Qingdao, Jinan,

OPERATING INCOME BY BUSINESS SEGMENT

(Billions of yen)



Ningbo, and Hainan Province. To supply products to northern China, we established a production company (Tianjin Yakult Co., Ltd.) in the city of Tianjin, where preparations are underway to commence production in 2011.

In the Americas, in October 2008, we began selling *Yakult* in the Central American state of Belize, and launched sales of *Yakult 40LT* (*Yakult 400LT* in Japan) in Mexico. In the United States, we commenced sales of *Yakult* in the U.S. state of Texas in February 2009, working to increase the market penetration of the Yakult brand.

PHARMACEUTICALS: Boosted by growth in both domestic and overseas sales, consolidated sales in the Pharmaceuticals segment climbed 13.7%, to ¥35.2 billion. Operating income increased 8.5%, to ¥12.1 billion.

In Japan, we developed sales activities by putting the greatest priority on promoting the correct use of the cancer drug *Elplat*, which included the launch of *Elplat for Injection 50mg* in January 2009. Similarly, attention was given to enhancing Yakult's specialization in the oncology field and expanding sales channels through products such as chemotherapy drug *Campto*, oral antiemetic *Sinseron*, and activated folic acid drug *Levofolinate Yakult* in a bid to boost sales.

For *Elplat*, we made preparations to expand sales channels further by applying in August 2008 for an additional efficacy indication for its use in supplemental chemotherapy following surgery for colon cancer, as well as recognition of an easier to administer water-soluble version of the drug.

Meanwhile, to secure our future pipeline of new drugs, in December 2008 we signed a licensing agreement with U.S.-based Celsion Corporation that will give Yakult exclusive rights to the chemotherapy drug *ThermoDox®* in Japan.

Overseas, the market share for *Campto Injection* (branded overseas as *Camptosar*) contracted due to the sale of generics. Accordingly, we endeavored to enhance our price competitiveness, and thereby maintain and recover market share, by assuming a more flexible stance regarding supply pricing for *Campto Injection* original formula, based on the prevailing market situation.

In contrast, sales of *Campto Injection* remained brisk in key countries in Europe owing to the continuation of our priority rights there. We also sought to differentiate ourselves from generic products in certain European countries by switching over to shockproof plastic vials.

OTHERS: Consolidated sales in the Others segment fell 7.5%, to ¥14.1 billion, but operating income surged 84.1%, to ¥0.5 billion.

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

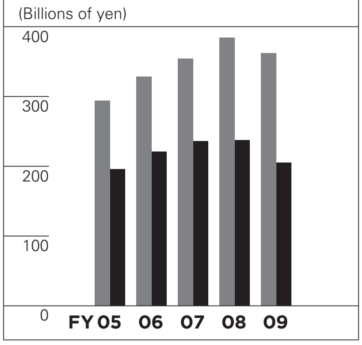
In cosmetics operations, we promoted sales activities based on home visits to counsel customers on cosmetics, with an emphasis on basic skin care products. Particularly for the advanced series of our core brand *Parabio*, we proposed options for encouraging skin regeneration, recommending total skin care for customers in the anti-aging care generations.

In a breakdown by product, we remarketed our mainstay *Revecy* brand as a new series that embodies "preventive beauty," supplementing the lineup from October 2008 with the successive launch of 4 basic care products, 4 special care products, and 3 fresh products.

These efforts notwithstanding, overall performance in cosmetics was virtually unchanged year on year, largely due to an adverse sales climate for products outside of basic skincare.

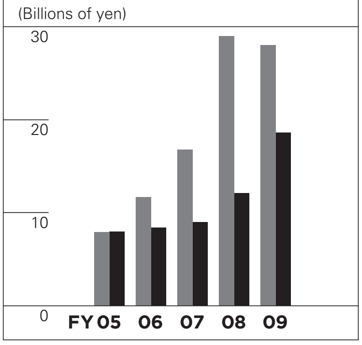
In our professional baseball operations, we faced a tough business environment as attendance at Yakult-sponsored games struggled during the year. Poor attendance persisted despite our conducting various campaigns and community events, and efforts to proactively provide services for fans and information. The situation was exacerbated by declines in advertising and broadcasting revenues.

TOTAL ASSETS AND EQUITY (Excluding Minority Interests)



■ Total assets
■ Equity (excluding minority interests)

CAPITAL INVESTMENTS AND DEPRECIATION AND AMORTIZATION



■ Capital investments
■ Depreciation and amortization

FINANCIAL POSITION

Total assets at year-end amounted to ¥361.9 billion, declining 5.9% year on year. Current assets decreased ¥22.3 billion from the prior fiscal year-end, to ¥162.4 billion, principally due to declines in cash and cash equivalents from the impact of currency exchange rates, and lower inventories of the parent company. Net property, plant and equipment rose ¥15.2 billion, to ¥131.3 billion. This was primarily because of an increase in lease assets. Investments and other assets decreased ¥15.7 billion, to ¥68.2 billion, mainly because of decreases in investment securities and investments in and advances to unconsolidated subsidiaries and associated companies.

In the fiscal year under review, capital investments fell 3.5%, to ¥28.0 billion.

Total liabilities grew 13.8%, to ¥134.9 billion. The major components of the increase were a rise in short-term bank loans of the parent company and growth in long-term debt due to changes in lease accounting standards. As a result, interest-bearing debt climbed ¥22.7 billion from the previous fiscal year, to ¥56.8 billion, while the debt-to-equity ratio worsened 13.2 percentage points, to 27.6%.

Equity (excluding minority interests) declined 13.3% to ¥205.6 billion, from ¥237.3 billion a year earlier. This decrease was primarily due to decreases in foreign currency translation adjustments and unrealized gain on available-for-sale securities.

As a result, the equity ratio declined 4.9 percentage points, to 56.8%. Return on equity (ROE) decreased 1.9 percentage points, to 5.1%, principally due to lower net income for the year. Return on assets (ROA) fell 1.6 percentage points, to 4.5%.

CASH FLOWS

Net cash provided by operating activities was up ¥12.4 billion from the previous year, to ¥37.6 billion. The improvement primarily resulted from an increase in depreciation and amortization and a decrease in inventories, which outweighed the impact of lower income before income taxes and minority interests.

Net cash used in investing activities decreased ¥9.4 billion, to ¥25.0 billion. Cash was mainly used for purchases of property, plant and equipment.

Net cash used in financing activities was ¥3.2 billion, representing a change of ¥17.7 billion from the net cash provided in the previous fiscal year. This change can mainly be attributed to the repayment of lease obligations and the payment of dividends.

As a result, cash and cash equivalents at year-end amounted to ¥62.7 billion, a net decrease of ¥12.2 billion from the previous fiscal year-end.

DIVIDENDS

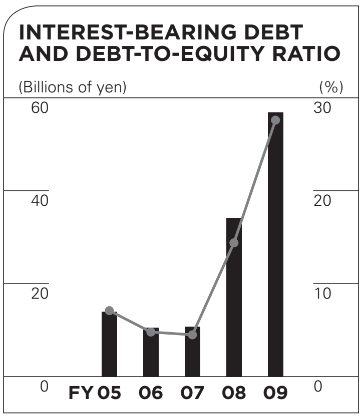
We regard profit distribution as an important part of our basic management strategy. In the year ended March 31, 2005, we took a more proactive stance on profit sharing by moving to a policy that takes fiscal year performance into account but remains primarily focused on maintaining stable dividends.

From the fiscal year under review, we plan to give top priority to the payment of a higher and stable dividend to shareholders by setting the annual dividend at a base of ¥20.0 per share. The total dividend paid will be based on business performance for the year, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as financial position.

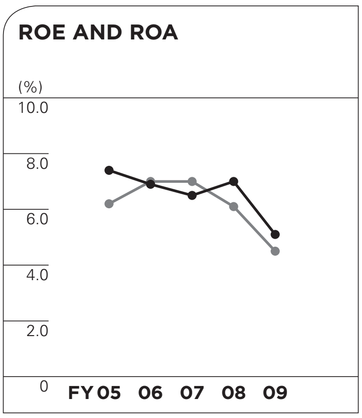
We will pay an annual dividend of ¥20.0 per share for fiscal 2009, as initially forecast. This dividend will consist of a standard year-end dividend of ¥10.0 per share, together with an earlier paid interim dividend of ¥10.0 per share.

In line with the aforementioned policy, we plan to pay a dividend of ¥20.0 per share for fiscal 2010, the same as in fiscal 2009.

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

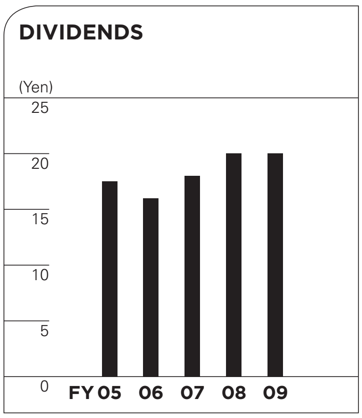


■ Interest-bearing debt (left scale)
-•- Debt-to-equity ratio (right scale)



-•- ROE
-•- ROA

Note: ROA is calculated based on operating income.



FORWARD-LOOKING STATEMENTS

FOOD AND BEVERAGES

In our Probiotics business, we will spread the word about Yakult's founding concepts of preventive medicine and the link between a healthy intestinal tract and a long life.

Specifically, in our home delivery channel, as in fiscal 2009, we will continue sales promotion activities built around our *Yakult 400* products. In addition, we will steadily expand the sales areas for *BF-1*, which has seen favorable performance thus far.

In our retail store channel, we will continue to concentrate on sales of *Yakult*, promoting the introduction of new products (*Yakult* series) and the renewal of existing brands.

In juices and other beverages, we will aim to reinforce our brand power by renewing existing products with healthcare functions to revitalize core brands. Other actions will include building a stronger product lineup that will boost growth in sales per vending machine.

Overseas, we will develop operations with "Yakult Penetration & Expansion Plan 45," our medium- to long-term plan for the international business, as a guiding framework.

In countries where Yakult has already made inroads, our goal is to continue to strengthen the base for stable growth by expanding sales areas, and boosting sales in existing sales areas. In countries where sales have recently commenced, namely Vietnam, India, China and the United States, we will establish the marketing bases necessary to promote business growth.

Decisions regarding new countries and regions to advance operations in will be made following careful consideration of our internal and external business climate.

PHARMACEUTICALS

In Japan, we will continue to 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 a higher market share for activated folic acid drug *Levofolinate Yakult*, and further concentrate our efforts on sales activities that focus on the cancer field.

Regarding *Elplat*, we will further encourage proper usage of this drug through promotional activities targeting *Elplat for Injection 50mg* launched in January 2009. For *Campto Injection*, we will endeavor to bolster sales ahead of the projected entry of generic products in May 2009.

Overseas, we will endeavor to maintain the price competitiveness of *Campto Injection* (*Camptosar* overseas) in the U.S. and European markets by being flexible with supply prices for the original formulation of this drug in response to the start of price competition from generic product sales. In certain European and South American countries, we will strive 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 revitalize marketing activities, taking steps to create the required business organization for sales with a focus on cosmetics counseling home visits, and a related customer base. At the same time, another aim will be to differentiate Yakult from its competitors by making a strong appeal for the concept of "Converting Lactobacillus Power into Skin Power."

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, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 62,666**	¥ 74,895	**$ 639,443**
Time deposits (Note 5)	**3,687**	6,537	**37,620**
Receivables:			
Notes and accounts receivable	**45,766**	46,216	**466,999**
Unconsolidated subsidiaries and associated companies	**2,933**	3,108	**29,935**
Other	**4,588**	5,372	**46,815**
Inventories (Note 3)	**31,215**	34,880	**318,522**
Deferred tax assets (Note 8)	**7,588**	6,450	**77,430**
Other current assets	**4,519**	8,274	**46,113**
Allowance for doubtful accounts	**(559)**	(1,073)	**(5,708)**
Total current assets	**162,403**	184,659	**1,657,169**
Property, plant and equipment:			
Land (Note 5)	**35,658**	33,303	**363,860**
Buildings and structures (Note 5)	**86,560**	87,343	**883,261**
Machinery, equipment and vehicles	**89,214**	97,558	**910,352**
Furniture and fixtures	**16,402**	16,343	**167,363**
Lease assets (Note 9)	**20,456**		**208,740**
Construction in progress	**9,027**	4,770	**92,111**
Total	**257,317**	239,317	**2,625,687**
Accumulated depreciation	**(125,996)**	(123,239)	**(1,285,677)**
Net property, plant and equipment	**131,321**	116,078	**1,340,010**
Investments and other assets:			
Investment securities (Note 4)	**22,614**	32,939	**230,753**
Investments in and advances to unconsolidated subsidiaries and associated companies	**28,532**	37,454	**291,147**
Long-term loans	**628**	710	**6,403**
Goodwill	**722**	1,164	**7,371**
Deferred tax assets (Note 8)	**5,997**	1,799	**61,198**
Other assets	**9,685**	9,766	**98,824**
Total investments and other assets	**68,178**	83,832	**695,696**
Total	**¥ 361,902**	¥ 384,569	**$ 3,692,875**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 36,203**	¥ 28,643	**$ 369,422**
Current portion of long-term debt (Note 5)	**5,948**	949	**60,698**
Payables:			
Notes and accounts payable	**22,820**	23,769	**232,861**
Unconsolidated subsidiaries and associated companies	**155**	250	**1,578**
Other	**8,309**	9,477	**84,782**
Income taxes payable	**1,175**	1,553	**11,986**
Accrued expenses	**13,452**	14,708	**137,262**
Allowance for loss on plants reorganization	**1,027**	516	**10,480**
Deferred tax liabilities (Note 8)	**42**	599	**435**
Other current liabilities	**4,496**	8,527	**45,877**
Total current liabilities	**93,627**	88,991	**955,381**
Long-term liabilities:			
Long-term debt (Note 5)	**14,647**	4,473	**149,453**
Liability for retirement benefits (Note 6)	**16,728**	17,024	**170,689**
Allowance for loss on plants reorganization	**2,095**		**21,377**
Deferred tax liabilities (Note 8)	**2,423**	5,534	**24,728**
Other long-term liabilities	**5,416**	2,544	**55,269**
Total long-term liabilities	**41,309**	29,575	**421,516**
Commitments and contingent liabilities (Notes 9 and 11)			
Equity (Notes 7 and 13)**:**			
Common stock—			
authorized, 700,000,000 shares;			
issued, 175,910,218 shares in 2009 and 2008	**31,118**	31,118	**317,527**
Capital surplus	**41,136**	40,956	**419,754**
Retained earnings	**178,214**	172,273	**1,818,518**
Unrealized gain (loss) on available-for-sale securities	**(1,441)**	193	**(14,701)**
Foreign currency translation adjustments	**(34,426)**	323	**(351,285)**
Treasury stock—at cost			
3,906,594 shares in 2009 and 3,518,520 shares in 2008	**(8,953)**	(7,582)	**(91,361)**
Total	**205,648**	237,281	**2,098,452**
Minority interests	**21,318**	28,722	**217,526**
Total equity	**226,966**	266,003	**2,315,978**
Total	**¥361,902**	¥384,569	**$3,692,875**

CONSOLIDATED STATEMENTS OF INCOME

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net sales	**¥293,490**	¥317,335	**$2,994,797**
Cost of sales (Notes 6, 9 and12)	**138,633**	148,140	**1,414,620**
Gross profit	**154,857**	169,195	**1,580,177**
Selling, general and administrative expenses (Notes 6, 9 and12)	**138,113**	146,693	**1,409,322**
Operating income	**16,744**	22,502	**170,855**
Other income (expenses):			
Interest and dividend income	**3,654**	3,929	**37,289**
Interest expense	**(920)**	(305)	**(9,393)**
Royalty income	**494**	2,560	**5,046**
Foreign exchange gain	**2,676**	216	**27,301**
Equity in earnings of associated companies	**1,451**	3,219	**14,807**
Legal settlement		1,962	
Valuation loss on investment securities	**(7,996)**		**(81,595)**
Provision for loss on plants reorganization	**(2,911)**	(273)	**(29,702)**
Other—net	**(46)**	236	**(468)**
Other income (expenses)—net	**(3,598)**	11,544	**(36,715)**
Income before income taxes and minority interests	**13,146**	34,046	**134,140**
Income taxes (Note 8):			
Current	**5,309**	5,491	**54,172**
Deferred	**(7,952)**	7,660	**(81,142)**
Total income taxes	**(2,643)**	13,151	**(26,970)**
Minority interests in net income	**4,464**	4,220	**45,554**
Net income	**¥ 11,325**	¥ 16,675	**$ 115,556**

Per share of common stock (Note 2 (O)):	Yen		U.S. dollars (Note 1)
Basic net income	**¥65.75**	¥95.93	**$0.67**
Cash dividends applicable to the year	**20.00**	20.00	**0.20**

Diluted net income per share of common stock for 2009 and 2008 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, 2009 and 2008

	Thousands	Millions of yen								
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
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
Adjustment of retained earnings due to the adoption of PITF No.18 (Note 2 (B))				**(1,505)**				**(1,505)**		**(1,505)**
Net income				**11,325**				**11,325**		**11,325**
Cash dividends, ¥22.5 per share				**(3,879)**				**(3,879)**		**(3,879)**
Disposal of treasury stock	**180**		**180**				**179**	**359**		**359**
Repurchase of treasury stock	**(6)**						**(14)**	**(14)**		**(14)**
Other increase in treasury stock	**(562)**						**(1,536)**	**(1,536)**		**(1,536)**
Net change in the year					**(1,634)**	**(34,749)**		**(36,383)**	**(7,404)**	**(43,787)**
Balance, March 31, 2009	**172,004**	**¥31,118**	**¥41,136**	**¥178,214**	**¥(1,441)**	**¥(34,426)**	**¥(8,953)**	**¥205,648**	**¥21,318**	**¥226,966**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
Balance, March 31, 2008	$317,527	$417,914	$1,757,892	$ 1,974	$ 3,301	$(77,367)	$2,421,241	$293,076	$2,714,317
Adjustment of retained earnings due to the adoption of PITF No.18 (Note 2 (B))			**(15,350)**				**(15,350)**		**(15,350)**
Net income			**115,556**				**115,556**		**115,556**
Cash dividends, $0.23 per share			**(39,580)**				**(39,580)**		**(39,580)**
Disposal of treasury stock		**1,840**				**1,828**	**3,668**		**3,668**
Repurchase of treasury stock						**(149)**	**(149)**		**(149)**
Other increase in treasury stock						**(15,673)**	**(15,673)**		**(15,673)**
Net change in the year				**(16,675)**	**(354,586)**		**(371,261)**	**(75,550)**	**(446,811)**
Balance, March 31, 2009	**$317,527**	**$419,754**	**$1,818,518**	**$(14,701)**	**$(351,285)**	**$(91,361)**	**$2,098,452**	**$217,526**	**$2,315,978**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Operating activities:			
Income before income taxes and minority interests	**¥ 13,146**	¥ 34,046	**$ 134,140**
Adjustments for:			
Income taxes—paid	**(6,415)**	(11,789)	**(65,461)**
Income taxes—refund	**3,641**		**37,159**
Depreciation and amortization	**18,571**	12,054	**189,498**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(1,451)**	(3,219)	**(14,807)**
Loss on valuation of investment securities	**7,996**		**81,595**
Changes in operating assets and liabilities:			
Increase in trade receivables	**(3,070)**	(386)	**(31,329)**
Decrease (increase) in inventories	**1,440**	(4,271)	**14,692**
Increase (decrease) in trade payables	**338**	(2,513)	**3,452**
Decrease in liability for retirement benefits	**(296)**	(332)	**(3,023)**
Other—net	**3,660**	1,588	**37,349**
Total adjustments	**24,414**	(8,868)	**249,125**
Net cash provided by operating activities	**37,560**	25,178	**383,265**
Investing activities:			
Transfers to time deposits	**(7,369)**	(7,160)	**(75,196)**
Proceeds for withdrawing time deposits	**9,960**	6,992	**101,636**
Purchases of property, plant and equipment	**(28,079)**	(25,486)	**(286,520)**
Proceeds from sales of property, plant and equipment	**1,208**	1,339	**12,324**
Purchases of investment securities	**(233)**	(3,435)	**(2,372)**
Acquisition of controlling interest in companies	**(556)**	(10)	**(5,677)**
Acquisition of shares of subsidiaries	**(260)**	(41)	**(2,653)**
Increase in loans receivable	**(136)**	(208)	**(1,385)**
Collection of loans receivable	**321**	153	**3,276**
Other—net	**114**	(6,553)	**1,164**
Net cash used in investing activities	**(25,030)**	(34,409)	**(255,403)**
Financing activities:			
Net increase in short-term loans	**7,486**	20,291	**76,382**
Proceeds from long-term debt	**871**	4,055	**8,893**
Payments for settlement of long-term debt	**(7,061)**	(1,221)	**(72,045)**
Repurchase of treasury stock	**(14)**	(4,796)	**(149)**
Sales of treasury stock	**487**		**4,974**
Dividends paid	**(3,872)**	(3,111)	**(39,512)**
Other—net	**(1,105)**	(731)	**(11,278)**
Net cash provided by (used in) financing activities	**(3,208)**	14,487	**(32,735)**
Foreign currency translation adjustments on cash and cash equivalents	**(21,551)**	(1,525)	**(219,915)**
Net increase (decrease) in cash and cash equivalents	**(12,229)**	3,731	**(124,788)**
Cash and cash equivalents of newly consolidated subsidiary, beginning of year		165	
Cash and cash equivalents, beginning of year	**74,895**	70,999	**764,231**
Cash and cash equivalents, end of year	**¥ 62,666**	¥ 74,895	**$ 639,443**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2009 and 2008

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 Act 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 2008 financial statements to conform to the classification used in 2009.

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 ¥98 to U.S.$1, the approximate rate of exchange at March 31, 2009. 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.

Certain reclassifications have been made in the 2008 financial statements to conform to the classifications used in 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The accompanying consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 72 (66 in 2008) 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 (5 in 2008) 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 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 2009 and 2008, respectively.

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 also eliminated.

(B) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

In May 2006, the Accounting Standards Board of Japan (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". PITF No.18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The effect to operating income and income before income taxes and minority interests for the year ended March 31,2009 was not material.

(C) 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.

(D) INVENTORIES

Prior to April 1, 2008, inventories were stated at cost, determined by the average method. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which was effective for fiscal years beginning on or after April 1, 2008. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower 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 Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2009. The effect of adoption of this accounting standard was to decrease gross profit and operating income for the year ended March 31, 2009 by ¥798 million ($8,140 thousand). There are no effect to income before income taxes and minority interests.

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

(E) 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. On the other hand, the straight line method is principally applied to the property, plant and equipment of foreign consolidated subsidiaries.

The useful life of a part of property, plant and equipment was changed in accordance with the revised corporate tax law, which is effective for fiscal years beginning on or after April 1, 2008.

The effect of this change was to increase operating income and income before income taxes and minority interests by ¥330 million ($3,367 thousand).

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

(F) 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.

(G) 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.

(H) 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 certain consolidated subsidiaries are provided at the amount which would be required if all directors and corporate auditors retired at each balance sheet date.

Effective June 25, 2008, the Company terminated its unfunded retirement allowance plan for all directors and corporate auditors. The outstanding balance of retirement allowances for directors and corporate auditors as of March 31, 2008 was reclassified to the other long-term liabilities.

(I) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

(J) LEASES

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. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

The revised accounting standard requires that all finance lease transactions should be capitalized to recognise lease assets and lease obligation in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

The Company adopted the new accounting standard for lease transactions in the year ended March 31, 2009.

The effect of adoption of this accounting standard was to increase operating income by ¥301 million ($3,068 thousand) and decrease income before income taxes and minority interests by ¥170 million ($1,736 thousand) for the year ended March 31, 2009.

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

All other leases are accounted for as operating leases.

(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, 2009 and 2008 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

Business Combinations

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard requires the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard requires a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impractible to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Merchandise	**¥ 4,101**	¥ 3,769	**$ 41,851**
Finished products	**2,919**	3,032	**29,790**
Work in process	**1,938**	2,841	**19,771**
Raw materials	**20,928**	23,934	**213,548**
Other	**1,329**	1,304	**13,562**
Total	**¥31,215**	¥34,880	**$318,522**

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Investment securities:			
Marketable equity securities	**¥21,809**	¥30,106	**$222,542**
Trust fund investments and other	**805**	2,833	**8,211**
Total	**¥22,614**	¥32,939	**$230,753**

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2009				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥24,651**	**¥ 872**	**¥3,714**	**¥21,809**
March 31, 2008				
Securities classified as—				
Available-for-sale:				
Equity securities	¥30,376	¥6,006	¥6,276	¥30,106

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2009				
Securities classified as—				
Available-for-sale:				
Equity securities	**$251,547**	**$8,895**	**$37,900**	**$222,542**

Available-for-sale securities whose fair value was not readily determinable as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Available-for-sale:			
Equity securities	**¥805**	¥2,833	**$8,211**
Total	**¥805**	¥2,833	**$8,211**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥0 million ($0 thousand) and ¥35 million, respectively. Gross realized gains on these sales for the years ended March 31, 2009 and 2008, computed on the moving average cost basis, were ¥0 million ($0 thousand) and ¥22 million, respectively. Gross realized losses on these sales for the year ended March 31, 2009 and 2008 were ¥0 million ($0 thousand) and ¥2 million, respectively.

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings mainly consisting of bank loans at March 31, 2009 and 2008 were ¥36,203 million ($369,422 thousand) and ¥28,643 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2009 and 2008 ranged from 0.60% to 13.00% and 1.01% to 2.38%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Loans from banks and other financial institutions, 0.80% to 5.12% (0.80% to 21.50% in 2008), due serially to 2025:			
Collateralized	**¥ 1,455**	¥4,315	**$ 14,852**
Unsecured	**3,710**	1,107	**37,852**
Obligations under finance leases	**15,430**		**157,447**
Total	**20,595**	5,422	**210,151**
Less current portion	**(5,948)**	(949)	**(60,698)**
Long-term debt, less current portion	**¥14,647**	¥4,473	**$149,453**

Annual maturities of long-term debt as of March 31, 2009 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 5,948	$ 60,698
2011	4,894	49,940
2012	3,427	34,967
2013	2,208	22,535
2014	1,109	11,311
2015 and thereafter	3,009	30,700
Total	¥20,595	$210,151

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥100 million ($1,024 thousand) and the above collateralized long-term debt at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 20**	**$ 204**
Land	**4,354**	**44,426**
Buildings and structures—net of accumulated depreciation	**1,668**	**17,026**
Total	**¥6,042**	**$61,656**

As is customary in Japan, the Company maintains substantial deposit balances with the banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

6. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Certain consolidated subsidiaries have severance payment plans for 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, 2009 and 2008, included the amounts of ¥333 million ($3,398 thousand) and ¥1,054 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, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥ 56,532**	¥ 56,718	**$ 576,854**
Fair value of plan assets	**(31,226)**	(32,856)	**(318,627)**
Unrecognized actuarial loss	**(8,943)**	(7,972)	**(91,255)**
Net liability	**16,363**	15,890	**166,972**
Prepaid pension cost	**32**	80	**319**
Liability for employees' retirement benefits	**¥ 16,395**	¥ 15,970	**$ 167,291**

The components of net periodic retirement benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 2,322**	¥ 2,395	**$ 23,697**
Interest cost	**1,319**	1,300	**13,462**
Expected return on plan assets	**(1,089)**	(1,171)	**(11,111)**
Recognized actuarial loss	**1,483**	1,118	**15,130**
Net periodic retirement benefit costs	**¥ 4,035**	¥ 3,642	**$ 41,178**

Assumptions used for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
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

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(A) DIVIDENDS

Under the Companies Act, 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.

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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act 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.

8. 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, 2009 and 2008. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Tax loss carryforwards	**¥ 3,810**	¥ 4,986	**$ 38,877**
Pension and severance costs	**6,540**	6,055	**66,735**
Other	**14,056**	8,069	**143,432**
Less valuation allowance	**(5,839)**	(3,665)	**(59,582)**
Total	**¥18,567**	¥15,445	**$189,462**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**¥ 2,781**	¥ 8,534	**$ 28,379**
Unrealized gain on land held by consolidated subsidiaries	**2,076**	1,839	**21,183**
Other	**2,590**	2,956	**26,435**
Total	**¥ 7,447**	¥13,329	**$ 75,997**
Net deferred tax assets	**¥11,120**	¥ 2,116	**$113,465**

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, 2009 was as follows:

	2009
Normal effective statutory tax rate	**40.69 %**
Equity in earnings of associated companies	**(4,49)**
Social expenses not deductible for income tax purposes	**2.80**
Dividend income from consolidated subsidiaries eliminated on consolidation purpose	**7.98**
Non taxable dividend income from overseas subsidiaries	**(43.76)**
Tax rate differences in overseas subsidiaries	**(24.85)**
Other—net	**1.52**
Actual effective tax rate	**(20.11)%**

At March 31, 2009, certain consolidated subsidiaries had tax loss carryforwards aggregating approximately ¥11,304 million ($115,342 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
2010	¥ 445	$ 4,536
2011	928	9,472
2012	659	6,729
2013	775	7,903
2014 and thereafter	8,497	86,702
Total	¥11,304	$115,342

9. LEASES

The Group leases certain machinery, research apparatus, vending machine, computer equipment and other assets.

Total rental expenses including lease payments under finance leases for the years ended March 31, 2009 and 2008 were ¥5,553 million ($56,660 thousand) and ¥11,125 million, respectively.

For the year ended March 31, 2008, the Group recorded an impairment loss of ¥72 million on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in other long-term liabilities.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2009		**2009**	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥ 5,172**	**¥246**	**$ 52,775**	**$2,510**
Due after one year	**10,258**	**631**	**104,672**	**6,441**
Total	**¥15,430**	**¥877**	**$157,447**	**$8,951**

Pro forma information for the year ended March 31, 2008

Pro forma information for the year ended March 31, 2008 of leased property, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of yen		
	2008		
	Furniture and Fixtures	Other	Total
Acquisition cost	¥19,147	¥9,003	¥28,150
Accumulated depreciation	9,133	2,606	11,739
Accumulated impairment loss	10	62	72
Net leased property	¥10,004	¥6,335	¥16,339

Obligations under finance leases:

	Millions of yen
	2008
Due within one year	¥ 5,229
Due after one year	11,394
Total	¥16,623

Allowance for impairment loss on leased property of ¥43 million as of March 31, 2008 is not included in the obligations under finance leases.

Depreciation expense, interest expense and other information under finance leases:

	Millions of yen
	2008
Depreciation expense	¥5,953
Interest expense	416
Total	¥6,369

Lease payments	¥6,300
Reversal of allowance for impairment loss on leased property	¥ 26

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

10. RELATED PARTY DISCLOSURES

Transactions with related parties which are owned by directors and corporate auditors of the Company for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Sales	**¥10,160**	¥10,327	**$103,669**
Sales discount and rebate	**182**	274	**1,860**
Purchases	**21**		**213**
Increase in loan receivables	**44**	95	**449**
Rent of vending machines	**146**	157	**1,491**
Temporary receipt	**1,785**	1,674	**18,215**
Subsidy of sales expenses	**119**	145	**1,217**
Interest income		4	

The balance due to or from these related parties at March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Notes and accounts receivable	**¥2,190**	¥2,196	**$22,348**
Other receivables	**31**	35	**318**
Other current assets		2	
Long-term loans	**235**	69	**2,393**
Other payables	**63**	136	**638**
Accrued expenses	**15**	22	**158**
Other current liabilities	**15**	85	**151**

11. CONTINGENT LIABILITIES

At March 31, 2009, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	**¥561**	**$5,720**

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥9,248 million ($94,368 thousand) and ¥8,952 million for the years ended March 31, 2009 and 2008, respectively.

13. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2009 were approved at the Company's board of directors' meeting held on May 13, 2009:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥10.0 ($0.10) per share	**¥1,726**	**$17,613**

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, 2009 and 2008 was as follows:

(1) INDUSTRY SEGMENTS

	Millions of yen				
	2009				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and operating income (loss)					
Sales to customers	**¥244,191**	**¥35,235**	**¥14,064**		**¥293,490**
Intersegment sales					
Total sales	**244,191**	**35,235**	**14,064**		**293,490**
Operating expenses	**227,058**	**23,125**	**13,530**	**¥ 13,033**	**276,746**
Operating income	**¥ 17,133**	**¥12,110**	**¥ 534**	**¥(13,033)**	**¥ 16,744**
b. Total assets, depreciation and capital expenditures					
Total assets	**¥256,295**	**¥37,065**	**¥ 8,012**	**¥ 60,530**	**¥361,902**
Depreciation	**16,653**	**366**	**357**	**1,195**	**18,571**
Capital expenditures	**24,553**	**809**	**265**	**3,460**	**29,087**

	Thousands of U.S. dollars				
	2009				
	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
a. Sales and operating income (loss)					
Sales to customers	**$2,491,749**	**$359,544**	**$143,504**		**$2,994,797**
Intersegment sales					
Total sales	**2,491,749**	**359,544**	**143,504**		**2,994,797**
Operating expenses	**2,316,922**	**235,972**	**138,057**	**$ 132,991**	**2,823,942**
Operating income	**$ 174,827**	**$123,572**	**$ 5,447**	**$(132,991)**	**$ 170,855**
b. Total assets, depreciation and capital expenditures					
Total assets	**$2,615,250**	**$378,215**	**$ 81,757**	**$ 617,653**	**$3,692,875**
Depreciation	**169,924**	**3,737**	**3,640**	**12,197**	**189,498**
Capital expenditures	**250,538**	**8,255**	**2,708**	**35,309**	**296,810**

	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

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. (D), the Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2009. The effect of this adoption was to decrease operating income of Food and Beverages by ¥672 million ($6,860 thousand), operating income of Pharmaceuticals by ¥68 million ($695 thousand) and operating income of Others by ¥57 million ($584 thousand).

As discussed in Note 2. (J), the Company adopted the new accounting standard for lease transaction in the year ended March 31, 2009. The effect of this adoption was to increase operating income of Food and Beverages by ¥291 million ($2,969 thousand) and the effect on operating income of Pharmaceuticals, Others and Eliminations/Corporate was not material.

As discussed in Note 2. (E), the Company changed the useful life of a part of property, plant and equipment in the year ended March 31, 2009. The effect of this change was to increase operating income of Food and Beverages by ¥322 million ($3,282 thousand) and the effect on operating income of Pharmaceuticals, Others and Eliminations/Corporate was not material.

(2) GEOGRAPHICAL SEGMENTS

The geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen					
	2009					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**¥217,949**	**¥42,385**	**¥20,233**	**¥12,923**		**¥293,490**
Interarea transfers	**8,550**				**¥ (8,550)**	
Total sales	**226,499**	**42,385**	**20,233**	**12,923**	**(8,550)**	**293,490**
Operating expenses	**209,778**	**31,652**	**17,728**	**13,105**	**4,483**	**276,746**
Operating income	**¥ 16,721**	**¥10,733**	**¥ 2,505**	**¥ (182)**	**¥(13,033)**	**¥ 16,744**
Total assets	**¥203,796**	**¥46,433**	**¥48,660**	**¥ 8,225**	**¥ 54,788**	**¥361,902**

	Thousands of U.S. dollars					
	2009					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	**$2,223,967**	**$432,505**	**$206,458**	**$131,867**		**$2,994,797**
Interarea transfers	**87,248**				**$ (87,248)**	
Total sales	**2,311,215**	**432,505**	**206,458**	**131,867**	**(87,248)**	**2,994,797**
Operating expenses	**2,140,598**	**322,980**	**180,901**	**133,720**	**45,743**	**2,823,942**
Operating income	**$ 170,617**	**$109,525**	**$ 25,557**	**$ (1,853)**	**$(132,991)**	**$ 170,855**
Total assets	**$2,079,558**	**$473,805**	**$496,528**	**$ 83,925**	**$ 559,059**	**$3,692,875**

	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

The Americas: Mexico, Brazil, Argentina, U.S.A.
Asia and Oceania: Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam
Europe: The Netherlands, the U.K. Germany, Belgium, Austria, Italy

As discussed in Note 2. (D), the Company adopted the new accounting standard for measurement of inventories in the year ended March 31, 2009. The effect of this adoption was to decrease operating income of Japan by ¥798 million ($8,140 thousand).

As discussed in Note 2. (J), the Company adopted the new accounting standard for lease transaction in the year ended March 31, 2009. The effect of this adoption was to increase operating income of Japan by ¥298 million ($3,041 thousand) and the effect on operating income of Eliminations/Corporate was not material.

As discussed in Note 2. (E), the Company changed the useful life of a part of property, plant and equipment in the year ended March 31, 2009. The effect of this change was to increase operating income of Japan by ¥331 million ($3,374 thousand) and the effect on operating income of Eliminations/Corporate was not material.

(3) SALES TO FOREIGN CUSTOMERS

Sales to foreign customers for the years ended March 31, 2009 and 2008 amounted to ¥83,215 million ($849,130 thousand) and ¥81,451 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. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2009 and 2008, 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, 2009 and 2008, 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 24, 2009

Member of
Deloitte Touche Tohmatsu

GLOBAL NETWORK

(As of May 31, 2009)

PRINCIPAL 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, 2009)

CORPORATE NAME

YAKULT HONSHA CO., LTD.

DATE FOUNDED

1935

DATE INCORPORATED

April 9, 1955

HEAD OFFICE

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

PAID-IN CAPITAL

¥31,117,654,815

ANNUAL ACCOUNT SETTLEMENT DATE

March 31

NUMBER OF EMPLOYEES

17,361 (Consolidated)

NUMBER OF ISSUED AND OUTSTANDING SHARES

175,910,218

NUMBER OF SHAREHOLDERS

28,855

* Including shareholders whose shares do not comprise full trading units

OFFICES (As of May 31, 2009)

1 institute, 8 branches, 10 plants

Branches

- A Hokkaido Branch
- B Tohoku Branch
- C Higashi Nihon Branch
- D Shutoken Branch
- E Tokai Branch
- F Kinki Branch
- G Chu-Shikoku Branch
- H Kyushu Branch

Plants

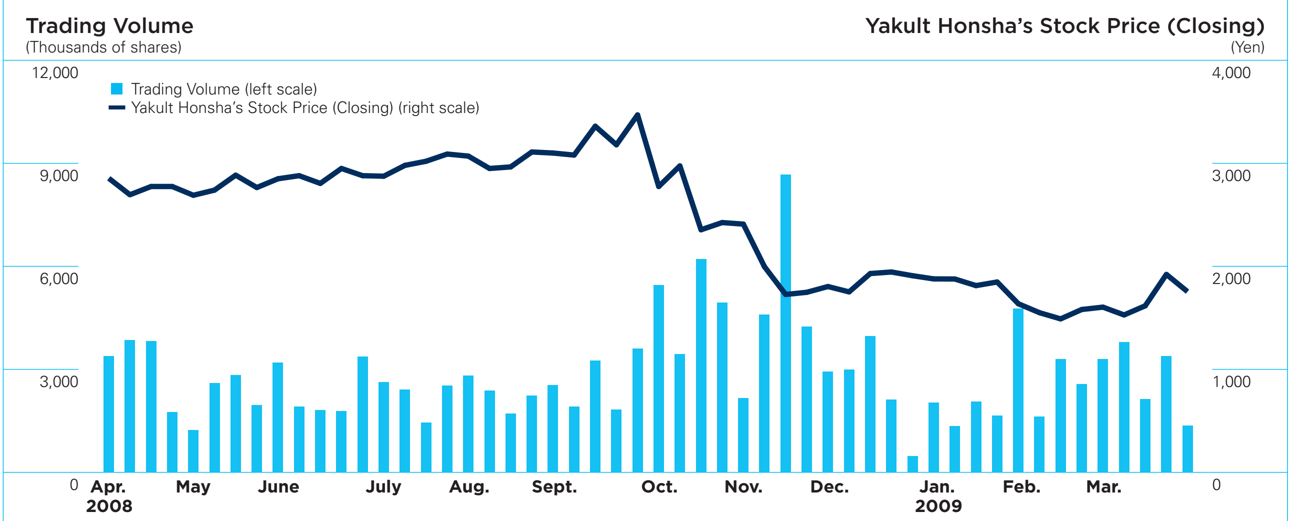
1. Fukushima Plant
2. Ibaraki Plant
3. Shonan Cosmetics Plant
4. Fuji Susono Plant
5. Fuji Susono Pharmaceuticals Plant
6. Shizuoka Plant
7. Kyoto Plant
8. Fukuyama Plant
9. Saga Plant
10. Kumamoto Plant

MAJOR SUBSIDIARIES IN JAPAN

(As of May 31, 2009)

Yakult Chiba-Ken 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



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