Yakult

PEOPLE EMPOWERING PEOPLE

ANNUAL REPORT 2011

Year ended March 31, 2011

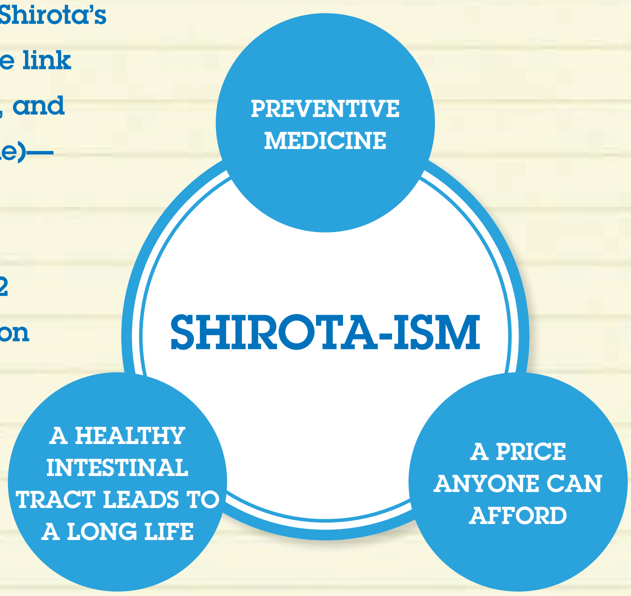
GROWING FROM OUR ROOTS

PROFILE

In 1930, our founder Dr. Minoru Shirota successfully strengthened and cultivated Lactobacillus casei strain Shirota while working in a microbiology laboratory at Kyoto Imperial University School of Medicine (now Kyoto University). In 1935, he began sales of a fermented milk drink under the brand name Yakult.

In the 75 years since then, Yakult has conducted its business activities around the world in ways based on Dr. Shirota's philosophy—Shirota-ism (preventive medicine, the link between a healthy intestinal tract and a long life, and offering products at a price affordable to everyone)—explained below.

As of March 31, 2011, as a leading Probiotics* company, we help to protect people's health in 32 countries and regions, including Japan. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceuticals business, in which we handle an anticancer drug widely used worldwide, as well as a cosmetics business.



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

CONTENTS

FORWARD-LOOKING STATEMENTS

Statements contained in the Annual Report 2011 regarding business results for fiscal 2011 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.

THE SOURCES OF YAKULT'S STRENGTH

Yakult has three unique sources of strength: Product Power, Sales Power, and R&D Power.

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 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.

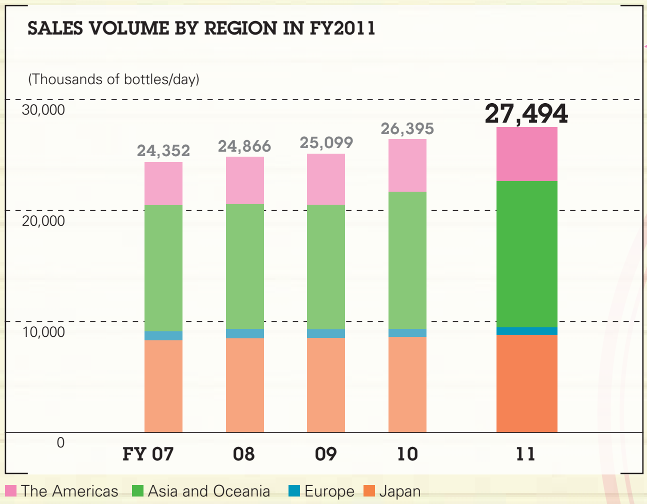
Our unique home delivery system offers opportunities to meet customers face-to-face and explain to them how lactobacilli work to support good health. It also enables customers to experience for themselves the benefits of Yakult products.

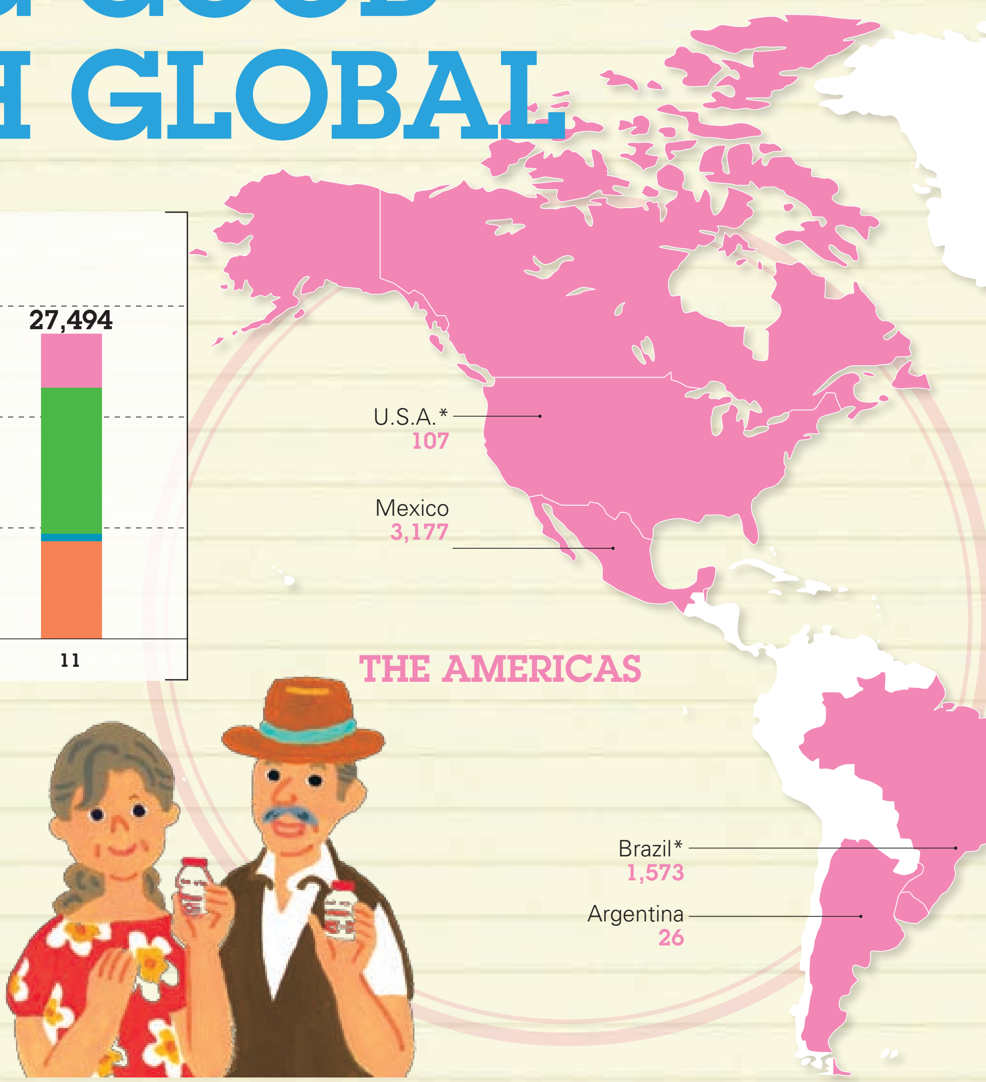
DYNAMIC R&D:
The Wellspring of Future Competitiveness

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 CONSUMPTION AROUND THE WORLD

TAKING GOOD HEALTH GLOBAL



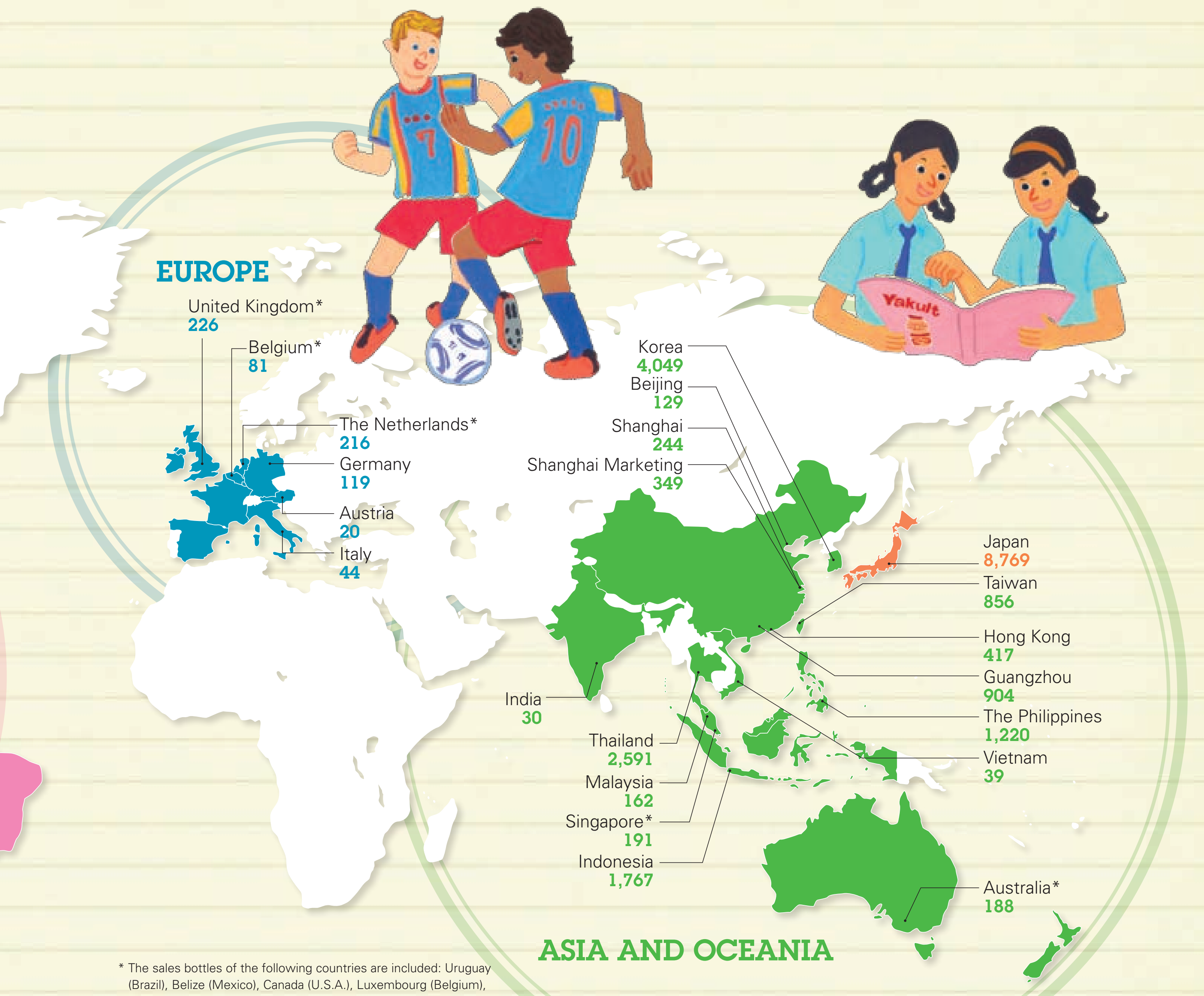


FINANCIAL HIGHLIGHTS

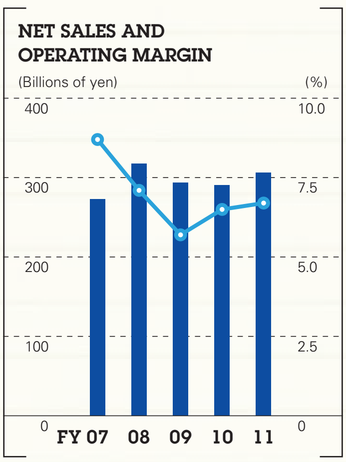
YAKULT HONSHA CO., LTD. and consolidated subsidiaries
March 31, 2011,2010, 2009, 2008 and 2007

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2007	2008	2009	2010	**2011**	**2011**
For the year:						
Net sales	¥ 273,100	¥ 317,335	¥ 293,490	¥ 290,678	**¥ 305,944**	**$3,686,076**
Operating income	23,893	22,502	16,744	18,991	**20,401**	**245,799**
Net income	14,806	16,675	11,325	13,249	**13,169**	**158,659**
At the year-end:						
Total assets	¥ 354,539	¥ 384,569	¥ 361,902	¥ 389,892	**¥ 392,828**	**$4,732,873**
Total liabilities	93,334	118,566	134,936	140,970	**141,857**	**1,709,119**
Total equity	261,205	266,003	226,966	248,922	**250,971**	**3,023,754**
Financial ratio:						
Return on equity (ROE) (%)	6.5	7.0	5.1	6.2	**5.9**	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 84.93	¥ 95.93	¥ 65.75	¥ 77.11	**¥ 76.55**	**$ 0.92**
Total equity (Note 3)	1,356.68	1,376.41	1,195.60	1,300.21	**1,313.37**	**15.82**
Cash dividends applicable to the year	18.00	20.00	20.00	20.00	**22.00**	**0.27**

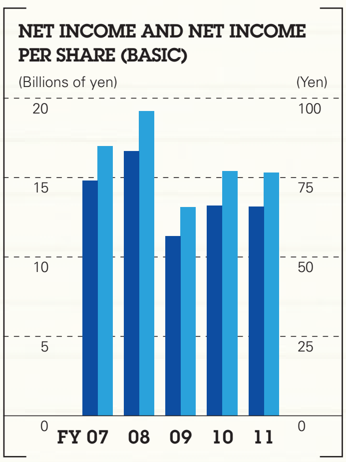
Notes: 1. Figures are rounded to the nearest million.
2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥83 to U.S.$1, the approximate rate of exchange at March 31, 2011.
3. Minority interests are not included in equity on process of calculation.



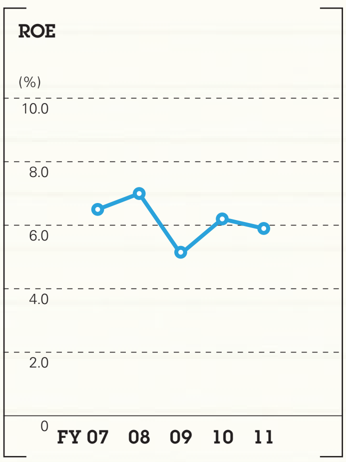
* The sales bottles of the following countries are included: Uruguay (Brazil), Belize (Mexico), Canada (U.S.A.), Luxembourg (Belgium), France (The Netherlands), Spain (The Netherlands), Ireland (United Kingdom), Brunei (Singapore), New Zealand (Australia)



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



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



MESSAGE FROM THE CHAIRMAN AND PRESIDENT

TAKASHIGE NEGISHI
President and Representative Director
Chief Operating Officer (COO)

SUMIYA HORI
Chairman and Representative Director
Chief Executive Officer (CEO)

COMMITTED TO ONGOING DEVELOPMENT AND GROWTH

I was appointed to the post of Chairman and Chief Executive Officer in June 2011.

Under the 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," and through the principles of Shirota-ism, which serves as the bedrock of our operations, Yakult has been actively engaged primarily in the food and beverages business in Japan and overseas, and in the pharmaceuticals and cosmetics businesses.

Going forward, the business environment is expected to undergo drastic changes. Nonetheless, we aim to ensure sustained growth by continuing to adhere to our principles and roots, which represent the value of our existence as a company.

Personally, as CEO I plan to work hand in hand with our newly appointed President and Chief Operating Officer, Takashige Negishi, to ensure our future development and growth. Along with working to enhance corporate value, we will vigorously promote the value of *Lactobacillus casei* strain Shirota, Yakult's unique proprietary Probiotics.

Please be sure to follow our evolution under this new management structure.

August 2011

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SUMIYA HORI

Chairman and Representative Director
Chief Executive Officer (CEO)

COMMITTED TO REALIZING OUR LONG-TERM VISION

I was named to the post of President and Chief Operating Officer in June 2011.

In my 40 years with the Yakult Group, I have worked in various departments within the Company, including sales and planning. I also gave my wholehearted support to our new Chairman in formulating "Yakult Vision 2020."

Over the course of those 40 years, I have come to live and breathe Shirota-ism, the thoughts and philosophy of our founder Dr. Minoru Shirota. In addition to devising a pathway to dramatic growth, I believe it is incumbent on me to maintain Shirota-ism as the foundation of the Yakult Group's activities, setting great store by it when going about our business.

Going forward, I intend to further build on the groundwork laid by Mr. Hori, with a view to completing and realizing the vision and roadmap he has outlined for the Yakult Group. I invite you to expect results from this renewed pitch for growth.

August 2011

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TAKASHIGE NEGISHI

President and Representative Director
Chief Operating Officer (COO)

A BRIGHT YAKULT FUTURE

The domestic economic climate is now beset by great uncertainty, due in no small part to the challenge of restoration and reconstruction after the Great East Japan Earthquake. We spoke with Mr. Hori and Mr. Negishi about their plans for building on the existing foundation for sustained growth, and further developing the Company's operations.

Q1. Please tell us about your views on Yakult's future development, outlining your approaches, policies and what you perceive to be the immediate challenges.

A1. Essentially, my aim is to seek strong growth in a manner suited to the times, while paying due consideration to Shirota-ism and the Yakult corporate philosophy, which together serve as the bedrock for our activities.

In the near term, I see two major challenges.

To begin with, I will be throwing myself into the task of restoring and rebuilding parts of our sales and production frameworks damaged in the Great East Japan Earthquake.

Secondly, I aim to engage the entire Yakult Group in pursuing the goals outlined in our long-term plan, "Yakult Vision 2020."

Q2. Please describe the impact of the Great East Japan Earthquake, and the company's response.

A2. Our domestic food and beverages business suffered significant damage. However, even under these difficult circumstances, Yakult Group employees have been making a united effort to engage in restoration, reconstruction and support activities.

I would like to take this moment to say that our prayers are with those who lost their lives in the Great East Japan Earthquake, and also express my heartfelt sympathy for victims of the earthquake, who are being forced to endure massive disruption in their daily lives.

At our domestic food and beverages business, the Yakult Honsha Fukushima Plant sustained damage to buildings and production lines, as did Yakult Iwate Plant, a subsidiary. Sales companies, too, suffered tremendous damage, with some on the Tohoku region's Pacific coast witnessing the loss of buildings in the tsunami.

Nevertheless, even under these circumstances, Yakult Group employees have been making a concerted effort to engage in restoration and reconstruction activities, along with providing support in such forms as donations and emergency provisions. As a consequence, we were able to resume production at Yakult Iwate Plant in May and at the Yakult Honsha Fukushima Plant in June. Our goal is to fully restore operations by the end of October. On the sales front, we have been providing affected sales companies with all manner of assistance, with a view to rebuilding the market.

I would like to add that the quake had limited impact on earnings at our pharmaceuticals and international businesses.

Q3. Could you discuss recent initiatives undertaken at each business?

A3. Our food and beverage production and sales operations are faring well, both domestically and overseas. At the pharmaceuticals business I see new possibilities, including expansion of indications for *Elplat*, our core cancer chemotherapeutic agent.

Let me first speak about the domestic food and beverages business.

With regard to dairy products, last year at the milestone 75th anniversary of our founding, we took a fresh look at the entire operation with a view to getting "Back to beginnings." More specifically, we sought to re-inculcate in all employees the principles of Shirota-ism; namely, the concept of preventive medicine, the link between a healthy intestinal tract and long life, and offering products at a price affordable to everyone. In both the home delivery and retail store channels, we conducted campaigns designed to emphasize the value of our products, in particular *Yakult* and *Mil-Mil*.

In the home delivery channel, we worked to create a base of ongoing Yakult customers by using sales activities that get people to try our products through samples or trial use. In our retail store channel, we employed our sales promotion staff in educating consumers about the value of our products.

While assessing the situation of each region, we plan to continue conveying to as many people as possible the value of *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, as we have done in the past.

I would now like to discuss our international food and beverages business.

Our *Yakult* business in China is progressing very well, with sales volume growing steadily. With regard to product supply following the increase in sales volume, we will undertake construction to enlarge our two plants in Guangzhou and Shanghai in order to augment output. Meanwhile, the Tianjin Plant, which we have been constructing with a view to boosting supply capacity for north and northeast China, commenced production of *Yakult* on August 3, 2011.

Our business in Indonesia is also faring well. In 2010, both the retail store channel and home delivery channel reported strong results. In the home delivery channel, the number of Yakult Ladies now exceeds 3,000. With a robust sales organization having emerged so rapidly, our Indonesian business can be expected to post further growth.

In Mexico, the economy as a whole is expanding; however, growth in domestic demand unfortunately has yet to fully recover. Nevertheless, we are steadily strengthening our sales system. We are subdividing the existing market and identifying customers, while at the same time expanding sales to local cities where our operations have yet to be developed.

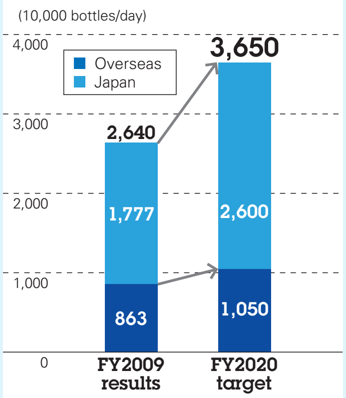
Next, I would like to detail the activities of our pharmaceuticals business.

The core product of our pharmaceuticals business, *Elplat*, is highly rated as a key drug for the treatment of advanced or recurrent colorectal cancer. In the year under review, we focused on promoting the proper use of *Elplat*, by actively sponsoring lectures and explanation sessions targeting healthcare professionals. Furthermore, phase III clinical trials of *Elplat* for gastric cancer in Japan, which we have been pursuing to expand applications for the drug, have entered their second year. We are steadily accumulating clinical data and hope to file for approval by around December 2012. Up to now, the patent term for *Elplat* in Japan was through July 2015. However, the authorities recently approved an extension of the term for nearly five years until January 2020.

On top of that, in February 2011, we signed an agreement with Proacta Incorporated of the United States for the joint development and commercialization of *PR509*, a hypoxia-activated pro-drug for the treatment of cancer. In March, we signed an exclusive licensing agreement, this time with Æterna Zentaris Inc. of Germany, for the development and commercialization in Japan of *Perifosine*, another cancer treatment. These are just some of the ways in which we are seeking to establish a more solid presence for Yakult in oncology.

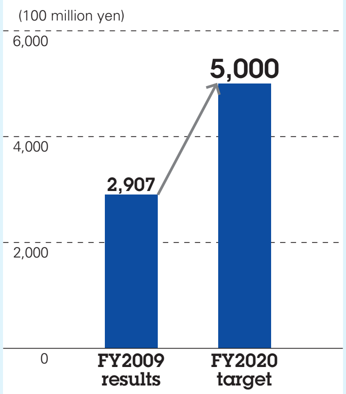
QUANTITATIVE GOALS

NUMBER OF BOTTLES OF DAIRY PRODUCTS SOLD



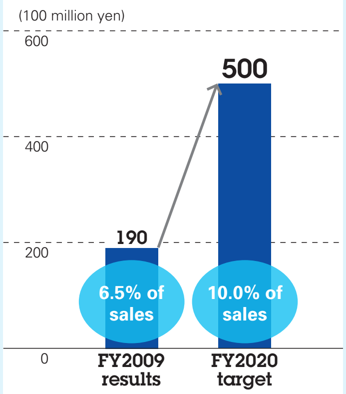
38% growth
(22% in Japan; 46% overseas)
UP 10 million bottles

CONSOLIDATED SALES



72% growth
UP roughly twofold

CONSOLIDATED OPERATING INCOME



163% growth
UP roughly threefold

Turning to the others business segment, in our cosmetics business, we have been making renewed efforts aimed at improving brand penetration among consumers, including through TV commercials via terrestrial broadcasting.

Q4. Can you describe your basic stance on shareholder returns, including the dividend for fiscal 2011?

A4. In addition to payment of a base annual dividend of ¥20.0 per share, we added a commemorative dividend of ¥2.0 to the year-end dividend in fiscal 2011, to celebrate the Yakult Group's 75th anniversary.

We 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 is 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.

In line with this policy, we paid an annual dividend of ¥22.0 per share for fiscal 2011.

This dividend consisted of a year-end dividend of ¥12.0 per share, together with an earlier paid interim dividend of ¥10.0 per share. This ¥2 increase in the year-end dividend was to celebrate the 75th anniversary of the Yakult Group during the year, and an expression of gratitude to shareholders for their steadfast support.

Furthermore, we plan to pay an annual dividend of ¥22.0 per share for fiscal 2012. In addition to payment of a base annual dividend of ¥20.0, we intend to calculate the commemorative dividend of ¥2.0 added in fiscal 2011 as part of the standard dividend.

Q5. Finally, what is your message for Yakult shareholders?

A5. Although we anticipate a modest recovery in the domestic economy, we expect the outlook to remain murky due to declines in manufacturing activity and personal spending after the March 2011 earthquake, and a deteriorating employment environment.

As a leading Probiotics company that contributes to good health, the Yakult Group will continue working against this backdrop toward realization of our new long-term plan, "Yakult Vision 2020," by communicating the superiority and safety of our products and responding meticulously to customers' increasingly diverse needs.

YAKULT LADIES—THE POWER BEHIND HOME DELIVERY

Dedicated to spreading the principles of Shirota-ism—the ideals of Yakult founder Dr. Minoru Shirota—and the product embodying those principles—*Yakult*

SHOWCASING THE VALUE OF LACTOBACILLI

Yakult is a product for daily consumption. Encouraging this daily routine requires meeting directly with customers to convey the value and promote understanding of the product. The Yakult Ladies play a vital role in underscoring the value that lactobacilli offer.

ORIGINS OF THE YAKULT LADY SYSTEM

For about 48 years, delivery by Yakult Ladies has been a constant since this system, which is unique to Yakult, was introduced in 1963 in Japan. With the spirit of, "Anytime, anywhere and even single bottles," home delivery by Yakult Ladies was born of the desire to protect human health and encourage people to have one bottle a day.

ACTIVITIES OF THE YAKULT LADY

1 PREPARATION: Giving it their best today

After getting ready and checking their products, the Yakult Ladies put on a smile and are off for deliveries.

3 RETURNING TO THE CENTER AFTER DELIVERIES: Looking forward to tomorrow

After coming back to the center where they are based, the Yakult Ladies prepare for tomorrow's deliveries and share what they learned today with their colleagues. They'll be back with a smile again tomorrow.

CHINA (Shanghai)

INDONESIA

INDIA

2 DELIVERING PRODUCTS TO CUSTOMERS:
Service with a smile

1. Homes

2. Offices

For customers waiting for their daily *Yakult*, Yakult Ladies make sure to deliver their products with a smile.

YAKULT LADIES IN JAPAN

In Japan, there are approximately 42,400 active Yakult Ladies as of March 31, 2011. On average, a Yakult Lady in Japan makes about 100 delivery visits to homes and offices every day, selling roughly 120 *Yakult* products.

WORLDWIDE SPREAD OF THE YAKULT LADY SYSTEM

Because of Dr. Minoru Shirota's desire to protect the health of people throughout the world, it was only natural that Yakult expand overseas.

In 1964, Yakult Co., Ltd. (Taiwan) began operations, as the first step in the expansion of our network to Asia, Oceania, the Americas, and Europe. Our aim is to create business operations that are integrated into, and fully accepted by, local communities by providing health information appropriate for the daily lifestyle and dietary practices, respecting local traditions and cultures, and taking other actions tailored to individual countries or regions.

As in Japan, deliveries of Yakult products in many countries and regions are made by Yakult Ladies, who presently number approximately 39,000 outside of Japan as of the end of December 2010.

YAKULT LADY SYSTEM—SET FOR FURTHER EXPANSION

Yakult Ladies never have to wait on business partners to open new stores. Consequently, this channel is one that we can independently expand and develop. Going forward, we intend to increase the number of Yakult Ladies and provide necessary training in a bid to actively promote market expansion.

In the future, we will continue working through Yakult Ladies to spread information on the power of lactobacilli and promote activities that encourage consumption of a bottle of *Yakult* every day so that as many people as possible lead a healthier, longer life.

THAILAND

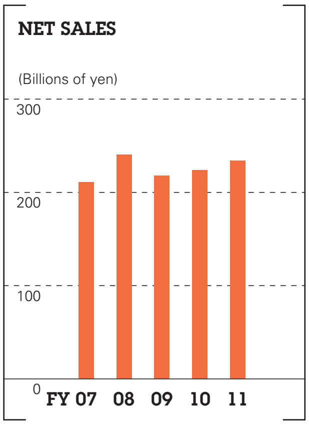
MEXICO

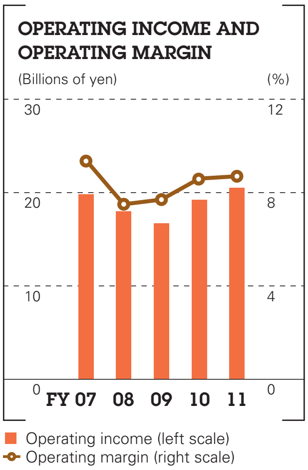
BRAZIL

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. For the fiscal year ended March 31, 2011, consolidated sales in Japan came to ¥245.9 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, 2011, consolidated sales in Food and Beverages were ¥189.8 billion.

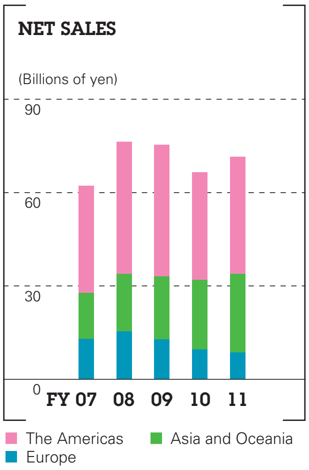
PHARMACEUTICALS

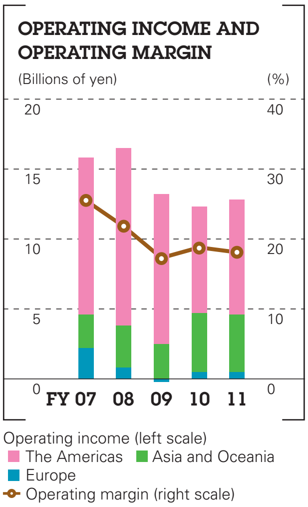
In Pharmaceuticals, Yakult specializes in the field of oncology business, especially focused on sales and marketing of *Campto* and *Elplat*, two key drugs for the treatment of colorectal cancer. Consolidated sales in this segment for the fiscal year ended March 31, 2011 were ¥38.9 billion.

OTHERS

In Others, the Company is involved in the cosmetics business, founded on the beneficial effects of lactic acid bacteria for the skin, as well as management of a professional baseball team, the Tokyo Yakult Swallows. Consolidated segment sales for the fiscal year ended March 31, 2011 were ¥17.2 billion.

INTERNATIONAL BUSINESS





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

As of March 31, 2011, Yakult Probiotic drinks and other products are sold in 31 countries and regions outside of Japan, with an average of 18.7 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 10.0 million bottles per day, and sales of ¥71.7 billion.

THE AMERICAS

This area accounts for the most unit sales 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, and unit sales there are on the rise. In the Americas, consolidated sales for the fiscal year ended March 31, 2011 were ¥37.6 billion.

[Operating Countries and Regions]

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

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, 2011 were ¥25.5 billion.

[Operating Countries and Regions]

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

EUROPE

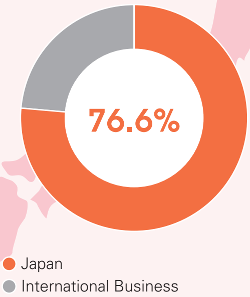
Retail stores are the center of business activities in Europe, which Yakult entered in the 1990s. Consolidated sales for the fiscal year ended March 31, 2011 came to ¥8.6 billion for the year.

[Operating Countries and Regions]

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

JAPAN

PERCENTAGE OF
NET SALES BY REGION
(%)



In Food and Beverages, while performance was strong in Probiotic products, centered on *Yakult 400* and *Mil-Mil* series products, efforts to develop sales of Juices and Other Beverages struggled despite a positive push from intense summer temperatures.

In Pharmaceuticals, the mainstay cancer chemotherapeutic agent *Elplat* performed strongly, and other products also brought increased sales.

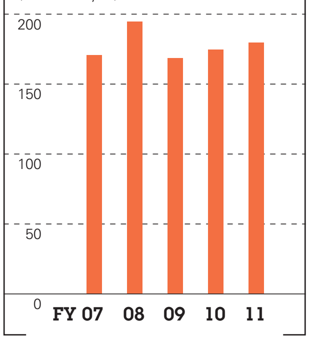
FOOD AND BEVERAGES

Yakult | *Yakult 400* | *Joie* | *Mil-Mil*

IN PROBIOTIC PRODUCTS, Yakult celebrated 75 years since its founding. After taking stock and reflecting upon our founding concepts of preventive medicine, a healthy intestinal tract leads to a long life, and offering products at a price anyone can afford, we began activities aimed at thoroughly promoting the value and appeal of our proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult through both our home delivery and retail store sales channels.

In our home delivery channel, we strengthened efforts to develop loyal customers for *Yakult 400* and *Mil-Mil* series products via sales activities that get people to try our products through samples or trial use. In our retail store channel, we utilized promotion staff to promote the health value of our products to

SALES OF FOOD AND BEVERAGES
(Billions of yen)

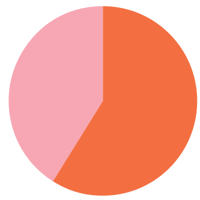


customers. Efforts were focused on *Mil-Mil* as well as two products that debuted revamped package designs in May 2010—fermented milk drinks *Yakult* and *Yakult Calorie Half*. Drinkable yoghurt brand *Joie*, meanwhile, saw the debut of several limited-time only flavors—mango in June 2010, *yuzu* (a type of citron) in November, and orange in February 2011, as part of our brand revitalization efforts. As a result of these developments, overall performance in Probiotic products improved year on year.

By product, *Mil-Mil*, which we revamped in the fiscal year ended March 2010, performed strongly and was joined by *Mil-Mil S*, newly launched in October 2010. Consequently, sales volume for the *Mil-Mil* series rose a dramatic 1,049.8% year on year.

BREAKDOWN OF PROBIOTIC PRODUCTS SALES BY CHANNEL

(%)



Sales by Yakult Ladies	58.9
Sales via supermarkets, convenience stores, and other outside channels	41.1

IN JUICES AND OTHER BEVERAGES, we revamped and launched *Kurozu Drink*, a mainstay in our health and functional food products, in June 2010. In September 2010, we also changed the package design for *Bansoreicha*, and in October launched *Bansoreicha Kobashifumi*, a lighter, more fragrant take on *Bansoreicha*, designed to appeal to current and new customers alike. However, while performance was favorable in the first half of the year, reflecting a positive push from intense summer heat in Japan, the sales climate remained harsh during the second half of the year. The result was slightly lower performance overall in Juices and Other Beverages compared to the previous fiscal year.

As a result, consolidated sales in the Food and Beverages segment amounted to ¥189.8 billion, an increase of 5.2% year on year.

PHARMACEUTICALS

CAMPTO Infusion Solution 100mg

Elplat Iv Infusion Solution 100mg

Neu-up for injection

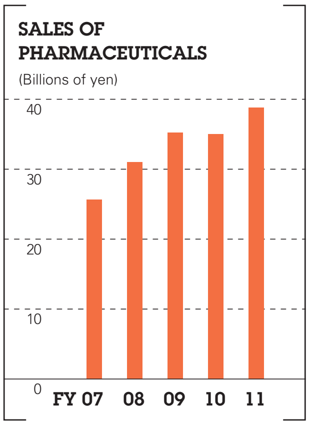
In Japan, we focused on promoting the proper use of the cancer chemotherapeutic agent *Elplat*, actively sponsoring lectures and explanation sessions targeting healthcare professionals in oncology. Similarly, attention was given to sales and promotional activities built on Yakult's specialization in the oncology field, which focused on sales growth for cancer chemotherapeutic agent *Campto* and activated folic acid drug *Levofolinate Yakult*, and expansion in sales channels for the recombinant G-CSF preparation *Neu-up*, used for the treatment of neutropenia induced by chemotherapy.

In February 2011, Yakult entered into a definitive agreement with Proacta Incorporated, a US-based biotechnology company, relating to the collaborative research, development and commercialization of *PR509*, a hypoxia-activated pro-drug for the treatment of cancer. In March 2011, Yakult signed an exclusive development, commercialization and licensing agreement with Æterna Zentaris of Germany for the development and commercialization of *Perifosine*, an anti-cancer compound, in Japan. With these arrangements we are aiming to gain an ever stronger foothold in the cancer field.

Despite these efforts, we were not able to maintain and recover market share of *Campto* lost due to erosion by generic products overseas.

As a result, while overseas sales were lower year on year, sales in Japan recorded brisk growth.

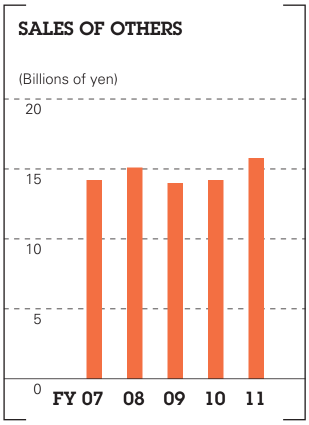
Consequently, consolidated sales in the Pharmaceuticals segment increased 10.8% to ¥38.9 billion.



OTHERS

IN COSMETICS OPERATIONS, we promoted sales activities based on home visits to counsel customers on cosmetics. Emphasis here was on basic skin care products, namely our core brands *Parabio*, *Revecy* and *Revecy White*. Nine products with new moisturizing agents were released as part of the enhanced *Parabio* series in May 2010. Also, the *Revecy* series was updated with enhanced moisturizing benefits in November 2010. The following month, December, saw the release of a limited-edition, high-performance product called *Yakult Beautiens Brilliant ~The Cream~*, the culmination of our decades of experience in cosmetics R&D, to commemorate the 75th anniversary of Yakult's founding.


Parabio



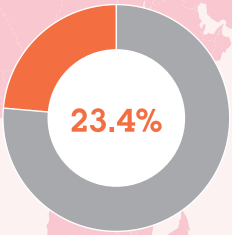
IN OUR PROFESSIONAL BASEBALL OPERATIONS, attendance remained largely flat year on year. This was despite aggressive campaigns such as fan-services, information sharing, and the staging of various events at Jingu Stadium.

From this fiscal year ended March 31, 2011 onwards, this segment includes the activities of Yakult's unconsolidated subsidiaries.

As a result, the Others segment saw consolidated sales rise 20.7%, to ¥17.2 billion.

INTERNATIONAL BUSINESS

PERCENTAGE OF
NET SALES BY REGION
(%)



● Japan
● International Business

Both sales volume outside of Japan and sales on a local currency basis increased during the year as a result of efforts to cultivate the market and expand the sales areas.

THE AMERICAS

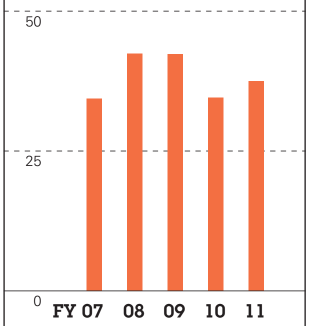
BRAZIL, URUGUAY, MEXICO, BELIZE, ARGENTINA, U.S.A., CANADA

Brazil Mexico Argentina U.S.A.

IN THE AMERICAS, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil and Mexico, and imports products for sale in Argentina, the United States, and other countries.

As adverse economic conditions in Mexico continued, we made steady progress on strengthening our sales framework there. In the capital, Mexico City, we segmentalized the market and took steps to identify new customers, even as we vigorously expanded sales to regional cities.

OVERALL SALES
IN THE AMERICAS
(Billions of yen)



In the United States, we have acquired a site for a Yakult production facility, the first in this country, in Fountain Valley, California. Local production is scheduled to commence in 2012.

As a result, consolidated sales for the Americas increased by 8.6% from the previous fiscal year to ¥37.6 billion.

Brazil

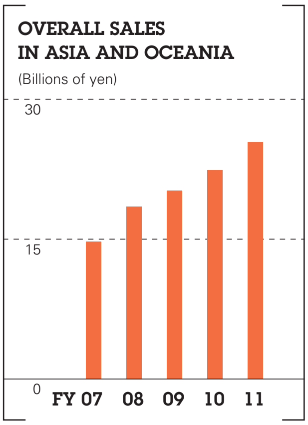
ASIA AND OCEANIA

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

Indonesia Australia China (Shanghai) India Vietnam

IN ASIA AND OCEANIA, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, and other countries.

In China, we continued to steadily expand our sales area to other major coastal cities, while focusing efforts on Guangzhou, Shanghai and Beijing. Furthermore, we launched sales of *Yakult* in Hefei, the capital city of Anhui Province, through our retail store channel in January 2011. Hefei is the second city in China's interior after Wuhan in which we have started sales and we aim to familiarize our products further with consumers in these areas. To supply products to northern China, construction of our



third production facility in China in the city of Tianjin is continuing and production is scheduled to commence in fall 2011.

As a result, consolidated sales in the Asia and Oceania region increased 13.4% year on year to ¥25.5 billion.

China (Guangzhou)

EUROPE

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

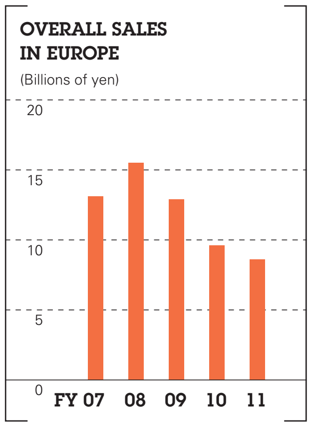
The Netherlands Belgium United Kingdom Austria Italy

IN EUROPE, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

Economic conditions in the region remain severe, exacerbated by intensifying competition from rival companies in the Probiotics market.

As a result, consolidated sales in Europe declined 11.0% compared to the previous fiscal year, to ¥8.6 billion.

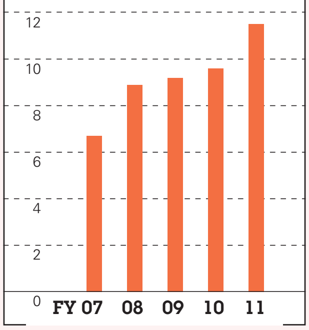
Italy



RESEARCH & DEVELOPMENT

Since our founding, Yakult's R&D activities vitally underpinned 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.

RESEARCH AND DEVELOPMENT COSTS
(Billions of yen)



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, 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 many achievements, including the discovery and use of lactic acid bacteria with high levels of functionality.

We completed construction of new research facilities for the Yakult Central Institute in April 2010. The institute is now an innovative facility designed with concern for its lush green surroundings 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 was established in Ghent, Belgium, in May 2005. The Center is working to accumulate scientific evidence regarding the benefits of drinking our Probiotic products. By establishing a research base in Europe, the birthplace of the Probiotics concept, our goal is to support global business expansion encompassing not only Europe, but the Americas and Asia as well.

ORGANIZATION OF YAKULT CENTRAL INSTITUTE FOR MICROBIOLOGICAL RESEARCH

Research & Development

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

↓

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

↓

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

↓

Product Feasibility Tests

Safety testing	Industrial feasibility tests

↓

New food materials	New pharmaceutical materials	New cosmetic materials

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

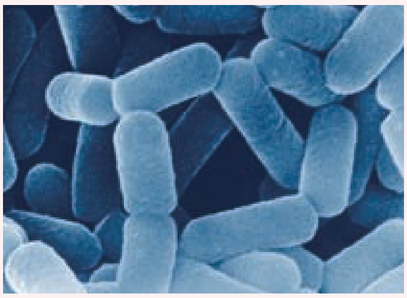
RECENT R&D ACCOMPLISHMENTS

PROBIOTIC (*LACTOBACILLUS CASEI* STRAIN SHIROTA) PROVEN EFFICACIOUS IN REDUCING THE INCIDENCE OF ACUTE DIARRHEA IN YOUNG CHILDREN

—Large-scale collaborative study undertaken with India's National Institute of Cholera and Enteric Diseases

Yakult collaborated with India's National Institute of Cholera and Enteric Diseases in a study examining the effects of oral ingestion of a probiotic containing *Lactobacillus casei* strain Shirota. The study showed that "this probiotic drink is efficacious in reducing the incidence of diarrhea in young children."

The globally unprecedented, large-scale oral ingestion study involved 3,585 Indian children from an area known to have a high incidence of diarrhea. The probiotic (*Lactobacillus casei* strain Shirota) was shown to be efficacious in reducing the incidence of acute diarrhea in young children and the difference was statistically significant. The demonstration that regular ingestion is effective in improving the gastrointestinal symptoms of the general public strongly corroborates the significance of drinking the probiotic (*Lactobacillus casei* strain Shirota).



Lactobacillus casei strain Shirota

REGULAR INGESTION OF *LACTOBACILLUS CASEI* STRAIN SHIROTA PROTECTS ATHLETES FROM THE COMMON COLD

—Study conducted at Loughborough University, UK

In research sponsored by Yakult at Loughborough University in the United Kingdom, the effects of drinking a Probiotic from Yakult (*Lactobacillus casei* strain Shirota) was studied in university athletes involved in such activities as cycling, triathlon, middle-long distance running and swimming.

The results confirmed that in athletes involved in regular intensive sports training, regular ingestion of commercially available lactobacillus beverages—including *Lactobacillus casei* strain Shirota—is effective in reducing the incidence of common colds.

Yakult is engaged in research on Probiotics, which refer to living microorganisms that confer a benefit on the host (people, etc.) by improving the balance of intestinal flora. A representative Probiotic strain is *Lactobacillus casei* strain Shirota, which, in addition to an intestinal regulation action, has been verified in many published papers to have immunoregulatory actions such as helping to suppress the recurrence of superficial bladder cancer, prevent colorectal tumors, and reduce allergy symptoms. Hereafter, Yakult will continue to actively promote research on utilizing the remarkable power of microorganisms for the benefit of people's health.

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.

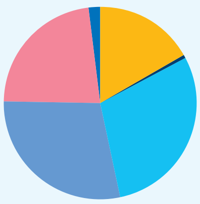
In pursuing our corporate philosophy, "we contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular," our belief is that it is important to implement transparent management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

(As of March 31, 2011)



- Japanese financial institutions **16.71%**
- Japanese securities companies **0.59%**
- Other Japanese corporations **29.41%**
- Foreign institutions and others **28.68%**
- Japanese individuals and others **22.72%**
- Treasury stock **1.89%**

MAJOR SHAREHOLDERS

(As of March 31, 2011)

	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
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank account))	2.82
Kyoshinkai	2.34
Northern Trust Co. (AVFC) Sub A/C British Clients	1.63
Japan Trustee Services Bank, Ltd. (Trust Account)	1.54
Kirin Beverage Corporation	1.40
Nippon Life Insurance Company	1.38
Mizuho Bank, Ltd.	1.24

Note: In addition to the above, the Company holds 1.89% of its own shares.

3. GOVERNING BODIES, ORGANIZATIONAL OPERATIONS AND OPERATIONAL EXECUTION

BOARD OF DIRECTORS

The Board of Directors is composed of 15 directors, including five outside directors, and holds meetings in principle seven times each year, in addition to convening special meetings as needed. The seven corporate auditors also attend meetings. 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.

The Company introduced the Executive Officer System in June 2011. This system strengthens the decision-making of the Board of Directors and business supervision functions, and clarifies responsibilities for business execution, thereby increasing the efficiency of these functions.

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 five outside directors are listed in the chart below:

(As of June 22, 2011)

Name	Relationship to the Company / Reason for Appointment as Outside Director
Ryuji Yasuda	Professor, Hitotsubashi University, Graduate School of Corporate Strategy
	Mr. Yasuda was appointed on the expectation that he will strengthen business execution oversight and supervision and contribute to further improving management by offering 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 independent from the executive team that manages Yakult Honsha's business.
Masayuki Fukuoka	Professor, Hakuoh University, Faculty of Law
	Mr. Fukuoka was appointed on the expectation that he will strengthen business execution oversight and supervision and contribute to further improving management by offering recommendations on all aspects of management based on his insight and experience as a university professor specializing in research into political science, and independent from the executive team that manages Yakult Honsha's business.
Christian Neu	Strategic Advisor to Danone S.A.
	Mr. Neu is the Strategic Advisor to Danone, the largest shareholder of Yakult Honsha. He was appointed on the expectation that he will strengthen the oversight and supervision of business execution and contribute to further improving the management structure by drawing on his extensive overseas business experience to offer appropriate advice on overall managerial issues from a broad perspective.
Bertrand Austruy	General Counsel of Danone S.A.
	Mr. Austruy is the General Counsel of Danone, the largest shareholder of Yakult Honsha. He was appointed on the expectation that he will strengthen the oversight and supervision of business execution and contribute to further improving the management structure by drawing on his extensive overseas business experience to offer appropriate advice on overall managerial issues from a broad perspective.
Richard Hall	President of Danone Waters of Japan Co., Ltd.
	Mr. Hall is a business executive of affiliates of Danone, the largest shareholder of Yakult Honsha. He was appointed on the expectation that he will strengthen the oversight and supervision of business execution and contribute to further improving management by drawing on his extensive overseas business experience to offer appropriate advice on overall managerial issues from a broad perspective.

MANAGEMENT POLICY COUNCIL AND THE EXECUTIVE OFFICERS COMMITTEE

The Company has established a set of meetings, the Management Policy Council and the Executive Officers 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 22, 2011)

Name	Relationship to the Company	Reason for Appointment as Outside Corporate Auditor
Akihiko Okudaira	None	Mr. Okudaira was appointed on the basis of his independence from the executive team that manages Yakult Honsha's business, as well as his experience as an attorney and his history as a director of the Japan Federation of Bar Associations, Chair of the board of directors of the Dai-Ichi Tokyo Bar Association, and Chair of the Japan Federation of Conciliation Associations. He is expected to use this broad knowledge to improve the quality of audits. The Company has submitted filings to the Tokyo Stock Exchange (TSE) indicating that Mr. Okudaira serves as an independent director stipulated by the TSE.
Ryohei Sumiya	None	Mr. Sumiya was appointed based on his independence from the executive team that manages the business of Yakult Honsha, his professional career as a CPA, and his knowledge of the Company; from his expert knowledge of finance and accounting and 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.	As indicated, Mr. Ikeda is a business executive of one of the Yakult sales companies with which Yakult Honsha does business. 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 expected to contribute immensely to the Group's overall development.
Seijuro Tanigawa	President, Yakult Kobe Sales Co., Ltd.	Same as above

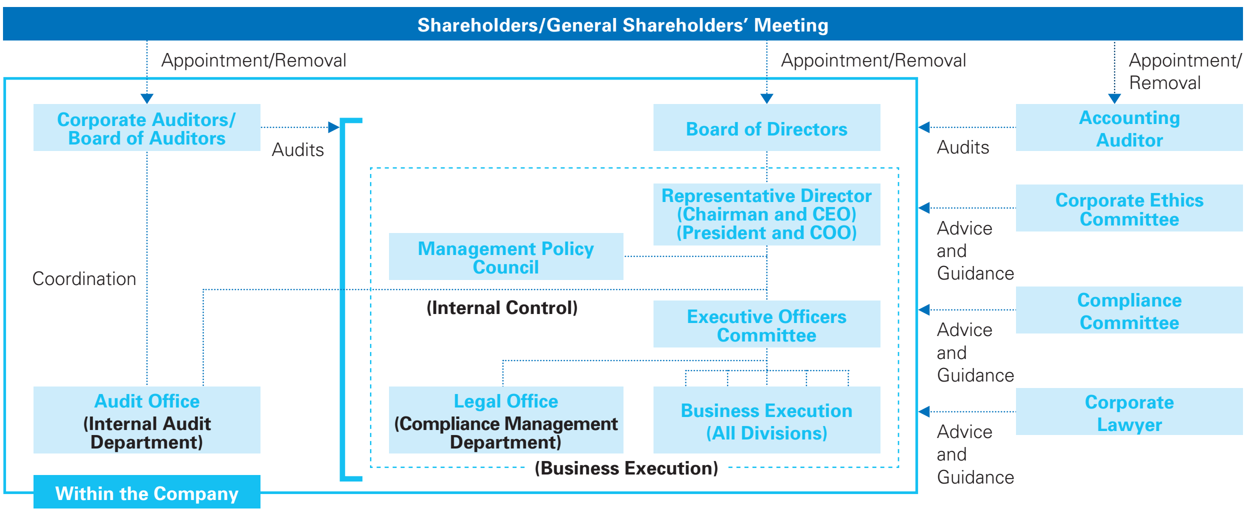
INTERNAL AUDITS

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 fifteen-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 LLC 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 business activities. We shall also maintain a close relationship with the police under normal circumstances. At the same time, we will endeavor to supervise transactions through the Corporate Ethics Committee, which consists of external experts as the main committee members, 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 and 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 has introduced the Executive Officers System to strengthen the functions of the Board of Directors to make decisions and supervise as well as to define the responsibilities in executing operations, and ultimately to improve the efficiency of these functions.

In addition, 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 officers committee are held every week in principle, aiming to speed up decision making.

Moreover, 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 be apprised of 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 authority 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," and "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.

5. OTHER CORPORATE GOVERNANCE SYSTEMS

(1) BASIC APPROACH REGARDING TIMELY DISCLOSURE

With respect to information disclosure, especially in a timely manner, in the Yakult Code of Ethics and Code of Practice, the Company makes the following commitment: "The Company will actively disclose all relevant information to our customers, shareholders, employees and business partners and increase the transparency of management, in order to gain the full trust of society through our corporate activities." Based on this approach, the Company is disclosing information in a timely manner.

(2) INTERNAL STRUCTURE RELATED TO TIMELY DISCLOSURE

- Facts and data appropriate for public disclosure from each department within the Company (including subsidiaries) are compiled by the Public Relations Department. In parallel, each department within the Company, pursuant to the Rules for Decision-Making, decides items for disclosure based on prescribed decision-making procedures. Facts and data not vetted in this manner are not publically disclosed. When making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made of the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination—the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.
- The Company is listed on the Tokyo Stock Exchange (TSE). Any information from the Company marked for timely disclosure is registered on TDnet, a system for timely disclosure provided by TSE. The registration of information for timely disclosure and responses to inquiries from TSE personnel are conducted by the General Affairs Department, the body responsible for coordinating timely disclosure. Following registration, information targeted for timely disclosure is quickly transmitted simultaneously to all relevant media outlets, with related materials disclosed at the same time on the Company's website.

(3) CHECK FUNCTIONS TO MITIGATE RISKS ASSOCIATED WITH THE IMPROPER EXECUTION OF TIMELY DISCLOSURE

- The Company has considered a variety of risk scenarios, including those in which information marked for timely disclosure is inadvertently overlooked; information is prematurely disclosed; and data pertaining to sudden crises are not promptly disclosed. A single department, the General Affairs Department, which is responsible for coordinating timely disclosure, acquires and shares information about the criteria for determining the necessity of timely disclosure, and checks information pertaining to final decisions made internally, as well as primary information when sudden crises and incidents arise. This configuration allows check functions to work and enables timely disclosure without any omissions.

BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 22, 2011)

CHAIRMAN AND REPRESENTATIVE DIRECTOR
CHIEF EXECUTIVE OFFICER

SUMIYA HORI

PRESIDENT AND REPRESENTATIVE DIRECTOR
CHIEF OPERATING OFFICER

TAKASHIGE NEGISHI
Divisional General Manager of Administrative Division

DIRECTORS

YOSHIHIRO KAWABATA
Divisional General Manager of International Business Division, and Management Support Division

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

MASAHIRO NEGISHI
Divisional General Manager of Food and Beverages Business Division, and Cosmetics Business Division

SHIGEYOSHI SAKAMOTO
Divisional General Manager of Pharmaceutical Business Division

Chairman and Representative Director
Chief Executive Officer

Sumiya Hori

President and Representative Director
Chief Operating Officer

Takashige Negishi

Directors

Yoshihiro Kawabata
Chizuka Kai
Masahiro Negishi
Shigeyoshi Sakamoto

Directors (Part-time)

Ryuji Yasuda
Masayuki Fukuoka
Christian Neu
Bertrand Austruy
Richard Hall
Shyouji Ikegami
Masayuki Takemura
Toshihiro Araki
Yasuhisa Abe

Senior Corporate Auditors

Katsumi Ohtsubo
Takeyoshi Tanaka

Corporate Auditors

Teruo Nakamura
Akihiko Okudaira
Ryohei Sumiya
Masahiko Ikeda
Seijuro Tanigawa

CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a leading Probiotics company, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy of "we contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." This is accomplished through the principles of Shirota-ism, which we have followed since the founding of the Company. At the same time, considering the critical situation that the global environment is in, we recognize that it is an extremely important issue for us to create a resource-recycling, sustainable society and that this is 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 make these guidelines more specific.

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 order to reduce the environmental burden caused by our business activities. In the year ended March 31, 2011 our Fourth Stage Environmental Action Plan was launched, which includes measures for reducing greenhouse gas emissions and waste, and cutting the volume of printer paper the Company uses.

In recognition of the need to continuously implement such activities in tandem with business operations, in March 2004, we established Yakult Eco Vision 2010, which describes a future vision of the environmental aspects of our businesses from a long-term perspective. With Eco Vision 2010, we attempted to transform all of our group companies in Japan into "green companies" by 2010, by promoting environmentally focused management. In this way, we aimed to contribute to the preservation of the global environment and the formation of a sustainable society.

In the year ended March 31, 2011, Yakult carried on its initiatives from the previous year, continuing to introduce solar and wind power generation and other forms of renewable energy, implementing greenhouse gas reduction efforts at dairy product plants and in logistics operations, and striving to achieve zero waste emissions. All these initiatives produced successful results. Since 1994, the entire Yakult Group has conducted the Environmental Preservation Campaign. More than 100,000 people have participated since the inception of the program, which has helped raise employee awareness of environmental preservation and social contribution activities.

In January 2010, we clarified within the Yakult Basic Policy on the Environment the policies guiding our response to preserving biodiversity. For Yakult, a company that thrives on the bounty of nature that the lactobacillus represents in our products, we have spelled out our stance that being mindful of the global environment and biodiversity is indispensable to conducting sustainable corporate activities.

Furthermore, in line with the conclusion of Yakult Eco Vision 2010, from fiscal 2011 we took steps to formulate a new environmental vision with targets for 2020 to accompany our "Yakult Vision 2020" long-term vision. Our intent is to implement an action plan for the latest iteration of Yakult's environmental vision from 2012.


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 living alone and chatting with them while delivering Yakult products. In September 2010, as part of this initiative, the Yakult Ladies presented elderly people living on their own with flowers and a message card. It is the sixth instance of this program, and 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 and safety patrols and maintaining contact with the police and local governments.

PUBLIC ACCESS TO PLANTS

In order to deepen people's 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 2010, tours were held at all domestic plants, except at those where tours were temporarily suspended due to equipment work, and approximately 240,000 people from the general public participated. Plant tours also take place at nearly all overseas plants. Each year we also hold festivals at our plants, and invite the local community and the families of our employees to participate, with the aim of improving relations with local communities. In 2010, a total of about 30,000 people participated in these festivals.

PROVIDING HEALTH INFORMATION

To mark World Health Day, each year on April 7, Yakult co-sponsors a Health Maintenance Advocacy Meeting with the Japan Dietetic Association (JDA), held in Yakult Hall. In 2010, the 31st year of the program, the theme of the meeting was "the lifelong importance of having a well-balanced, functional diet," a topic deeply related to preventive medicine. 403 nutritionists and others with a strong interest in health issues in total attended the event.

Just as last year, Yakult and the JDA teamed up again this year to offer free expert nutritional and dietary consultations for the general public. A total of 2,367 people came for consultations at 22 locations across Japan.

On April 21, 2010, Yakult co-sponsored the 21st Century Food and Health Forum held by The Asahi Shimbun Company. The theme of the forum, now in its tenth year, was "Dietary Improvement and Cancer Prevention: The Possibilities of Probiotics." Around 1,100 participants came to the event and gained a better understanding of the relationship between Probiotics and health.

PROMOTING SPORTS AND CULTURE

Since 1976, Yakult has hosted the Tokyo Yakult Swallows Baseball Clinic to help children learn proper practice methods and techniques, as well as feel the joy of doing exercise and know the benefits of health by interacting with professional baseball players. In fiscal 2010, the clinic was held at 15 locations around Japan, with participation by 1,887 elementary and junior high school students.

Yakult also participates in initiatives to promote lifelong sports activities by promoting "bound tennis," a sport that originated in Japan.

CONSOLIDATED FIVE-YEAR SUMMARY

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011, 2010, 2009, 2008 and 2007

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2007	2008	2009	2010	**2011**	**2011**
For the year:						
Net sales	¥ 273,100	¥ 317,335	¥ 293,490	¥ 290,678	**¥ 305,944**	**$3,686,076**
Selling, general and administrative expenses	124,110	146,693	138,113	138,584	**147,139**	**1,772,759**
Operating income	23,893	22,502	16,744	18,991	**20,401**	**245,799**
Net income	14,806	16,675	11,325	13,249	**13,169**	**158,659**
Research and development costs	6,745	8,952	9,248	9,622	**11,480**	**138,317**
Capital investments	16,786	28,973	27,967	19,980	**23,970**	**288,791**
Depreciation and amortization	9,025	12,054	18,571	18,913	**19,628**	**236,483**
At the year-end:						
Total assets	¥ 354,539	¥ 384,569	¥ 361,902	¥ 389,892	**¥ 392,828**	**$4,732,873**
Net property, plant and equipment	101,590	116,078	131,321	130,391	**133,717**	**1,611,053**
Total liabilities	93,334	118,566	134,936	140,970	**141,857**	**1,709,119**
Total equity	261,205	266,003	226,966	248,922	**250,971**	**3,023,754**
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 84.93	¥ 95.93	¥ 65.75	¥ 77.11	**¥ 76.55**	**$ 0.92**
Total equity (Note 3)	1,356.68	1,376.41	1,195.60	1,300.21	**1,313.37**	**15.82**
Cash dividends applicable to the year	18.00	20.00	20.00	20.00	**22.00**	**0.27**
Financial ratios:						
Return on equity (ROE) (%)	6.5	7.0	5.1	6.2	**5.9**	
Equity ratio (%)	66.6	61.7	56.8	57.4	**57.5**	

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 ¥83 to U.S.$1, the approximate rate of exchange at March 31, 2011.
3. Minority interests are not included in equity on process of calculation.

FINANCIAL SECTION

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In fiscal 2011, ended March 31, 2011, the Japanese economy failed to extinguish the shadow of uncertainty cast by the repercussions of the Great East Japan Earthquake, a downswing in the US and EU economies, fluctuations in foreign exchange and stock markets, and stubborn deflationary pressures. This challenging climate lingered despite signs of recovery in corporate earnings and personal consumption levels.

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 our operations, while striving to communicate the superiority of our 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 vigorously enhance its overseas operations and pharmaceuticals business.

As a result of these efforts, the Group recorded consolidated net sales of ¥305.9 billion. Operating income climbed 7.4%, to ¥20.4 billion, while the operating margin rose 0.2 of a percentage point year on year, to 6.7%. However, net income decreased 0.6%, to ¥13.2 billion, and the return on net sales was 4.3%, down 0.3 of a percentage point from the previous fiscal year.

SALES, COSTS, EXPENSES AND EARNINGS

SALES

Net sales increased 5.3%, to ¥305.9 billion, despite the impact of negative ¥0.9 billion from foreign currency fluctuations.

Looking at net sales by reporting segment (before eliminations), Food and Beverages (Japan) accounted for 59.8% of sales, or 1.1 point lower than in the previous fiscal year. Food and Beverages (Overseas) accounted for 22.6% of sales, or 0.1 point higher than in the previous fiscal year. Pharmaceuticals generated 12.2%, up 0.4 of a percentage point from the previous fiscal year; and Others contributed 5.4%, up 0.6 of a percentage point from the previous fiscal year.

In the Americas, sales increased 8.6%, to ¥37.6 billion, due to sales growth in the United States as Yakult expanded its sales area and the number of stores that sell its products. Growth in sales volume was also noted in Brazil and Mexico despite adverse economic conditions in these markets. In Asia and Oceania, sales climbed 13.4%, to ¥25.5 billion, supported by steady sales growth in China and other key countries and regions. In contrast, sales in Europe declined 11.0% to ¥8.6 billion, as robust sales in Italy were overshadowed by intensifying competition from rival companies across Europe. The situation was exacerbated by severe economic conditions in the Probiotics market, particularly in countries where Yakult already has a well-established presence.

COSTS, EXPENSES AND EARNINGS

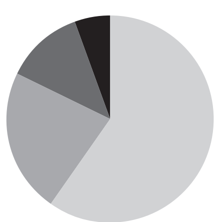
Consolidated cost of sales increased 4.0%, to ¥138.4 billion. As a result, the cost of sales ratio declined 0.6 of a percentage point, to 45.2%. Gross profit increased 6.3%, to ¥167.5 billion, and the gross profit margin rose 0.6 of a percentage point, to 54.8%.

Selling, general and administrative (SG&A) expenses increased 6.2%, to ¥147.1 billion. This increase resulted mainly from increased sales promotion expenses for business expansion and increased R&D expenses for new drug development. Consequently, the SG&A expense ratio increased 0.4 of a percentage point, to 48.1%. R&D expenses edged up ¥1.9 billion year on year, to ¥11.5 billion. As a percentage of net sales, R&D expenses increased 0.5 of a percentage point, to 3.8%.

As a result, operating income rose 7.4%, to ¥20.4 billion, and the operating margin increased 0.2 of a percentage point, to 6.7%.

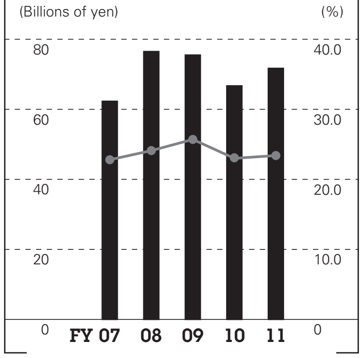
BREAKDOWN OF NET SALES (BEFORE ELIMINATIONS) (FY2011)

(%)



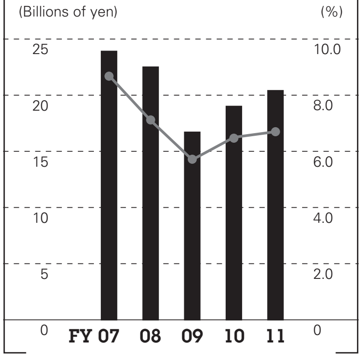
- Food and Beverages (Japan) **59.8**
- Food and Beverages (Overseas) **22.6**
- Pharmaceuticals **12.2**
- Others **5.4**

OVERSEAS NET SALES/ RATIO TO TOTAL NET SALES



■ Overseas net sales (left scale)
-●- Ratio to total net sales (right scale)

OPERATING INCOME AND OPERATING MARGIN



■ Operating income (left scale)
-●- Operating margin (right scale)

Other income—net amounted to ¥1.0 billion, down ¥1.6 billion from a year earlier, mainly impacted by losses from a natural disaster.

Income taxes came to ¥5.3 billion.

Consequently, net income decreased 0.6%, to ¥13.2 billion, and the return on net sales fell 0.3 of a percentage point, to 4.3%.

OVERVIEW BY SEGMENT

FOOD AND BEVERAGES (JAPAN): In Probiotic products, Yakult has celebrated 75 years of anniversary since its founding. After taking stock and reflecting upon our founding concepts of preventive medicine, the link between a healthy intestinal tract and a long life, and offering products at a price affordable to everyone, we began activities aimed at vigorously promoting the value and appeal of our proprietary living Lactobacillus casei strain Shirota and Bifidobacterium breve strain Yakult through both our home delivery and retail store sales channels.

In our home delivery channel, we worked to develop more long-term customers using sales activities that get people to try our products through samples or trial use. The focus of these activities was *Yakult 400* series products, including both our mainstay *Yakult 400* fermented milk drink and *Yakult 400LT*, as well as *Mil-Mil*, a drinkable yogurt containing Bifidobacteria and *Mil-MilS*, which was launched in October 2010 as a new addition to the *Mil-Mil* series.

In our retail store channel, Yakult sales promotion staff took steps to highlight the value and appeal of products, centered on *Mil-Mil*, fermented milk drink *Yakult* and *Yakult Calorie Half*, two products whose package designs were renewed in May 2010.

In addition, in order to activate our drinkable yoghurt brand, *Joie*, we released three new flavors, mango in June, citrus in November, and orange in February, as time-limited offers.

As a result of these activities, overall performance in Probiotic products improved year on year.

In juices and other beverages, *Kurozu Drink*, a mainstay in our health and functional food products, was revamped in June 2010. In September 2010, we also changed the package design for *Bansoreicha* and launched *Bansoreicha Kobashifumi*, a lighter, more fragrant take on *Bansoreicha*, designed to appeal to current and new customers alike the following month.

However, performance over the year as a whole in juices and other beverages was slightly lower compared to the previous fiscal year. This was due to the tough business environment prevalent in the latter half of the year, despite strong sales in the first half of the year, resulting in part from the extreme summer heat. As a result, net sales increased to ¥189.8 billion, or 5.2%, from the prior fiscal year, and operating income climbed 48.6%, to ¥11.0 billion.

FOOD AND BEVERAGES (OVERSEAS): 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, 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*. Average daily sales of all *Yakult* products overseas were approximately 20.07 million bottles in March 2011.

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil and Mexico, and imports products for sale in Argentina, the United States, and other countries.

In the United States, we have acquired a site for a *Yakult* production facility, the first in this country, in Fountain Valley, California. Local production is scheduled to commence in 2012. As a result, net sales increased to ¥37.6 billion, or 8.6%, from the prior fiscal year, and operating income climbed 8.3%, to ¥8.3 billion.

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China, and other countries.

In India, we started to sell the fermented milk drink *Yakult* through our retail store channel in Bangalore from August 2010.

In China, we continued to steadily expand our sales area to other major coastal cities, while focusing efforts on Guangzhou, Shanghai and Beijing. Furthermore, we launched sales of *Yakult* in Hefei, the capital city of Anhui province through our retail store channel in January 2011. Hefei is the second city in China's interior after Wuhan in which we have started sales and we aim to familiarize our products further with consumers in these areas. To supply products to northern China, construction of our third production facility in China in the city of Tianjin is continuing and production is scheduled to commence in fall 2011. As a result, net sales increased to ¥25.5 billion, or 13.4%, from the prior fiscal year, and operating income fell 4.3%, to ¥4.1 billion.

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

Economic conditions in the region remain severe, exacerbated by intensifying competition from rival companies in the Probiotics market. As a result, net sales decreased to ¥8.6 billion, or 11.0%, from the prior fiscal year, and operating income fell 2.3%, to ¥0.6 billion.

PHARMACEUTICALS: Brisk growth in domestic sales overcame a year-on-year drop in overseas sales, resulting in an increase in consolidated sales in the Pharmaceuticals segment of 10.8%, to ¥38.9 billion. Operating income decreased 3.6%, to ¥10.2 billion.

In Japan, we focused on promoting the correct use of the cancer chemotherapeutic agent *Elplat*, actively sponsoring lectures and presentations targeting healthcare professionals in this area. Similarly, attention was given to sales activities built on Yakult's specialization in the oncology field, which focused on greater market share for cancer chemotherapeutic agent *Campto* and activated folic acid drug *Levofolinate Yakult*, and expansion in sales channels for recombinant DNA G-CSF chemotherapy treatment *Neu-up.*

For *Elplat*, we switched away from freeze-dried formulation and launched an easy and safe to prepare, water-soluble version of the drug in June 2010.

Also, we have been aiming to expand sales channels through a variety of measures including applications for the approval of dosages in June for concurrent therapy with *Capecitabine*, an orally-administered chemotherapeutic agent for colorectal cancers in supplemental chemotherapy following surgery for colon cancer.

In February 2011, Yakult entered into a definitive agreement with Proacta Incorporated, a US-based biotechnology company, relating to the collaborative research, development and commercialization of PR509, a hypoxia-activated pro-drug for the treatment of cancer. In March 2011, Yakult signed an exclusive development, commercialization and licensing agreement with Aeterna Zentaris of Germany for the development and commercialization of *Perifosine*, an anti-cancer compound, in Japan. With these arrangements we are aiming to gain an ever stronger foothold in the cancer field.

Despite these efforts, we were not able to maintain and recover market share of *Campto* lost due to the appearance of generic products.

OTHERS: 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. Emphasis here was on basic skin care products, namely our core brands *Parabio*, *Revecy and Revecy White*.

Nine products with new moisturizing agents were released as part of the enhanced *Parabio* Series in May 2010. Also, *Revecy* Series were remodeled as "new moisturizer *Revecy*" in November. The following month, December, saw the release of a limited edition *Yakult Beautiens Brilliant ~The Cream~*, the culmination of our decades of experience in cosmetics R&D, to commemorate the 75th anniversary of Yakult's founding.

These efforts notwithstanding, overall performance in cosmetics was virtually unchanged year on year, despite shortcomings in brand penetration for *Parabio* and *Revecy White*.

In our professional baseball operations, we faced a tough business environment primarily due to stalled growth in attendance and falling season ticket revenue. This was despite aggressive campaigns such as fan-services, information sharing, and the staging of various events at the Jingu Stadium.

As a result, the Others segment saw consolidated sales rise 20.7%, to ¥17.2 billion, but posted an operating loss of ¥0.7 billion.

From this fiscal year ended March 31, 2011 onwards, this segment includes the activities of Yakult's unconsolidated subsidiaries in prior years.

FINANCIAL POSITION

Total assets at year-end amounted to ¥392.8 billion, climbing 0.8% year on year.

Current assets increased ¥1.1 billion, or 0.6%, from the prior fiscal year-end, to ¥182.8 billion, principally due to growth in cash and cash equivalents and deferred tax assets.

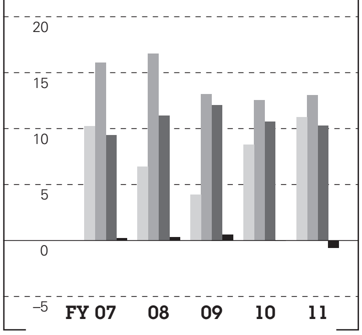
Net property, plant and equipment increased ¥3.3 billion, to ¥133.7 billion. This was primarily due to an increase in construction in progress.

Investments and other assets decreased ¥1.5 billion, or 1.9%, to ¥76.3 billion, mainly because of decreases in investment securities.

In the fiscal year under review, capital investments increased 20.0%, to ¥24.0 billion.

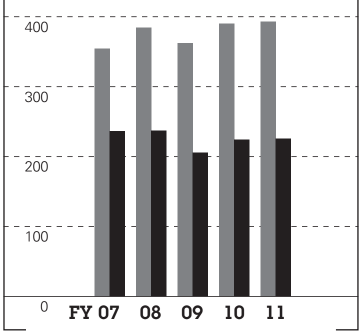
Total liabilities grew 0.6%, to ¥141.9 billion. The major component of this increase was a rise in income taxes

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT
(Billions of yen)



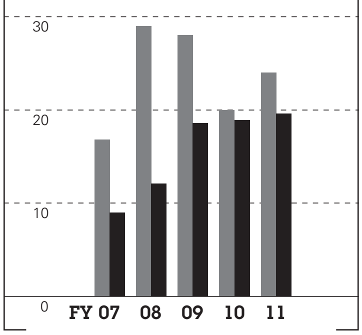
■ Food and Beverages (Japan)
■ Food and Beverages (Overseas)
■ Pharmaceuticals
■ Others

TOTAL ASSETS AND EQUITY (Excluding Minority Interests)
(Billions of yen)



■ Total assets
■ Equity (excluding minority interests)

CAPITAL INVESTMENTS AND DEPRECIATION AND AMORTIZATION
(Billions of yen)



■ Capital investments
■ Depreciation and amortization

payable and liability for retirement benefits of ¥2.4 billion, despite a decline of ¥1.7 billion in short-term borrowings. As a result, interest-bearing debt fell ¥4.3 billion from the previous fiscal year, to ¥57.6 billion, while the debt-to-equity ratio improved 2.1 percentage points to 25.5%.

Equity increased 0.9% to ¥225.9 billion, from ¥223.9 billion a year earlier. This rise was primarily due to a growth in retained earnings.

As a result, the equity ratio improved 0.1 of a percentage point, to 57.5%. Return on equity (ROE) dropped 0.3 of a percentage point, to 5.9%, principally due to lower net income for the year. Return on assets (ROA) increased 0.1 of a percentage point, to 5.2%.

CASH FLOWS

Net cash provided by operating activities was up ¥1.5 billion from the previous year, to ¥41.0 billion. The improvement primarily resulted from an increase in income before income taxes and minority interests, increase in depreciation and amortization, and a decrease in inventories.

Net cash used in investing activities increased ¥1.7 billion, to ¥21.6 billion. Cash was mainly used for purchases of property, plant and equipment, specifically for the new establishment and expansion of production facilities.

Net cash used in financing activities was ¥12.4 billion, an increase of ¥9.7 billion from the previous fiscal year. This payment was mainly attributed to the repayment of lease obligations and the payment of dividends.

As a result, cash and cash equivalents at year-end amounted to ¥86.6 billion, a net increase of ¥3.4 billion from the previous fiscal year-end.

We 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 will be decided 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.

In line with the aforementioned policy, we will pay an annual dividend of ¥22.0 per share for fiscal 2011. This dividend will consist of a standard year-end dividend of ¥10.0 per share, together with an interim dividend of ¥10.0 per share. Furthermore, we intend to add a commemorative dividend of ¥2.0 to the year-end dividend in fiscal 2011. This additional dividend is to celebrate the 75th anniversary of the Yakult Group during the year, and an expression of gratitude to shareholders for their steadfast support.

Furthermore, we plan to pay a dividend of ¥22.0 per share for fiscal 2012. We intend to incorporate the ¥2.0 paid as a commemorative dividend for fiscal 2011, into the base annual dividend of ¥20.0 per share for fiscal 2012.

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

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

In our Probiotics business, we will continue to develop more robust activities in both home delivery and retail store channels that underscore the value of the *Lactobacillus casei* strain Shirota and the enhanced *Bifidobacterium breve* strain Yakult.

In our home delivery channel, we will work to develop more customers by continuing sales promotion activities that get people to try our products through samples or trial use. These activities will be built around *Yakult 400*, *Yakult 400LT*, and the revamped *Mil-Mil* and *Mil-MilS*. In our retail store channel, we will continue to promote the health value of our products centered on Yakult.

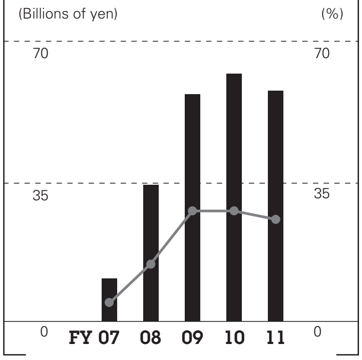
In juices and other beverages, we will aim to increase sales by introducing new products and revamping existing products centered on health and functional food products.

Our sales and production facilities suffered damage as a result of the Great East Japan Earthquake that occurred in March 2011. We will spare no effort in bringing operations back to normal with the least possible delay.

Overseas, we will develop operations with "Yakult Vision 2020," our medium- to long-term plan, which started in fiscal 2011, as a guiding framework.

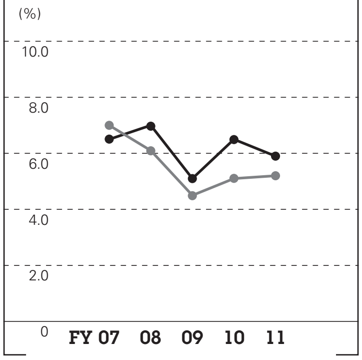
In countries where Yakult has already made inroads, our goal is to continue to strengthen the base for growth by

INTEREST-BEARING DEBT AND DEBT-TO-EQUITY RATIO



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

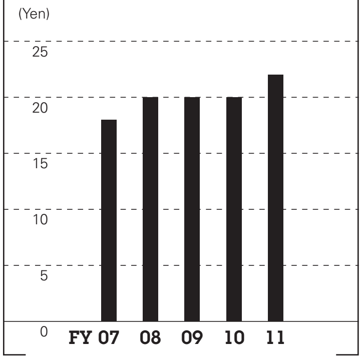
ROE AND ROA



-●- ROE
-●- ROA

Note: ROA is calculated based on operating income.

DIVIDENDS



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 stabilize management and promote business growth.

Decisions to advance operations in new countries and regions 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 market expansion as key issues. We will also work to expand market share for cancer chemotherapeutic agent *Campto* and activated folic acid drug *Levofolinate Yakult*, and seek to expand sales channels for recombinant DNA G-CSF chemotherapy treatment *Neu-up*. In these ways, we will further concentrate our efforts on sales activities focused on the cancer field.

Overseas, we remain committed to further differentiating *Campto* 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, centered on basic cosmetics.

At the same time, another aim will be to boost sales of the Revecy White series, remodeled to reflect customer needs, by diversifying both sales channels and selling methods.

Our sales facilities suffered damage as a result of the Great East Japan Earthquake that occurred in March 2011. We will spare no effort in bringing operations back to normal with the least possible delay.

BUSINESS RISKS

This section includes an explanation of business risks associated with business conditions, accounting, and other factors stated in our securities report. This discussion will focus on factors that may have a material impact on investor decisions.

Forward-looking statements contained herein are based on the Group's judgment as of the date of filing of our securities report.

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 overseas business results is growing 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 these risks in various ways, there is no guarantee that such risks can be completely avoided. Moreover, given the underlying differences of social background between many overseas countries and regions and Japan, there is a risk that the unforeseen establishment, amendment, or abolition 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 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, price increases in the crude oil market, especially those sustained over extended periods, could adversely affect transportation costs related to our products. In the event that we are unable to cover the effects of higher raw material 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 the risks related to unseasonable weather conditions and natural disasters. As such, the aforementioned risks are not an exhaustive list of those that could negatively impact the Group business operations. The Group is aware of these risks, however, and strives to mitigate or to avoid their occurrence.

CONSOLIDATED BALANCE SHEETS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 12)	**¥ 86,551**	¥ 83,190	**$ 1,042,781**
Time deposits (Notes 6 and 12)	**2,287**	2,713	**27,549**
Receivables (Note 12):			
Notes and accounts receivable	**46,087**	46,386	**555,267**
Unconsolidated subsidiaries and associated companies	**3,333**	2,989	**40,160**
Other	**4,390**	5,163	**52,897**
Inventories (Note 4)	**27,740**	31,103	**334,219**
Deferred tax assets (Note 9)	**9,240**	7,184	**111,325**
Other current assets	**3,655**	3,604	**44,035**
Allowance for doubtful accounts (Note 12)	**(453)**	(615)	**(5,459)**
Total current assets	**182,830**	181,717	**2,202,774**
Property, plant and equipment:			
Land (Note 6)	**34,629**	33,929	**417,218**
Buildings and structures (Note 6)	**100,126**	94,224	**1,206,334**
Machinery, equipment and vehicles	**97,150**	94,850	**1,170,477**
Furniture and fixtures	**18,383**	17,681	**221,485**
Lease assets (Note 10)	**23,615**	22,375	**284,521**
Construction in progress	**8,920**	4,569	**107,475**
Total	**282,823**	267,628	**3,407,510**
Accumulated depreciation	**(149,106)**	(137,237)	**(1,796,457)**
Net property, plant and equipment	**133,717**	130,391	**1,611,053**
Investments and other assets:			
Investment securities (Notes 5 and 12)	**26,474**	29,837	**318,959**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 12)	**30,815**	30,922	**371,268**
Long-term loans	**602**	428	**7,252**
Goodwill	**272**	413	**3,273**
Deferred tax assets (Note 9)	**6,892**	4,978	**83,034**
Other assets	**11,226**	11,206	**135,260**
Total investments and other assets	**76,281**	77,784	**919,046**
Total	**¥ 392,828**	¥ 389,892	**$ 4,732,873**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term borrowings (Notes 6 and 12)	**¥ 2,671**	¥ 4,456	**$ 32,175**
Current portion of long-term debt (Notes 6, 10 and 12)	**4,985**	5,508	**60,057**
Payables (Note 12):			
Notes and accounts payable	**22,168**	21,452	**267,083**
Unconsolidated subsidiaries and associated companies	**92**	127	**1,103**
Other	**6,081**	5,646	**73,269**
Income taxes payable (Note 9)	**3,335**	2,257	**40,182**
Accrued expenses	**16,589**	17,493	**199,880**
Allowance for loss on plants reorganization	**162**	169	**1,952**
Allowance for losses from a natural disaster	**713**		**8,584**
Deferred tax liabilities (Note 9)	**41**	56	**499**
Other current liabilities	**6,339**	5,750	**76,368**
Total current liabilities	**63,176**	62,914	**761,152**
Long-term liabilities:			
Long-term debt (Notes 6, 10 and 12)	**49,946**	51,917	**601,769**
Liability for retirement benefits (Note 7)	**19,246**	17,903	**231,877**
Allowance for loss on plants reorganization	**2,148**	2,092	**25,880**
Asset retirement obligations	**785**		**9,453**
Deferred tax liabilities (Note 9)	**2,610**	2,582	**31,442**
Other long-term liabilities	**3,946**	3,562	**47,546**
Total long-term liabilities	**78,681**	78,056	**947,967**
Commitments and contingent liabilities (Note 10)			
Equity (Notes 8 and 16)**:**			
Common stock—			
authorized, 700,000,000 shares;			
issued, 175,910,218 shares in 2011 and 2010	**31,118**	31,118	**374,911**
Capital surplus	**41,192**	41,230	**496,290**
Retained earnings	**200,997**	187,991	**2,421,651**
Treasury stock—at cost			
3,920,724 shares in 2011 and 3,733,177 shares in 2010	**(9,051)**	(8,432)	**(109,043)**
Accumulated other comprehensive income:			
Unrealized (loss) gain on available-for-sale securities	**(935)**	1,161	**(11,264)**
Foreign currency translation adjustments	**(37,435)**	(29,202)	**(451,020)**
Total	**225,886**	223,866	**2,721,525**
Minority interests	**25,085**	25,056	**302,229**
Total equity	**250,971**	248,922	**3,023,754**
Total	**¥392,828**	¥389,892	**$4,732,873**

CONSOLIDATED STATEMENTS OF INCOME

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net sales (Note 3)	**¥305,944**	¥290,678	**$3,686,076**
Cost of sales (Notes 7, 10 and 14)	**138,404**	133,103	**1,667,518**
Gross profit	**167,540**	157,575	**2,018,558**
Selling, general and administrative expenses (Notes 7, 10 and 14)	**147,139**	138,584	**1,772,759**
Operating income	**20,401**	18,991	**245,799**
Other income (expenses):			
Interest and dividend income	**2,553**	2,358	**30,759**
Interest expense	**(812)**	(807)	**(9,776)**
Royalty income (Note 3)		314	
Foreign exchange (loss) gain	**(334)**	117	**(4,018)**
Equity in earnings of associated companies	**2,131**	2,275	**25,672**
Valuation loss on investment securities	**(607)**	(12)	**(7,318)**
Provision for loss on plants reorganization	**(218)**	(106)	**(2,627)**
Impairment loss	**(426)**	(2,247)	**(5,138)**
Losses from a natural disaster (Note 15)	**(1,657)**		**(19,966)**
Loss on adjustment for a change of accounting standard for asset retirement obligation	**(615)**		**(7,408)**
Other—net	**987**	736	**11,888**
Other income—net	**1,002**	2,628	**12,068**
Income before income taxes and minority interests	**21,403**	21,619	**257,867**
Income taxes (Note 9):			
Current	**8,205**	5,700	**98,854**
Deferred	**(2,937)**	(14)	**(35,389)**
Total income taxes	**5,268**	5,686	**63,465**
Net income before minority interests	**16,135**		**194,402**
Minority interests in net income	**2,966**	2,684	**35,743**
Net income	**¥ 13,169**	¥ 13,249	**$ 158,659**
	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (R)):			
Basic net income	**¥76.55**	¥77.11	**$0.92**
Cash dividends applicable to the year	**22.00**	20.00	**0.27**

Diluted net income per share of common stock for 2011 and 2010 was not calculated due to the absence of dilutive securities.
See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	**2011**
Net income before minority interests	**¥ 16,135**	**$ 194,402**
Other comprehensive income (Note 13):		
Unrealized loss on available-for-sale securities	**(2,162)**	**(26,045)**
Foreign currency translation adjustments	**(10,213)**	**(123,051)**
Share of other comprehensive income in associates	**46**	**556**
Total other comprehensive income	**(12,329)**	**(148,540)**
Comprehensive income (Note 13)	**¥ 3,806**	**$ 45,862**
Total comprehensive income attributed to (Note 13):		
Owners of the parent	**¥ 2,839**	**$ 34,214**
Minority interests	**967**	**11,648**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011 and 2010

	Thousands	Millions of yen								
						Accumulated other comprehensive income				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, April 1, 2009	172,004	¥31,118	¥41,136	¥178,214	¥(8,953)	¥(1,441)	¥(34,426)	¥205,648	¥21,318	¥226,966
Net income				13,249				13,249		13,249
Cash dividends, ¥20.0 per share				(3,435)				(3,435)		(3,435)
Adjustment of retained earnings for newly consolidated subsidiaries				(37)				(37)		(37)
Disposal of treasury stock	550		94		1,214			1,308		1,308
Repurchase of treasury stock	(3)				(7)			(7)		(7)
Other increase in treasury stock	(374)				(686)			(686)		(686)
Net change in the year						2,602	5,224	7,826	3,738	11,564
Balance, March 31, 2010	172,177	31,118	41,230	187,991	(8,432)	1,161	(29,202)	223,866	25,056	248,922
Beginning balance effect of change in account policy in foreign associated companies			**(38)**	**1,767**				**1,729**		**1,729**
Net income				**13,169**				**13,169**		**13,169**
Cash dividends, ¥20.0 per share				**(3,439)**				**(3,439)**		**(3,439)**
Increase due to change in scope of consolidation				**1,509**				**1,509**		**1,509**
Repurchase of treasury stock	**(15)**				**(36)**			**(36)**		**(36)**
Other increase in treasury stock	**(172)**				**(583)**			**(583)**		**(583)**
Net change in the year						**(2,096)**	**(8,233)**	**(10,329)**	**29**	**(10,300)**
Balance, March 31, 2011	**171,990**	**¥31,118**	**¥41,192**	**¥200,997**	**¥(9,051)**	**¥ (935)**	**¥(37,435)**	**¥225,886**	**¥25,085**	**¥250,971**

	Thousands of U.S. dollars (Note 1)								
					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, March 31, 2010	$374,911	$496,744	$2,264,957	$(101,584)	$ 13,984	$(351,824)	$2,697,188	$301,875	$2,999,063
Beginning balance effect of change in account policy in foreign associated companies		**(454)**	**21,292**				**20,838**		**20,838**
Net income			**158,659**				**158,659**		**158,659**
Cash dividends, $0.24 per share			**(41,441)**				**(41,441)**		**(41,441)**
Increase due to change in scope of consolidation			**18,184**				**18,184**		**18,184**
Repurchase of treasury stock				**(435)**			**(435)**		**(435)**
Other increase in treasury stock				**(7,024)**			**(7,024)**		**(7,024)**
Net change in the year					**(25,248)**	**(99,196)**	**(124,444)**	**354**	**(124,090)**
Balance, March 31, 2011	**$374,911**	**$496,290**	**$2,421,651**	**$(109,043)**	**$(11,264)**	**$(451,020)**	**$2,721,525**	**$302,229**	**$3,023,754**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Operating activities:			
Income before income taxes and minority interests	**¥ 21,403**	¥ 21,619	**$ 257,867**
Adjustments for:			
Income taxes—paid	**(7,079)**	(4,132)	**(85,285)**
Income taxes—refund		746	
Depreciation and amortization	**19,628**	18,913	**236,483**
Losses from a natural disaster	**945**		**11,382**
Loss on adjustment for a change of accounting standard for asset retirement obligations	**615**		**7,408**
Impairment loss	**426**	2,247	**5,138**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(2,131)**	(2,275)	**(25,672)**
Loss on valuation of investment securities	**607**	12	**7,318**
Payment for execution of debt guarantee		(1,836)	
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	**(758)**	407	**(9,130)**
Decrease in inventories	**3,104**	1,385	**37,393**
Increase (decrease) in payables	**1,139**	(1,746)	**13,722**
Increase in liability for retirement benefits	**1,149**	891	**13,840**
Other—net	**1,940**	3,304	**23,363**
Total adjustments	**19,585**	17,916	**235,960**
Net cash provided by operating activities	**40,988**	39,535	**493,827**
Investing activities:			
Transfers to time deposits	**(3,531)**	(7,377)	**(42,547)**
Proceeds from withdrawing time deposits	**4,005**	8,307	**48,250**
Purchases of property, plant and equipment	**(22,165)**	(20,429)	**(267,049)**
Proceeds from sales of property, plant and equipment	**890**	3,923	**10,723**
Purchases of investment securities	**(858)**	(3,156)	**(10,335)**
Acquisition of controlling interest in companies	**(160)**	(34)	**(1,924)**
Acquisition of shares of subsidiaries		(215)	
Increase in loans receivable	**(41)**	(187)	**(488)**
Collection of loans receivable	**272**	335	**3,279**
Other—net	**(38)**	(1,137)	**(458)**
Net cash used in investing activities	**(21,626)**	(19,970)	**(260,549)**
Financing activities:			
Net increase in short-term loans	**(1,699)**	(32,315)	**(20,474)**
Proceeds from long-term debt		40,060	
Payments for settlement of long-term debt	**(6,651)**	(7,297)	**(80,130)**
Repurchase of treasury stock	**(36)**	(7)	**(435)**
Sales of treasury stock		1,572	
Dividends paid	**(3,434)**	(3,429)	**(41,368)**
Other—net	**(594)**	(1,327)	**(7,154)**
Net cash used in financing activities	**(12,414)**	(2,743)	**(149,561)**
Foreign currency translation adjustments on cash and cash equivalents	**(4,444)**	3,675	**(53,547)**
Net increase in cash and cash equivalents	**2,504**	20,497	**30,170**
Cash and cash equivalents of newly consolidated subsidiary, beginning of year		27	
Cash and cash equivalents resulting from changing scope of consolidation, beginning of year	**857**		**10,319**
Cash and cash equivalents, beginning of year	**83,190**	62,666	**1,002,292**
Cash and cash equivalents, end of year	**¥ 86,551**	¥ 83,190	**$1,042,781**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YAKULT HONSHA CO., LTD. and consolidated subsidiaries
Years ended March 31, 2011 and 2010

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 the application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statements of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 13. In addition, "net income before minority interests" is disclosed in the consolidated statements of income from the year ended March 31, 2011.

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 2010 financial statements to conform to the classifications used in 2011.

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 ¥83 to U.S.$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 81 (68 in 2010) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (4 in 2010) associated companies are accounted for by the equity method.

Investments in the remaining 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 the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries at the date of acquisition is being amortized on a straight-line basis over 10 years.

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

(B) 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 accounting for property, plant, and equipment and investment properties and incorporation of the cost model 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 contained.

The Company applied this accounting standard effective April 1, 2008.

(C) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD

In March 2008, the ASBJ issued ASBJ Statement No. 16, "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 impracticable 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 accounting for property, plant, and equipment and investment properties and incorporation of the cost model 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 contained. This standard was applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010.

(D) BUSINESS COMBINATION

In December 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 revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. This standard was 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.

The company applied this accounting standard effective April 1, 2010.

(E) 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.

(F) INVENTORIES

Inventories are stated at the lower of cost, determined by the average method, or net selling value.

(G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method. On the other hand, the straight-line method is principally applied to the property, plant and equipment of consolidated foreign subsidiaries.

Estimated useful lives are as follows:

- The Company and its consolidated domestic subsidiaries

Buildings and structures	5 to 50 years
Machinery, equipment and vehicles	4 to 17 years

- Consolidated foreign subsidiaries

Buildings and structures	3 to 40 years
Machinery, equipment and vehicles	2 to 15 years

(H) 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.

(I) INVESTMENT SECURITIES

The Group classifies all securities as available-for-sale securities, and reports marketable 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.

(J) 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.

(K) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ published the 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 the 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 was effective for fiscal years beginning on or after April 1, 2010. The Company and its consolidated domestic subsidiaries applied this accounting standard effective April 1, 2010. The effect of this change on operating income was not material, and to decrease net income before minority interests by ¥622 million ($7,491 thousand).

(L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

(M) LEASES

All finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

(N) BONUSES TO DIRECTORS AND CORPORATE AUDITORS

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

(O) 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.

(P) 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.

(Q) FOREIGN CURRENCY FINANCIAL STATEMENTS

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

Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rate.

(R) 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, 2011 and 2010 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.

(S) NEW ACCOUNTING PRONOUNCEMENTS

Accounting Changes and Error Corrections

In December 2009, ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections", and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies:

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. ACCOUNTING CHANGE

Effective April 1, 2010, the Company classified royalty income in net sales, which had been stated in other income in prior years, due to appropriate presentation resulting from the revision of the business performance evaluation. The effect of this change on net sales and operating income was not material, and no impact on income before income taxes and minority interests.

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Merchandise and finished products	**¥8,380**	¥ 7,617	**$100,960**
Work in process	**2,943**	3,626	**35,461**
Raw materials and supplies	**16,417**	19,860	**197,798**
Total	**¥27,740**	¥31,103	**$334,219**

5. INVESTMENT SECURITIES

Investment securities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Investment securities:			
Marketable equity securities	**¥25,617**	¥29,072	**$308,634**
Government and corporate bonds	**5**	5	**56**
Trust fund investments and other	**852**	760	**10,269**
Total	**¥26,474**	¥29,837	**$318,959**

The costs and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2011				
Securities classified as—				
Available-for-sale:				
Equity securities	**¥28,457**	**¥1,362**	**¥4,202**	**¥25,617**
Debt securities	**5**			**5**
Other	**12**			**12**
March 31, 2010				
Securities classified as—				
Available-for-sale:				
Equity securities	¥27,676	¥4,030	¥2,634	¥29,072
Debt securities	5			5
Other	20		6	14

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2011				
Securities classified as—				
Available-for-sale:				
Equity securities	**$342,859**	**$16,409**	**$50,634**	**$308,634**
Debt securities	**57**		**1**	**56**
Other	**148**			**148**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2011 and 2010 were ¥64 million ($774 thousand) and ¥0 million, respectively. Gross realized gain on these sales for the years ended March 31, 2011 and 2010, computed on the moving average cost basis, were ¥20 million ($243 thousand) and ¥0 million, respectively. Gross realized losses on these sales for the years ended March 31, 2011 and 2010 were ¥1 million ($16 thousand) and ¥0 million, respectively.

The valuation loss on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥607 million ($7,318 thousand) and ¥12 million, respectively.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings mainly consisting of bank loans, which include notes to banks and bank overdrafts, at March 31, 2011 and 2010, were ¥2,671 million ($32,175 thousand) and ¥4,456 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2011 and 2010 ranged from 0.38% to 1.98% and 0.38% to 7.00%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Loans from banks and other financial institutions, 0.42% to 4.90% (0.52% to 5.25% in 2010), due serially to 2025:			
Collateralized	**¥ 1,392**	¥ 1,513	**$ 16,775**
Unsecured	**42,355**	42,624	**510,300**
Obligations under finance leases (Note 10)	**11,184**	13,288	**134,751**
Total	**54,931**	57,425	**661,826**
Less current portion	**(4,985)**	(5,508)	**(60,057)**
Long-term debt, less current portion	**¥49,946**	¥51,917	**$601,769**

Annual maturities of long-term debt as of March 31, 2011 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 4,985	$ 60,057
2013	3,725	44,875
2014	42,401	510,858
2015	1,578	19,013
2016	921	11,097
2017 and thereafter	1,321	15,926
Total	¥54,931	$661,826

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥6 million ($66 thousand) and the above collateralized long-term debt at March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	**¥ 20**	**$ 241**
Land	**4,570**	**55,065**
Buildings and structures—net of accumulated depreciation	**1,602**	**19,303**
Total	**¥6,192**	**$74,609**

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

7. RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have severance payment plans for employees. Certain 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 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, 2011 and 2010, included the amounts of ¥390 million ($4,697 thousand) and ¥335 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 subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability (asset) for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥ 59,462**	¥ 59,364	**$ 716,416**
Fair value of plan assets	**(33,086)**	(33,663)	**(398,631)**
Unrecognized actuarial loss	**(7,552)**	(8,171)	**(90,990)**
Net liability	**18,824**	17,530	**226,795**
Prepaid pension cost	**32**	38	**385**
Liability for employees' retirement benefits	**¥ 18,856**	¥ 17,568	**$ 227,180**

The components of net periodic retirement benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service cost	**¥2,540**	¥2,189	**$30,607**
Interest cost	**1,104**	1,314	**13,301**
Expected return on plan assets	**(791)**	(743)	**(9,535)**
Recognized actuarial loss	**1,849**	1,736	**22,280**
Variance (from simplified method to regular method)	**245**		**2,951**
Net periodic retirement benefit costs	**¥4,947**	¥4,496	**$59,604**

Assumptions used for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**10 years**	10 years

8. EQUITY

Japanese companies are 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. The Company meets 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 aggregate amount of the 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 a 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.

9. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.69% for the years ended March 31, 2011 and 2010. Consolidated foreign 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Pension and severance costs	**¥ 7,599**	¥ 7,017	**$ 91,553**
Tax loss carryforwards	**4,263**	4,972	**51,363**
Other	**18,437**	15,064	**222,135**
Less valuation allowance	**(9,030)**	(9,497)	**(108,796)**
Total	**¥21,269**	¥17,556	**$ 256,255**
Deferred tax liabilities:			
Undistributed earnings of foreign consolidated subsidiaries and associated companies	**¥ 2,833**	¥ 2,572	**$ 34,129**
Unrealized gain on land held by consolidated subsidiaries	**2,237**	2,281	**26,958**
Other	**2,718**	3,179	**32,750**
Total	**¥ 7,788**	¥ 8,032	**$ 93,837**
Net deferred tax assets	**¥13,481**	¥ 9,524	**$ 162,418**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2011 was as follows:

	2011
Normal effective statutory tax rate	**40.69%**
Equity in earnings of associated companies	**(4.05)**
Tax exemption	**(2.70)**
Social expenses not deductible for income tax purposes	**1.87**
Tax rate differences in foreign subsidiaries	**(11.66)**
Other—net	**0.46**
Actual effective tax rate	**24.61%**

At March 31, 2011, certain consolidated subsidiaries had tax loss carryforwards aggregating to approximately ¥12,178 million ($146,717 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
2012	¥ 555	$ 6,683
2013	339	4,080
2014	706	8,505
2015	334	4,022
2016 and thereafter	10,244	123,427
Total	¥12,178	$146,717

10. LEASES

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

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

	Millions of yen		Thousands of U.S. dollars	
	2011		**2011**	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year	**¥ 4,189**	**¥ 444**	**$ 50,467**	**$ 5,349**
Due after one year	**6,995**	**756**	**84,284**	**9,113**
Total	**¥11,184**	**¥1,200**	**$134,751**	**$14,462**

	Millions of yen	
	2010	
	Finance leases	Operating leases
Due within one year	¥ 4,856	¥ 424
Due after one year	8,432	777
Total	¥13,288	¥1,201

11. RELATED PARTY DISCLOSURES

Transactions with related parties which are owned by directors and corporate auditors of the Company for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sales	**¥10,403**	¥10,110	**$125,337**
Sales discount and rebate	**154**	162	**1,856**
Purchases	**44**	19	**534**
Collection of loans	**89**	27	**1,074**
Rent of vending machines	**104**	134	**1,251**
Temporary receipt	**1,863**	1,919	**22,447**
Subsidy of sales expenses	**122**	109	**1,466**

The balances due to or from these related parties at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Notes and accounts receivable	**¥2,139**	¥2,209	**$25,774**
Other receivables	**21**	27	**249**
Long-term loans	**119**	208	**1,428**
Other payables	**48**	70	**580**
Accrued expenses	**20**	26	**246**
Other current liabilities	**15**	15	**177**

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group uses bank loans based on its capital investment plan mainly for food and beverages business.

Temporal surplus funds are invested in short-term investments exposed to an insignificant risk of changes in value such as bank deposits. The Group does not invest in speculative instruments in compliance with the Group policy.

(2) NATURE, EXTENT OF RISK AND RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

Notes and accounts receivable are exposed to customer credit risk. To manage such credit risk, the Group monitors payment terms and credit information of major customers. Investment securities, mainly held for business-related purposes, are exposed to the risk of market price fluctuations. To manage such market risk, the fair value of the investments are obtained regularly and reported to the Company's board of directors.

Payment terms of notes and accounts payable are usually within one year.

Loans are made principally in connection with capital investments. Most of the loans are at variable interest rates and exposed to the risk of interest rate fluctuations. It is the Group policy not to hedge such market risk by derivatives such as interest-rate swaps as a result of considering the financial market situation and outstanding balance.

Payables and loans are exposed to liquidity risk. The Group manages the risk by reviewing cash-flow projections prepared by the accounting and related departments.

(3) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value of financial instruments are based on the quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were taken.

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2011			
Cash and cash equivalents	**¥ 86,551**	**¥ 86,551**	
Time deposits	**2,287**	**2,287**	
Receivables	**53,810**		
Allowance for doubtful accounts	**(453)**		
Receivables—net	**53,357**	**53,357**	
Investment securities	**25,634**	**25,634**	
Total	**¥167,829**	**¥167,829**	
Short-term borrowings	**¥ 2,671**	**¥2,671**	
Payables	**28,341**	**28,341**	
Long-term debt (exclude obligations under finance leases)	**43,747**	**43,868**	**¥121**
Total	**¥ 74,759**	**¥ 74,880**	**¥121**

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2010			
Cash and cash equivalents	¥ 83,190	¥ 83,190	
Time deposits	2,713	2,713	
Receivables	54,538		
Allowance for doubtful accounts	(615)		
Receivables—net	53,923	53,923	
Investment securities	29,091	29,091	
Total	¥168,917	¥168,917	
Short-term borrowings	¥ 4,456	¥ 4,456	
Payables	27,225	27,225	
Long-term borrowings (exclude obligations under finance leases)	44,137	44,232	¥95
Total	¥ 75,818	¥ 75,913	¥95

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain/loss
March 31, 2011			
Cash and cash equivalents	**$1,042,781**	**$1,042,781**	
Time deposits	**27,549**	**27,549**	
Receivables	**648,324**		
Allowance for doubtful accounts	**(5,459)**		
Receivables—net	**642,865**	**642,865**	
Investment securities	**308,838**	**308,838**	
Total	**$2,022,033**	**$2,022,033**	
Short-term borrowings	**$ 32,175**	**$ 32,175**	
Payables	**341,455**	**341,455**	
Long-term debt (exclude obligations under finance leases)	**527,075**	**528,529**	**$1,454**
Total	**$ 900,705**	**$ 902,159**	**$1,454**

Cash and cash equivalents, Time deposits and Receivables

The carrying values of cash and cash equivalents, time deposits and receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the investment securities by classification is included in Note 5.

Short-term borrowings and Payables (excluding current portion of long-term debt)

The carrying values of short-term borrowings and payables (excluding current portion of long-term debt) approximate fair value because of their short maturities.

Long-term debt (including current portion of long-term debt)

The fair value of long-term borrowings are determined by discounting the cash flows related to the debt at the Group’s assumed corporate discount rate.

(4) FINANCIAL INSTRUMENTS WHOSE FAIR VALUE CANNOT BE RELIABLY DETERMINED

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Investments in equity instruments and unconsolidated subsidiaries that do not have a quoted market price in an active market, and investments in associated companies	**¥31,655**	¥31,648	**$381,389**

(5) MATURITY ANALYSIS FOR FINANCIAL ASSETS AND SECURITIES WITH CONTRACTUAL MATURITIES

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
March 31, 2011				
Cash and cash equivalents	**¥ 86,551**			
Time deposits	**2,287**			
Receivables	**53,810**			
Total	**¥142,648**			

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
March 31, 2011				
Cash and cash equivalents	**$1,042,781**			
Time deposits	**27,549**			
Receivables	**648,324**			
Total	**$1,718,654**			

13. COMPREHENSIVE INCOME

Total comprehensive income for the year ended March 31, 2010 was the following:

	Millions of yen
	2010
Total comprehensive income attributed to:	
Owners of the parent	¥21,075
Minority interests	5,112
Total comprehensive income	¥26,187

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Other Comprehensive Income:	
Unrealized gain on available-for-sale securities	¥ 2,523
Foreign currency translation adjustments	7,697
Share of other comprehensive income in associates	34
Total other comprehensive income	¥10,254

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥11,480 million ($138,317 thousand) and ¥9,622 million for the years ended March 31, 2011 and 2010, respectively.

15. LOSSES FROM A NATURAL DISASTER

Losses from a natural disaster are recorded to estimate losses and expenses incurred by the Great East Japan Earthquake, which include the restoring cost for facilities in plants, damages for inventories and fixed assets, and supporting cost for recovery.

16. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's board of directors' meeting held on May 13, 2011:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥12.0 ($0.14) per share	**¥2,071**	**$24,952**

17. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

(1) DESCRIPTION OF REPORTABLE SEGMENTS

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of the Food and Beverages (Japan), (The Americas), (Asia and Oceania), (Europe), Pharmaceuticals and Others.

Food and Beverages (Japan) consists of fermented milk drinks, juice and noodles, etc.

Food and Beverages (The Americas) consists of fermented milk drinks, etc.

Food and Beverages (Asia and Oceania) consists of fermented milk drinks, etc.

Food and Beverages (Europe) consists of fermented milk drinks, etc.

Pharmaceuticals consists of anticancer drugs and other pharmaceuticals.

Others consist of cosmetics and professional baseball team operation.

(2) METHODS OF MEASUREMENT FOR THE AMOUNTS OF SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".

(3) INFORMATION ABOUT SALES, PROFIT (LOSS), ASSETS AND OTHER ITEMS IS AS FOLLOWS.

	Millions of yen							
	2011							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	**¥179,515**	**¥37,586**	**¥25,477**	**¥8,609**	**¥38,879**	**¥15,878**		**¥305,944**
Intersegment sales or transfers	**10,263**					**1,319**	**¥(11,582)**	
Total	**189,778**	**37,586**	**25,477**	**8,609**	**38,879**	**17,197**	**(11,582)**	**305,944**
Segment profit (loss)	**11,010**	**8,299**	**4,102**	**571**	**10,243**	**(669)**	**(13,155)**	**20,401**
Segment assets	**155,693**	**54,845**	**59,738**	**7,467**	**33,505**	**9,180**	**72,400**	**392,828**
Other:								
Depreciation and amortization	**13,472**	**1,574**	**1,926**	**409**	**708**	**426**	**1,113**	**19,628**
Amortization of goodwill	**50**		**92**					**142**
Investment to associates			**29,854**					**29,854**
Increase in property, plant and equipment and intangible assets	**15,596**	**2,081**	**5,109**	**375**	**589**	**315**	**2,238**	**26,303**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥11,558 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of ¥78,605 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,113 million of depreciation of head office.
4. Reconciliation in capital expenditure consists of ¥2,238 million of capital expenditure of head office.

	Millions of yen							
	2010							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
Sales								
Sales to external customers	¥174,611	¥34,595	¥22,476	¥9,671	¥35,079	¥14,246		¥290,678
Intersegment sales or transfers	5,859						¥ (5,859)	
Total	180,470	34,595	22,476	9,671	35,079	14,246	(5,859)	290,678
Segment profit (loss)	7,411	7,663	4,284	584	10,626	4	(11,581)	18,991
Segment assets	155,481	53,400	56,846	8,223	36,805	7,460	71,677	389,892
Other:								
Depreciation and amortization	12,985	1,518	1,619	639	591	282	1,279	18,913
Amortization of goodwill	194		92					286
Investment to associates			28,783					28,783
Increase in property, plant and equipment and intangible assets	13,429	1,388	3,407	283	1,410	195	1,967	22,079

Notes: 1. Reconciliation in segment profit (loss) consists of ¥11,581 million of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets consists of ¥71,677 million of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of ¥1,279 million of depreciation of head office.
4. Reconciliation in capital expenditure consists of ¥1,967 million of capital expenditure of head office.

	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation	Consolidated
	Thousands of U.S. dollars							
	2011							
	Food and Beverages							
Sales								
Sales to external customers	**$2,162,836**	**$452,838**	**$306,957**	**$103,719**	**$468,420**	**$191,306**		**$3,686,076**
Intersegment sales or transfers	**123,652**					**15,892**	**$(139,544)**	
Total	**2,286,488**	**452,838**	**306,957**	**103,719**	**468,420**	**207,198**	**(139,544)**	**3,686,076**
Segment profit (loss)	**132,647**	**99,985**	**49,419**	**6,877**	**123,415**	**(8,057)**	**(158,487)**	**245,799**
Segment assets	**1,875,816**	**660,781**	**719,739**	**89,959**	**403,681**	**110,602**	**872,295**	**4,732,873**
Others:								
Depreciation and amortization	**162,311**	**18,962**	**23,204**	**4,923**	**8,535**	**5,137**	**13,411**	**236,483**
Amortization of goodwill	**607**		**1,107**					**1,714**
Investment to associates			**359,693**					**359,693**
Increase in property, plant and equipment and intangible assets	**187,900**	**25,081**	**61,557**	**4,516**	**7,098**	**3,795**	**26,961**	**316,908**

Notes: 1. Reconciliation in segment profit (loss) mainly consists of $139,262 thousand of corporate expense that is not allocated to each segment.
2. Reconciliation in segment assets mainly consists of $947,052 thousand of corporate assets that is not allocated to each segment.
3. Reconciliation in depreciation consists of $13,411 thousand of depreciation of head office.
4. Reconciliation in capital expenditure consists of $26,961 thousand of capital expenditure of head office.

For the year ended March 31, 2010

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2010 is as follows:

1. Industry segments

	Food and Beverages	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
	Millions of yen				
	2010				
a. Sales and operating income (loss)					
Sales to customers	¥241,353	¥35,079	¥14,246		¥290,678
Interarea transfers					
Total sales	241,353	35,079	14,246		290,678
Operating expenses	220,241	24,454	14,242	¥ 12,750	271,687
Operating income	¥ 21,112	¥10,625	¥ 4	¥(12,750)	¥ 18,991
b. Total assets, depreciation, impairment loss and capital expenditures					
Total assets	¥273,950	¥36,805	¥ 7,460	¥ 71,677	¥389,892
Depreciation	16,761	591	282	1,279	18,913
Impairment loss	190			2,057	2,247
Capital expenditures	18,507	1,410	195	1,967	22,079

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

Pharmaceuticals: Anticancer drugs, other medical products

Others: Cosmetics, operating a professional baseball team

2. Geographical segments

The geographical segments of the Group for the years ended March 31, 2010 was as follows:

	Millions of yen					
	2010					
	Japan	The Americas	Asia and Oceania	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥223,936	¥34,595	¥22,476	¥9,671		¥290,678
Interarea transfers	5,859				¥ (5,859)	
Total sales	229,795	34,595	22,476	9,671	(5,859)	290,678
Operating expenses	210,586	26,932	18,191	9,087	6,891	271,687
Operating income	¥ 19,209	¥ 7,663	¥ 4,285	¥ 584	¥(12,750)	¥ 18,991
Total assets	¥204,610	¥50,655	¥56,846	¥8,222	¥ 69,559	¥389,892

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

3. Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2010 amounted to ¥70,922 million.

(4) RELATED INFORMATION

1. Information about geographical areas

a. Sales

Millions of yen			
2011			
Japan	The Americas	Others	Total
¥230,911	**¥37,655**	**¥37,378**	**¥305,944**

Thousands of U.S. dollars			
2011			
Japan	The Americas	Others	Total
$2,782,059	**$453,682**	**$450,335**	**$3,686,076**

Note: Sales are classified in countries or regions based on location of customers.

b. Property, plant and equipment

Millions of yen				
2011				
Japan	The Americas	Asia and Oceania	Europe	Total
¥102,480	**¥10,169**	**¥18,432**	**¥2,636**	**¥133,717**

Thousands of U.S. dollars				
2011				
Japan	The Americas	Asia and Oceania	Europe	Total
$1,234,700	**$122,526**	**$222,071**	**$31,756**	**$1,611,053**

2. Information about impairment losses of assets

	Millions of yen							
	2011							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
Impairment loss . . .	**¥397**						**¥29**	**¥426**

	Thousands of U.S. dollars							
	2011							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
Impairment loss . . .	**$4,786**						**$352**	**$5,138**

3. Information about goodwill

	Millions of yen							
	2011							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
Goodwill at March 31, 2011 . . .	**¥180**						**¥92**	**¥272**

	Thousands of U.S. dollars							
	2011							
	Food and Beverages							
	Japan	The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Eliminations/ Corporate	Consolidated
Goodwill at March 31, 2011 . . .	**$2,166**						**$1,107**	**$3,273**

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, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of 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, 2011 and 2010, 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 LLC

June 22, 2011

Member of
Deloitte Touche Tohmatsu Limited

GLOBAL NETWORK

(As of March 31, 2011)

PRINCIPAL INTERNATIONAL SUBSIDIARIES AND AFFILIATES

1. Yakult Honsha Co., Ltd.
★ Yakult Central Institute for Microbiological Research
2. Yakult Co., Ltd. (Taiwan)
3. Hong Kong Yakult Co., Ltd.
4. Yakult (Thailand) Co., Ltd.
5. Korea Yakult Co., Ltd.
6. Yakult Philippines, Inc.
7. Yakult (Singapore) Pte., Ltd.
8. P.T. Yakult Indonesia Persada
9. Yakult Australia Pty. Ltd.
   - New Zealand Branch
10. Yakult (Malaysia) Sdn. Bhd.
11. Yakult Vietnam Co., Ltd.
12. Yakult Danone India Pvt. Ltd.
13. Yakult (China) Corporation
14. Guangzhou Yakult Co., Ltd.
15. Shanghai Yakult Co., Ltd.
16. Beijing Yakult Co., Ltd.
17. Shanghai Yakult Marketing Co., Ltd.
18. Yakult S/A Ind. E. Com. (Brazil)
19. Yakult S.A. de C.V. (Mexico)
20. 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, 2011)

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
17,859 (Consolidated)

NUMBER OF ISSUED AND OUTSTANDING SHARES
175,910,218

NUMBER OF SHAREHOLDERS
33,698

* Including shareholders whose shares do not comprise full trading units

OFFICES
1 institute, 5 branches, 9 plants

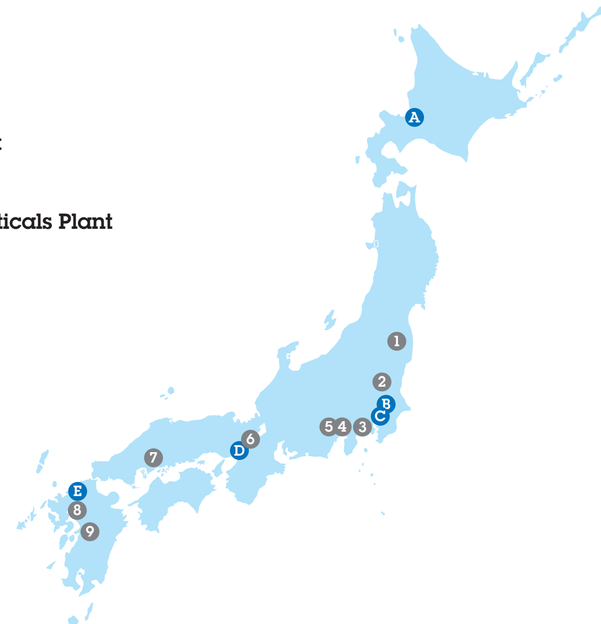
Branches

- A Hokkaido Branch
- B East Japan Branch
- C Metropolitan Branch
- D Central Japan Branch
- E West Japan Branch

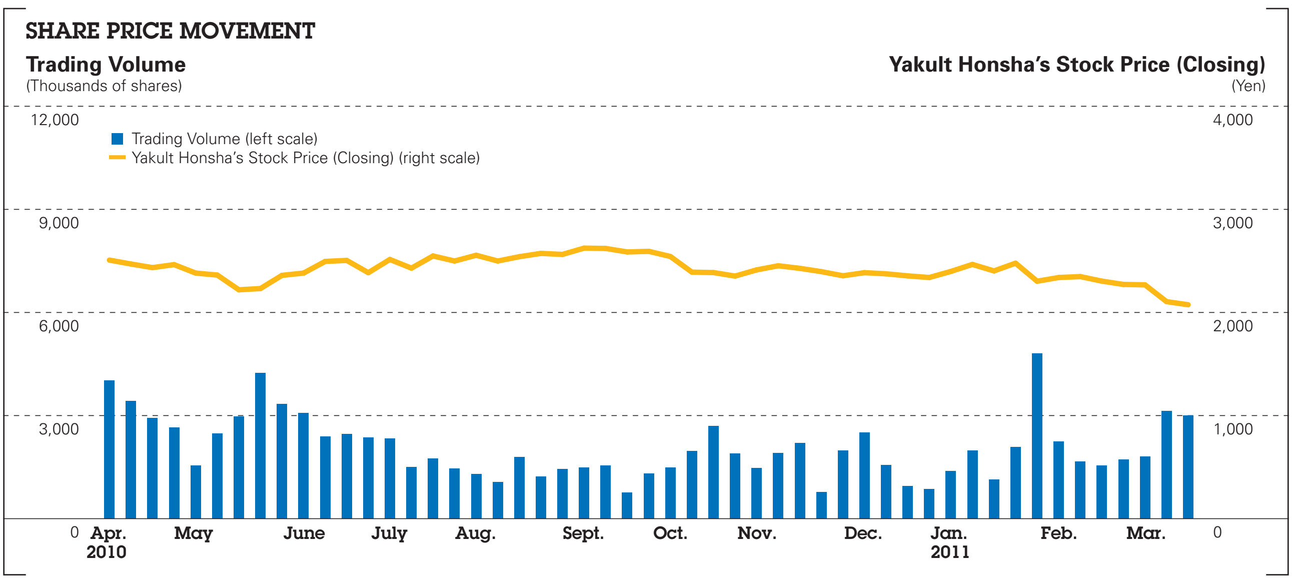
Plants

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

MAJOR SUBSIDIARIES IN JAPAN
Yakult Tokyo Sales Co., Ltd.
Yakult Kobe Plant Co., Ltd.
Yakult Corporation Co., Ltd.
Yakult Materials Co., Ltd.
Yakult Health Foods Co., Ltd.
Yakult Chuo Logistics Co., Ltd.
Yakult Kyudan Co., Ltd.



SHARE PRICE MOVEMENT



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