A taste of the future.
AJINOMOTO®

Savoring
life's
great
moments

AJINOMOTO CO., INC.

Annual Report 2006

For the year ended March 31, 2006

Savoring life's great moments

Tasty, healthy food is an experience. It captures you with its flavors and energizes you for the tasks that lie ahead. Since the start in 1909, the Ajinomoto Group ("Ajinomoto" or the "Group") has established itself as a household food brand in Japan, a reliable source of nutrition that helps people savor those golden moments in life. Today, we operate globally, with operations in 23 countries and regions backed by 105 plants. We have also substantially broadened our scope to include amino acids and pharmaceuticals, both of which further contribute to strong, healthy lives. We now decisively take the next step toward future growth. With our *A-dvance 10* growth strategy, which will set the course for the next 100 years, we will utilize our unique expertise in foods and amino acids to become a truly global group.

CONTENTS

Forward-Looking Statements

This annual report contains forward-looking statements regarding Ajinomoto's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgments derived from the information available to the Group at the time of publication.

Certain risks and uncertainties could cause the Group's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Group's businesses; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

Note: Trademarks are indicated in italics. *AJI-NO-MOTO* is the trademark of the Ajinomoto Group's umami seasoning products.

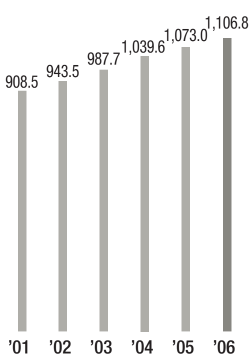
Over the past century, the Ajinomoto Group has significantly contributed to advances in worldwide food and health.
Over the next 100 years, we will continue to do so and pursue our goal of ultimately creating a better life for all.

Financial Highlights

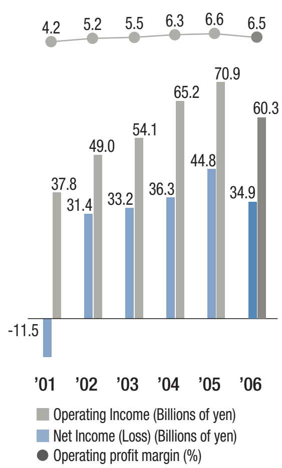
Ajinomoto Co., Inc. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars	Percent change
	2006	2005	2004	**2006**	2006/2005
For the year:					
Net sales	**¥1,106,807**	¥1,073,010	¥1,039,551	**$ 9,459,889**	3.1%
Gross profit	**311,799**	312,455	296,299	**2,664,949**	(0.2)
Operating income	**60,322**	70,916	65,190	**515,573**	(14.9)
Income before income taxes and minority interests	**57,169**	81,737	67,017	**488,624**	(30.1)
Net income	**34,912**	44,817	36,276	**298,393**	(22.1)
At year-end:					
Shareholders' equity	**¥ 528,762**	¥ 467,297	¥ 428,077	**$ 4,519,333**	13.2%
Total assets	**997,405**	903,542	871,780	**8,524,829**	10.4
Per share (yen and U.S. dollars)					
Net income	**¥53.6**	¥68.8	¥ 55.6	**$ 0.46**	(22.1)%
Shareholders' equity	**815.8**	720.6	659.8	**6.97**	13.2
Cash dividends	**14.0**	13.0	12.0	**0.12**	7.7
Operating profit margin	**5.5%**	6.6%	6.3%		
Return on equity (ROE)	**7.0%**	10.0%	8.9%		
Return on assets (ROA)	**3.7%**	5.0%	4.2%		
Number of employees	**26,049**	25,812	24,861		

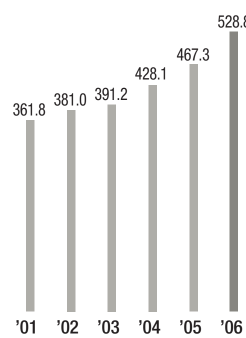
Note: U.S. dollar amounts represent translations of yen, for convenience only, at ¥117=US$1, the approximate rate prevailing on March 31, 2006. All figures are rounded to the nearest whole number.



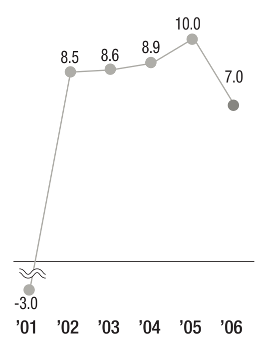
Net Sales
(Billions of yen)



Operating Income/
Net Income (Loss)



Shareholders' Equity
(Billions of yen)



Return on Equity
(%)

Note: In connection with the implementation of new accounting standards for retirement benefits in Japan, Ajinomoto Co., Inc. opted to accrue ¥52.3 billion in net retirement benefit obligations as a one-time charge during the fiscal year ended March 31, 2001. As a result, the Company posted a loss before income taxes and minority interests, net loss and net loss per share, and return on equity was a negative number.

Net Sales by Business & Region (Billions of yen)

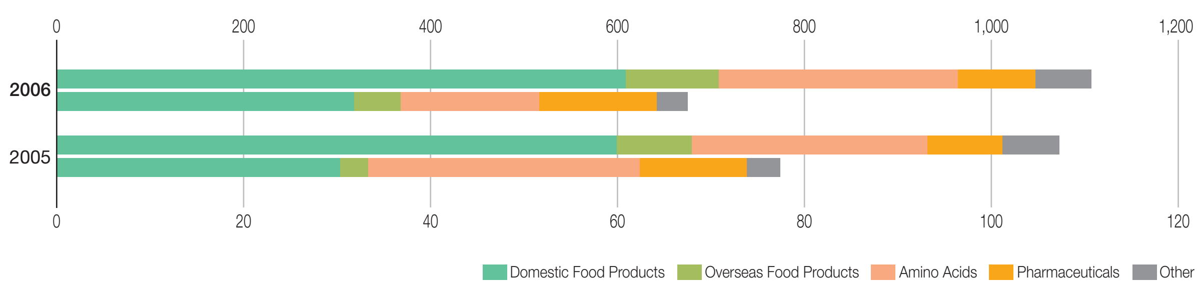
(Years ended March 31)

		Japan	Asia	America	Europe	Total
Domestic Food Products	**2006**	**602.2**	**2.2**	**2.9**	**1.3**	**608.6**
	2005	594.6	0.7	2.4	1.2	598.9
Overseas Food Products	**2006**	**0.1**	**78.1**	**15.3**	**6.1**	**99.6**
	2005	0.1	64.7	11.0	5.0	80.8
Amino Acids	**2006**	**64.8**	**32.7**	**58.5**	**99.8**	**255.8**
	2005	61.2	32.7	56.1	101.6	251.6
Pharmaceuticals	**2006**	**83.2**	**—**	**—**	**—**	**83.2**
	2005	80.7	—	—	—	80.7
Other	**2006**	**54.4**	**5.3**	**—**	**—**	**59.6**
	2005	57.0	3.9	—	—	60.9
Total	**2006**	**804.6**	**118.3**	**76.7**	**107.2**	**1,106.8**
	2005	793.7	102.1	69.5	107.8	1,073.0

Notes: 1. Unaudited figures; for reference only.
2. Results for the fiscal year ended March 31, 2005 have been restated to reflect reclassificaction of products.

Net Sales (top)/Operating Income (bottom) (Billions of yen)

(Years ended March 31)



Notes: 1. Segment information for operating income is shown prior to eliminations.
2. Results for the fiscal year ended March 31, 2005 have been restated to reflect reclassificaction of products.

A New Growth Phase

Adapting to Escalating Global Competition

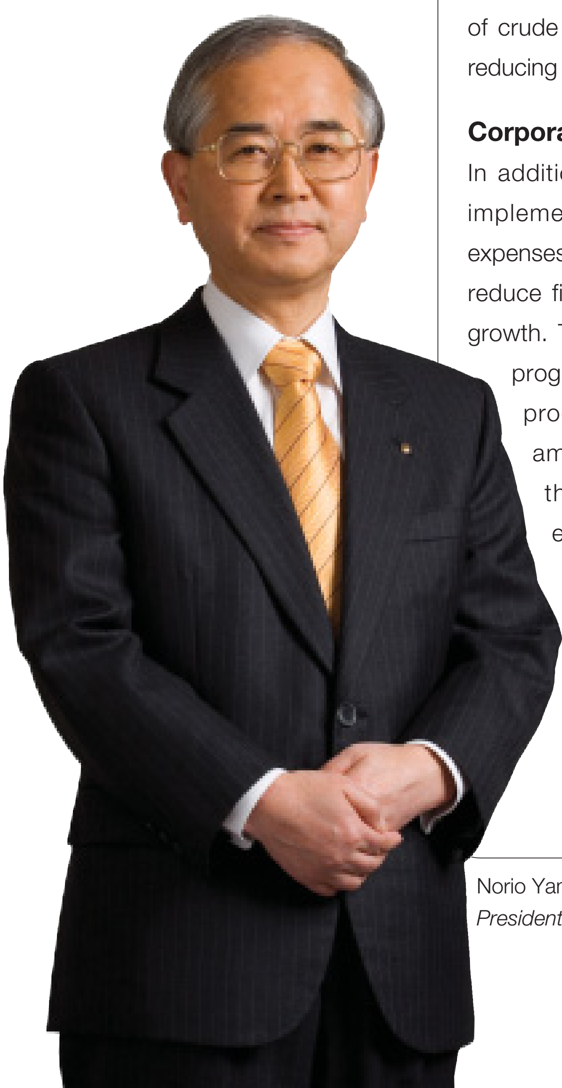
The business environment in my first year as President was challenging. This was especially true in the market for feed-use Lysine, a key product of our amino acids business. Global competition in this business escalated more than we had anticipated.

In response to this situation, we have been conducting special projects to find ways to improve our competitiveness in this business. Our market forecasts take into account the possibility of competition intensifying further. We have carried out in-depth analyses of current market trends and of our competitors, and are also restructuring our systems across this entire segment, from the procurement of raw materials to logistics. For each particular aspect of the business, actions are carried out immediately when they have been decided.

We have also faced cost pressures resulting from steep rises in the prices of raw materials for monosodium glutamate and other amino acids, and in the price of crude oil. We have been making efforts to offset these cost increases by reducing costs and adjusting our sales prices.

Corporate Innovation Brings Sharp Cost Reductions

In addition to restructuring individual business areas, we have also been implementing corporate innovation to minimize fixed costs and reduce expenses. In fiscal 2002, we implemented a program at our Kyushu Plant to reduce fixed costs and simultaneously to strength our foundation for future growth. This program proved so successful that we have launched a similar program at our Kawasaki Plant, which is our main plant in Japan. This program is based on carefully thought-out top-down initiatives with ambitious targets as well as on cumulative improvement achieved through day-to-day efforts at individual work sites. We are now expanding the program to include not only production operations in Japan and overseas, but also sales and head office functions.



Norio Yamaguchi
President & Chief Executive Officer

A-dvance 10—A Vision for Our Second Century

Fiscal 2005 was also the first year of *A-dvance 10*, our medium- to long-term management plan which specifies targets for the period from fiscal 2005 to fiscal 2010. The purpose of this plan is to lay the foundations for Ajinomoto's second century as a company. Our vision for this future, which begins with Ajinomoto's centenary in 2009, calls for sustainable growth toward a future as a global food and amino acids manufacturer advancing from Japan.

A-dvance 10 identifies four basic strategic directions: Global Management, Innovative Management, Group Management and a Commitment to Corporate Social Responsibility (CSR). These areas are discussed in detail over the following pages.

A-dvance 10 Medium- to Long-Term Management Plan (FY2005-FY2010)

Strategic Targets Continue stable growth to become a truly global group and raise operating profit margin to ≥10.0% in FY2010

Numerical Targets

	FY2004	FY2007	FY2010
Net Sales	¥1,073 billion	¥1,250 billion	¥1,500 billion
Operating Income	¥71 billion	¥100 billion	¥150 billion
Operating Profit Margin	6.6%	≥8.0%	≥10.0%

Basic Group Strategy

Global Management
→P. 6
Focus business resources on core businesses and accelerate growth worldwide

Innovative Management
→P. 7
Deliver new value in foods and amino acids through innovative technology

Group Management
→P. 8
Develop group employees and foster a shared corporate culture

Commitment to CSR
→P. 9
Be a respected global corporate citizen

Global Focus

Global management will require flexible allocation of management resources to high-growth regions while maintaining a global market perspective. In accordance with our basic policy of prioritizing high-growth markets, we aim to accelerate the growth of the entire Ajinomoto Group by:

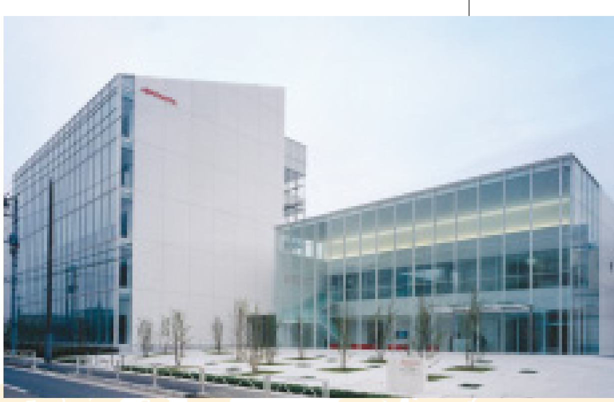
Integrating domestic and overseas food business operations

Extending domestic production innovations to overseas sites

While the Ajinomoto Group will remain active in many parts of the world, we are now concentrating on high-growth markets.

A key measure implemented in fiscal 2005 was the integration of our domestic and overseas food operations. This reform has made it easier to allocate management resources according to the maturity and priority level of each market. A substantial share of management resources previously deployed in Japan, such as human resources, R&D resources and capital resources for facilities, will now be reallocated to high-growth markets, mainly Southeast Asia, China and South America. The integration will also allow us to accelerate our expansion into growth markets by implementing business models that have produced numerous market leaders in Japan, such as our *Hon-Dashi* and other seasoning product lines.

Integration also benefits production. Production innovations at the parent's domestic plants that resulted in far more efficient production systems and considerable cost reductions will be determinedly implemented at the production sites of our subsidiaries and affiliates both in Japan and overseas.



Food Products Global R&D Center
(Photo from Kokyu Miwa Architectural Photograph Laboratory)

Innovative Management

Constant Innovation

Stimulating innovation has characterized Ajinomoto's activities itself from its earliest days. Under *A-dvance 10*, we will use our wide-ranging research to establish the health and nutrition business as our next corporate pillar, and have made the allocation of management resources to this business a key priority. Current themes in this area include:

The sales growth of *Glyna*, a dietary supplement based on the amino acid glycine

The launch of a new product based on *Capsiate*, a fat-burning natural substance

The development of new products that utilize existing compounds to optimize their health value

Glyna

Innovation has remained a hallmark of our business activities ever since we launched our umami seasoning *AJI-NO-MOTO* in 1909, as evidenced by our range of groundbreaking products and rapid expansion into new markets. As always, we remain focused on the creation of next-generation products to drive our growth in the future.

One of our product development themes is health, an area in which demand has grown rapidly in recent years. In August 2005, we launched *Glyna*, a new dietary supplement based on the amino acid glycine. Though currently supplied solely through mail order, it has already become very popular. In fiscal 2006, we will introduce a new health food product based on *Capsiate*, a fat-burning component of CH-19 Sweet, a new type of non-pungent chili pepper.

Another new focus is polyglutamate, one of the substances responsible for the stickiness of natto, a fermented bean dish popular in Japan. Our research has confirmed that polyglutamate helps the body absorb calcium and other minerals. Calcium deficiency is a common problem in Japan, and many dietary supplements are available on the market. However, as it is difficult for the body to absorb calcium and other minerals on its own, we believe that polyglutamate has strong market potential.

We have begun exploring the many ways this substance can be used to enhance the Group's existing products. Not only do we intend to release polyglutamate as part of supplements, we will also use it as an additive in *Hon-Dashi*, one of our main products, as well as in many other products.

Finally, recent studies have revealed some physiological functions of umami substances. We will announce more information in the near future.

Our Way

The Ajinomoto Group consists of 119 subsidiaries and affiliates, 40 domestic and 63 overseas consolidated subsidiaries, and 6 domestic and 10 overseas equity method-associated subsidiaries and affiliates. To realize the full potential of our companies' combined strength, we are continuously working to strengthen the cohesiveness of the Group. This strategy involves:

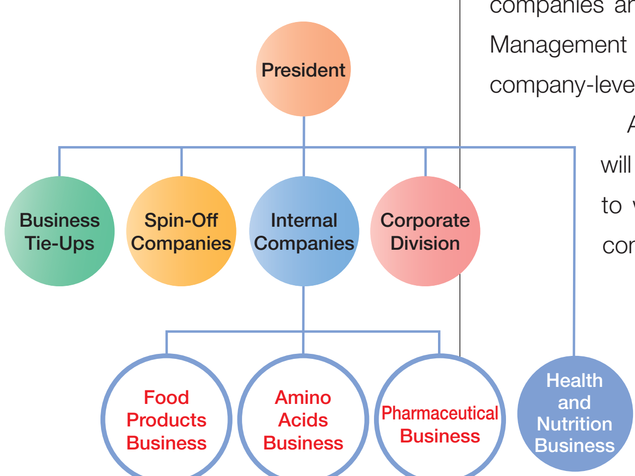
An "internal company system" within the parent company for maximum flexibility

A strong emphasis on the Group's cohesiveness

Ajinomoto Co., Inc. currently operates under an internal company system introduced in 1999. We are involved in a wide range of business areas with differing characteristics. For example, in our retail food businesses, we need to be able to respond quickly to changing consumer preferences, while in the pharmaceutical business we may spend 10 years or longer to create products capable of yielding income over long periods. We have optimized our management structure to reflect these differences.

In many areas, including brand-building, quality assurance, environmental conservation, human resource development and IT infrastructure development, we often achieve better efficiency and results by working together as a group. Moreover, group-level approaches are essential in areas such as quality assurance and environmental conservation, where problems caused by one company can harm the brands of all. Yet, the self-sufficiency of both our internal companies and Group companies must be maintained. Therefore, our Group Management strategy clearly separates the tasks that can be handled at the company-level from tasks that require group-level cooperation.

As we achieve future growth and expand the Ajinomoto Group, it will become increasingly important for all Ajinomoto Group companies to work together as self-sufficient entities. For this reason, we will continue to strengthen our Group Management systems.



Commitment to CSR

Building Trust

Being trusted and acting responsibly is more fundamental to true corporate success than a solid reputation for effective business development or the ability to create hit products. To strengthen the bond with the communities in which we exist, we have made corporate social responsibility (CSR) a key priority under *A-dvance 10*. In this area, we will:

Maintain a solid commitment to product safety and reliability

Steadily promote the Ajinomoto Group Zero Emissions Plan through group-wide targets

Contribute to the creation of a sound and vibrant society as a sincere corporate citizen

CSR Report 2006

Stakeholders' dialogue

We believe that by developing and providing products and services that are genuinely useful to our customers' daily lives, we will eventually earn their trust and enhance the Ajinomoto brand in the market and society. This philosophy is reflected in the positioning of CSR management as one of the basic strategies of *A-dvance 10*.

Because CSR initiatives require a group-level approach, Ajinomoto has established a CSR Division within its parent company organization to provide a structured and integrated framework for CSR activities. The Ajinomoto Group has implemented a wide range of CSR initiatives based on its Ajinomoto Group Principles.

Our most important social responsibility is to provide safe and high-quality products and services to our customers. To achieve this, we have developed a quality assurance system at the world's highest level. Through all our business activities, we also strive to undertake dialogue, earn the trust of all stakeholders in the world for generations to come, and establish the Ajinomoto brand image as one of reliability and quality.

With regards to the environment, the sheer scale of Ajinomoto's operations means we still impact on the environmental despite strict regulatory compliance and a range of voluntary initiatives. However, we are making continuous efforts to eliminate all environmental loads from the various business aspects of the Group by setting targets in line with the Ajinomoto Group Zero Emissions vision.

We must aggressively address the reduction of the environmental impact by applying consistent principles and unified standards across the entire Group. The performance goals of the Ajinomoto Group Zero Emissions Plan are very stringent; some targets are ten times stricter than current regulatory requirements. These proactive initiatives will not only strengthen the cutting edge of our business model innovation, they will also translate into conservation of the global environment.

Under *A-dvance 10*, Ajinomoto aims to cement its position as a global food and amino acids manufacturer and achieve an operating profit margin of 10%.

Reinforcing Business Operations to Raise Earning Performance

In terms of net sales, the Ajinomoto Group already ranks among the top-ten food manufacturing enterprises in the world. However, among the world's leading enterprises, Japanese companies in general tend to rank lower in profitability than their foreign counterparts, and our Group is no exception. To narrow this gap, we intend to further raise profitability and achieve an operating profit margin of 10% by fiscal 2010, the final year of *A-dvance 10*. Although rising raw material prices and falling prices for feed-use Lysine do present difficulties, we will strive to reach our goal by accelerating the development of our health and nutrition business, launch additional initiatives in existing businesses and actively engage in M&A activities.

In fiscal 2006, we will continue the product promotion campaign for dashi products, started in fiscal 2005. Our dashi product range consists of *Hon-Dashi* for Japanese dishes, *Ajinomoto KK Consommé* for Western dishes, and *Ajinomoto KK Marudori Gara Soup* for Chinese dishes. All three products are the top brands in their respective markets. The aim of the campaign is to build a solid position of leadership in these markets, while also contributing to society by helping to revitalize home cooking as an activity that enhances health and culinary culture.

In overseas food markets, we are working to develop a common brand by marketing soup products under the *VONO* brand. In addition, we have acquired the Amoy Food Group, which enjoys a strong international reputation as a manufacturer of oriental food products, including Chinese sauces and frozen foods.

In the amino acids business, falling feed-use Lysine prices contributed to a substantial decrease in operating income in fiscal 2005. However, most markets in this business are rapidly expanding, such as those for feed-use Threonine, MSG and aspartame. Continuing sales increases in these areas as well as cost reduction efforts will help cover feed-use Lysine price fluctuations and rising raw material prices.

In the pharmaceuticals business, we aim to achieve further growth by introducing new products, reducing costs, improving organizational efficiency and strengthening our sales systems. We will also accelerate new drug development in our core areas of infusions, clinical nutrition and dialysis, gastrointestinal disease and lifestyle-related diseases.

Accelerating the addition of new health values to foods is one of our key strategies, and we aim to achieve sales of ¥200 billion in fiscal 2010 through the introduction of unique materials and products obtained through intensive research into physiological functions and the nutritional value of amino acids and plant components, and through the expansion of the businesses of value-added and medical foods through a variety of sales channels, including Ajinomoto's direct sales system as well as medical wholesalers.

To Our Shareholders and Investors

Our basic policy is to work to raise shareholder value through stable profit growth and reliable dividends. We also aim to return profits to shareholders by achieving superior returns over the medium-term and long-term. This will require aggressive investment in essential areas, as well as accurate forecasts of demand expansion in growth markets, particularly with regards to our amino acids operations throughout the world.

These days, the term "corporate value" is often heard. I believe that corporate value is both quantitative, as expressed in a company's market capitalization, and qualitative, in the form of unique corporate functions and contribution to society. Of these two, I believe the latter is the most important; by improving our qualitative value, we can also improve our quantitative value. Possessing unique technologies and skills, and the ability to create new business models that apply these in the market and society at large, benefits the qualitative value.

With this in mind, the Ajinomoto Group will strive to raise its qualitative corporate value through the development of unique technologies, products and business models with amino acids at the core. We hope that our shareholders and investors will continue to support Ajinomoto on the basis of positive assessments of its value from a medium- to long-term perspective.

Norio Yamaguchi

Norio Yamaguchi
President & Chief Executive Officer

Research and Development

Ajinomoto's century-long experience of researching and producing amino acids lies at the heart of our operations.

Fermentation of amino acids

Analyzing a chef's kneading technique

Protein structure analysis

Microorganism breeding for amino acid production

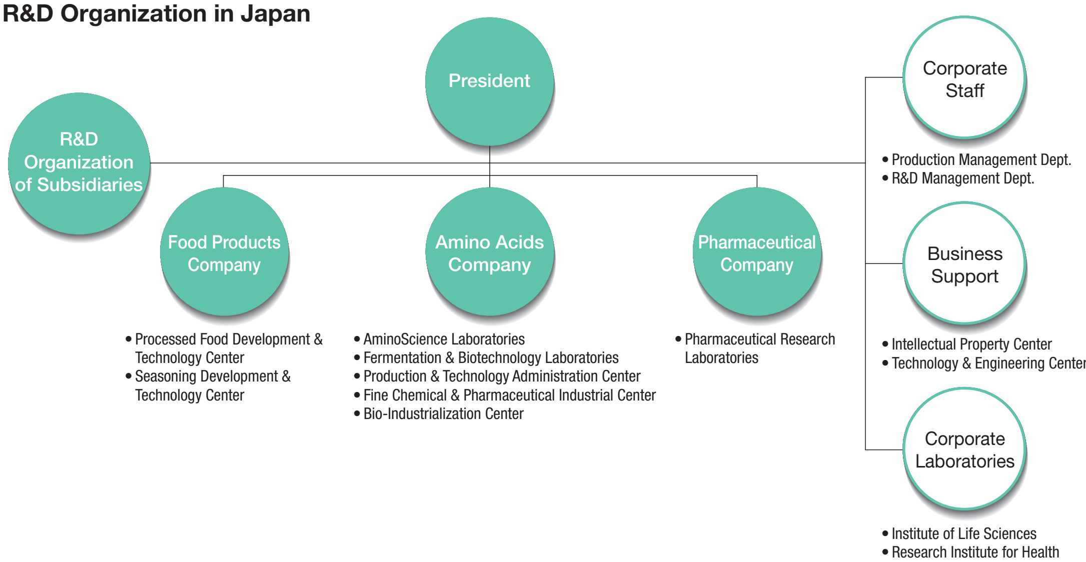
Under *A-dvance 10*, Ajinomoto will focus its R&D resources on the growing areas of amino acids, health and environmental conservation, and deliver new value in foods and amino acids through innovative technology.

With its extensive expertise of amino acids, accumulated over nearly a century, Ajinomoto has placed itself at the forefront of this field. Under *A-dvance 10*, we will meet the demands of increasingly health-conscious consumers worldwide by exploring new ways of applying our knowledge and original technologies to foods and pharmaceuticals.

Global Reach

Our global R&D network enables us to raise cost performance while conducting research that is directly applicable to target markets. In addition to 11 research laboratories and centers in Japan, we have established a tripartite research organization for food products, linking companies in Japan, China and the U.S.

R&D Organization in Japan



Meanwhile, Ajinomoto's six overseas regional technology centers (RTCs), which are R&D bases that excel at production process development in our core amino acids business, work to accelerate production processes and help us maintain costs at an industry-leading low, a great competitive advantage.

New R&D Center Constructed in Kawasaki, Japan

In June 2006, Ajinomoto established the Food Products Global R&D Center, a new food research center in Kawasaki, Japan. With the new center operational, we will be able to further heighten our competitive advantage in the food business, both in the domestic market and abroad.

This R&D center will help Ajinomoto strengthen the information flow between the company's operations in Japan and our global R&D network, thereby stimulating innovation and enabling us to respond to market needs more effectively. Furthermore, by deepening our customers' and clients' understanding of Ajinomoto's products and technologies offering information from this center, we will strengthen our relationship with them.

Developing Strategies for the Health and Nutrition Business

Under *A-dvance 10*, pushing the boundaries of innovation is key to increasing Ajinomoto's value over the long term. To this end, we have launched a new initiative to strengthen and develop the Ajinomoto Group's health and nutrition business. During the first half of *A-dvance 10*, we will develop a strong and unique product line-up by using our existing unique functional ingredients to support healthy lives. In the latter half, we will make full use of the research results from, primarily, our corporate laboratories, which conduct medium- to long-term research.

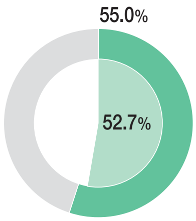
Utilizing Amino Acid Technologies for Human Health Care

As one of the fruits of our years of amino acid research, Ajinomoto has introduced the *AMINO INDEX*, a profile of the amino acid concentrations in human blood. These amino acid concentrations show characteristic changes depending on the body's condition. We have established a system to accurately diagnose a person's health condition by analyzing these changes with the *AMINO INDEX*.

Ajinomoto sees wide-ranging commercial potential for this technology, which can support clinical diagnosis and personal health care through the correction of the blood's amino acid balance. We will also actively use the amino acid balancing concept to create business opportunities involving the development of amino-acid based drugs and foods.

Ajinomoto Group at a Glance

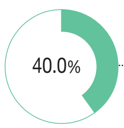
DOMESTIC FOOD PRODUCTS



Outer circle: Net Sales
Inner circle: Operating Income

Seasonings

- *AJI-NO-MOTO*
- *Umami Dashi Hi-Me*
- *Aji-Shio*
- *Seto no Honjio*
- *Hon-Dashi*
- *Ajinomoto KK Consommé*
- *Knorr Chicken Consommé*
- *Ajinomoto KK Marudori Gara Soup*
- *KOJI-AJI*
- *ACTIVA*

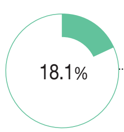


Processed Foods

- *Knorr Cup Soup*
- *Knorr Funwari Tamago Soup*
- *Knorr Soup Pasta*
- *Knorr Soup Harusame*
- *Knorr Pota*
- *Pure Select Mayonnaise*
- *Pure Select Half*
- *Pure Select Saralear*
- *Cook Do*
- *Gohan Ga Susumu Kun*
- *Pasta Do*
- *Okayusan*
- *Ajiamen*
- *Kellogg's Corn Flakes*

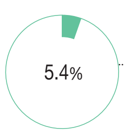
Seasonings and Food Products for Restaurant Use and Delicatessens

- *Hon-Dashi*
- *Honzukuri Ichibandashi*
- *Pure Select Delica*
- *Feijian Tsumetai Tann-tann-men no tare*
- *Okome Fukkura Choriyo G*



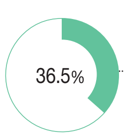
Frozen Foods

- *Ebi Shumai*
- *Gyoza*
- *Yawaraka Wakadori Kara-Age*
- *Ebiyose Fry*
- *Yoshokutei Hamburg*



Edible Oils

- *Kenko Sarara*
- *Mainichi DHA*
- *Oleic Acid Tappuri Safflower Oil*
- *Healthy Pure Light*
- *Olive Oil*
- *Gomaaburazukino Goma Abura*
- *Sarasara Canora Oil*
- *Sarasara Canora Kenko Plus*
- *Salad Oil*

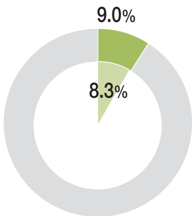


Beverages and Dairy Products

- *Blendy*
- *MAXIM*
- *marim*
- *CALPIS*
- *CALPIS Water*
- *AMEAL S*
- *evian*
- *Petite Danone*
- *Danone Yogurt*
- *Fruit Selection*
- *BIO*

Note: Segment information for operating income is shown prior to eliminations.

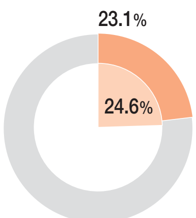
OVERSEAS FOOD PRODUCTS



Outer circle: Net Sales
Inner circle: Operating Income

- *AJI-NO-MOTO*
- *RosDee* (Thailand)
- *Masako* (Indonesia)
- *Sazón* (Brazil)
- *Birdy* (Thailand)
- *YumYum* (Thailand)
- *WEIDUDU* (China)
- *Younong* (China)
- *VONO* (Brazil,Thailand,etc.)

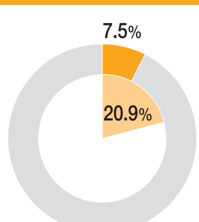
AMINO ACIDS



Outer circle: Net Sales
Inner circle: Operating Income

- Umami seasonings
  - *AJI-NO-MOTO*
  - *Ajitide*
- Feed-Use Amino Acids
  - Feed-use Lysine
  - Feed-use Threonine
  - Feed-use Tryptophan
- Amino Acids for Pharmaceuticals and foods
  - Various amino acids
  - *ASF Medium 104N*
  - Labeled amino acids
  - *CALVITAL*
- Sweeteners
  - *PAL SWEET*
  - *SLIM UP SUGAR*
  - *Refresco MID* (Brazil)
- *amino VITAL*
  - *amino VITAL Pro*
  - *amino VITAL*
  - *amino VITAL Jelly*
  - *amino de Kan･pai*
- Specialty Chemicals
  - Cosmetic Ingredients
    Surfactants: *Amisoft, Amilite*
    Functional Powder: *Amihope*
    Emollient: *Eldew*
    Humectant: *Ajidew*
  - *Jino* Series of Cosmetics
  - Electronic Materials
    ABF (Ajinomoto Build-Up Film)

PHARMACEUTICALS



Outer circle: Net Sales
Inner circle: Operating Income

- Infusions, Clinical Nutrition and Dialysis: *PNTWIN*, *PARESAFE* for i. v. infusion, *BICARBON* inj., *HEPAN ED*, *SOLITA-T*, *AK-SOLITA*, *HYSORB*
- Gastrointestinal Diseases: *LIVACT* Granules, *ELENTAL*, *NIFLEC*
- Lifestyle-Related Diseases: *FASTIC*, *ATELEC*, *ACTONEL*
- Medical Foods: *IMPACT*, *MEDIF* Bag, *PEMVEST*
- Functional Foods: *Mitherapist Superfine Dispersed ß-Glucan*

Strong growth and extensive brand-building measures at home and overseas characterized fiscal 2005.

DOMESTIC FOOD PRODUCTS

The *AjiPanda* bottle

Reasserting the Ajinomoto Brand

In May 2005, Ajinomoto launched the *"AjiPanda"* campaign to stimulate demand for its umami seasoning *AJI-NO-MOTO*. The campaign, which primarily targeted young housewives, revolved around *AjiPanda*, a panda character chosen to represent the *AJI-NO-MOTO* product.

To reach the widest possible audience, the campaign incorporated several elements. Intensive TV advertising at the start of the campaign was complemented by not only an in-store campaign using *AjiPanda* promotional goods but also a website campaign. The launch of a specially designed *AjiPanda* bottle greatly helped to attract new, young customers.

Ajinomoto Co., Inc. Kawasaki Plant

Production Innovation Efforts at the Kawasaki Plant

Ajinomoto is currently implementing an extensive cost reduction plan at the Kawasaki Plant, the production center of its domestic food production business. In accordance with this plan, the plant staff actively engaged in production, which numbered 594 employees in April 2003, was reduced to 250 on April 1, 2006.

By improving production processes, introducing new technology and training workers to handle multiple tasks, we will aim to further reduce costs and maintain Ajinomoto's oldest production site as our main plant.

Glyna

New Dietary Supplement Exceeds Sales Target

In August 2005, Ajinomoto commenced mail order sales of *Glyna*, a dietary supplement based on physiological research of the amino acid glycine. This is the first product of the Group's new "Fundamental Foods" range.

In fiscal 2005, *Glyna* sales reached ¥400 million in only 8 months, far exceeding the initial target of ¥300 million. An estimated 60,000 people tried the new supplement.

OVERSEAS FOOD PRODUCTS

RosDee (Thailand) *Sazón* (Brazil)

Sales of Flavor Seasonings Continue to Grow

Overseas sales of flavor seasonings continued to show double-digit growth. Strong sales in Thailand, Indonesia and Brazil coincided with expansion in other markets, such as the Philippines and Vietnam, contributing to a rapid improvement in earning performance. These factors were reflected in a rapidly rising operating income in the second half of fiscal 2005.

Ajinomoto Acquires the Amoy Food Group

In January 2006, Ajinomoto Co., Inc. acquired the Amoy Food Group Companies from Danone Asia Pte Ltd, a subsidiary of Group Danone S.A. With this acquisition, Ajinomoto gained a strong foothold in the Chinese ethnic sauce segment as well as in the frozen dimsum foods segment. While working to maximize the synergy benefits of the new acquisition, Ajinomoto will also benefit from the considerable brand recognition enjoyed by the Amoy Food Group Companies in the Chinese, West European and North American markets.

AMINO ACIDS

AJINOMOTO EUROLYSINE S.A.S.

Sustained Progress under *A-dvance 10*

In fiscal 2005, Ajinomoto made continued progress toward strengthening its amino acids business infrastructure.

Ajinomoto completed several capacity expansion projects; in Indonesia for umami seasonings for processed food manufacturers, and in China and the U.S. for feed grade amino acids. Meanwhile, new expansion projects were started in other locations, including Brazil and France for feed grade amino acids.

In the area of electronic materials, Ajinomoto was able to strengthen the market position of *ABF*, a build-up insulation film used primarily in computer MPU boards, by expanding sales through new applications and attracting new customers.

PHARMACEUTICALS

Ajinomoto Medica Co., Ltd. Fukushima Plant

Ajinomoto Medica Co., Ltd. Established

In April 2005, Ajinomoto inaugurated a new pharmaceutical manufacturing and logistics subsidiary, Ajinomoto Medica Co., Ltd. The company was formerly known as Shimizu Pharmaceutical Co., Ltd. The manufacturing and logistics operations of another pharmaceutical subsidiary, Ajinomoto Pharma Co., Ltd. was transferred to the new company.

Ajinomoto Medica has since worked to build a competitive manufacturing organization by reducing procurement and distribution costs, reducing inventories and restructuring the allocation of production items to each plant.

Fiscal 2006, the second year of the *A-dvance 10* management plan, will be an exciting year, with rapid expansion in overseas markets and a strengthening of the Group's business foundations across all areas.

DOMESTIC FOOD PRODUCTS

Hon-Dashi

Ajinomoto KK Consommé

Ajinomoto KK Marudori Gara Soup

Demand Creation through Aggressive Marketing

To stimulate demand in the Japanese domestic food market, which is marked by declining birthrates and a growing elderly population, Ajinomoto will adopt a marketing strategy consisting of several elements.

By only using select raw materials, Ajinomoto will enhance the products' appeal and make them the market's "No. 1 choice for taste". Primarily, the Group will use a wide variety of channels to spread information on nutrition, cooking methods, recipes and products. Ajinomoto will also continue to run cooking schools for beginners, as well as campaigns to promote the Japanese, Western and Chinese dashi product range.

CH-19 Sweet

Groundbreaking Health Food Products

In the health and nutrition business, Ajinomoto will build on the favorable market response to *Glyna* and work to increase sales, while also carrying out further research into the health effects of glycine. Another priority is to develop *Capsiate*, a fat-burning compound found in CH-19 Sweet, a type of non-pungent chili pepper, into a health food ingredient for the global market. Clinical trials using human subjects started in Japan and the U.S. in the spring of 2006, and once safety and efficacy have been scientifically established, Ajinomoto plans to introduce *Capsiate* on the Japanese and U.S. markets.

OVERSEAS FOOD PRODUCTS

VONO (Brazil)

Sustained Growth in Existing Markets, Rapid Expansion in Emerging Markets

Ajinomoto will continue to focus on its core business fields: The umami seasoning *AJI-NO-MOTO*, flavor seasonings and soups.

For *AJI-NO-MOTO*, the Group aims to combine steady growth in its existing markets with rapid expansion in emerging markets, such as India and West Africa. In existing markets, including the ASEAN countries, it will step up its efforts to attract new customers through friendlier and more straightforward advertising. In the area of flavor seasonings, Ajinomoto expects aggressive marketing to bring continued double-digit sales growth in the key markets of Thailand, Indonesia and Brazil. In Thailand and Indonesia, Ajinomoto will also step up its sales efforts to restaurants. Finally, in the soup business, Ajinomoto aims to expand its operations overseas beyond its current presence in Brazil, Thailand, Malaysia, China and Taiwan. This will be achieved through aggressive marketing, the introduction of new products and active efforts to build new markets.

AMINO ACIDS

MSG plant in Brazil

Strengthening and Expanding the Business Base

Ajinomoto will continue to develop new applications, introduce new products and expand its markets. To improve cost-competitiveness and build a stronger foundation for the achievement of the targets set out in *A-dvance 10*, the Group will seek to develop and introduce new technologies and production methods, solutions to raw material issues and effective uses of by-products, and ensure that these initiatives are implemented in overseas plants.

Ajinomoto will also expand its capacity to meet the steadily rising demand for monosodium glutamate (MSG), along with feed grade Threonine, aspartame, electronic materials and other products.

PHARMACEUTICALS

FASTIC

Optimizing Production in Response to NHI Price Revisions

In response to the downward revision of the NHI (National Health Insurance) reimbursement prices implemented in April 2006 by the Japanese government, Ajinomoto will take decisive steps to reduce procurement and distribution costs, lower inventory levels and optimize deployment of the production work force. While continuing these efforts, Ajinomoto will work to improve efficiency and expand toll manufacturing opportunities by reallocating production items between plants. In recognizing its product safety and quality responsibilities as a pharmaceutical manufacturer, Ajinomoto will also continue to prioritize its quality management systems.

ACTONEL

Accelerating New Drug Development

Under *A-dvance 10*, Ajinomoto will continue to accelerate and strengthen its development pipeline, with a special focus on its core fields: Infusions, clinical nutrition and dialysis, gastrointestinal diseases and lifestyle-related diseases.

Ajinomoto obtained manufacturing and marketing approval of *PARESAFE*, a peripheral parenteral infusion with vitamin B1 in a double-chambered container, and filed a new drug application for SZ-D21, an acetate-free dialysate for hemodialysis. A supplemental new drug application was also filed for *FASTIC*, adding an indication for the treatment of diabetes in combination with biguanide agents. Ajinomoto is also seeking approval for a new formulation of its osteoporosis treatment *ACTONEL*, which will allow a once-a-week dosage formulation.

Board of Directors and Auditors

From left: Keiichiro Aihara, Shozo Hashimoto, Norio Yamaguchi, Kunio Egashira, Tohru Nishiyama

From left: Yoichi Kobayashi, Masatoshi Ito, Tsuyoshi Miura, Osamu Tosaka, Yasufumi Yanagihara

From left: Takashi Kurematsu, Yutaka Kunimoto, Namio Terashi, Hirozumi Eto

CHAIRMAN OF THE BOARD

Kunio Egashira*

MEMBER OF THE BOARD, PRESIDENT & CHIEF EXECUTIVE OFFICER

Norio Yamaguchi*
Internal Auditing Dept.

MEMBERS OF THE BOARD & CORPORATE EXECUTIVE DEPUTY PRESIDENTS

Tohru Nishiyama*
President, Pharmaceutical Company
Management of R&D
Secretarial Office
Intellectual Property Center
Research Institute for Health Fundamentals

Keiichiro Aihara*
Management of Corporate Projects (M&A etc.)
Purchasing Dept.

MEMBERS OF THE BOARD & CORPORATE SENIOR VICE PRESIDENTS

Tsuyoshi Miura*
General Affairs & Risk Management Dept.
CSR Division
Corporate Communications Dept.

Osamu Tosaka*
Management of Production Technology & Engineering
Production Management Dept.
Technology & Engineering Center

Masatoshi Ito*
President, Food Products Company
Advertising Dept.
HI Dept.
Health Services Development Dept.

Yasufumi Yanagihara*
President, Amino Acids Company

Yoichi Kobayashi
Finance Dept.
Legal Dept.
Affiliates Management Dept.
China Business Strategy & Planning Dept.

MEMBERS OF THE BOARD & CORPORATE VICE PRESIDENTS

Namio Terashi
Corporate Planning Dept.
Human Resources Dept.
Information Systems Strategy Planning Dept.

Yutaka Kunimoto
Vice President, Amino Acids Company

Hirozumi Eto
Quality Assurance & External Scientific Affairs Dept.
R&D Management Dept.
Institute of Life Sciences

MEMBER OF THE BOARD

Takashi Kurematsu

OUTSIDE DIRECTOR

Shozo Hashimoto
Senior Advisor,
Nomura Research Institute, Ltd.

STANDING CORPORATE AUDITORS

Ryozo Nishio

Chikahiko Eguchi

Yutaka Naito

CORPORATE AUDITORS

Kazuhide Kondo
Certified Public Accountant

Rieko Sato
Attorney-at-law, Ishii Law Office

(As of August 1, 2006)

Note: An asterisk (*) designates a representative director.

Stakeholder-Oriented Corporate Governance

To strengthen our competitiveness while also meeting our social responsibilities, Ajinomoto has made the reinforcement of corporate governance a top management priority. After studying examples from Japan and abroad, we have built a practical system of business execution and supervision that blends the best global practices with the positive aspects of Japanese-style management. Meanwhile, we are working to improve the Group's corporate value by strengthening our competitiveness under the internal company system.

Outline of Corporate Functions

The Board of Directors, the supreme decision-making organ, makes decisions on important matters, including matters subject to laws and regulations and the articles of incorporation. It also supervises the activities of directors and executive officers. In principle, the Board of Directors meets on a monthly basis. However, special meetings may be convened as required.

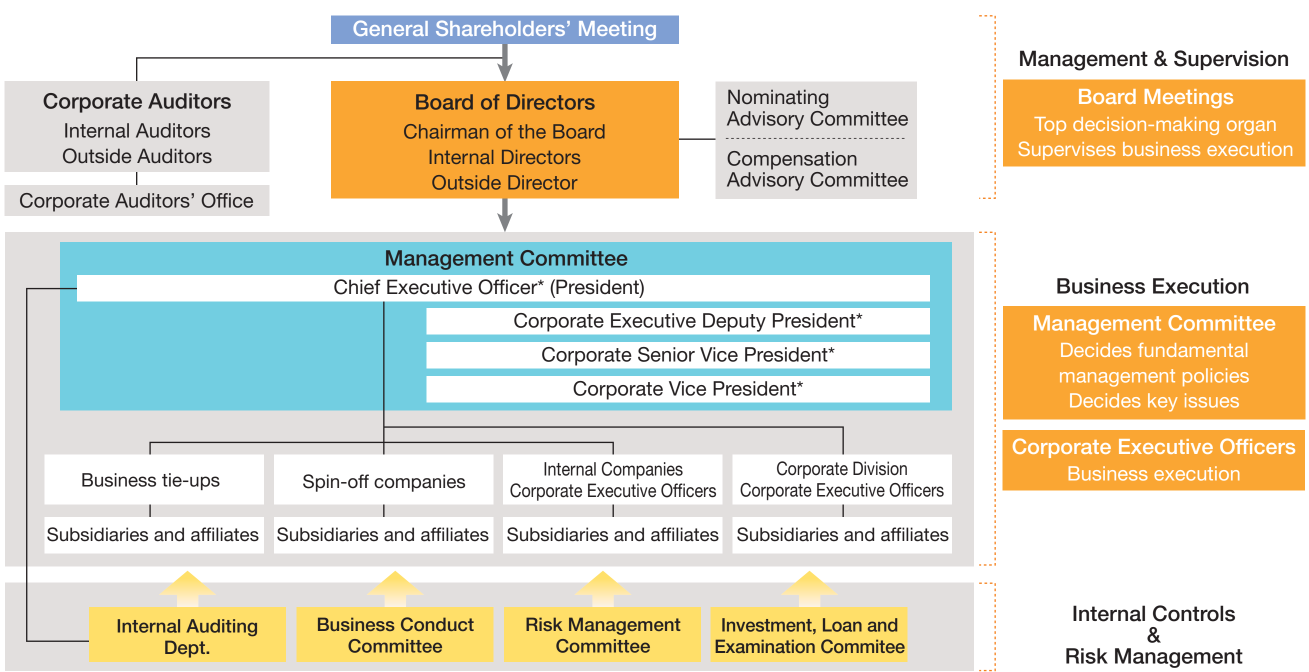
As CEO, the role of the President is to implement the resolutions of the Board of Directors and coordinate corporate operations. With the exception of the Chairman and those directors whose main task is to supervise the activities of executive officers, internal directors also serve as executive officers. Executive officers implement their tasks authorized by the Board of Directors.

The Management Committee is chaired by the CEO and made up of senior executive officers who are also directors. It deliberates on basic policies of corporate management and makes decisions on important matters pertaining to business execution. In principle, the Management Committee meets three times each month, but special meetings may be convened as required.

Internal audits are conducted by the Internal Auditing Dept., which audits the operations of the Company as well as the management and operations of Group companies. The Company applies the auditor system, and audits are conducted by five Corporate Auditors, of whom two are internal and three external. Ajinomoto Co., Inc. has retained Ernst & Young ShinNihon as its financial auditor.

Ajinomoto Co., Inc. has established a Nominating Advisory Committee to ensure transparency and objectivity in the selection of officers, including executive officers and candidates for directorships. This

Corporate Structure (adopted in June 2006)



*Also Member of the Board

committee, which consists of several directors, including an outside director, discusses appointments and makes nominations.

Remuneration for directors and other officers consists of monthly salaries, bonuses and retirement benefits, each of which is calculated according to separate criteria. The Board of Directors is advised on related matters by the Compensation Advisory Committee, which consists of several directors, including an outside director. This committee deliberates on matters relating to remuneration for directors and other officers, except the Corporate Auditors.

In the 128th accounting period, seventeen directors and five Corporate Auditors received remuneration totaling ¥464 million and ¥114 million respectively. Besides, twelve directors received bonuses totaling ¥165 million based on profit distributions in the previous accounting period. Retirement benefits totaling ¥446 million were paid to four directors based on a resolution approved by the 127th ordinary general meeting of shareholders.

The Internal Governance System and Progress Regarding Its Development

The internal governance system is based on a resolution passed by the Board of Directors at its meeting in April 2006. The Board of Corporate Auditors also appointed Standing Auditors in preparation for the implementation of Japan's new Corporate Act.

Basic Principles

To ensure that directors and employees perform their duties in accordance with laws, regulations and the Articles of Incorporation, we are working to foster a culture of compliance with legal requirements and the Ajinomoto Group Standards of Business Conduct. This is done through activities that include educational and training programs and the distribution of manuals. The Business Conduct Committee has jurisdiction over corporate-level issues, including supervision of compliance and related training and education, the identification and rectification of breaches of laws and regulations, and the formulation and implementation of amendments and improvements to systems. Individual issues are handled by the operational management units concerned.

Information recorded on paper and electronically relating to the performance of duties by directors, including the minutes of meetings of the Board of Directors, is stored and managed in accordance with laws, regulations, the Articles of Incorporation and other internal policies.

Internal policies and other rules have been established and implemented concerning the management of risks that could result in losses. In preparation for deliberations by the Management Committee, matters pertaining to important investments or unprofitable business activities are first examined by the Investment, Loan and Examination Committee. This committee determines whether an investment is necessary, and identifies any associated issues or risks. To initiate prompt and effective action in response to risks that could have a negative effect on the corporate value of the Ajinomoto Group, the Company has established the Risk Management Committee under the Management Committee.

To allow its directors to carry out their duties efficiently, the Company has introduced a system of Corporate Executive Officers and an internal company system. Authority is delegated to the Management Committee, internal companies and executive officers within clear limits defined by rules governing the approval of decisions.

The directors provide all the necessary support to allow the Corporate Auditors to perform their duties effectively. Reports are submitted to the Corporate Auditors, and arrangements are made for them to attend important management meetings or receive copies of the minutes of those meetings. Senior employees also make verbal reports to the Corporate Auditors at regular intervals or as required. They are also able to report directly to the Corporate Auditors in emergencies, such as when they discover situations that could cause substantial losses to the Company. The President, other directors and the auditors share information and ascertain each other's intentions by meeting regularly or as required to discuss management issues, including compliance and risk management.

Financial Section

Contents

Six-Year Summary of Selected Financial Data

Ajinomoto Co., Inc. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					
	2006	2005	2004	2003	2002	2001
For the year:						
Net sales	¥1,106,807	¥1,073,010	¥1,039,551	¥987,727	¥943,540	¥908,528
Cost of sales	795,007	760,554	743,251	716,999	680,003	665,856
Gross profit	311,799	312,455	296,299	270,727	263,536	242,672
Selling, general and administrative expenses	251,476	241,538	231,109	216,668	214,521	204,867
Operating income	60,322	70,916	65,190	54,059	49,015	37,805
Other income (expenses)	(3,153)	10,821	1,826	11,407	9,449	(50,800)
Income (loss) before income taxes and minority interests	57,169	81,737	67,017	65,466	58,464	(12,995)
Net income (loss)	34,912	44,817	36,276	33,178	31,442	(11,547)
Capital expenditures	79,162	58,082	50,916	57,403	45,277	46,914
Depreciation and amortization	40,341	39,854	39,925	38,969	37,222	38,640
At year-end:						
Shareholders' equity *1	¥ 528,762	¥ 467,297	¥ 428,077	¥391,154	¥381,017	¥361,771
Total assets *1	997,405	903,542	871,780	864,588	840,152	828,945
Long-term debt	110,382	90,533	101,595	52,393	75,238	82,607
Per share (yen):						
Net income (loss)	¥ 53.6	¥ 68.8	¥ 55.6	¥ 50.7	¥ 48.4	¥ (17.8)
Shareholders' equity *1	815.8	720.6	659.8	602.7	586.3	556.6
Cash dividends	14.0	13.0	12.0	11.0	10.0	10.0
Value indicators:						
Liquidity ratios:						
Debt/equity ratio (%) *1,2	27.5	26.9	33.6	38.6	40.8	47.6
Interest coverage ratio (times) *3	19.1	24.3	22.6	16.6	10.9	7.4
Investment indicators:						
Price/earnings ratio (times) *4	23.4	19.0	22.3	24.0	24.4	(73.6)
Price/book value (times) *1,5	1.5	1.8	1.9	2.0	2.0	2.2
Return indicators:						
Return on assets (%) *1,6	3.7	5.0	4.2	3.9	3.8	(1.5)
Return on equity (%) *1,7	7.0	10.0	8.9	8.6	8.5	(3.0)
Number of employees	26,049	25,812	24,861	24,406	24,326	23,739

Notes: 1. Shareholders' equity, total assets, shareholders' equity per share and the related indicators for the year ended March 31, 2000 have been restated due to a change in the regulations relating to the presentation of translation adjustments.
2. Debt = Short-term borrowings and current portion of long-term debt + Long-term debt
3. Interest coverage ratio = (Operating income + Interest and dividend income)/Interest expense
4. PER = Year-end share price/Net income per share
5. PBR = Year-end share price/Shareholders' equity per share
6. ROA = Net income (or loss)/Average total assets
7. ROE = Net income (or loss)/Average total shareholders' equity

Overview of Financial Strategy

Ajinomoto's financial strategy for the implementation of its medium- to long-term management plan, *A-dvance 10*, focuses on four key areas:

Capital Investment

Ajinomoto has divided its *A-dvance 10* plan, which covers the period from fiscal 2005 to fiscal 2010, into two three-year phases. The first phase is a strategic growth phase, during which we will undertake proactive forward investment aimed at ensuring the achievement of our goals. Capital investment will total ¥80–¥90 billion per year during this phase, and we plan to invest a total of approximately ¥250 billion. Though difficult business conditions caused our results to fall short of our targets in the year ended March 31, 2006, we will continue to invest as planned and seek returns on our investments as soon as possible, while taking into consideration risks in our business environment. We aim to reach our goals by reaping the benefits of this investment during the second phase of *A-dvance 10*.

Return on Investment

As in the case of the acquisition of the Amoy Food Group Companies, we plan to engage in M&A activities as required for our future growth. Regarding return on investments including M&A and capital investments, Ajinomoto has a number of internal investment criteria. Basically, investments must meet these criteria and all proposals for internal investment or lending are subject to thorough deliberations by the Investment, Loan and Examination Committee before decisions are made by the Management Committee. In addition, any business operations that continue to make losses at the operating profit level in three consecutive years will in principle be reviewed. The final decision to withdraw will be taken after the business has been reassessed. This standard is applied throughout the Ajinomoto Group.

Liquidity

Ajinomoto has been working to generate cash for investment in operating assets, which generate higher returns, by means such as liquidating securities and underutilized land. In addition, we are working to maximize free cash flows by reducing inventory assets. We aim to maintain liquidity at 5%–6% of consolidated net sales. Assets will be continually reviewed, and any that are not essential to business operations will be liquidated. Improved liquidity management will continue to support financial performance.

Ajinomoto has unified treasury management for a substantial proportion of group companies in order to raise the efficiency of asset and liability management and reduce external borrowing and its costs. As a result, the Ajinomoto Group companies in Japan obtain more than 90% of their capital within the Group. Ajinomoto has also improved its ability to fund group companies outside Japan to enhance cash flow.

In terms of its asset/liability mix, Ajinomoto is shifting its borrowing toward long-term debt. Having previously maintained a 50/50 ratio between long-term and short-term borrowing, Ajinomoto is now expanding the portion of long-term debt to 70%–80%, thereby reducing short-term debt at 20%–30%. Ajinomoto monitors the component ratio between long-term and short-term debt in total assets with a view to reducing borrowing costs.

In the future, the Company will principally use long-term borrowing for large-scale capital investments and M&A activities. The long-term debt will be spread out over multiple repayment dates, so as to avoid exposure to market risks and excessive risk from rising interest rates.

Credit Rating

The Company will continue to emphasize maintaining its solid credit ratings as one means of controlling the cost of funding global growth by ensuring favorable access to external sources of capital. Therefore, despite the anticipated increase in borrowing to support our investment and lending activities over the next three years, we intend to maintain the D/E ratio within approximately 40%.

Credit Rating Agencies	Ratings for the Company's Long-Term Debt
Standard & Poor's	AA–
Moody's Investors Service	A1
Rating and Investment Information, Inc. (Japanese agency)	AA

Foreign Currency Translation

In the past, the Ajinomoto Group has translated the income and expense accounts of the foreign consolidated subsidiaries at the rates of exchange in effect at the balance sheet date. Since the fiscal year ended March 31, 2006, however, translations have been based on average exchange rates in effect during the period. As quarterly financial information disclosure further develops, this change will enable each financial report to show a balanced result for the period despite severe fluctuations of the spot exchange rate that may occur.

Operating Environment

A domestic demand-led steady recovery of the Japanese economy continued during the fiscal year under review, supported by factors such as improved employment and personal consumption, and increased levels of capital expenditure as corporate profits recovered.

In the food industry, products for health-conscious consumers were popular, and increased emphasis was placed on product safety and quality. The overall environment remained severe, however, with high oil prices and a weaker yen that caused a sharp increase in the price of certain raw materials.

Internationally, the U.S. economy continued to grow, although this growth slowed somewhat in the second half of the year. In Asia, investment-led growth continued in China, and economic growth continued. The economies in Europe showed continued mild recovery.

Within this environment, Ajinomoto continued efforts to concentrate investment in core business areas, create new value through technical innovation, support a shared company culture throughout the Group, and create a strong business foundation as proprietors of the trusted Ajinomoto Brand, guided by *A-dvance 10* management plan.

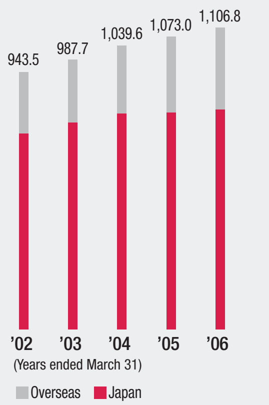
Consolidated net sales for the fiscal year ended March 31, 2006 increased 3.1%, or ¥33.7 billion, to ¥1,106.8 billion. However, factors such as a fall in prices for feed-use Lysine and the impact of higher raw material prices contributed to a decline in operating income of 14.9%, or ¥10.5 billion, to ¥60.3 billion. Consolidated net income fell 22.1%, or ¥9.9 billion, to ¥34.9 billion.

Analysis of Statements of Operations

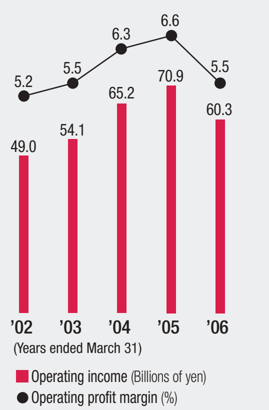
Note: All comparisons are with the previous fiscal year, ended March 31, 2005, unless otherwise stated.

Net Sales

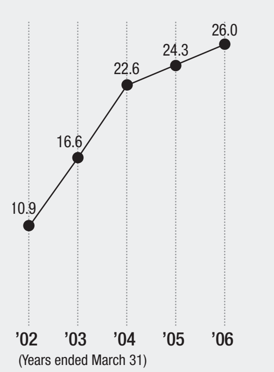
Net sales rose 3.1%, or ¥33.7 billion, year on year to ¥1,106.8 billion. By region, sales in Japan rose 1.4% to ¥804.6 billion, while sales overseas rose 8.2% to ¥302.1 billion. Overseas, sales in Asia rose 15.9% to ¥118.2 billion, sales in America rose 10.4% to ¥76.7 billion, and sales in Europe fell 0.6% to ¥107.1 billion.



Domestic and Overseas Sales
(Billions of yen)
Note: Excludes interarea sales and transfers



Operating Income & Operating Profit Margin



Interest Coverage Ratio (Times)

Cost of Sales and SG&A Expenses

The rise in net sales lifted the cost of sales by 4.5%, or ¥34.4 billion, to ¥795.0 billion. The sales cost ratio rose 0.9 percentage points to 71.8%, due to a fall in feed-use Lysine prices, a rise in the cost of certain raw materials, high oil prices and other factors.

Selling, general and administrative expenses rose 4.1%, or ¥9.9 billion, from the year before to ¥251.4 billion. The main reason for this rise was an increase in marketing costs such as sales promotions.

Costs, Expenses and Income as Percentages of Net Sales

Years ended March 31	2006	2005	2004
Cost of sales	71.8% (+0.9)	70.9% (–0.6)	71.5%
Gross profit	28.2 (–0.9)	29.1 (+0.6)	28.5
SG&A expenses	22.7 (+0.2)	22.5 (+0.3)	22.2
Operating income	5.5 (–1.1)	6.6 (+0.3)	6.3
Income before income taxes & minority interests	5.2 (–2.4)	7.6 (+1.2)	6.4
Net income	3.2 (–1.0)	4.2 (+0.7)	3.5

Note: Figures in parentheses represent change in percentage points from the previous year.

Operating Income

Operating income fell 14.9%, or ¥10.5 billion, from the year before to ¥60.3 billion. By region, operating income in Japan increased 3.7% to ¥43.6 billion, while operating income from operations overseas decreased 42.2% to ¥16.6 billion. The main reason for the domestic increase in operating income was increased earnings in the processed foods, frozen foods and other areas of the foods business, and electronic materials also performed well. Overseas, some benefit was derived from raising prices of umami seasoning *AJI-NO-MOTO* for home and restaurant use and for processed food manufacturers, but factors such as a significant decline in prices for feed-use Lysine and higher costs of raw materials combined to reduce overall operating income. Operating income in Asia decreased 40.9% to ¥5.5 billion, operating income in America decreased 62.4% to ¥4.3 billion, and operating income in Europe decreased 13.5% to ¥6.7 billion.

Other Income (Expenses)

Other income, net totaled minus ¥3.1 billion, compared to other income, net of ¥10.8 billion for the previous fiscal year. After deducting interest expense from interest received, the balance of interest was minus ¥2.0 billion, compared to minus ¥1.1 billion in the previous fiscal year. This was mainly the result of higher interest payments arising from an increase in interest-bearing debt held by subsidiaries overseas, and lower interest income received concomitant with a reduction in cash and cash equivalents.

Equity in earnings of affiliates rose to ¥3.7 billion from ¥3.2 billion the year before. This increase was principally because of a recovery in the performance of subsidiaries and affiliates accounted for by the equity method, such as J-OIL MILLS, INC.

As in the previous year, progress was made in selling investment securities, with gain on sales of securities of ¥1.6 billion, compared to ¥6.8 billion in the previous year.

Other, net decreased to a loss of ¥6.4 billion from gain of ¥3.1 billion in the previous fiscal year. This year on year decrease largely reflected the decrease of gain on sales of fixed assets.

Net Income

Net income for the period under review fell 22.1%, or ¥9.9 billion, to ¥34.9 billion. The effective tax rate fell from 42.0% last year to 33.7%. Net income per share for the year was ¥53.63, down from ¥68.79 per share the year before.

Dividends

Since the fiscal year ended March 31, 2003, Ajinomoto Co., Inc. has maintained a basic policy of providing stable, sustainable income distributions that take into account progress toward the achievement of targets under the medium-term management plan and consolidated performance for the period concerned. In line with this policy, the annual dividend has been increased by ¥1 each year since the year ended March 31, 2003.

A-dvance 10 calls for aggressive investment in business expansion, especially during the initial three years leading up to the year ending March 2008. Ajinomoto plans to use internal reserves for future growth, such as investment in domestic and overseas plants, research and development. However, the distribution of income to shareholders is also a priority, and the Company will continue to return profits under our basic dividend policy. For this reason, the dividend for the year ended March 31, 2006 was increased by ¥1 over the previous year's level to ¥14 per annum.

Segment Information

Note: All comparisons are with the previous fiscal year, ended March 31, 2005, unless otherwise stated.

Domestic Food Products

Domestic food product sales increased 1.6%, or ¥9.6 billion, over the previous year to ¥608.5 billion. Operating income increased 4.9%, or ¥1.4 billion, to ¥31.8 billion. Sales showed a slight increase year on year, due to higher revenues of coffee and frozen foods. Operating income increased, with the effect of cost-saving initiatives more than offsetting the higher cost of certain raw materials.

• **Seasonings and Processed Foods:** In the retail market, sales of *AJI-NO-MOTO* were maintained at a similar level to the previous year, supported by the "*AjiPanda*" marketing campaign. In the Japanese, Western and Chinese dashi product range, sales of *Hon-Dashi* were slightly lower than in the previous year, while sales of consommé and Chinese dashi progressed favorably as a result of an effective marketing campaign. Sales of soups increased slightly, with higher revenues from *Knorr Cup Soup* offsetting a decline in sales of *Knorr Soup Pasta*. Sales of the *Cook Do* line progressed well with the launch of new varieties. Ajinomoto's share of the mayonnaise and mayonnaise-type dressings market increased, however, sales were slightly lower than in the previous year. Sales of *Ajinomoto KK Ajiamen* doubled with the launch of cup varieties. Sales of *Kellogg's* products decreased slightly.

In the commercial market, sales of Western sauces fell substantially, while sales of mayonnaise and dressings increased significantly due to good progress made in introducing products to major customers. Revenue from *ACTIVA*, an enzyme (transglutaminase) that improves food texture, increased significantly and sales of savory seasoning products to food processing industry increased slightly.

• **Sweeteners and Nutritional Foods:** In low-calorie sweeteners for home and restaurant use, sales increased due to positive factors such as good sales of *PAL SWEET Calorie Zero*. Sales of the amino acid supplement *amino VITAL* were lower, reflecting lower sales of the product in jelly drinks.

• **Delicatessen and Bakery Products:** Sales of lunchboxes, prepared dish delicatessen products and bakery products were slightly lower than in the previous year.

• **Frozen Foods:** In products for the retail market, strengthened promotional activities integrated with advertising led to considerably higher sales of *Gyoza*. Sales of our new product *Fried Rice with Various Ingredients* were also favorable. In addition, sales of *Ebi Pilaf* increased significantly, as did sales of *Yawaraka Wakadori Kara-Age*, with the result that overall revenues were higher than in the previous year. Sales for restaurant and institutional use were only slightly lower, despite the removal of certain unprofitable items from the product range, due to good sales of new and continuing dessert products.

• **Edible Oils:** In July 2004, J-OIL MILLS, INC. merged with and absorbed the operations of companies including Ajinomoto Oil Mills Co., Inc., HONEN Corporation, Yoshihara Oil Mill, Ltd., with Ajinomoto Co., Inc. becoming the distributor of edible oils for home use and J-OIL MILLS, INC. becoming the distributor of products for commercial use, including most Ajinomoto-branded oils and meal products. As a result, sales for home use recorded an increase and commercial sales recorded a decrease. Retail sales of *Canola oil* were steady.

• **Coffee, Beverages, Dairy Products:** Sales of liquid coffee such as *Blendy* bottled coffee increased substantially, as did sales of instant and regular coffee. Revenue from beverage sales was in line with the previous comparable period, with a large decline in sales of functional health drinks such as *Ameal S*, but solid growth from *CALPIS Water* and *evian*. Chilled dairy product sales declined slightly, with considerably lower sales of *Danone Bio* but positive performance from *Baby Danone* and *Petite Danone*.

Market Share in Main Product Areas (Household Market in Japan)

(Ajinomoto estimate)

Product Area	Brand	FY 2005	
		Market Size (Billions of yen)	Ajinomoto Share (Position)
Umami Seasonings	*AJI-NO-MOTO, Hi-Me*	8.5	84% (No. 1)
Japanese Flavor Seasonings	*Hon-Dashi*	41.7	54% (No. 1)
Consommé	*Ajinomoto KK Consommé*	12.4	68% (No. 1)
Soup	*Knorr*	78.0	47% (No. 1)
Mayonnaise and Mayonnaise-Type Dressings	*Pure Select*	42.2	28% (No. 2)
Seasonings for Chinese Dishes	*Cook Do, Gohan Ga Susumu Kun*	45.9	36% (No. 1)

Note: Market size is based on consumer purchase prices.

Overseas Food Products

Overseas food product sales increased 23.2%, or ¥18.7 billion, to ¥99.5 billion. Operating income increased 68.0%, or ¥2.0 billion, to ¥5.0 billion. The significant increase over last year's results reflect the implementation of price increases of *AJI-NO-MOTO* for home and restaurant use in response to higher raw material costs, along with continued substantial growth in demand for flavor seasonings.

• **Seasonings:** In Asia, sales of *AJI-NO-MOTO* for home use and restaurant use were strong, while sales of flavor seasonings for home use increased substantially year on year. In America, revenue from sales of flavor seasonings in South America was considerably higher, also aided by changes in the exchange rate. In Europe and Africa, sales of *AJI-NO-MOTO* for home use in West African nations continued to grow strongly.

• **Processed Foods:** Sales of instant noodles in Asia increased substantially, and sales of *Birdy*, a canned coffee beverage, were steady.

Amino Acids

Sales in the amino acids business rose 1.6%, or ¥4.1 billion, to ¥255.7 billion. Operating income decreased 49.1%, or ¥14.2 billion, to ¥14.8 billion. Sales of specialty chemicals increased substantially, and a price increase of *AJI-NO-MOTO* for processed food manufacturers contributed to revenues, but the impact from a drop in the unit price of feed-use Lysine was considerable. Overall, sales were only slightly higher than in the previous year, and higher raw material costs led to a substantial drop in operating income.

• **Umami Seasonings for Processed Food Manufacturers:** Demand for *AJI-NO-MOTO* from the food processing industry in Japan increased, with revenues boosted by a price increase. Overseas, strong demand and higher prices resulted in positive performance in Asia and substantially higher revenues in America. Sales in Europe were slightly lower than last year. Sales of nucleotides increased steadily, supported by solid overseas sales.

• **Feed-Use Amino Acids:** Sales of Threonine grew substantially, while revenue from Lysine was much lower in all regions, due to a major fall in prices with the rapid increase in supply from competitors in China and others. Revenues from Tryptophan progressed steadily.

Market Size of Feed-Use Amino Acids and Ajinomoto's Share

(Ajinomoto estimate) (Thousands of metric tons, %)

	FY2005	FY2004	FY2003	FY2002	FY2001
Lysine	850	770	700	650	600
Ajinomoto's share	30–35%	35%	35%	35%	35%
Threonine	85	65	50	40	33
Ajinomoto's share	60–70%	70%	70%	60%	60%
Tryptophan	1.7–1.8	1.5	1.3	1.2	1.0
Ajinomoto's share	70–80%	70–80%	70–80%	70%	60%

• **Amino Acids for Pharmaceuticals and Foods:** In Japan, sales of pharmaceutical-use amino acids declined as the size of the infusions market decreased, and sales of food-use amino acids to beverage manufacturers also fell. Sales of pharmaceutical-use amino acids grew strongly in America, and also increased slightly in European markets.

• **Amino Acid-Based Sweeteners:** Sales of sweeteners to the food processing industry were in line with the previous year, with production disruption caused by factory expansion being offset by favorable changes to the exchange rate. In South America, sales of powdered juice *Refresco MID*, which uses aspartame, increased significantly.

• **Pharmaceutical Fine Chemicals:** Sales of pharmaceutical fine chemicals grew steadily, contributed to by sales in European countries.

• **Specialty Chemicals:** Sales of cosmetic ingredients increased slightly, aided by steady growth in Japan. Sales of the amino acid-based cosmetic *Jino* recorded a major increase, as did sales of insulation film for mainly use in computer MPU boards.

Pharmaceuticals

Pharmaceutical sales rose 3.1%, or ¥2.4 billion, to ¥83.2 billion. Operating income increased 10.3%, or ¥1.1 billion, to ¥12.5 billion. Contributing mainly to the increase in both revenue and profit were good consignment sales of pharmaceuticals for lifestyle-related diseases.

Sales of products on an in-house basis were slightly lower, with a contribution from the peripheral nutrition infusion product *TWINPAL*, launched in the previous fiscal year, not being sufficient to offset slower sales of existing products such as *LIVACT*, a branched-chain amino acids formula for the treatment of liver cirrhosis, and infusions. In consignment products, sales of *ACTONEL*, an osteoporosis treatment, and *ATELEC*, an antihypertensive drug, grew steadily. Sales of nateglinide including non-insulin-dependent diabetes treatment *FASTIC* grew substantially, with strong demand for bulk active ingredients.

Ajinomoto's Main Pharmaceuticals Sales by Product

(Ajinomoto estimate/NHI reimbursement price basis*) (Billions of yen)

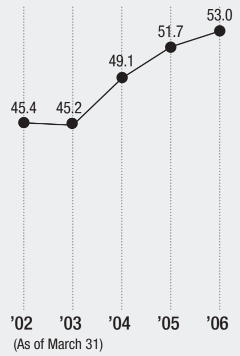
Field	Main Products	Launch Date	Indication or Formulation	Sales		
				FY2005	FY2004	FY2003
Infusions, clinical nutrition and dialysis/ Gastrointestinal diseases	*LIVACT* Granules	May 1996	Amino acid formula for treatment of liver cirrhosis	15.0	15.4	15.4
	SOLITA-T	Feb. 1962	Electrolyte solution	10.2	10.8	11.8
	ELENTAL	Sept. 1981	Elemental diet	8.0	8.1	8.1
	PNTWIN	Dec. 1993	Glucose, electrolyte and amino acid infusion for total parenteral nutrition	5.2	6.6	8.5
	HEPARIN	Apr. 1972	Anticoagulant	3.8	4.1	4.2
	AK-SOLITA	Nov. 1970	Hemodialysis solutions for use in artificial kidneys	2.7	3.1	3.6
	NIFLEC	June 1992	Oral cleaning solution for the intestine	2.5	2.2	2.4
	ELEMENMIC	Apr. 1992	Trace mineral mixture for total parenteral nutrition	2.1	2.3	2.4
	HEPAN ED	Sept. 1991	Elemental diet for hepatic failure	1.8	1.8	2.0
	TWINPAL	Apr. 2006	Peripheral infusion with glucose, electrolyte and amino acids	2.2	0.4	—
Lifestyle-related diseases	*ATELEC*	Dec. 1995	Long-acting calcium channel blocker (generic name: cilnidipine)	10.0	8.2	6.5
	ACTONEL	May 2002	Osteoporosis treatment (generic name: risedronate)	8.9	7.6	5.7
	FASTIC	Aug. 1999	Diabetes mellitus. Fast-acting insulin secretagogue (generic name: nateglinide)	6.0	6.0	5.4

*Effect of NHI price revision implemented: in April 2004 approx. –6%; in April 2006 approx. –7%

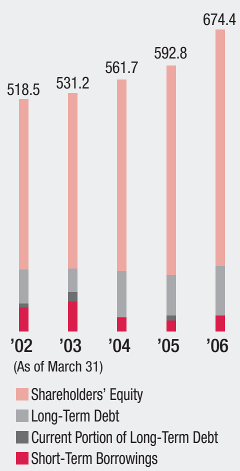
Other

Sales in this category decreased 2.1%, or ¥1.2 billion, to ¥59.6 billion. Operating income decreased 10.1%, or ¥0.3 billion, to ¥3.2 billion.

Liquidity and Financial Condition



Shareholders' Equity Ratio (%)



Total Capital (Billions of yen)

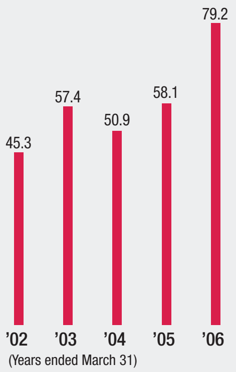
Total assets as of March 31, 2006 were ¥997.4 billion, ¥93.8 billion more than the ¥903.5 billion recorded one year earlier. Key factors contributing to this increase include the higher value recorded from the assets of overseas subsidiaries due to the weakening of the yen, higher capital expenditure to expand the earnings foundation and an increase in operating assets arising from the acquisition of shares of the Amoy Food Group.

Total interest-bearing debt was ¥145.6 billion, ¥20.0 billion higher than one year ago, resulting from additional borrowing for capital expenditure and share purchases, etc.

Total shareholders' equity was ¥528.7 billion, compared to ¥467.2 billion recorded on March 31, 2005. This increase of ¥61.4 billion was primarily attributable to increased operating income.

ROE decreased 3.0 points to 7.0%.

	Millions of yen (Percentage of respective total)				Thousands of U.S. dollars
As of March 31	2006		2005		2006
Total assets	¥997,405	(100.0%)	¥903,542	(100.0%)	$8,524,829
Notes and accounts receivable	195,841	(19.6)	187,214	(20.7)	1,673,855
Cash and cash equivalents	75,133	(7.5)	92,980	(10.3)	642,162
Inventories	108,324	(10.9)	97,459	(10.8)	925,846
Investments and long-term advances	154,341	(15.5)	128,204	(14.2)	1,319,154
Property, plant and equipment	341,950	(34.3)	302,458	(33.5)	2,922,650
Total liabilities	435,997	(43.7)	411,536	(45.5)	3,726,487
Notes and accounts payable	109,966	(11.0)	109,894	(26.7)	939,880
Short-term borrowings	34,851	(3.5)	24,305	(5.9)	297,872
Current portion of long-term debt	410	(0.0)	10,764	(2.6)	3,504
Accrued income taxes	7,274	(0.7)	16,584	(4.0)	62,171
Long-term debt	110,382	(11.1)	90,533	(10.0)	943,436
Shareholders' equity	528,762	(53.0)	467,297	(51.7)	4,519,333



Capital Expenditure
(Billions of yen)

Cash Flows

Net cash provided by operating activities declined by ¥27.7 billion to ¥55.1 billion. The main reasons for this were a reduction in operating income, and an increase in income tax paid. Net income before income taxes decreased ¥24.5 billion to ¥57.1 billion, and income tax payments, increased ¥8.6 billion to ¥27.5 billion.

Net cash used in investing activities amounted to ¥83.7 billion, compared with ¥33.6 billion in previous year. This increase resulted primarily from the acquisition of subsidiaries' stock resulting in change in scope of consolidation, amounted ¥19.6 billion, including the acquisition of the Amoy Food Group Companies. Another factor was a ¥9.9 billion increase in expenditure on the acquisition of property, plant and equipment, especially in overseas subsidiaries. Efforts to liquidating securities and underutilized land continued in the year ended March 31, 2006, and proceeds from sales of property, plant and equipment amounted to ¥9.8 billion.

Free cash flow, which consists of net cash provided by operating activities less net cash used in investing activities, was negative by ¥28.6 billion, compared with ¥49.2 billion previous year.

Net cash used in financing activities amounted to ¥6.6 billion, compared with net expenditure of ¥27.5 billion in the previous year. Reasons for this result include the use of loans to cover part of the cost of capital investment, share acquisitions and other expenditure. The cash was provided mainly through long-term debt, which increased by ¥20.3 billion year on year to ¥21.3 billion. Cash dividends paid increased by ¥1.3 billion to ¥9.0 billion. As a result of the above, cash and cash equivalents at the end of the fiscal year were ¥17.8 billion below the previous year's level at ¥75.1 billion.

Cash Flow Highlights

(Millions of yen)

Years ended March 31	2006	2005	2004
Net cash provided by operating activities	¥55,174	¥82,895	¥64,753
Net cash used in investing activities	(83,731)	(33,692)	(35,559)
Net cash provided by (used in) financing activities	6,640	(27,486)	(14,084)
Cash and cash equivalents at end of year	75,133	92,980	69,526

Outlook for the Fiscal Year Ending March 31, 2007

The Japanese economy is expected to continue a recovery path, supported by growing domestic demand. Internationally, widespread economic recovery is also expected to continue, although causes for concern are apparent in factors such as the slowing down of the US economy and the impact of continued high oil prices on the economies of Japan and other countries.

Given such conditions, in domestic food products Ajinomoto aims to boost sales of core products at the same time as improving profitability through reducing production costs. In overseas food products Ajinomoto will continue to seek to expand sales of seasonings and develop its processed foods operations. In amino acids Ajinomoto intends to enhance production capabilities in response to demand and leverage the Group's technical expertise to further boost profitability. In pharmaceuticals Ajinomoto will seek to boost the product strength of top brands while working to further reduce costs and maximize efficiencies in production and distribution.

Ajinomoto forecasts consolidated sales for the fiscal year ending March 31, 2007 to increase 6.6% to ¥1,180.0 billion, and operating income to increase 18.5% to ¥71.5 billion. Ordinary income is forecast to increase 12.3% to ¥69.0 billion, with net income for the period increasing 1.7% year on year to ¥35.5 billion.

These forecasts are based on an assumed exchange rate of ¥115 to the U.S. dollar.

A total dividend payment of 15 yen per ordinary share is planned for the period, an increase of one yen, with an interim dividend payment of seven yen per share.

Ajinomoto's Pipeline

(As of March 31, 2006)

Field	Name	Development Status	Indication	Note
Infusions, Clinical Nutrition and Dialysis	*PARESAFE* for i.v. infusion	Approved (Will be launched in June 2006)	Peripheral parenteral infusion with glucose, electrolyte, amino acids and vitamin B1	Peripheral parenteral infusion with vitamin B1 in double chamber container
	LOWHEPA inj.	Approved	anticoagulant	Low molecular weight heparin in pre-filled syringe
	SZ-D21	NDA filed	dialysate	Acetate-free dialysate, liquid formulation and powder formulation
Gastrointestinal Diseases*1	AJM300	Phase II	Inflammatory bowel disease	
Lifestyle-related diseases*2	*FASTIC*	Approved (Will be launched in May 2006)	Diabates	Improved (small size) 90mg formulation
	FASTIC	NDA filed	Diabetes	Additional indication /Combination use with biguanide agent
	FASTIC	Phase III	Diabetes	Additional indication /Combination use with insulin-sensitising agent
	Nateglinide *	Phase III * (Overseas)	Diabetes	Additional indication /Impaired glucose tolerance
	ACTONEL	NDA filed	Osteoporosis	Additional formulation /Once-a-week dosage formulation
	ACTONEL	Phase III	Paget's disease	Additional indication
Other	AC-7700 (AVE-8062) **	Phase I ** (Overseas)	Solid tumor	

Notes: 1. Ajinomoto's research and development in the field of gastrointestinal diseases is centered on liver diseases and inflammatory bowel disease (IBD).
2. Ajinomoto's research and development in the field of lifestyle-related diseases is centered on diabetes.

*Clinical studies are being conducted by Novartis Pharma AG (exclusive licensee outside Japan and Korea for the rights to develop, manufacture and sell the drug).

**Clinical studies are being conducted by Sanofi-Aventis S.A. (worldwide exclusive licensee for the rights to develop, manufacture and sell the drug).

Operational Risk

Operational risks faced by Ajinomoto that could affect its performance and financial position, including the market price of Ajinomoto shares, are outlined as follows. Future risks outlined in this document are as judged by the Group as of March 31, 2006.

Exchange Rate Risk

The Ajinomoto Group, including Ajinomoto Co., Inc. and related companies, is further establishing and strengthening its global manufacturing and supply structure. The Group operates in 23 countries and regions including Japan, with manufacturing plants at 105 sites in 16 of these countries and regions. The relative importance of overseas operations is therefore very high. In the fiscal years to March 31, 2005 and March 31, 2006 sales to outside parties in countries other than Japan (i.e. Asia, the Americas and Europe) were ¥279.3 billion and ¥302.1 billion respectively, comprising 26.0% and 27.3% of consolidated sales. Operating income derived from these regions in the same periods was ¥28.7 billion and ¥16.6 billion, comprising 40.6% and 27.6% of consolidated operating income. Ajinomoto hedges these associated exchange risks with forward exchange contracts and other mechanisms, but there remains the potential for exchange rate fluctuations impacting on business results from international regions.

Changes in Market Conditions

In the amino acids business, Ajinomoto handles feed-use amino acids. The unit price for products in this market tends to be affected by changes in the grain market and by demand trends for feed-use amino acids. Ajinomoto seeks to reduce and diversify such risks by handling a variety of amino acids (Lysine, Threonine and Tryptophan) while also working to stabilize and improve profitability by reducing costs related to fermentation technologies. However, the possibility remains of the Group’s financial performance being affected by fluctuations in the grain market and demand trends.

Natural Disasters, Social Disruption, Political Changes

Building on business foundations in Japan, Ajinomoto is actively pursuing development in international markets. Some of the risks accompanying this development are as follows, and each of the foreseeable risks outlined could impact on the Group’s performance if they occur.

- Unforeseen implementation of or changes to regulations, such as unfavorable taxation
- Unforeseen and unfavorable economic or political situations
- Social disruption brought about by events such as terrorism, war, or epidemics
- Natural disasters such as earthquakes

Laws and Regulations

Within Japan, Ajinomoto endeavors to comply with all laws and regulations relating to food, pharmaceuticals, the environment and recycling and so on. At the same time, in each of the other countries Ajinomoto operates in the Group seeks to meet all legal obligations, such as those relating to permission to operate or invest, tariffs and duties, import and export rules, and foreign exchange and foreign trade control laws. The Group also makes every possible effort through legal means to secure its intellectual, product and other rights. The possibility exists, however, that legal changes may be introduced that cannot currently be foreseen, and complying with any such changes may restrict the Group’s operations and adversely affect financial performance.

Food Safety Issues

In recent years various food safety issues have arisen in the foods industry, relating to matters such as BSE, avian flu, and product safety and quality. Ajinomoto has in place strict internal procedures and policies to maintain the highest standards of product quality, including Group-wide product quality audits and a product tracing system that tracks product information at each stage from production through to distribution. The Group makes extensive efforts to maintain the 'reliability and safety' on which its business foundations are built. The possibility remains, however, that universal issues affecting product quality may arise, or that problems may arise outside of those areas controlled by the processes outlined above, and in such cases an adverse impact on the Group's performance may occur.

Litigation

In the United States, two cases claiming compensation for damages relating to the anti-trust law in the sale of nucleotides and MSG have been brought against the Company and its subsidiaries Ajinomoto U.S.A., Inc. and AJINOMOTO FOODS EUROPE S.A.S. by groups claiming to have purchased nucleotides and MSG outside the U.S. The U.S. District Court for the District of Minnesota granted a judgment in favor of Ajinomoto on October 26, 2005, and the cases are currently pending at the U.S. Court of Appeals for the Eight Circuit. Specific compensatory claims have yet to emerge. The appeal proceedings are still in the early stages.

Several cases claiming compensation for damages relating to the anti-trust law in the sale of aspartame have been brought against the Company and its subsidiaries Ajinomoto U.S.A., Inc., Ajinomoto Euro-Aspartame S.A.S. and Ajinomoto Switzerland AG in the U.S. District Court for the Eastern District of Pennsylvania and another U.S. District Court by groups that claimed to have purchased aspartame. These cases are in the earliest stages and specific compensatory claims have yet to emerge.

In France, three cases claiming compensation totaling approximately 2.5 million euros for damages relating to the European competition law have been brought against AJINOMOTO EUROLYSINE S.A.S. from groups purchasing feed-use Lysine.

Changes in Cost of Raw Materials

The cost of raw materials, crude oil and other energy resources used by Ajinomoto is liable to fluctuate according to market conditions. Significant price rises lead to higher manufacturing costs, and in cases where these costs cannot be absorbed by technical developments or other reforms to reduce costs, or in situations where higher costs cannot be reflected in unit prices, an adverse impact on the Group's performance may occur.

Information Leaks

The Ajinomoto Group obtains a substantial quantity of customer information through mail-order services, marketing campaigns and other activities. To prevent leakage or other misuse of this information the Group has formulated an 'Ajinomoto Group Information Security Policy', and is implementing appropriate measures to maintain information security, including the security of IT systems, through measures such as distributing an internal 'Information Handling Guidebook' and training programs. However, risks such as those from hacking, unauthorized access or other information leakage remain. Furthermore, computer viruses could temporarily damage the Group's computer systems. These may adversely impact Ajinomoto's financial position and business performance.

Consolidated Balance Sheets

Ajinomoto Co., Inc. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 75,133	¥ 92,980	$ 642,162
Time deposits and short-term investments (Note 14)	1,263	2,234	10,795
Notes and accounts receivable:			
Trade	187,800	179,721	1,605,128
Unconsolidated subsidiaries and affiliates	9,166	8,288	78,342
Allowance for doubtful receivables	(1,125)	(795)	(9,615)
Inventories (Note 3)	108,324	97,459	925,846
Deferred tax assets (Note 6)	10,787	10,313	92,197
Prepaid expenses and other current assets	34,640	24,212	296,068
Total current assets	425,991	414,415	3,640,949
Investments and long-term advances (Notes 5 and 14)**:**			
Investments in and advances to unconsolidated subsidiaries and affiliates	68,785	67,087	587,906
Investment securities	78,213	55,164	668,487
Other advances	7,342	5,952	62,752
Total investments and long-term advances	154,341	128,204	1,319,154
Property, plant and equipment (Note 5)**:**			
Land	55,611	57,861	475,308
Buildings and structures	272,416	252,206	2,328,342
Machinery and equipment	554,107	492,441	4,735,957
	882,135	802,509	7,539,615
Accumulated depreciation	(540,184)	(500,050)	(4,616,957)
Property, plant and equipment, net	341,950	302,458	2,922,650
Other assets:			
Deferred tax assets (Note 6)	6,616	13,042	56,547
Other	68,505	45,421	585,513
Total other assets	75,122	58,463	642,068
Total assets	¥997,405	¥903,542	$8,524,829

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Notes 4 and 5)	¥ 34,851	¥ 24,305	$ 297,872
Current portion of long-term debt (Notes 4 and 5)	410	10,764	3,504
Notes and accounts payable (Note 5):			
Trade	63,809	65,341	545,376
Unconsolidated subsidiaries and affiliates	45,283	43,799	387,034
Construction	874	754	7,470
Accrued income taxes (Note 6)	7,274	16,584	62,171
Deferred tax liabilities (Note 6)	12	12	103
Accrued expenses and other current liabilities	85,325	69,247	729,274
Total current liabilities	237,840	230,810	2,032,821
Long-term liabilities:			
Long-term debt (Notes 4 and 5)	110,382	90,533	943,436
Customers' deposits received	13,298	13,104	113,658
Accrued employees' retirement benefits (Note 7)	57,234	63,275	489,179
Accrued officers' severance benefits	1,607	1,860	13,735
Deferred tax liabilities (Note 6)	9,076	2,252	77,573
Other long-term liabilities	6,558	9,699	56,051
Total long-term liabilities	198,157	180,726	1,693,650
Minority interests	32,644	24,707	279,009
Shareholders' equity (Notes 8 and 19)**:**			
Common stock, without par value:			
Authorized: 2006 and 2005 — 1,000,000,000 shares			
Issued: 2006 — 649,981,740 shares	79,863	—	682,590
2005 — 649,981,740 shares	—	79,863	—
Capital surplus	111,579	111,579	953,667
Retained earnings	341,528	315,981	2,919,043
Unrealized holding gain on securities	23,848	9,239	203,829
Translation adjustments	(25,547)	(47,116)	(218,350)
Treasury stock, at cost:			
2,043,808 shares in 2006 and 1,825,070 shares in 2005	(2,510)	(2,250)	(21,453)
Total shareholders' equity	528,762	467,297	4,519,333
Contingent liabilities (Note 11)			
Total liabilities and shareholders' equity	¥997,405	¥903,542	$8,524,829

Consolidated Statements of Income

Ajinomoto Co., Inc. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Net sales	¥1,106,807	¥1,073,010	¥1,039,551	$9,459,889
Cost of sales (Note 9)	795,007	760,554	743,251	6,794,932
Gross profit	311,799	312,455	296,299	2,664,949
Selling, general and administrative expenses (Note 9)	251,476	241,538	231,109	2,149,368
Operating income	60,322	70,916	65,190	515,573
Other income (expenses):				
Interest expense	(3,292)	(3,020)	(2,960)	(28,137)
Interest and dividend income	2,567	2,537	1,721	21,940
Reversal to income of accrued retirement benefits	0	7	36	0
Unrealized loss on securities	(99)	(104)	(360)	(846)
Gain on sales of securities	1,314	11,202	18,443	11,231
Loss on impairment of fixed assets (Note 1g)	—	(6,075)	(7,645)	—
Loss on liquidation of affiliates	(872)	(124)	(683)	(7,453)
Equity in earnings of affiliates	3,703	3,263	4,467	31,650
Other, net	(6,473)	3,134	(11,193)	(55,325)
	(3,153)	10,821	1,826	(26,949)
Income before income taxes and minority interests	57,169	81,737	67,017	488,624
Income taxes (Note 6):				
Current	15,800	28,513	14,421	135,043
Deferred	3,510	5,826	13,232	30,000
	19,311	34,340	27,653	165,051
Minority interests	(2,945)	(2,580)	(3,086)	(25,171)
Net income (Note 12)	¥ 34,912	¥ 44,817	¥ 36,276	$ 298,393

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Ajinomoto Co., Inc. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Common stock				
Beginning of year	¥ 79,863	¥ 79,863	¥ 79,863	$ 682,590
End of year	¥ 79,863	¥ 79,863	¥ 79,863	$ 682,590
Capital surplus				
Beginning of year	¥111,579	¥111,579	¥111,579	$ 953,667
Add:				
Gain on sales of treasury stock	—	0	—	—
Deduct:				
Loss on sales of treasury stock	0	—	—	0
End of year	¥111,579	¥111,579	¥111,579	$ 953,667
Retained earnings				
Opening balance	¥315,981	¥279,539	¥250,973	$2,700,692
Adjustments to retained earnings for inclusion in or exclusion from consolidation or equity method of accounting and other	(85)	(350)	312	(726)
Beginning of year	315,895	279,188	251,285	2,699,957
Add:				
Net income	34,912	44,817	36,276	298,393
Deduct:				
Cash dividends paid	(9,073)	(7,780)	(7,783)	(77,547)
Bonuses to directors and statutory auditors	(206)	(243)	(239)	(1,761)
End of year	¥341,528	¥315,981	¥279,539	$2,919,043
Unrealized holding gain on securities				
Balance at beginning of the year	¥ 9,239	¥ 13,413	¥ 1,727	$ 78,966
Net change during the year	14,609	(4,173)	11,686	124,863
Balance at end of the year	¥23,848	¥ 9,239	¥ 13,413	$ 203,829
Translation adjustments				
Balance at beginning of the year	¥ (47,116)	¥ (54,436)	¥ (51,349)	$ (402,701)
Net change during the year	21,568	7,320	(3,087)	184,342
Balance at end of the year	¥ (25,547)	¥ (47,116)	¥ (54,436)	$ (218,350)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Ajinomoto Co., Inc. and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Cash flows from operating activities				
Income before income taxes and minority interests	¥57,169	¥81,737	¥67,017	$488,624
Depreciation and amortization	40,341	39,854	39,925	344,795
Loss on impairment of fixed assets	—	6,075	7,645	—
Amortization of excess of cost over net assets acquired	4,421	4,219	3,619	37,786
Accrued employees' retirement benefits	(6,326)	(6,365)	944	(54,068)
Accrued officers' severance benefits	(255)	273	(184)	(2,179)
Interest and dividend income	(2,567)	(2,537)	(1,721)	(21,940)
Interest expense	3,292	3,020	2,960	28,137
Equity in earnings of affiliates	(3,703)	(3,263)	(4,467)	(31,650)
Gain on sales of securities	(1,634)	(6,860)	(55)	(13,966)
Loss on revaluation of securities	92	104	324	786
Loss (gain) on sales of investments in affiliates	319	(4,341)	(18,388)	2,726
Notes and accounts receivable	(1,734)	(7,435)	655	(14,821)
Notes and accounts payable	(612)	(738)	(7,180)	(5,231)
Settlement package	—	2,048	1,363	—
Penalty paid	—	131	—	—
Other	(7,915)	(5,175)	1,507	(67,650)
Subtotal	80,887	100,746	93,966	691,342
Interest and dividends received	4,375	4,041	3,913	37,393
Interest paid	(2,596)	(2,887)	(2,937)	(22,188)
Settlements package	—	(150)	(1,363)	—
Income taxes paid	(27,490)	(18,855)	(28,825)	(234,957)
Net cash provided by operating activities	55,174	82,895	64,753	471,573
Cash flows from investing activities				
Decrease (increase) in marketable securities	—	156	(156)	—
Acquisition of property, plant and equipment	(62,628)	(52,691)	(47,007)	(535,282)
Proceeds from sales of property, plant and equipment	9,862	13,883	4,278	84,291
Acquisition of intangible assets, net of proceeds	(9,317)	(4,969)	(6,194)	(79,632)
Acquisition of investments in securities	(1,993)	(6,088)	(229)	(17,034)
Proceeds from sales of investments in securities	3,521	12,713	4,194	30,094
Acquisition of subsidiaries' stock resulting in change in scope of consolidation	(19,612)	—	(7,384)	(167,624)
Acquisition of shares of affiliates	(2,379)	(2,972)	(2,483)	(20,333)
Proceeds from sales of shares of affiliates	5	5,952	20,844	43
Other	(1,190)	323	(1,420)	(10,171)
Net cash used in investing activities	(83,731)	(33,692)	(35,559)	(715,650)
Cash flows from financing activities				
Decrease in short-term borrowings	(2,434)	(6,163)	(34,175)	(20,803)
Increase (decrease) in commercial paper	10,000	(10,000)	(1,000)	85,470
Proceeds from long-term debt	21,383	1,073	2,461	182,761
Repayment of long-term debt	(3,064)	(4,003)	(7,744)	(26,188)
Proceeds from bond issuance	—	—	49,726	—
Repayment of bonds	(10,000)	—	(15,000)	(85,470)
Cash dividends paid	(9,073)	(7,776)	(7,783)	(77,547)
Acquisition of shares of treasury common stock	(301)	(450)	(242)	(2,573)
Other	131	(165)	(327)	1,120
Net cash provided by (used in) financing activities	6,640	(27,486)	(14,084)	56,752
Effect of exchange rate changes on cash and cash equivalents	3,928	1,474	(1,976)	33,573
(Decrease) increase in cash and cash equivalents	(17,987)	23,191	13,133	(153,735)
Cash and cash equivalents at beginning of year	92,980	69,526	55,722	794,701
Increase due to inclusion of subsidiaries in consolidation	140	262	670	1,197
Cash and cash equivalents at end of year	¥75,133	¥92,980	¥69,526	$642,162

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying consolidated financial statements of Ajinomoto Co., Inc. (the "Company") and its consolidated subsidiaries are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

b. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions are eliminated in consolidation.

Differences between the cost and the underlying net equity at fair value of investments in consolidated subsidiaries and in companies which are accounted for by the equity method have been amortized by the straight-line method over periods of the estimated useful economic lives, except for the immaterial difference which is fully charged to income in the year of acquisition.

Investments in other affiliates and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of its investments, the Company has written down such investments.

c. Foreign Currency Translation

Current and non-current monetary accounts denominated in foreign currencies are translated into yen at the current rates.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except for the components of shareholders' equity which are translated at their historical exchange rates. Until the year ended March 31, 2005, the revenue and expense accounts had been translated at the rates of exchange in effect at the balance sheet date. However, effective the year ended March 31, 2006, these accounts have been translated at the average rate of exchange in effect during the year.

The effect of this change was to decrease net sales, gross profit, operating income, income before income taxes and minority interests, and net income by ¥16,893 million ($144,385 thousand), ¥5,277 million ($45,103 thousand), ¥1,098 million ($9,385 thousand),¥1,003 million ($8,573 thousand) and ¥482 million ($4,120 thousand), respectively, for the year ended March 31, 2006 as compared with the corresponding amounts under the previous method. The effect of this change on segment information is explained in Note 18.

d. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Inventories

Inventories are stated at the lower of cost or market, cost being determined by the average method.

f. Securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

g. Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Depreciation is computed primarily by the declining-balance method at rates based on the estimated useful lives of the respective assets, ranging from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery and equipment.

Maintenance and minor repairs are charged to income as incurred; major renewals and improvements are capitalized.

Effective the year ended March 31, 2004, the Company has early adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation or amortization, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs and (2) the present value of future cash flows arising ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

As a result of the adoption of this new accounting standard, a loss on impairment of land in the amount of ¥7,645 million was recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2004 as compared with the corresponding amount under the previous method.

h. Leases

Non-cancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the foreign consolidated subsidiaries are generally classified as either finance or operating leases and accounted for accordingly.

i. Bond Issuance Expenses

Bond issuance expenses are charged to income as incurred.

j. Retirement Benefits

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the period of mainly 10 years which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over the period of principally 10 years which are shorter than the average remaining years of service of the employees.

In addition, subject to the shareholders' approval, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded severance benefit plans. Provision for the indemnity for severance benefits for those officers has been made at an estimated amount.

k. Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

l. Research and Development Expenses

Research and development expenses are charged to income when incurred.

m. Derivatives

The Company and certain consolidated subsidiaries have entered into derivatives transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates, interest rates, and commodity and stock prices. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income.

With respect to interest rate swaps which qualify as hedging instruments, however, any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the hedged items.

n. Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Notes 8 and 19.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at the rate of ¥117=U.S.$1.00, the approximate rate of exchange in effect on March 31, 2006.

The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥ 60,978	¥57,783	$521,179
Work in process	17,533	15,036	149,855
Raw materials and supplies	29,812	24,638	254,803
	¥108,324	¥97,459	$925,846

4. Short-Term Borrowings and Long-Term Debt

Short-term borrowings are, with minor exceptions, unsecured and generally represent overdrafts. The annual interest rates applicable to the borrowings at March 31, 2006 and 2005 ranged from 0.32% to 16.5% and from 0.32% to 20.50%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Bonds without collateral:			
2.675% bonds due 2008	¥ 15,000	¥15,000	$128,205
2.425% bonds due 2006	—	10,000	—
2.050% bonds due 2009	20,000	20,000	170,940
0.360% bonds due 2011	15,000	15,000	128,205
0.620% bonds due 2014	20,000	20,000	170,940
0.710% bonds due 2016	15,000	15,000	128,205
Loans from banks, insurance companies and government-sponsored agencies:			
With collateral	2,989	810	25,547
Without collateral	22,803	5,487	194,897
	110,792	101,297	946,940
Current portion	(410)	(10,764)	(3,504)
	¥110,382	¥90,533	$943,436

The annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 410	$ 3,504
2008	16,878	144,256
2009	22,365	191,154
2010	2,445	20,897
2011 and thereafter	68,694	587,128
	¥110,792	$946,940

5. Pledged Assets

The assets pledged as collateral for short-term borrowings, notes and accounts payable and long-term debt at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥7,676	$65,607
Investment securities	12	103
	¥7,689	$65,718

6. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of 40.6% in 2006 and 2005 and 42.0% in 2004. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2005 and 2004 have not been disclosed because such differences were less than 5% of statutory tax rates.

The effective tax rate reflected in the consolidated statements of income for the year ended March 31, 2006 differs from the statutory tax rate for the following reasons:

	2006
Statutory tax rate	40.6%
Effect of:	
Special deduction of income taxes	(10.2)
Impairment loss	(5.6)
Net loss of consolidated subsidiaries	6.7
Different tax rates applied to income of foreign consolidated subsidiaries	(3.7)
Dividend income deductible for income tax purposes	4.5
Other, net	1.4
Effective tax rates	33.7%

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Inventories	¥ 340	¥ 288	$ 2,906
Securities	1,577	1,579	13,479
Property, plant and equipment	2,281	1,396	19,496
Accrued retirement benefits	23,690	26,186	202,479
Accrued expenses	2,503	3,223	21,393
Accrued bonuses	4,086	4,012	34,923
Unrealized profit	3,462	3,290	29,590
Accrued enterprise tax	930	1,798	7,949
Loss on impairment of fixed assets	2,349	5,602	20,077
Allowance for doubtful receivables	341	289	2,915
Not operating loss of consolidated subsidiaries	1,145	1,078	9,786
Other	1,639	1,189	14,009
Gross deferred tax assets	44,348	49,936	379,043
Valuation allowance	(5,579)	(8,491)	(47,684)
Total deferred tax assets	38,769	41,444	331,359
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	10,565	10,872	90,299
Unrealized gain on land	2,861	2,835	24,453
Unrealized holding gain on securities	15,307	5,818	130,829
Other	1,719	828	14,692
Total deferred tax liabilities	30,454	20,353	260,291
Net deferred tax assets	¥ 8,314	¥21,091	$ 71,060

7. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain foreign consolidated subsidiaries have defined contribution plans in addition to defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(269,675)	¥(267,588)	$(2,304,915)
Plan assets at fair value	196,305	175,940	1,677,821
Unfunded retirement benefit obligation	(73,369)	(91,647)	(627,085)
Unrecognized actuarial gain or loss	33,300	48,560	284,615
Unrecognized prior service cost	(17,165)	(20,188)	(146,709)
Accrued retirement benefits	¥ (57,234)	¥ (63,275)	$ (489,179)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The components of retirement benefit expenses for the years ended March 31, 2006, 2005 and 2004 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost	¥ 5,774	¥ 5,811	¥ 7,149	$49,350
Interest cost	6,605	6,269	6,778	56,453
Expected return on plan assets	(6,020)	(5,678)	(5,065)	(51,453)
Amortization of prior service cost	(2,290)	(2,283)	(610)	(19,573)
Amortization of actuarial gain or loss	5,504	5,595	6,674	47,043
Other	1,541	532	2,336	13,171
Total	¥11,115	¥10,247	¥17,262	$95,000

The assumptions used in accounting for the above plans were as follows:

	As of March 31,	
	2006	2005
Discount rate	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 3.5%	Mainly 3.5%

8. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

9. Research and Development Expenses

Research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 were ¥30,535 million ($260,983 thousand), ¥28,432 million and ¥28,172 million, respectively.

10. Lease Transactions

a) Lessees' Accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen				Thousands of U.S. dollars			
March 31, 2006	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥ 1,521	¥ 78	¥1,352	¥ 89	$ 13,000	$ 667	$11,556	$ 761
Machinery and equipment	12,092	4,711	77	7,302	103,350	40,265	658	62,410
Total	¥13,613	¥4,790	¥1,430	¥7,392	$116,350	$40,940	$12,222	$63,179

	Millions of yen			
March 31, 2005	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	¥ 1,547	¥ 127	¥1,352	¥ 67
Machinery and equipment	12,848	6,068	78	6,702
Total	¥14,395	¥6,195	¥1,430	¥6,769

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,494 million ($21,316 thousand), ¥1,796 million and ¥1,327 million, which were equal to the depreciation of the leased assets computed by the straight-line method over the respective lease terms, for the years ended March 31, 2006, 2005 and 2004, respectively. Impairment loss recorded on such leased assets amounted to ¥1,430 million for the year ended March 31, 2005 and the reversal of impairment loss applicable the above lease payments for the year ended March 31, 2006 amounted to ¥112 million ($957 thousand).

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥1,947	$16,641
2008 and thereafter	6,763	57,803
Total	¥8,710	$74,444
Accumulated impairment loss on leased assets	¥1,318	$11,265

Future minimum lease payments subsequent to March 31, 2006 for operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥1,061	$ 9,068
2008 and thereafter	4,647	39,718
Total	¥5,709	$48,795

b) Lessors' Accounting

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2006 and 2005:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥156	¥56	¥99	$1,333	$479	$846

	Millions of yen		
March 31, 2005	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥16	¥16	¥0

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥56 million ($479 thousand), ¥1 million and ¥410 million for the years ended March 31, 2006, 2005 and 2004, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥56 million ($479 thousand), ¥1 million and ¥369 million for the years ended March 31, 2006, 2005 and 2004, respectively.

Future minimum lease income (including the interest portion thereon) subsequent to March 31, 2006 for the finance leases accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥35	$299
2008 and thereafter	64	547
Total	¥99	$846

Future minimum lease income subsequent to March 31, 2006 for operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 70	$ 598
2008 and thereafter	277	2,368
Total	¥348	$2,974

11. Contingent Liabilities

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
As endorser of documentary export bills and trade notes receivable discounted with banks	¥1,400	$11,966
As guarantor of indebtedness of unconsolidated subsidiaries, affiliates and employees	633	5,410
	¥2,033	$17,376

12. Amounts Per Share

	Yen			U.S. dollars
	2006	2005	2004	2006
Net income	¥ 53.6	¥ 68.8	¥ 55.6	$0.458
Cash dividends	14.0	13.0	12.0	0.120
Net assets	815.8	720.6	659.8	6.973

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

13. Related Party Transactions

The Company purchased goods for resale in aggregate amount of ¥204,590 million ($1,748,632 thousand), from Calpis Co., Ltd. and Ajinomoto General Foods, Inc., its major affiliates, which were accounted for by the equity method for the years ended March 31, 2006. The purchase prices were negotiated on an arm's-length basis based on the final retail prices of the Company.

14. Securities

a) Information regarding marketable securities classified as other securities at March 31, 2006 and 2005 is as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥34,731	¥72,574	¥37,842	$296,846	$620,291	$323,436
Other	5	5	0	43	43	0
Subtotal	34,736	72,579	37,842	296,889	620,333	323,436
Securities whose acquisition cost exceeds their carrying value:						
Stock	1,053	895	(157)	9,000	7,650	(1,342)
Other	—	—	—	—	—	—
Subtotal	1,053	895	(157)	9,000	7,650	(1,342)
Total	¥35,790	¥73,475	¥37,684	$305,897	$627,991	$322,085

	Millions of yen		
March 31, 2005	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥29,468	¥44,238	¥14,769
Other	—	—	—
Subtotal	29,468	44,238	14,769
Securities whose acquisition cost exceeds their carrying value:			
Stock	5,796	5,435	(360)
Other	55	44	(10)
Subtotal	5,851	5,479	(371)
Total	¥35,320	¥49,718	¥14,397

b) Sales of securities classified as other securities for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
March 31,	2006	2005	2004	2006
Proceeds from sales	¥3,521	¥12,713	¥4,194	$30,094
Gains on sales	1,634	6,860	70	13,966
Losses on sales	—	—	14	—

c) The redemption schedule for securities with maturity dates classified as other securities at March 31, 2006 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥0	¥0	¥—	$0	$0	$—
Other	—	—	—	—	—	—
Total	¥0	¥0	¥—	$0	$0	$—

15. Derivative Transactions

The Company and certain consolidated subsidiaries have entered into derivatives transactions in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates, interest rates, and commodity and stock prices.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to its derivatives positions, but any such loss would not be material because the Company enters into such transactions only with financial institutions with high credit ratings. The notional amounts of the derivatives presented below do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in this area.

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2006 and 2005:

a) Currency-related transactions

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell:						
US$	¥11,534	¥11,163	¥371	$98,581	$95,410	$3,171
Euro	1,999	2,042	(43)	17,085	17,453	(368)
Others	2,347	2,376	(29)	20,060	20,308	(248)
Buy:						
US$	2,368	2,350	(18)	20,239	20,085	(154)
Euro	47	48	1	402	410	9
Other	732	724	(8)	6,256	6,188	(68)
Total			¥273			$2,333

	Millions of yen		
March 31, 2005	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell:			
US$	¥10,365	¥10,522	¥(157)
Euro	3,043	3,099	(55)
Others	984	982	1
Buy:			
US$	936	953	17
Euro	3	3	(0)
Other	324	325	0
Total			¥(191)

b) Interest-related transactions

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:						
Receive/floating and pay/fixed	¥ —	¥ —	¥ —	$ —	$ —	$ —
Receive/fixed and pay/floating	1,521	(17)	(17)	13,000	(145)	(145)
Currency swaps:						
Receive/JPY and pay/US$	8,610	(217)	(217)	73,590	(1,855)	(1,855)
Total			¥(235)			$(2,009)

March 31, 2005	Millions of yen Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps:			
Receive/floating and pay/fixed	¥ 30	¥(0)	¥(0)
Receive/fixed and pay/floating	286	1	1
Currency swaps:			
Receive/JPY and pay/US$	362	6	6
Total			¥ 7

16. Supplementary Cash Flow Information

The following is a summary of the assets and liabilities of subsidiaries which were included in consolidation upon acquisition of their stock for the years ended March 31, 2006, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Current assets	¥6,308	¥—	¥ 4,429	$53,915
Non-current assets	3,331	—	7,665	28,470
Total assets	¥9,640	¥—	¥12,095	$82,393
Current liabilities	¥3,793	¥—	¥ 4,111	$32,419
Non-current liabilities	2,597	—	802	22,197
Total liabilities	¥6,390	¥—	¥ 4,913	$54,615

The following is a summary of the assets and liabilities of subsidiaries which were excluded from consolidation upon sale of their stock for the year ended March 31, 2006:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	¥1,120	$ 9,573
Non-current assets	2,303	19,684
Total assets	¥3,424	$29,265
Current liabilities	¥2,442	$20,872
Non-current liabilities	—	—
Total liabilities	¥2,442	$20,872

17. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas in the following five business segments.

- Domestic food products segment which includes *AJI-NO-MOTO*, *Hon-Dashi*, *Cook Do*, soups, mayonnaise and mayonnaise type dressings, *PAL SWEET* (domestic market), delicatessen, bakary products, *amino VITAL*, frozen foods, edible oils, coffee, domestic beverages, chilled dairy products, etc.;
- Overseas food products segment which includes *AJI-NO-MOTO*, flavor seasonings, instant noodles, beverages, etc.;
- Amino acids segment which includes *AJI-NO-MOTO* for processed food manufacturers, nucleotides, various kinds of amino acids, aspartame, specialty chemicals, etc.;
- Pharmaceuticals segment which includes pharmaceuticals, medical foods;
- Other segment which includes distribution, various services, etc.

Effective the year ended March 31, 2006, the Company has reclassified certain products included in the above business segments as a result of reorganization of its internal company system and has restated the previously reported business segment information for the year ended March 31, 2005 based on the revised segmentation.

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 are outlined as follows:

Business Segments

Year ended March 31, 2006	Domestic food products	Overseas food products	Amino acids	Pharma-ceuticals	Other	Total	Corporate and eliminations	Consolidated
	Millions of yen							
I. Sales and operating income:								
Sales to third parties	¥608,573	¥99,588	¥255,794	¥83,227	¥59,623	¥1,106,807	¥ —	¥1,106,807
Intragroup sales	2,929	1,949	22,476	107	65,925	93,387	(93,387)	—
Total sales	611,503	101,538	278,270	83,334	125,548	1,200,195	(93,387)	1,106,807
Operating expenses	579,700	96,520	263,450	70,756	122,281	1,132,709	(86,224)	1,046,484
Operating income	¥ 31,802	¥ 5,018	¥ 14,819	¥12,578	¥ 3,267	¥ 67,485	¥ (7,163)	¥60,322
II. Assets, depreciation and capital expenditures:								
Total assets	¥282,139	¥78,645	¥327,494	¥82,380	¥71,627	¥ 842,287	¥155,117	¥ 997,405
Depreciation and amortization	7,580	2,363	20,841	3,765	2,119	36,670	3,670	40,341
Impairment losses on fixed assets	—	—	—	—	—	—	—	—
Capital expenditures	12,398	4,277	48,040	2,717	1,446	68,880	10,282	79,162

Year ended March 31, 2006	Domestic food products	Overseas food products	Amino acids	Pharma-ceuticals	Other	Total	Corporate and eliminations	Consolidated
	Thousands of U.S. dollars							
I. Sales and operating income:								
Sales to third parties	$5,201,479	$851,179	$2,186,274	$711,342	$ 509,598	$9,459,889	$ —	$9,459,889
Intragroup sales	25,034	16,658	192,103	915	563,462	798,179	(798,179)	—
Total sales	5,226,521	867,846	2,378,376	712,256	1,073,060	10,258,077	(798,179)	9,459,889
Operating expenses	4,954,701	824,957	2,251,709	604,752	1,045,137	9,681,274	(736,957)	8,944,308
Operating income	$ 271,812	$ 42,889	$ 126,658	$107,504	$ 27,923	$ 576,795	$ (61,222)	$ 515,573
II. Assets, depreciation and capital expenditures:								
Total assets	$2,411,444	$672,179	$2,799,094	$704,103	$ 612,197	$7,199,034	$1,325,786	$8,524,829
Depreciation and amortization	64,786	20,197	178,128	32,179	18,111	313,419	31,368	344,795
Impairment losses on fixed assets	—	—	—	—	—	—	—	—
Capital expenditures	105,966	36,556	410,598	23,222	12,359	588,718	87,880	676,598

As described in Note 1c., the Company changed its translation method of the revenue and expense accounts of the foreign consolidated subsidiaries. The effect of this change was to decrease sales of "Domestic food products" segment, "Overseas food products" segment, "Amino acids" segment and "Other" segment by ¥277 million ($2,368 thousand), ¥7,881 million ($67,359 thousand), ¥8,489 million ($72,556 thousand) and ¥431 million ($3,684 thousand) and increase sales of "Corporate and eliminations" by ¥186 million ($1,590 thousand) for the year ended March 31, 2006 as compared with the corresponding amounts under the previous method. Operating income of "Domestic food products" segment, "Overseas food products" segment, "Amino acids" segment, "Pharmaceuticals" segment and "Other" segment also decreased ¥0 million ($0 thousand), ¥845 million ($7,222 thousand), ¥212 million ($1,812 thousand), ¥0 million ($0 thousand) and ¥40 million ($342 thousand), respectively.

Year ended March 31, 2005	Domestic food products	Overseas food products	Amino acids	Pharma-ceuticals	Other	Total	Corporate and eliminations	Consolidated
	Millions of yen							
I. Sales and operating income:								
Sales to third parties	¥598,888	¥80,825	¥251,646	¥80,736	¥ 60,913	¥1,073,010	¥ —	¥1,073,010
Intragroup sales	1,357	5,309	24,915	120	57,159	88,863	(88,863)	—
Total sales	600,246	86,135	276,561	80,857	118,073	1,161,873	(88,863)	1,073,010
Operating expenses	569,929	83,148	247,454	69,457	114,437	1,084,428	(82,334)	1,002,093
Operating income	¥ 30,317	¥ 2,986	¥ 29,106	¥11,399	¥ 3,635	¥ 77,445	¥ (6,528)	¥ 70,916
II. Assets, depreciation and capital expenditures:								
Total assets	¥265,611	¥55,028	¥272,486	¥90,692	¥ 64,411	¥ 748,230	¥ 155,311	¥ 903,542
Depreciation and amortization	8,577	2,090	19,096	4,323	2,062	36,150	3,704	39,854
Impairment losses on fixed assets	1,602	—	—	—	—	1,602	4,472	6,075
Capital expenditures	6,742	7,771	30,781	3,473	1,483	50,252	7,829	58,082

Year ended March 31, 2004	Domestic food products	Overseas food products	Amino acids	Pharma-ceuticals	Other	Total	Corporate and eliminations	Consolidated
	Millions of yen							
I. Sales and operating income:								
Sales to third parties	¥598,441	¥142,307	¥154,922	¥78,958	¥ 64,921	¥1,039,551	¥ —	¥1,039,551
Intragroup sales	2,379	11,716	19,800	60	61,508	95,466	(95,466)	—
Total sales	600,820	154,024	174,723	79,018	126,430	1,135,017	(95,466)	1,039,551
Operating expenses	574,523	146,538	148,057	68,679	122,605	1,060,404	(86,043)	974,361
Operating income	¥ 26,297	¥ 7,485	¥ 26,666	¥10,339	¥ 3,824	¥ 74,613	¥ (9,422)	¥ 65,190
II. Assets, depreciation and capital expenditures:								
Total assets	¥253,989	¥133,493	¥161,396	¥96,380	¥ 65,798	¥ 711,058	¥160,721	¥ 871,780
Depreciation and amortization	7,836	6,914	12,303	5,268	2,527	34,850	5,075	39,925
Impairment losses on fixed assets	—	—	—	—	—	—	7,645	7,645
Capital expenditures	8,920	9,858	11,839	8,428	1,510	40,557	10,359	50,916

Geographical Segments

Year ended March 31, 2006	Japan	Asia	America	Europe	Total	Corporate and eliminations	Consolidated
	Millions of yen						
Sales to third parties	¥804,634	¥118,256	¥ 76,734	¥107,181	¥1,106,807	¥ —	¥1,106,807
Interarea sales and transfers	41,073	15,935	12,491	6,737	76,238	(76,238)	—
Total sales	845,708	134,192	89,226	113,918	1,183,045	(76,238)	1,106,807
Operating expenses	802,032	128,641	84,852	107,195	1,122,722	(76,238)	1,046,484
Operating income	¥ 43,675	¥ 5,550	¥ 4,373	¥ 6,722	¥ 60,322	¥ —	¥ 60,322
Total assets	¥414,108	¥155,884	¥107,623	¥ 98,810	¥ 776,427	¥220,978	¥ 997,405

Year ended March 31, 2006	Japan	Asia	America	Europe	Total	Corporate and eliminations	Consolidated
	Thousands of U.S. dollars						
Sales to third parties	$6,877,214	$1,010,735	$655,846	$916,077	$9,459,889	$ —	$9,459,889
Interarea sales and transfers	351,051	136,197	106,761	57,581	651,607	(651,607)	—
Total sales	7,228,274	1,146,940	762,615	973,658	10,111,496	(651,607)	9,459,889
Operating expenses	6,854,974	1,099,496	725,231	916,197	9,595,915	(651,607)	8,944,308
Operating income	$ 373,291	$ 47,436	$ 37,376	$ 57,453	$ 515,573	$ —	$ 515,573
Total assets	$3,539,385	$1,332,342	$919,855	$844,530	$6,636,128	$1,888,701	$8,524,829

Year ended March 31, 2005	Japan	Asia	America	Europe	Total	Corporate and eliminations	Consolidated
	Millions of yen						
Sales to third parties	¥793,652	¥102,075	¥69,487	¥107,794	¥1,073,010	¥ —	¥1,073,010
Interarea sales and transfers	38,635	13,781	11,548	6,596	70,562	(70,562)	—
Total sales	832,288	115,856	81,036	114,391	1,143,573	(70,562)	1,073,010
Operating expenses	790,163	106,468	69,406	106,617	1,072,656	(70,562)	1,002,093
Operating income	¥ 42,125	¥ 9,388	¥11,629	¥ 7,773	¥ 70,916	¥ —	¥ 70,916
Total assets	¥408,067	¥113,046	¥67,440	¥ 91,364	¥ 679,919	¥223,622	¥ 903,542

Year ended March 31, 2004	Japan	Asia	America	Europe	Total	Corporate and eliminations	Consolidated
	Millions of yen						
Sales to third parties	¥790,781	¥ 92,760	¥58,134	¥97,875	¥1,039,551	¥ —	¥1,039,551
Interarea sales and transfers	37,180	11,571	10,047	4,396	63,196	(63,196)	—
Total sales	827,961	104,331	68,182	102,271	1,102,747	(63,196)	1,039,551
Operating expenses	797,883	91,960	55,951	91,761	1,037,557	(63,196)	974,361
Operating income	¥ 30,078	¥ 12,370	¥12,230	¥10,510	¥ 65,190	¥ —	¥ 65,190
Total assets	¥416,376	¥104,931	¥54,043	¥84,834	¥ 660,185	¥211,594	¥ 871,780

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

	Millions of yen			
Year ended March 31, 2006	Asia	America	Europe	Total
Overseas sales	¥133,276	¥86,266	¥107,000	¥ 326,543
Consolidated net sales	—	—	—	1,106,807

	Thousands of U.S. dollars			
Year ended March 31, 2006	Asia	America	Europe	Total
Overseas sales	$1,139,111	$737,316	$914,530	$2,790,966
Consolidated net sales	—	—	—	9,459,889
Overseas sales as a percentage of consolidated net sales	12.0%	7.8%	9.7%	29.5%

	Millions of yen			
Year ended March 31, 2005	Asia	America	Europe	Total
Overseas sales	¥116,176	¥77,835	¥104,296	¥ 298,308
Consolidated net sales	—	—	—	1,073,010
Overseas sales as a percentage of consolidated net sales	10.8%	7.2%	9.7%	27.8%

	Millions of yen			
Year ended March 31, 2004	Asia	America	Europe	Total
Overseas sales	¥ 104,152	¥66,631	¥95,435	¥ 266,220
Consolidated net sales	—	—	—	1,039,551
Overseas sales as a percentage of consolidated net sales	10.0%	6.4%	9.1%	25.6%

18. Additional Financial Information

In accordance with an agreement between the Company and Unilever NV ("Unilever") dated February 18, 2003 with respect to sales of the Company's shares in their seven joint ventures in six Asian countries/regions to Unilever group companies, the Company sold part of its shares in the joint ventures for ¥22,278 million which resulted in recognition of a gain of ¥19,865 million for the year ended March 31, 2003. The remaining shares were sold for ¥20,844 million at a gain of ¥18,388 million for the year ended March 31, 2004.

19. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved by the shareholders at a meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥7=U.S.$0.060 per share)	¥4,535	$38,761
Bonuses to directors and statutory auditors	142	1,214

ERNST & YOUNG SHINNIHON

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Tel : 03 3503 1100
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Report of Independent Auditors

The Board of Directors and Shareholders
Ajinomoto Co., Inc.

We have audited the accompanying consolidated balance sheets of Ajinomoto Co., Inc. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ajinomoto Co., Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 1g, effective the year ended March 31, 2004, the Company has adopted a new accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

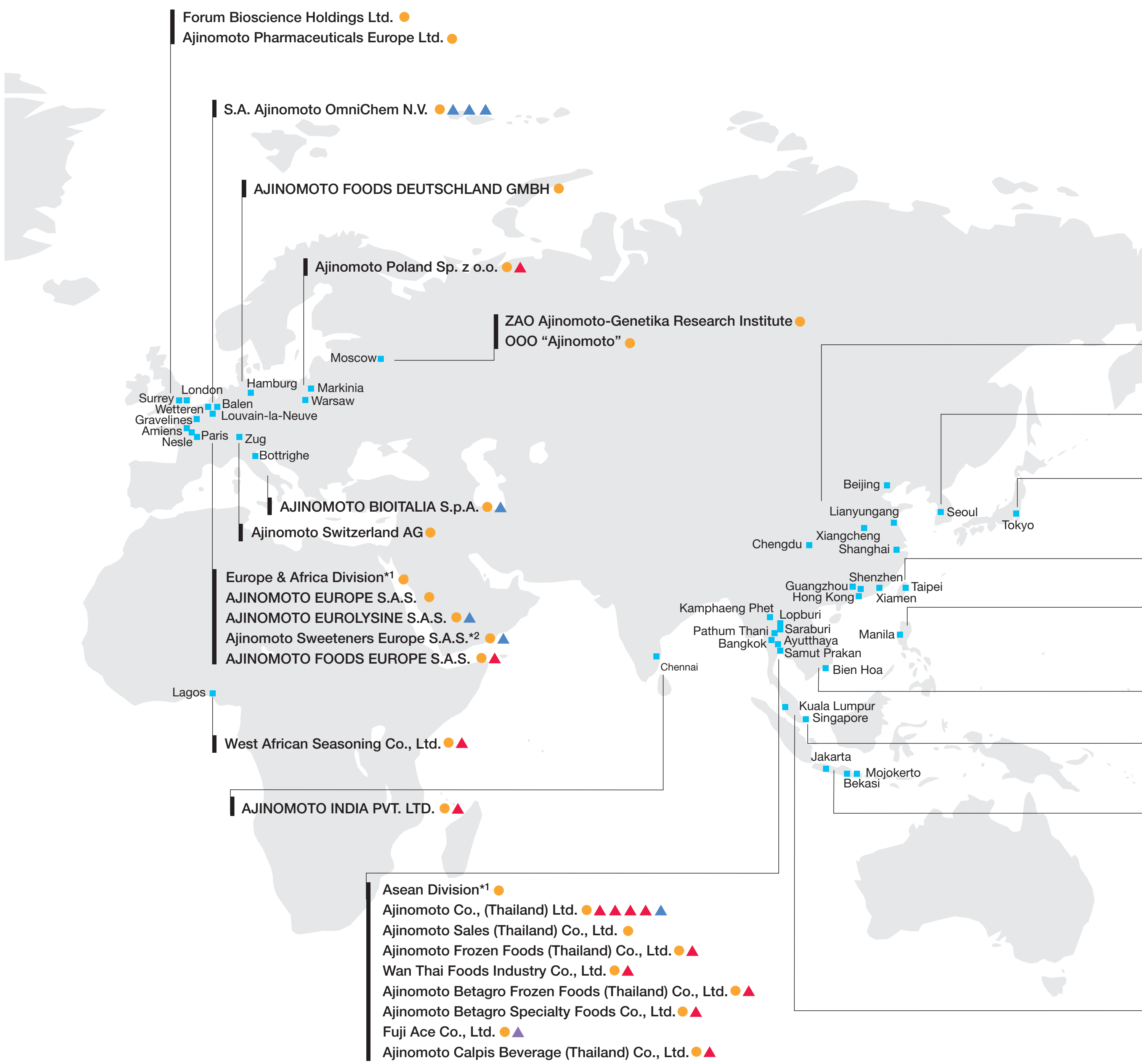
Ernst & Young ShinNihon

June 29, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

Global Network

(As of June 30, 2006)



Global network: 23 countries and regions
(including 105 manufacturing and packaging plants in 16 countries and regions)
(Japan: 51; Other Countries: 54)

● Subsidiaries, affiliates and offices of the Parent Company
▲ Foods Plants (71)
▲ Amino Acids and Specialty Chemicals Plants (24)
▲ Pharmaceuticals Plants (4)
▲ Other Plants (6)
*1 Divisions are regional headquarters.
*2 Change of company name on July 1st
(Former Ajinomoto Euro-Aspartame S.A.S.)

Ajinomoto (China) Co., Ltd. ●
HENAN AJINOMOTO AMINO ACID CO., LTD. ●▲
Chuanhua Ajinomoto Co., Ltd. ●▲
Lianyungang Ajinomoto Ruyi Foods Co., Ltd. ●▲
Lianyungang Ajinomoto Frozen Foods Co., Ltd. ●▲
Shanghai Ajinomoto Amino Acid Co., Ltd. ●▲
Shanghai Ajinomoto Seasoning Co., Ltd. ●▲
SHANGHAI HOUSE AJINOMOTO FOODS CO., LTD. ●▲
SHANGHAI AJINOMOTO FOOD RESEARCH AND DEVELOPMENT CENTER CO., LTD. ●
Shanghai Amoy Foods Co., Ltd. ●▲
Shanghai Jinshan Amoy Foods Co., Ltd. ●▲
Xiamen Ajinomoto Life Ideal Foods Co., Ltd. ●▲
Xiamen Ajiraku Ideal Foods Co., Ltd. ●▲
Ajinomoto Co., (Hong Kong) Ltd. ●
Amoy Food Ltd. ●▲
Shenzhen Amoy Foods Co., Ltd. ●▲

Ajinomoto Korea, Inc. ●

Japan ●49 ▲34 ▲10 ▲4 ▲3

Taiso Commerce Inc. ●
Ajinomoto TAIWAN INC. ●

AJINOMOTO PHILIPPINES CORPORATION ●▲

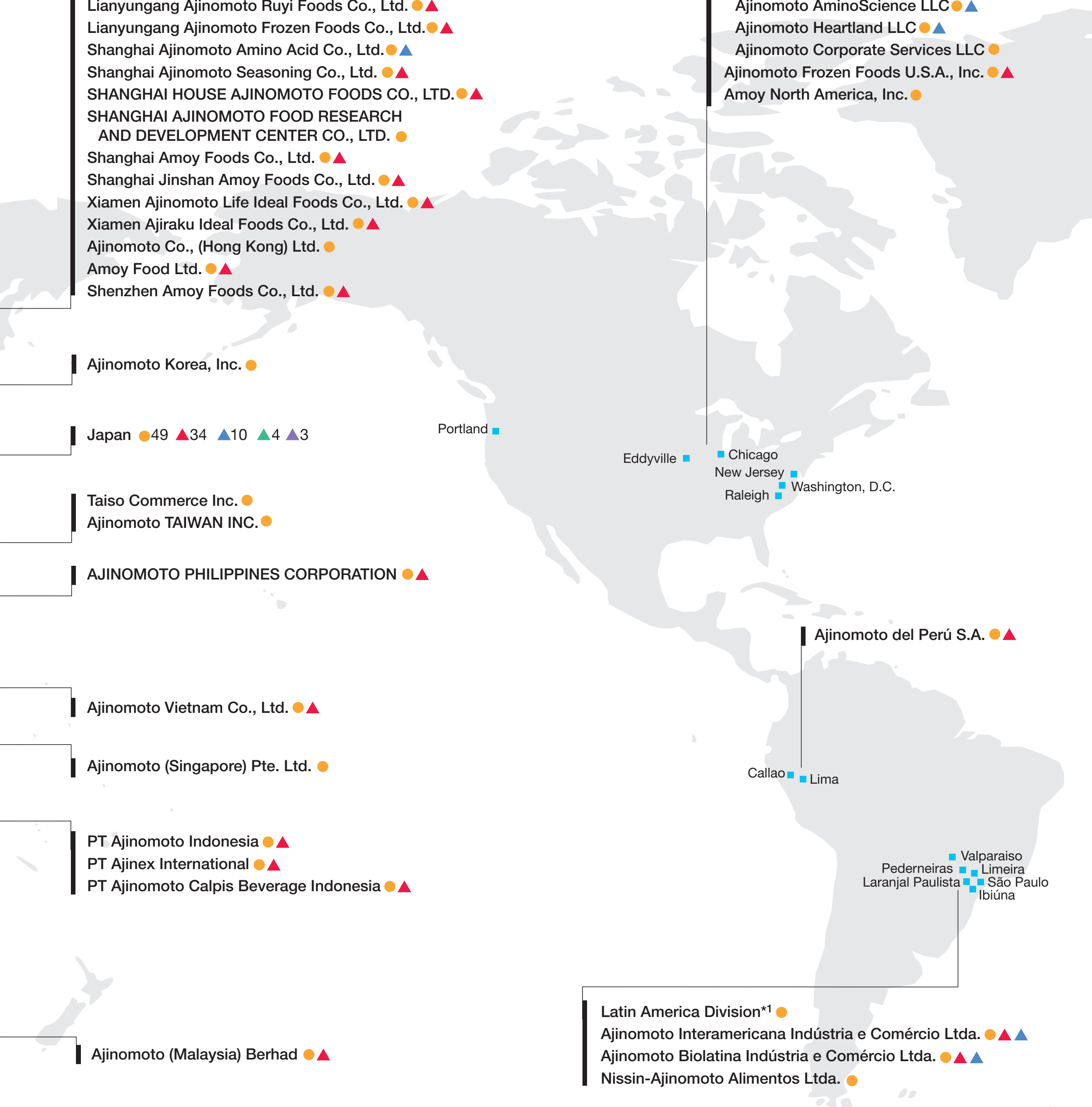
Ajinomoto Vietnam Co., Ltd. ●▲

Ajinomoto (Singapore) Pte. Ltd. ●

PT Ajinomoto Indonesia ●▲
PT Ajinex International ●▲
PT Ajinomoto Calpis Beverage Indonesia ●▲

Ajinomoto (Malaysia) Berhad ●▲

North America Division*1 ●
Ajinomoto U.S.A., Inc. ●
Ajinomoto Food Ingredients LLC ●▲
Ajinomoto AminoScience LLC ●▲
Ajinomoto Heartland LLC ●▲
Ajinomoto Corporate Services LLC ●
Ajinomoto Frozen Foods U.S.A., Inc. ●▲
Amoy North America, Inc. ●



Ajinomoto del Perú S.A. ●▲

Latin America Division*1 ●
Ajinomoto Interamericana Indústria e Comércio Ltda. ●▲▲
Ajinomoto Biolatina Indústria e Comércio Ltda. ●▲▲
Nissin-Ajinomoto Alimentos Ltda. ●

Note: Overseas consolidated subsidiaries and subsidiaries and affiliates accounted for by equity method: 73 companies

Major Subsidiaries and Affiliates (As of March 31, 2006)

●: Consolidated subsidiaries
■: Affiliated companies accounted for under the equity method

	Company Name	Country	Capital Stock (Thousands)		Ratio of Voting*1	Major Business Segment
JAPAN						
●	AJINOMOTO BAKERY CO., LTD.	Japan	JPY	2,000,000	100.0	Domestic Seasonings and Processed Foods
●	Ajinomoto Frozen Foods Co., Inc.	Japan	JPY	9,537,000	100.0	Frozen Foods
●	Ajinomoto Medica Co., Ltd.	Japan	JPY	80,000	100.0	Pharmaceuticals
●	AJINOMOTO LOGISTICS CORPORATION	Japan	JPY	1,930,000	89.2(0.9)	Other
●	Ajinomoto Pharma Co., Ltd.	Japan	JPY	4,560,000	100.0	Pharmaceuticals
●	Ajinomoto Treasury Management, Inc.	Japan	JPY	500,000	100.0	Other
●	Knorr Foods Co., Ltd.	Japan	JPY	4,000,000	100.0	Domestic Seasonings and Processed Foods
■	Ajinomoto General Foods, Inc.	Japan	JPY	3,862,000	50.0	Beverages and Dairy Products
■	Calpis Co., Ltd.	Japan	JPY	13,056,000	26.7	Beverages and Dairy Products
■	Calpis Ajinomoto Danone Co., Ltd.	Japan	JPY	1,400,000	20.0	Beverages and Dairy Products
■	GABAN Co., Ltd.	Japan	JPY	2,827,000	40.3	Domestic Seasonings and Processed Foods
■	J-OIL MILLS, INC.	Japan	JPY	10,000,000	27.3	Edible Oils
■	Shimadaya Corporation	Japan	JPY	1,000,000	20.2	Domestic Seasonings and Processed Foods
Asia						
●	Ajinomoto (China) Co., Ltd.	China	USD	84,830	100.0 (100.0)	Overseas Food Products
●	Chuanhua Ajinomoto Co., Ltd.	China	USD	53,396	70.0	Feed-Use Amino Acids
●	HENAN AJINOMOTO AMINO ACID CO., LTD.	China	USD	6,000	100.0 (100.0)	Amino Acids for Pharmaceuticals and Foods
●	Lianyungang Ajinomoto Frozen Foods Co., Ltd.	China	USD	5,800	100.0 (100.0)	Frozen Foods
●	Lianyungang Ajinomoto Ruyi Foods Co., Ltd.	China	USD	5,500	65.0 (65.0)	Frozen Foods
●	Shanghai Ajinomoto Amino Acid Co., Ltd.	China	USD	12,000	60.0 (58.0)	Amino Acids for Pharmaceuticals and Foods
●	Shanghai Ajinomoto Seasoning Co., Ltd.	China	USD	27,827	100.0 (99.0)	Overseas Food Products
●	SHANGHAI HOUSE AJINOMOTO FOODS CO., LTD.	China	USD	12,564	70.0 (65.0)	Overseas Food Products
●	Xiamen Ajinomoto Life Ideal Foods Co., Ltd.	China	USD	7,000	51.0 (51.0)	Frozen Foods
●	PT Ajinex International	Indonesia	USD	44,000	100.0	Umami Seasonings for Processed Food mfrs
●	PT Ajinomoto Indonesia*2	Indonesia	USD	8,000	50.0	Overseas Food Products
●	Ajinomoto (Malaysia) Berhad	Malaysia	MYR	60,798	50.1	Overseas Food Products
●	AJINOMOTO PHILIPPINES CORPORATION	Philippines	PHP	440,444	95.0	Overseas Food Products

Notes:
*1: Numbers in parentheses indicate indirect equity ownership.
*2: This company is classified as a subsidiary as it is under the substantial control of Ajinomoto.

	Company Name	Country	Capital Stock (Thousands)		Ratio of Voting[*1]	Major Business Segment
●	Ace Pack Co., (Thailand) Ltd.	Thailand	THB	277,500	100.0 (94.6)	Packaging
●	Ajinomoto Betagro Speciality Foods (Thailand) Co., Ltd.	Thailand	THB	390,000	51.0 (51.0)	Frozen Foods
●	Ajinomoto Calpis Beverage (Thailand) Co., Ltd.	Thailand	THB	660,000	60.0 (60.0)	Overseas Food Products
●	Ajinomoto Co., (Thailand) Ltd.	Thailand	THB	796,363	78.7 (4.4)	Overseas Food Products
●	Ajinomoto Frozen Foods (Thailand) Co., Ltd.	Thailand	THB	105,000	100.0 (100.0)	Frozen Foods
●	Fuji Ace Co., Ltd.	Thailand	THB	500,000	51.0 (51.0)	Packaging
●	Ajinomoto Vietnam Co., Ltd.	Vietnam	USD	45,255	100.0	Overseas Food Products
■	Ajinomoto Betagro Frozen Foods (Thailand) Co., Ltd.	Thailand	THB	150,000	50.0 (50.0)	Frozen Foods
■	PT Ajinomoto Calpis Beverage Indonesia	Indonesia	USD	16,420	50.0	Overseas Food Products
America						
●	Ajinomoto Biolatina Indústria e Comércio Ltda.	Brazil	BRL	273,322	100.0	Feed-Use Amino Acids
●	Ajinomoto Interamericana Indústria e Comércio Ltda.	Brazil	BRL	212,047	100.0	Umami Seasonings for Processed Food mfrs
●	Ajinomoto del Perú S.A.	Peru	PEN	45,282	99.6	Overseas Food Products
●	Ajinomoto Frozen Foods U.S.A., Inc.	United States	USD	15,030	100.0 (100.0)	Frozen Foods
●	Ajinomoto U.S.A., Inc.	United States	USD	750	100.0	Other
■	Nissin-Ajinomoto Alimentos Ltda.	Brazil	BRL	12,689	50.0	Overseas Food Products
Europe						
●	S.A. Ajinomoto OmniChem N.V.	Belgium	EUR	21,320	100.0	Pharmaceutical Fine Chemicals
●	Ajinomoto Euro-Aspartame S.A.S.	France	EUR	51,000	100.0	Amino Acid-Based Sweeteners
●	AJINOMOTO EUROLYSINE S.A.S.	France	EUR	26,865	100.0	Feed-Use Amino Acids
●	AJINOMOTO FOODS EUROPE S.A.S.	France	EUR	23,875	100.0	Umami Seasonings for Processed Food mfrs
●	AJINOMOTO BIOITALA S.p.A.	Italy	EUR	20,144	100.0 (100.0)	Feed-Use Amino Acids
●	Ajinomoto Poland Sp. z o.o.	Poland	PLN	39,510	100.0	Overseas Food Products
●	Ajinomoto Switzerland AG	Switzerland	CHF	8,800	100.0	Amino Acid-Based Sweeteners
●	ZAO Ajinomoto-Genetica Research Institute	Russia	RBL	166,163	100.0	Other

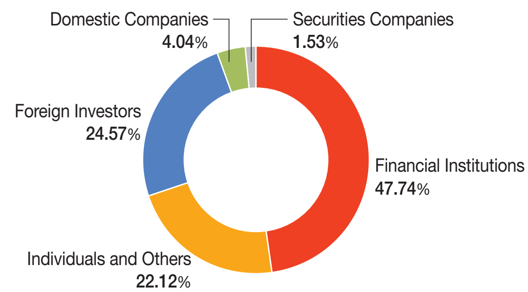
Investor Information

(As of March 31, 2006)

Ajinomoto Co., Inc.

Established:	May 20, 1909
Number of Employees:	26,049 (consolidated basis) 4,002 (non-consolidated basis)
Fiscal Year:	April 1—March 31 Annual meeting held in June
Common Stock	
Authorized:	1,000,000,000 shares
Issued:	649,981,740 shares
Paid-in Capital:	¥79,863 million
Listings:	Tokyo Stock Exchange and Osaka Securities Exchange (Ticker Code: 2802)
Shareholder Registrar:	Mitsubishi UFJ Trust and Banking Corporation
Independent Auditor:	Ernst & Young ShinNihon
Number of Shareholders:	70,230

Distribution of Shareholders (by number of shares)

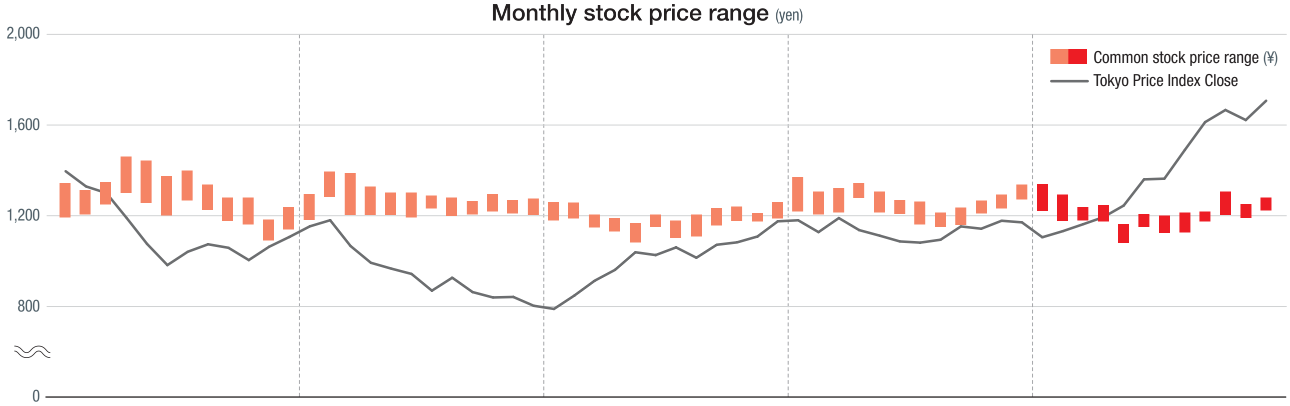


Major Shareholders

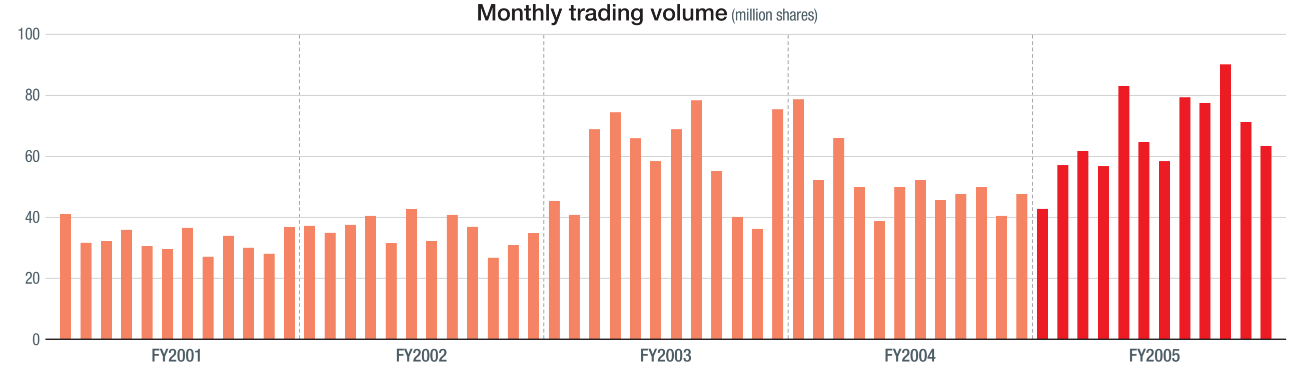
Name of Shareholders	Number of Shares (Thousands)	Equity Position
The Master Trust Bank of Japan, Ltd. (trust account)	48,405	7.45%
Japan Trustee Services Bank, Ltd. (trust account)	37,747	5.81
The Dai-ichi Mutual Life Insurance Company	25,550	3.93
Nippon Life Insurance Company	22,770	3.50
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	20,149	3.10
Mizuho Corporate Bank, Ltd.	17,036	2.62
NIPPONKOA Insurance Co., Ltd.	16,097	2.48
Meiji Yasuda Life Insurance Company	12,624	1.94
Mitsubishi UFJ Trust and Banking Corporation	10,746	1.65
Fukoku Mutual Life Insurance Co.	10,000	1.54

Monthly Stock Data (TSE)

Monthly stock price range (yen)



Monthly trading volume (million shares)



Note: Fiscal years beginning April and ending March the following calendar year.

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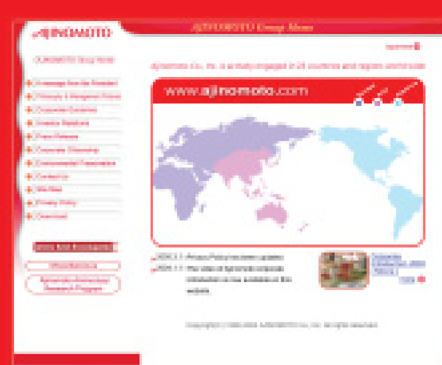

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