ANNUAL REPORT 2003

For the Year Ended March 31, 2003

Meiji Dairies Corporation

Corporate Philosophy

THE MEIJI DAIRIES CORPORATION GROUP CONTRIBUTES TO A HEALTHY AND HAPPY DAILY LIFE FOR OUR CUSTOMERS.

PROFILE

Meiji Dairies Corporation is one of Japan's foremost manufactures of dairy products. Since its foundation in 1917, the Company has contributed to the promotion of health and good living through milk and milk-based products. Meiji Dairies Corporation is presently expanding into other business areas such as probiotics products. Operations are guided by a commitment to supplying appealing products, services, and information by integrating the concepts of "Food" and "Health."

CONTENTS

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. Meiji Dairies Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Unless specifically stated otherwise, information in this annual report is as of October, 2003.

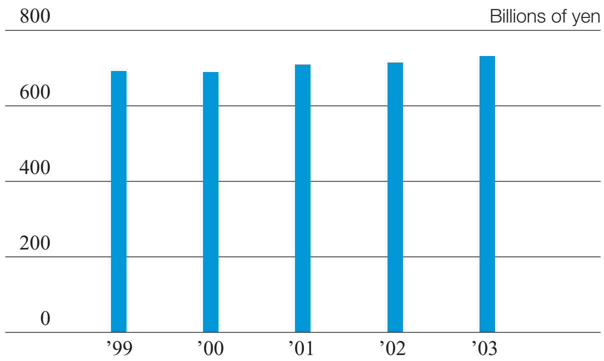
Financial Highlights—Consolidated

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31

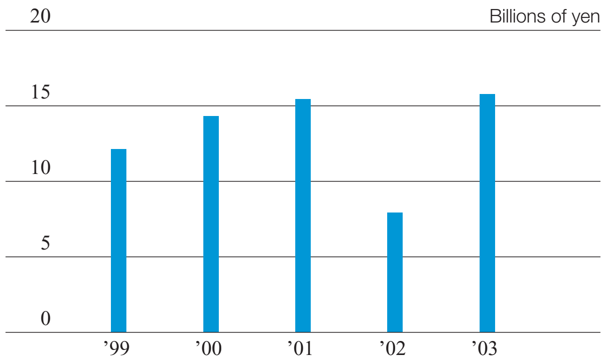
	Percent change (%) 2003/2002	Millions of yen (except for per share data) 2003	2002	2001	Thousands of U.S. dollars (except for per share data) 2003
For the year:					
Net sales	2.6	**¥732,369**	¥713,980	¥708,326	**$6,092,917**
Operating income	98.6	**15,769**	7,941	15,441	**131,191**
Net income	93.5	**4,051**	2,093	3,834	**33,701**
At year-end:					
Total assets	(4.9)	**¥363,354**	¥381,980	¥366,894	**$3,022,909**
Total shareholders' equity	2.2	**82,241**	80,436	80,802	**684,204**
Per share (Yen and U.S. dollars) :					
Net income	92.1	**¥ 13.56**	¥ 7.06	¥ 12.92	**$ 0.113**
Cash dividends	0.0	**6.00**	6.00	6.00	**0.050**
Ratios:					
ROA		**1.1%**	0.5%	1.0%	
ROE		**5.0%**	2.6%	4.7%	
Debt/Equity ratio (Times)		**3.4**	3.7	3.5	
Number of employees:					
Non-Consolidated		**4,698**	4,844	4,923	
Consolidated		**7,754**	8,083	8,315	

Notes: 1. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1=¥120.20 for the year ended March 31, 2003.
2. Net income per share in fiscal 2002 was calculated in accordance with a new accounting standard (Refer to Note 2(n) of the Notes to Consolidated Financial Statements).

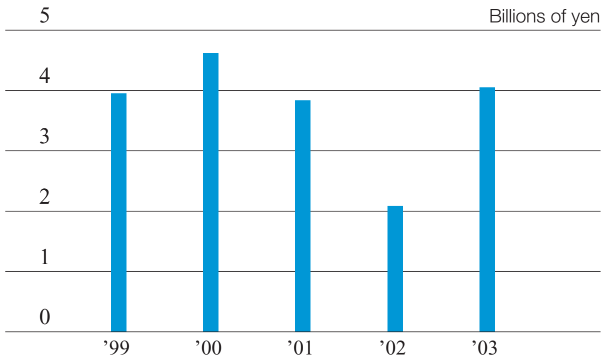
● Net Sales



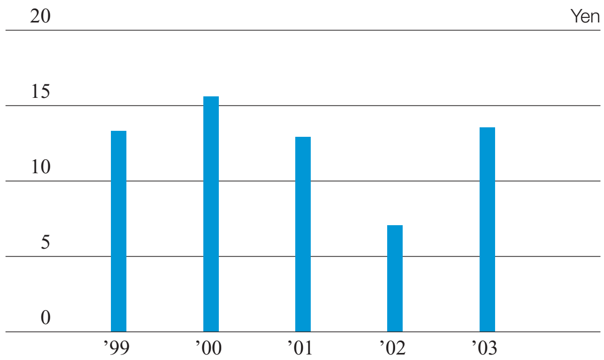
● Operating Income



● Net Income



● Net Income Per Share



To Our Shareholders and Customers

Shigetaro Asano, President & CEO

Since its establishment in 1917, the Meiji Dairies Corporation Group has consistently pursued the creation of new value in milk. In addition, we have created new value not only for milk-related products but also for various other kinds of food.

For example, with the launch of "Meiji Honey Yogurt" in 1950 we became the first company to manufacture yogurt in the domestic dairy industry. In 1971, we started selling the first plain-type yogurt, which has now grown into the top brand "Meiji Bulgaria Yogurt LB81."

We also launched "Soft-Curd Meiji Infant Formula" in 1951, in which we succeeded in curdling protein for the first time in Japan. This product embodied our pursuit of making more nutritious and functional foods. We have continued to improve the product to make its function as close as possible to mother's milk, and we believe it was this effort that pushed us to become the No. 1 manufacturer of infant formula in Japan. In addition, our research into the nutrient system of giant hornets resulted in a new type of sports drink, "VAAM," which has been favored by top Japanese athletes since sales started in 1995.

Our constant efforts to create new value and styles in milk and food produced results in fiscal 1998 when we finally achieved the top position in the Japanese dairy industry in commercial milk sales, our core business. Further, in fiscal 2000 we became the No. 1 Japanese dairy products manufacturer in terms of both sales and profits on a non-consolidated basis.

Our successful performance notwithstanding, competition in the Japanese dairy industry is intensifying, not just domestically but also with global competitors, as the liberalization of dairy product imports advances following the agreements at the Uruguay Round of GATT and global adoption of the WTO system.

Facing such a harsh operating environment, the Meiji Dairies Corporation Group has set a new long-term vision of becoming a food company group that can match the world's top food companies by leveraging our own technology and product development capabilities. As a first step toward this goal, we have drawn up a new medium-term management plan, the MMP 2005, covering the three-year period from fiscal 2003 to fiscal 2005. The plan clarifies the issues, goals and priorities for the next three years and is aimed at establishing a corporate brand and strengthening profitability, both of which are essential for the Group to win competition in the 21st century.

Having assumed the position of President and CEO in April 2003, I consider my most important mission to be to further reinforce former President Hisashi Nakayama's business strategy with commercial milk at the core, and at the same time to carry out the MMP 2005, which takes our goals another step higher.

The operating environment of the Japanese dairy industry is changing drastically for a number of reasons. Among them are a falling birthrate and an aging society, globalization, and growing consumer awareness of food safety and reliability. However, I do not view these changes negatively, but rather see them providing us enormous opportunities to grow. I will seize these opportunities, and with "innovation" as a keyword, will renovate all corporate activities including production, marketing, distribution and administrative management as well as product and technology development. Thus, our ultimate goal is for the Meiji Dairies Corporation Group to have an indispensable presence for our customers and society.

• Results for fiscal 2002 (April 1, 2002 – March 31, 2003)

Business conditions remained difficult for us in fiscal 2002. Consumer spending in Japan remained sluggish due to prolonged deflation, declining incomes, and concern about job security. In the food industry, consumers' distrust in food safety following a fraudulent food labeling scandal and other incidents was not completely dispelled. The dairy industry as a whole experienced the problem of an undersupply of raw milk, especially during the summer, as evidenced by the fact that production of raw milk edged up by 0.8% year-on-year while consumption of commercial milk grew 3.7%.

Despite tough conditions surrounding the industry, the Meiji Dairies Corporation Group had a wonderful year in fiscal 2002 in terms of our business performance, with net sales and operating income on both consolidated and non-consolidated bases achieving record highs. On a consolidated basis, net sales grew by 2.6% year-on-year to ¥732,369 million, while the increase in cost of sales and selling, general and administrative expenses were held in check, rising by 1.8% and 0.6%, respectively. As a result, operating income increased by 98.6% to ¥15,769 million, ordinary income by 82.4% to ¥14,602 million, and net income by 93.5% to ¥4,051 million. Net income per share was ¥13.56, a 92.1% year-on-year increase.

In our opinion, this excellent performance was the result of the following measures we actively took in fiscal 2002 aimed at making a turnaround from the severe business results in fiscal 2001:

1. We revamped our mix of existing products by increasing sales of high-value-added products while reducing sales of products with low profitability.
2. We promoted sales of new and high-value-added products, such as "Meiji Probio Yogurt LG21."
3. We reined in price-oriented sales promotions targeted at expanding sales to mass merchandisers. This, coupled with our revision of sales promotion expenses to a more effective level, led to an upsurge in the unit sales price.
4. We continued to promote low-cost operations.

The following are examples of the successful improvement of our product mix. Sales of yogurt, which is one of our core businesses and carries high profitability, increased 20.7% year-on-year to ¥90,516 million. Elsewhere, sales of "Meiji Probio Yogurt LG21," a Probiotics product that pursued new functions of lactic acid bacilli, increased by 84.6% from fiscal 2001 to ¥24 billion, partially helped by the introduction of a drink version.

In the milk market, where differentiation other than by price is said to be difficult, we introduced the Natural Taste Manufacturing Method to "Meiji Oishii Milk." We developed this manufacturing method over years under the concept of producing "delicious milk that tastes like unprocessed fresh milk" to meet customers' needs. As a result, we have been able to sell "Meiji Oishii Milk" at a premium of ¥30 to ¥40 over other ordinary milks and achieved ¥22 billion in sales, which substantially exceeded the initial target of ¥15 billion.

At the same time, company-wide efforts to review the effectiveness of sales promotion expenses and to promote low-cost operations also contributed to our fiscal 2002 business performance.

• The business environment in fiscal 2003 and beyond

Business management in the dairy industry requires us to be increasingly strategic in the face of a continued tough operating environment. Under these circumstances, we took into account the following important factors in drawing up our new medium-term management plan:

1. Changes in the competitive structure of the dairy industry

While growth in the milk and processed milk product markets remains stagnant, the dairy industry has gone through a great deal of change in terms of competition. One of our competitors ended up spinning off its major businesses following the mass food poisoning scandal it caused in June 2000. Meanwhile, companies outside the industry have entered the dairy market. As a result, the competitive structure of the industry has changed and competition has intensified.

2. Prolonged deflation

It is likely that prolonged deflation will continue to cause sluggishness in consumer spending, declines in unit sales prices, and rises in bankruptcies and irrecoverable debts.

3. Full adoption of international accounting standard

Business results are likely to be impacted by the adoption of impairment accounting and other new accounting rules. Impairment accounting for fixed assets is slated to become mandatory in fiscal 2005. Once the new accounting standard is adopted, companies will be obliged to revalue fixed assets using the concept of discounted cash flow rather than the market value of assets. In other words, the bottom line of unprofitable businesses will be more negatively affected by the introduction of the new accounting standard. With this in mind, we will make haste in reviewing the profitability of all businesses and products.

4. Increased consumer awareness of food safety

Consumer suspicion of the food industry has grown following frequent occurrences of unethical incidents by some companies, including the deliberate mislabeling of food with the wrong production region and date. As a result, consumers and society are demanding more strongly that companies adhere to stricter legal compliance.

5. Changes in the structure of distribution

Changes to the structure of the Japanese retail industry are likely to accelerate as more foreign retailers enter the Japanese market and trading companies increase investment in the retail business, which brings us into direct competition with new foreign dairy products.

6. Declining birthrate and a growing proportion of elderly people

The number of new births in Japan in fiscal 2002 was 1.15 million with a birthrate of 1.32 children. These were both historical lows, and likely to decline further. Meanwhile, the proportion of elderly people is increasing rapidly as average life expectancy is growing. Due to such demographic changes, consumption patterns are also likely to change significantly in terms of both quantity and quality.

• Our new three-year medium-term management plan: MMP 2005

In such an environment, we see “changes as opportunities.” We are determined to turn ourselves into a leading innovative company, and have drawn up a new three-year medium-term management plan (MMP 2005) starting April 2003 under the following basic concept:

“Transformation into an enterprise of advanced innovation — Establishing our corporate brand and transforming our business into a high-profitability structure.”

In an era of global competition, we must make the Meiji brand widely and highly recognized among consumers in order to match the world’s top food companies. A strong brand will play a key role in winning global competition and, in particular, we believe that a strong corporate brand is critical to building a long-term relationship and trust with our customers. We will therefore make every effort to develop the Meiji Dairies Corporation brand into one that is essential for our customers and that symbolizes high quality, excellent taste, function and other values. In addition, we will be more conscious of the profitability of our businesses and products and shift management resources into areas of higher profitability.

To achieve these objectives, we are taking the following measures under MMP 2005:

1) Concentrating management resources on newly selected core businesses
2) Further strengthening our technology and product development capabilities
3) Improving our corporate brand value
4) Promoting structural reforms to improve operational efficiency
5) Reinforcing our product safety control system and fully implementing compliance-based management

(Please see pages 5-7 for details.)

By concentrating on profitable core businesses, we aim to bring the break-even sales ratio to total sales down to below 90% by the end of fiscal 2005, from 92% in fiscal 2002.

As we move towards our goal of becoming a leading innovative company that contributes to our customers’ daily health and happiness, we will also increase our corporate value and secure stable dividends for our shareholders.

I appreciate your continued support and understanding.

October 2003

President and Chief Executive Officer
Shigetaro Asano

Special Feature: MMP 2005

To cope with the changing business environment and intensifying competition and further enhance our corporate value, we have introduced MMP 2005, a new medium-term management plan spanning the three-year period from fiscal 2003 to fiscal 2005.

The following is a summary of MMP 2005:

• Basic Concept

"Transformation into an enterprise of advanced innovation — Establishing our corporate brand and transforming our business into a high-profitability structure"

Under this concept, we will endeavor to become the leading innovator not only in product and technology development, but in all of our other corporate activities as well to ensure sustainable growth and offer long-term value to our stakeholders, including customers and investors.

• Quantitative Targets

We assume that the deflationary economic environment will continue for the time being. We are therefore aiming in this medium-term management plan to improve profitability without simply relying on an expansion in sales.

Instead, we plan to raise profit margins by reassessing our business and product mix. Specifically, we will strive to promote sales of high-value-added products while reducing sales of low-profitability products. In so doing, we will bring down the break-even sales ratio to below 90% by fiscal 2005, from 92% in fiscal 2002.

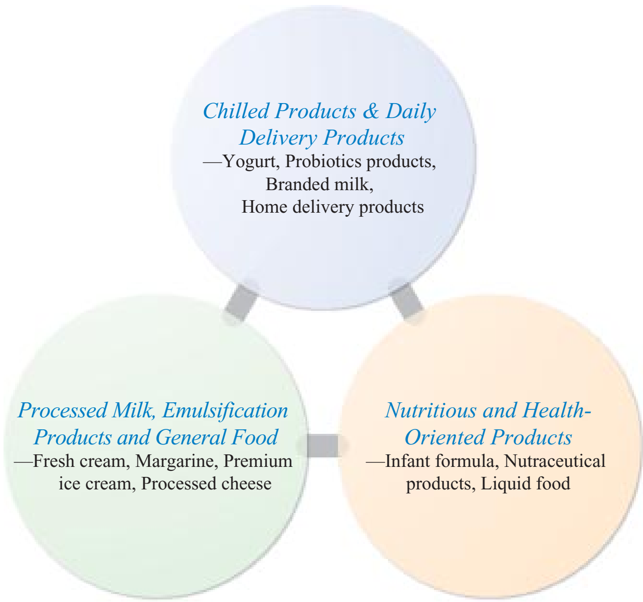
	Billions of yen		
	FY 2005 (Target)	Increase from FY 2002	FY 2002 (Actual)
Consolidated:			
Net Sales	760.0	+3.7%	732.3
Ordinary Income	23.0	+57.5%	14.6
Non-Consolidated:			
Net Sales	550.0	+6.0%	518.8
Ordinary Income	20.0	+75.4%	11.4

• Main Issues and Action Plan

We present below an explanation of the five main issues that need to be addressed over the next three years and action plan for achieving the targets mentioned above.

1. Concentrating management resources on newly selected core businesses

We have classified our businesses into the following three categories and selected core businesses in each of them. Core businesses are those through which we can fully enhance our corporate brand by leveraging our market share, profitability, and advantages in technology and research and development. We intend to concentrate management resources in these core businesses and thereby improve our earning structure.



1) Chilled products and daily delivery products business
Core businesses in this category include yogurt, milk and desserts, and sales of these products account for more than 60% of total sales. The key product among these is yogurt, which is firmly backed by our research and development capabilities in lactic acid bacilli. We have a library of 2,000 types of lactic acid bacilli at our Odawara Laboratory and continue our research efforts. For our home delivery services, we have established the No.1 network in Japan, covering 2.6 million homes.

2) Nutritious and health-oriented products business
The core businesses in this category are infant formula, baby food, nutraceutical products and liquid food. In infant formula, we were the first company to be successful in making it into a soft curd that can be digested as easily as mother's milk, and we now boast the top share in the Japanese market. We will also continue to focus on nutraceutical products, such as "VAAM."

3) Processed milk/emulsification products and other food business
The core businesses in this category are fresh cream, cheese, margarine, and ice cream. As a dairy product manufacturer, we will leverage our emulsification technology and focus on fresh cream and our premium ice cream "Aya," in which we have a dominant position in the market.

2. Further strengthening our technology and product development capabilities

We have reinforced our research and development organization through the establishment of the Technological Development Committee in April 2001 and integration of all of our research institutes into one located in Odawara in April 2003.

Under MMP 2005, we are concentrating our management resources on newly selected core businesses and are promoting research and development activities focusing on high-value-added areas where we have a competitive edge and those that offer high added value. More specifically, we will think from our customers' point of view and develop products with a focus on nutrition and health in areas where we have technological and developmental advantages and those that offer distinguished values and are less vulnerable to price competition.

3. Improving our corporate brand value

With the aim of improving our brand value, we have created the Meiji Dairies Corporation Brand Concept. More importantly, however, we need to ensure that employees completely internalize this concept as a standard of behavior. In doing so, we aim to gain customers' understanding and affinity for our corporate brand. We also intend to raise our corporate brand value by proposing unique products that leverage our unique technology and product development capabilities, as well as by proposing methods for securing product quality among retailers. Further, we will promote active communication with our customers and society.

4. Promoting structural reforms to improve operational efficiency

We expect about 800 employees to retire as they reach the designated retirement age over the next three years. While curbing the total number of employees, we will continue efforts to improve overall business efficiency in order to become able to operate smoothly with fewer employees. We have been actively promoting restructuring of our production facilities such as through the establishment of the Moriya Plant, which is equipped with a highly efficient production system, in June 1998. In addition, we are also integrating our order receiving centers for commercial milk.

5. Reinforcing product safety control system and fully implementing compliance-based management

In April 2003, we launched the Food Safety Committee, which is to make proposals and evaluations on basic policies and measures for ensuring food safety. It consists of 15 members, including two from outside the Company.

As part of efforts to improve compliance, we established Meiji Dairies Corporation Code of Ethics and are training and educating our employees to comply fully with the code. We also set up a Compliance Office, which provides a system of counseling for employees. In addition, we are reinforcing our crisis management capabilities by holding seminars and strengthening the function of the Crisis Management Committee.

• Reinforcing Our Food Safety Management

1. Establishment of the Food Safety Committee

We established the Food Safety Committee in April 2003. The Committee, which includes specialists from outside the Company as members, discusses risks associated with our products from scientific and technological perspectives. Meetings are held quarterly and the results are reported to the Executive Board.

The following are the key roles of the Food Safety Committee:

— Setting forth measures to secure food safety in new product development as well as preemptive measures against risks foreseen in the production process.

— Establishing risk criteria and an evaluation system and applying their results to risk management regarding raw materials, production and distribution.

— Collecting new information on food safety and publicizing them throughout the Company.

2. Production and distribution system to ensure traceability

We have been actively working on a system to ensure traceability in order to fulfill our responsibilities in both production and distribution.

All data on orders received are processed at our Tokyo Data Center in Setagaya ward, Tokyo, which operates around the clock, throughout the year. The data is then sent to delivery centers and at the same time stored as a source of information that can be used whenever necessary for production and distribution planning.

This information is utilized in our Manufacturing Execution System (MES), which has been introduced at production facilities as part of efforts to achieve safe, high-quality and efficient production operations. Under this system, which combines production technology developed through our years of experience with state-of-the-art production equipment, the production plan and actual production are compared to see if there were any problems in each of the production processes. This is how we ensure traceability within the production process.

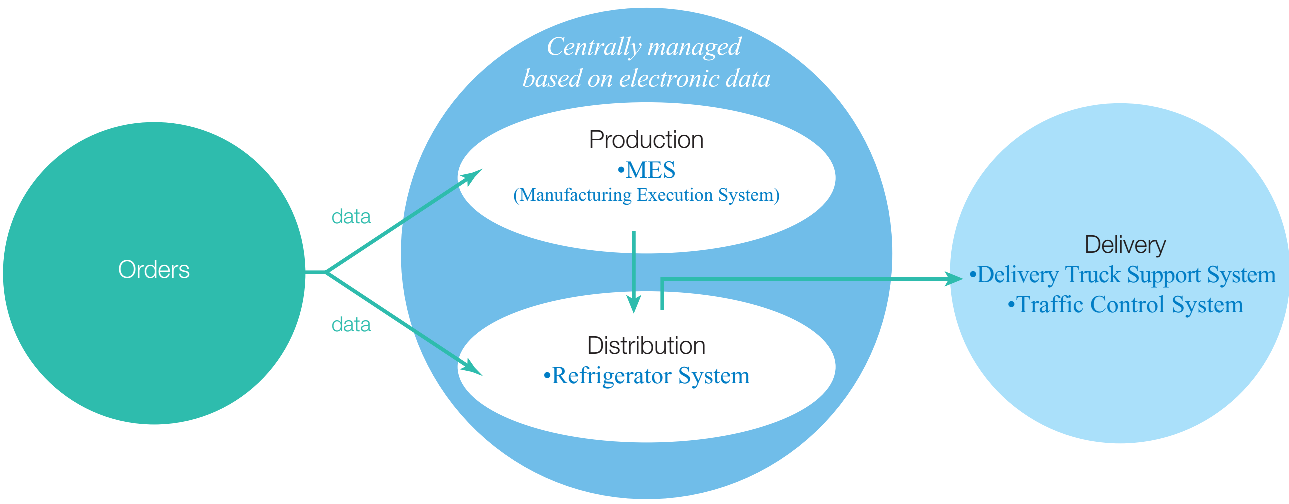
In distribution, we consider the management of manual operations overseen by human eyes and product loading and transportation processes as the key to traceability. We therefore introduced a system to manage the process of the shipment and delivery operations, which are mainly handled by people.

At our refrigerators, we developed the Refrigerator System which enables quick and accurate sorting of products by customer, by sending real-time instructions to the latest wireless handy-terminals and terminals on forklifts according to customer order and delivery time information. At the same time, this system allows us to track records on products delivered to all our customers.

We do not entrust product safety management to transportation companies even after the products are shipped from our plants. To consolidate control of products from their departure from the plants to delivery to our customers, we introduced the Delivery Truck Support System and the Traffic Control System, which assist in efficient delivery.

By organically linking the MES, the Refrigerator System, the Delivery Truck Support System and the Traffic Control System, we have ensured traceability and at the same time maintained and improved our product quality.

• Traceability System



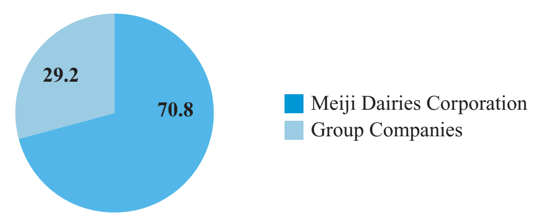
Review of Operations—Non-Consolidated

Statements in this section are based on non-consolidated information due to the fact that Meiji Dairies Corporation accounts for 70.8% of fiscal 2002 consolidated net sales.

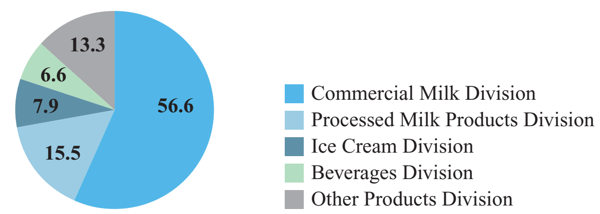
In fiscal 2002, overall net sales increased 1.0% year-on-year to ¥518,843 million. By division, sales were up 4.5% in the Commercial Milk Division and 2.4% in the Processed Milk Products Division, while those of the Ice Cream, Beverages and Other Products divisions shrank by 4.4%, 12.4%, and 3.8%, respectively.

Fiscal 2003 marks the first year of our MMP 2005 business plan. We will increase our profitability mainly through price adjustments and improvement of our product mix. As a result, although overall net sales are likely to see a modest year-on-year decline of 1.5% to ¥511,000 million, we foresee a 0.5% increase in operating income to ¥12,400 million, a 4.5% increase in ordinary income to ¥12,000 million, and a 57.2% rise in net income to ¥6,300 million.

• Breakdown of Consolidated Net Sales



• Non–Consolidated Net Sales by Division



• Commercial Milk

Results for Fiscal 2002

Sales in this division increased 4.5% year-on-year to ¥293,911 million.

While sales of processed milk and milk beverages declined, sales of “Meiji Oishii Milk” reached ¥22 billion, significantly exceeding the initial target of ¥15 billion and resulting in the overall increase in the milk products sales.

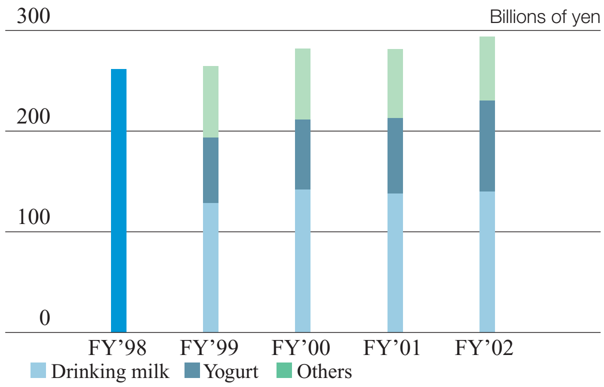
Yogurt sales also saw a sharp increase of 20.7% from the previous fiscal year. Sales of “Meiji Bulgaria Yogurt” jumped 25% year-on-year and those of “Meiji Probio Yogurt” soared 85% to ¥24 billion.

Home delivery services experienced a steady expansion. Specifically, the number of subscribers reached 2.6 million households as of the end of November 2002, up 6% from the year-ago level.

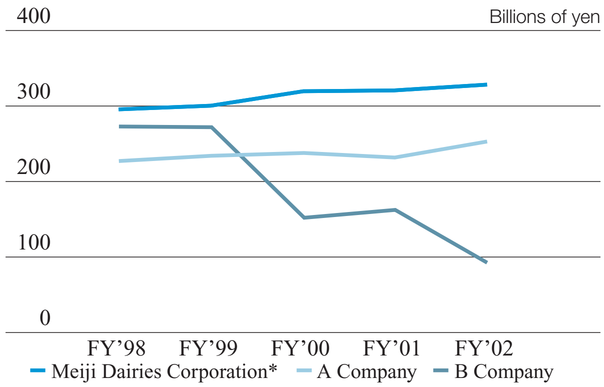
Meiji Oishii Milk

Meiji Bulgaria Yogurt LB81

• Net Sales of Commercial Milk Division

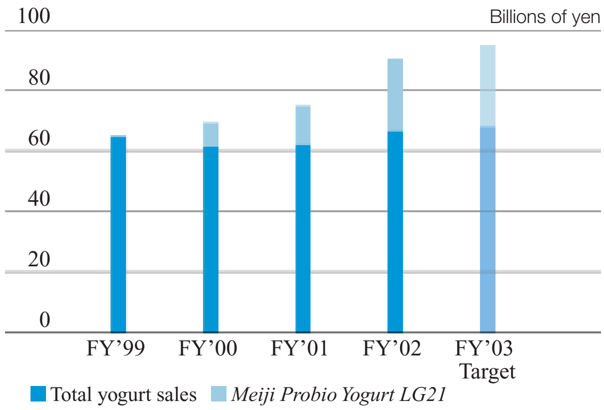


• Commercial Milk Sales of Big Three Dairy Manufacturers

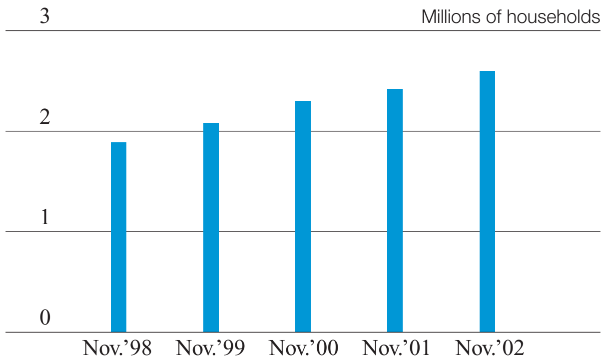


*The sales amount includes that of Beverages Division to make the data comparable with the other two companies.

• Sales Performance of Yogurt Business



• Households Subscribing to the Home Delivery Service



Strategy for Fiscal 2003

For "Meiji Oishii Milk," we will focus on sales promotions at stores and at the same time will make efforts to increase recognition of the brand name through advertising commercials. Targeting annual sales of over ¥35 billion, we have initiated production at the Moriya Plant and increased capacity of the Asahikawa Plant.

We aim to increase yogurt sales by 5% year-on-year to ¥95 billion by further reinforcing our "Meiji Bulgaria" and "Meiji Probio" brands through television commercials and sales promotions at stores. As for "Meiji Probio Yogurt," we plan for a 12.5% increase to ¥27 billion by particularly focusing on expanding sales of "Meiji Probio Yogurt LG21 Drink Type."

We expect our home delivery business to continue to grow on the back of increasing health consciousness. The home delivery business is a steady revenue source as the business is less susceptible to volatility caused by price competition or the weather. We set a target for the number of subscribers to 3 million by the end of fiscal 2005. We believe this target is attainable by taking more aggressive marketing strategy and launching new health-oriented products such as "Bulgaria Honey Yogurt," black vinegar and soy milk drinks.

Meiji Probio Yogurt LG21 Drink Type

• Processed Milk Products

Results for Fiscal 2002

Sales in this division increased by 2.4% to ¥80,182 million.

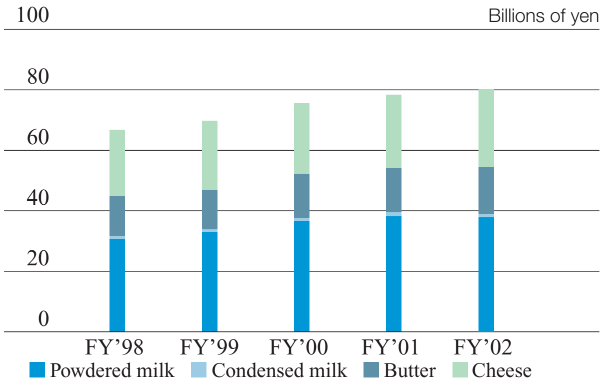
We maintained roughly the same level of sales of infant formula as in the previous fiscal year despite the gradual decline in the birthrate. Strong sales of "Meiji Tokachi Sliced Cheese" contributed to a 6.0% increase in overall cheese sales, while butter sales saw a 5.6% increase.

Strategy for Fiscal 2003

Conditions in the infant formula market are likely to remain difficult given the continuous decline in the birthrate. Under these circumstances, we will take a marketing strategy centering on increasing the number of loyal individual customers as we enhance our information services via e–mail magazines and websites.

Domestic cheese market is nearing the maturity point, but we will continue to pursue the production of cheese that matches Japanese tastes. As for processed cheese, we are striving to raise "Kogen-Sodachi" (highland-bred) into a new major brand as we did with the "Tokachi" brand. While the "Tokachi" brand includes more than 60% of natural cheese from the Tokachi region in Hokkaido, the "Kogen-Sodachi" brand is made from foreign natural cheese to enrich its taste. Among natural cheese, we are making further efforts to broaden the presence of camembert cheese in the domestic market, in which we have a 30% share.

• Net Sales of Processed Milk Products Division



Meiji Kogen-Sodachi

Soft-Curd Meiji Infant Formula Hohoemi

• Ice Cream

Results for Fiscal 2002

Sales for this division declined for the eighth consecutive year. Amid a shrinking market, sales of our "Essel Super Cup" series were relatively strong, and we committed ourselves to improving profitability. These efforts notwithstanding, we saw an overall sales decline of 4.4% year-on-year to ¥41,228 million.

Strategy for Fiscal 2003

We have completely redesigned the "Aya" brand, which is a premium ice cream product, and are targeting a 170% increase in sales to ¥5 billion in fiscal 2003. For other ice creams, we will continue our efforts to reduce costs and improve profitability.

AYA

Essel Super Cup

• Beverages

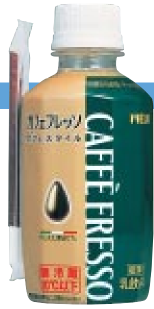
Results for Fiscal 2002

Amid intensifying competition, divisional sales declined 12.4% to ¥34,408 million. While sales of fruit juice were steady, non-chilled beverage (bottled and canned) sales were sluggish.

Strategy for Fiscal 2003

We are making efforts to expand beverage sales through aggressive consumer campaigns and other promotional activities.

We will also continue to pursue development of new products backed by our research and development efforts with a focus on good taste and freshness. Our recent achievements include the launch of new chilled coffee drink "Caffe Fresso" in November 2003. The drink comes in two types, "Latte Style" and "Café Style," and we target annual sales of ¥10 billion in three years' time. "Caffe Fresso" is manufactured with our innovative P.U.R.E. ("Produced with Unheated and Rapid Extraction") method (process patent pending), which preserves the scent of freshly ground coffee and provides a pleasant aftertaste. Under this newly developed method, coffee is extracted quickly (in about 40 seconds) compared to previous cold water extraction methods which took 8–10 hours. Moreover, by extracting coffee at a low temperature (about 20˚C), the amount of tannin and peroxyacid generated is reduced by about 20% and 15%, respectively, compared to the conventional hot water extraction method. This method also curbs oxidation, which helps to maintain freshness.



Caffe Fresso

• Other Products

Results for Fiscal 2002

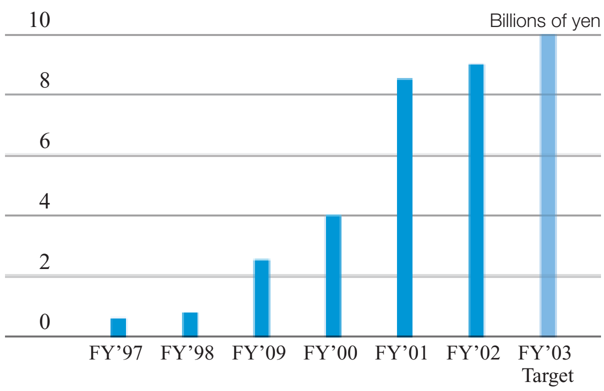
Net sales for this division decreased 3.8% to ¥69,112 million.

However, sales of frozen food exceeded last year's result, driven by sharp growth in sales of "Pizza & Pizza" (a 2-piece package). Margarine sales also increased, thanks to the favorable demand for the "Meiji Corn-Soft" series. Sales of nutraceutical products, especially in the "VAAM" series, grew as well, though medical product sales nosedived from the previous year.

Strategy for Fiscal 2003

We aim to further raise our market share in the margarine segment to 36% from the current 31% through active sales promotions. For nutraceutical products, we plan to expand our sales of "VAAM" to ¥10 billion from ¥9 billion in fiscal 2002.

• Sales Performance of VAAM



VAAM New Health Science Drink

Pizza & Pizza

Financial Review

• Overview of Business Performance

The Japanese economy remained stagnant in fiscal 2002, dragged down by lingering deflation and sluggish consumer spending on the back of concerns about job security. In addition to uncertainty in the economic outlook, the food industry was negatively affected by sustained consumer distrust of food safety since a series of food mislabeling and other unethical incidents. Competition in the dairy industry intensified following the restructuring of one of our competitors.

Under these conditions, we committed ourselves to improving profitability by consolidating our competitiveness in core businesses, such as commercial milk, and to actively expanding business in growing areas within the food market. We also drastically cut fixed costs and worked to strengthen our competitiveness.

As a result of these efforts, our consolidated net sales and operating income achieved record highs despite the difficult operating environment. Specifically, operating income soared 98.6% year-on-year to ¥15,769 million while net sales rose 2.6% to ¥732,369 million. These resulted in a net income of ¥4,051 million, up 93.5% from fiscal 2001.

Our business performance by segment was as follows:

1. Food:

Net sales rose by 2.7% year-on-year to ¥640,377 million. Growth in yogurt sales more than offset the decline in sales of livestock products. The sharp increase in the yogurt sales also contributed to a 146.6% surge in the operating income to ¥13,151 million.

2. Service and Others:

Net sales rose 4.0% year-on-year to ¥132,895 million mainly due to increased feedstuff sales. Operating income declined, however, by 4.5% to ¥2,421 million as a result of an increase in expenses in our transportation and storage business.

• Financial Position

Total assets at the end of fiscal 2002 decreased 4.9% from the previous fiscal year-end to ¥363,354 million. Current assets decreased 8.6% year-on-year to ¥150,304 million, and fixed assets were down 2.0% to ¥213,050 million. As a result, the ratio of current assets to total assets stood at 41.4% at the fiscal year-end. The decline in current assets was largely brought about by technical factors. Specifically, the amount of notes and accounts receivable outstanding was at an abnormally high level at the end of the previous fiscal year since the last day of the year was a banking holiday.

Total liabilities decreased by 6.7% from the end of fiscal 2001 to ¥279,137 million, accounting for 76.9% of the sum of total liabilities, minority interests and shareholders' equity. Current liabilities were down 22.8% year-on-year to ¥168,853 million. The large decrease in current liabilities was due to redemption of convertible bonds, a reduction in commercial paper held, and a smaller amount of notes and accounts payable outstanding compared to the end of fiscal 2001, which was a banking holiday. On the other hand, long-term liabilities increased 37.1% to ¥110,284 million primarily as a result of an increase in long-term debt, including issuance of corporate bonds.

Minority interests decreased 19.4% year-on-year to ¥1,976 million, while shareholders' equity increased 2.2% from the previous fiscal year-end to ¥82,241 million in response to the increase in net income during the fiscal year. The equity ratio rose to 22.6%, up 1.5 percentage points from the end of fiscal 2001, and shareholders' equity per share increased by ¥6.37 to ¥277.55.

• Cash Flows

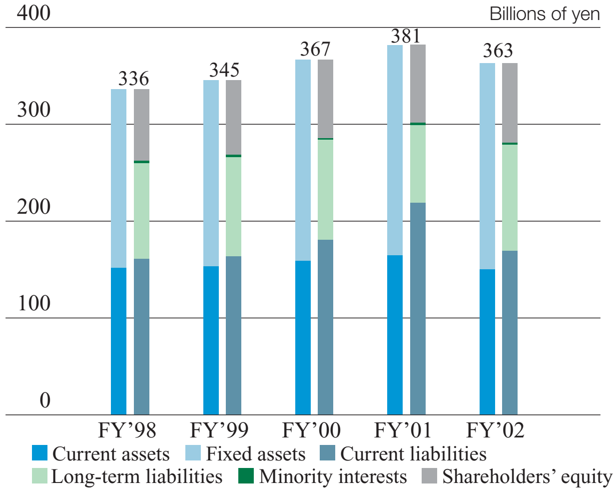
Net cash provided by operating activities increased ¥22,235 million compared to fiscal 2001 to ¥34,754 million. This was primarily as a result of an increase in income before income tax and minority interests, a decrease in gains on the sale and disposal of property, as well as a decrease in cash paid for income tax.

Net cash used in investing activities decreased ¥6,094 million from fiscal 2001 to ¥28,400 million. While cash used for purchases of investment securities increased, cash used for purchases of property decreased as we curbed capital investments.

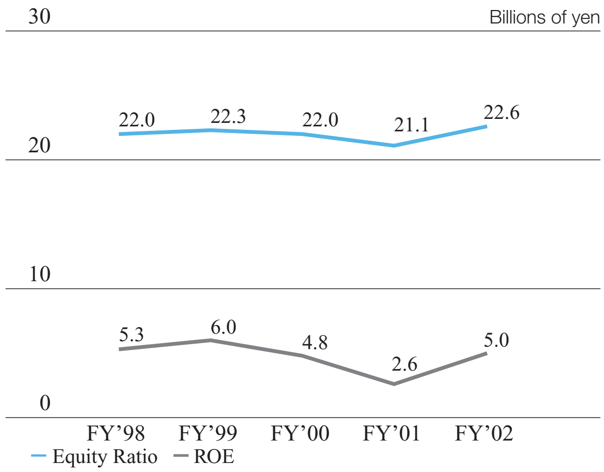
As a result, free cash flow (sum of cash flows from operating activities and investing activities) increased by ¥28,329 million, turning to a net inflow of ¥6,354 million. Net cash flows from financing activities decreased by ¥20,437 million and turned to a net outflow of ¥4,664 million. This was largely due to our repayment of interest-bearing debt such as long- and short-term loans and corporate bonds, and payment of cash dividends.

As a result of the above, consolidated cash and cash equivalents at the end of fiscal 2002 increased ¥1,690 million compared to a year earlier to ¥4,865 million.

• Breakdown of Total Assets & Total Liabilities and Shareholders' Equity



• Equity Ratio and ROE



Consolidated Balance Sheets

Meiji Dairies Corporation and Consolidated Subsidiaries
As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2003**	2002	**2003**
Current assets:			
Cash (Note 6)	**¥ 4,893**	¥ 3,217	**$ 40,705**
Notes and accounts receivable:			
Trade	**82,245**	99,152	**684,241**
Unconsolidated subsidiaries and affiliates	**2,104**	3,093	**17,507**
Others	**4,303**	5,042	**35,796**
Allowance for doubtful accounts	**(1,085)**	(1,271)	**(9,025)**
Inventories (Note 3)	**46,005**	44,486	**382,739**
Deferred income tax (Note 7)	**4,573**	3,188	**38,041**
Other current assets	**7,266**	7,629	**60,448**
Total current assets	**150,304**	164,536	**1,250,452**
Property, plant and equipment (Notes 4, 6)	**389,839**	388,166	**3,243,253**
Less-Accumulated depreciation	**(210,872)**	(205,742)	**(1,754,345)**
Net property, plant and equipment	**178,967**	182,424	**1,488,908**
Investments and other noncurrent assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliates	**4,751**	4,958	**39,529**
Others (Note 6)	**14,998**	15,299	**124,772**
Long-term loans	**2,792**	1,614	**23,228**
Intangible assets	**2,202**	2,364	**18,315**
Deferred income tax (Note 7)	**1,998**	1,310	**16,625**
Others	**8,100**	10,233	**67,385**
Allowance for doubtful accounts	**(758)**	(758)	**(6,305)**
Total investments and other noncurrent assets	**34,083**	35,020	**283,549**
Total assets	**¥363,354**	¥381,980	**$3,022,909**

Notes: 1. The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥120.20 to $1, the exchange rate prevailing on March 31, 2003.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Current liabilities:			
Short-term loans payable (including current portion of long-term debt) (Notes 5, 6)	**¥ 48,591**	¥ 81,722	**$ 404,248**
Notes and accounts payable:			
Trade	**64,875**	84,911	**539,736**
Unconsolidated subsidiaries and affiliates	**2,759**	3,046	**22,950**
Income taxes payable	**5,457**	1,751	**45,396**
Accrued liabilities	**28,534**	29,129	**237,388**
Other current liabilities	**18,637**	18,072	**155,047**
Total current liabilities	**168,853**	218,631	**1,404,765**
Long-term liabilities:			
Long-term debt, less current portion (Notes 5, 6)	**101,726**	71,319	**846,309**
Deferred income taxes (Note 7)	**382**	886	**3,173**
Employees' retirement benefits (Note 9)	**7,092**	7,355	**59,004**
Other long-term liabilities	**1,084**	903	**9,016**
Total long-term liabilities	**110,284**	80,463	**917,502**
Minority interests	**1,976**	2,450	**16,438**
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock, no par value in 2003 and 2002:			
Authorized—560,000,000 shares			
Issued 2003 and 2002—296,648,786 shares	**23,090**	23,090	**192,098**
Additional paid-in capital	**21,421**	21,421	**178,214**
Retained earnings	**36,755**	34,177	**305,781**
Net unrealized gains on investments in securities	**1,134**	1,760	**9,434**
Treasury stock, at cost—2003-440,062 , 2002-36,947 shares	**(159)**	(12)	**(1,323)**
Total shareholders' equity	**82,241**	80,436	**684,204**
Total liabilities, minority interests and shareholders' equity	**¥363,354**	¥381,980	**$3,022,909**

Consolidated Statements of Income

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Net sales	**¥732,369**	¥713,980	**$6,092,917**
Cost of sales (Note 12)	**528,997**	519,587	**4,400,972**
Gross profit	**203,372**	194,393	**1,691,945**
Selling, general and administrative expenses (Notes 10, 12)	**187,603**	186,452	**1,560,754**
Operating income	**15,769**	7,941	**131,191**
Other income (expenses):			
Interest and dividend income	**548**	415	**4,555**
Amortization of goodwill arising from consolidation	**45**	(16)	**373**
Equity in income of affiliates	**130**	93	**1,079**
Interest expenses	**(1,927)**	(1,991)	**(16,031)**
Other, net	**(4,273)**	1,170	**(35,547)**
Income before income taxes	**10,292**	7,612	**85,620**
Income taxes current	**8,189**	5,386	**68,124**
deferred	**(2,070)**	(18)	**(17,217)**
Minority interests	**(122)**	(151)	**(1,012)**
Net income	**¥ 4,051**	¥ 2,093	**$ 33,701**

	yen		U.S. dollars
Amounts per share of common stock:			
Net income	**¥13.56**	¥7.06	**$0.113**
Cash dividends	**6.00**	6.00	**0.050**

Notes: 1. The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥120.20 to $1, the exchange rate prevailing on March 31, 2003.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

Consolidated Statements of Shareholders' Equity

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Numbers of shares of common stock (Thousands)	Millions of yen				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains	Treasury stock
Balance at March 31, 2001	296,648	¥23,090	¥21,421	¥33,977	¥2,316	¥ (1)
Net income	—	—	—	2,093	—	—
Net unrealized gains on investments in securities	—	—	—	—	(556)	—
Cash dividends (¥6.0 per share)	—	—	—	(1,780)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(38)	—	—
Decrease in earnings from the merger of subsidiaries	—	—	—	(75)	—	—
Treasury stock	—	—	—	—	—	(11)
Balance at March 31, 2002	296,648	23,090	21,421	34,177	1,760	(12)
Net income	—	—	—	4,051	—	—
Net unrealized gains on investments in securities	—	—	—	—	(626)	—
Increase in earnings from the merger	—	—	—	475	—	—
Cash dividends (¥6.0 per share)	—	—	—	(1,780)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(31)	—	—
Decrease in earnings from the change of business year-end of consolidated subsidiaries	—	—	—	(24)	—	—
Decrease in earnings from the merger	—	—	—	(113)	—	—
Treasury stock	—	—	—	—	—	(147)
Balance at March 31, 2003	296,648	¥23,090	¥21,421	¥36,755	¥1,134	¥(159)

	Numbers of shares of common stock (Thousands)	Thousands of U.S. dollars				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains	Treasury stock
Balance at March 31, 2002	296,648	$192,098	$178,214	$284,333	$14,642	$ (103)
Net income	—	—	—	33,701	—	—
Net unrealized gains on investments in securities	—	—	—	—	(5,208)	—
Increase in earnings from the merger	—	—	—	3,950	—	—
Cash dividends (¥6.0 per share)	—	—	—	(14,804)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(260)	—	—
Decrease in earnings from the change of business year-end of consolidated subsidiaries	—	—	—	(201)	—	—
Decrease in earnings from the merger	—	—	—	(938)	—	—
Treasury stock	—	—	—	—	—	(1,220)
Balance at March 31, 2003	296,648	$192,098	$178,214	$305,781	$ 9,434	$(1,323)

Note: The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥120.20 to $1, the exchange rate prevailing on March 31, 2003.

Consolidated Statements of Cash Flows

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash Flows from Operating activities:			
Income before income tax and minority interests	**¥10,292**	¥ 7,612	**$ 85,620**
Depreciation and amortization	**21,503**	20,635	**178,902**
Amortization of goodwill arising from consolidation	**(45)**	16	**(373)**
Provision for retirement benefits	**(263)**	(802)	**(2,185)**
Interest and dividend income	**(548)**	(415)	**(4,555)**
Interest expenses	**1,927**	1,991	**16,031**
Gain on sale and disposal of property	**(473)**	(4,697)	**(3,937)**
Gain (loss) on sale and revaluation of securities	**2,892**	3,871	**24,057**
(Increase) decrease in notes and accounts receivable	**17,590**	(7,454)	**146,339**
(Increase) decrease in inventories	**(1,520)**	(1,934)	**(12,643)**
Increase (decrease) in notes and accounts payable	**(14,236)**	5,843	**(118,438)**
Increase (decrease) in accrued expense	**(594)**	(711)	**(4,945)**
Others	**4,022**	(1,672)	**33,460**
Cash received for interest and dividend	**531**	410	**4,415**
Cash paid for interest	**(1,841)**	(1,971)	**(15,316)**
Cash paid for income tax	**(4,483)**	(8,203)	**(37,297)**
Net cash provided by operating activities	**34,754**	12,519	**289,135**
Cash flows from investing activities:			
Purchases of property, net of proceeds	**(25,393)**	(31,277)	**(211,260)**
Proceeds from sale (payments for purchases) of securities	**(3,498)**	(239)	**(29,101)**
(Increase) decrease in other investments	**491**	(2,978)	**4,086**
Net cash used in investing activities	**(28,400)**	(34,494)	**(236,275)**
Cash flows from financing activities:			
Proceeds from long-term debt	**18,730**	18,605	**155,824**
Repayment of long-term debt	**(9,048)**	(9,324)	**(75,271)**
Issue (redemption) of bonds	**(9,999)**	400	**(83,186)**
Cash dividends paid	**(1,780)**	(1,780)	**(14,804)**
Increase (decrease) in loans payable	**(2,407)**	7,890	**(20,029)**
Others	**(160)**	(18)	**(1,336)**
Net cash provided by (used in) financing activities	**(4,664)**	15,773	**(38,802)**
Net increase (decrease) in cash and cash equivalents	**1,690**	(6,202)	**14,058**
Cash and cash equivalents at beginning of year	**3,175**	9,377	**26,414**
Cash and cash equivalents at end of year	**¥ 4,865**	¥ 3,175	**$ 40,472**

Note: 1. The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥120.20 to $1, the exchange rate prevailing on March 31, 2003.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Meiji Dairies Corporation (the "Company") and subsidiaries have been prepared from the consolidated financial statements in Japanese filed with the Kanto Finance Bureau as required by the Securities and Exchange Law of Japan, which are in conformity with accounting principles and practices generally accepted in Japan. These are different in certain respects from the application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present them in a form which is familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen. For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by arithmetically translating all Japanese yen amounts at the exchange rate of ¥120.20 to $1 prevailing on March 31, 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (the "Companies"), over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates over which the Company has ability to exercise significant influences over operating and financial policies of the investees, are accounted for using the equity method. The consolidated financial statements consist of the Company and its twenty-five (twenty-seven in 2002) significant subsidiaries. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends differ by three months from March 31 have been included using financial information with appropriate adjustment. Investments in three affiliates are accounted for using the equity method. The difference between the cost and underlying net equity at acquisition of investments in consolidated subsidiaries and affiliates is allocated to identifiable assets based on fair market value at the date of acquisition. The unallocated portion of the differences is amortized over 5 years on a straight-line basis.

b) Translation of Foreign Currency Accounts

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date.

c) Securities

Securities other than equity investments in subsidiaries and affiliates ("others investments in securities") are measured at fair value. The difference between the fair value and the historical cost is recorded in the category of shareholder's equity, net of applicable taxes. The historical cost is determined by the moving average cost. Securities that have no market prices are stated at their historical cost.

d) Inventories

Inventories are stated principally at cost using the moving average method.

e) Property, Plant and Equipment

Property, Plant and Equipment are stated at cost. Depreciation of Property, Plant and Equipment has been provided by the declining-balance method over estimated useful lives as designated in the Japanese Income Tax Law. However, depreciation of buildings for leasing acquired after April 1, 1985, as well as the Moriya plant, the Tohoku plant, the Head and Tokyo offices, and the Kyushu plant has been provided based on the straight-line method. Also, depreciation of building newly acquired after April 1, 1998 has been provided based on the straight-line method. The estimated useful lives for the assets were as follows:

Building and structure	2-60 years
Machinery and equipment	2-45 years
Tools and furniture	2-22 years

f) Intangible assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 to 20 years.

g) Allowance for doubtful accounts

The historical credit loss rate or another appropriate basis provides the allowance for doubtful accounts against normal receivables. The allowance for doubtful accounts against doubtful receivables is estimated as the recorded receivable amount less cash inflows from foreclosures or guarantors.

h) Retirement benefit

The reserve for retirement benefits represents the estimated present value of projected benefit in excess of the fair values of the plan assets except that as permitted under the standard.

The unrecognized transition amount arising from adopting the standard of ¥17,320 million is amortized on a straight-line basis over the period of 15 years.

The unrecognized actuarial loss is amortized on a straight-line basis over the fixed years (principally 14 years) that are within the estimated average remaining service years of employees.

The unrecognized prior service cost is amortized on a straight-line basis over the fixed years (principally 7 years) that are within the estimated average remaining service years of employees.

i) Deferred charges

Expenses, which can be deferred under the Commercial Code of Japan, are charged to income as expended.

j) Cash and Cash equivalents

Cash and Cash equivalents in the consolidated statements of cash flows are composed of cash on hands, bank deposits available for withdrawn on demand and short-term investments with original maturity of three months or less and which represent a minor risk of fluctuations in value.

k) Leases

Under the Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

l) Income taxes

The tax effect of temporary differences between the financial statements and income tax basis of assets and liabilities is recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is provided for any portion of the deferred tax assets where they would not be realized.

m) Derivative financial instruments

The Company and certain subsidiaries use financial instruments to manage its exposures to fluctuations in foreign exchange and in interest rates. Foreign exchange contracts are utilized to reduce foreign exchange risks.

Interest rate swaps are utilized to reduce interest fluctuation risks.

Such derivative and financial instruments are recognized as either assets or liabilities and measured at fair value and such gains and losses are recognized in the statements of income.

n) Net income per share

Net income per share is computed on the average number of shares of common stock outstanding during each year.

Effective the year ended March 31, 2003, the Company has adopted the new accounting standard for net income per share issued by the Accounting Standards Board of Japan on September 25, 2002. The effect of this adoption is not material.

3. INVENTORIES

Inventories outstanding on March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods and merchandise	**¥33,216**	¥30,130	**$276,343**
Raw materials and supplies, others	**12,789**	14,356	**106,396**
Total	**¥46,005**	¥44,486	**$382,739**

4. PROPERTY, PLANT AND EQUIPMENT

Fixed assets outstanding on March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Land	**¥ 42,468**	¥ 42,636	**$ 353,312**
Buildings and structures	**69,199**	67,635	**575,694**
Machinery and equipment	**54,177**	54,154	**450,726**
Tools and furniture	**10,309**	10,968	**85,768**
Construction in progress	**2,814**	7,030	**23,408**
Total	**¥178,967**	¥182,424	**$1,488,908**

5. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

1) Short-term loans payable

The weighted average interest rate of short-term bank loans were 0.5% and 1.3% for the year-ended March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Short-Term Loans Payable	**¥36,591**	¥37,723	**$304,414**
2.1% yen convertible bonds due September 30,2002	**—**	29,999	**—**
Commercial paper	**12,000**	14,000	**99,834**
Total Short-Term Loans Payable	**¥48,591**	¥81,722	**$404,248**

2) Long-term debt

Long-term debt at March 31, 2003 and 2002 were summarized as follows.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
1.8% yen bonds due October 5, 2004	**¥ 5,000**	¥ 5,000	**$ 41,597**
2.0% yen bonds due October 5, 2005	**10,000**	10,000	**83,195**
1.1% yen bonds due March 12, 2007	**600**	600	**4,992**
1.1% yen bonds due May 10, 2007	**20,000**	—	**166,389**
Loans from domestic banks, insurance companies, government agencies and others	**73,637**	63,955	**612,621**
Less portion due within one year	**(7,511)**	(8,236)	**(62,485)**
Total Long-Term Debt	**¥101,726**	¥71,319	**$846,309**

The aggregate annual maturities of long-term debt excluding bonds outstanding at March 31, 2003 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥16,789	$139,677
2006	14,071	117,061
2007	15,277	127,099
2008 and after	19,989	166,299
Total	¥66,126	$550,136

6. COLLATERAL AND SECURED LIABILITY

A summary of assets pledged as collateral for liability at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Buildings and structures	**¥14,373**	¥12,066	**$119,579**
Machinery and equipment	**10,654**	6,760	**88,637**
Tools and furniture	**164**	995	**1,364**
Land	**18,089**	15,838	**150,491**
Fixed deposit	**2**	2	**16**
Investment securities	**2,920**	3,801	**24,290**
Total	**¥46,202**	¥39,462	**$384,377**

A summary of secured liability at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Short-term loans	**¥2,372**	¥ 2,262	**$19,737**
Long-term loans (current portion)	**915**	993	**7,612**
Long-term loans	**23,294**	18,971	**193,793**
Employees' saving deposit	**2,766**	2,930	**23,008**
Postage	**—**	—	**—**
Total	**¥29,347**	¥25,156	**$244,150**

7. DEFERRED TAX ASSETS AND LIABILITIES

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Retirement benefit	**¥ 3,328**	¥ 3,363	**$27,683**
Bonus payment reserve	**2,290**	1,732	**19,049**
Unrealized gain	**1,365**	1,278	**11,356**
Accrued expense	**1,022**	798	**8,506**
Depreciation	**1,157**	590	**9,626**
Accrued enterprise taxes	**488**	157	**4,064**
Loss carryforward	**1,153**	1,138	**9,595**
Other	**1,596**	1,306	**13,277**
Subtotal deferred tax assets	**12,399**	10,361	**103,156**
Valuation allowance	**(1,589)**	(1,398)	**(13,219)**
Total deferred tax assets	**10,810**	8,963	**89,937**
Deferred tax liabilities:			
Tax deductible reserve	**(3,753)**	(4,014)	**(31,224)**
Net unrealized gains on investments in securities	**(812)**	(1,280)	**(6,757)**
Other	**(56)**	(58)	**(463)**
Total deferred tax liabilities	**(4,621)**	(5,352)	**(38,444)**
Net deferred tax assets	**¥ 6,189**	¥ 3,612	**$51,493**

As "The Law to amend the local tax Laws" was enacted on March 31, 2003, the statutory tax rate applied in the calculation of deferred tax assets and deferred tax liabilities realized after the fiscal year ended March 31, 2004 will change from 42.0% to 40.4%.

8. LEASE TRANSACTION

The companies lease certain tools and furniture and other assets. Amounts of equivalent to acquisition costs, accumulated depreciation and net book value as of March 31, 2003 and 2002 concerning the finance lease assets which do not transfer ownership to lessees were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Acquisition costs	**¥30,079**	¥30,083	**$250,237**
Accumulated depreciation	**15,705**	14,687	**130,654**
Net book value	**¥14,374**	¥15,396	**$119,583**

The amounts of outstanding future lease payments at March 31, 2003 and 2002, excluding interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Within one year	**¥ 6,179**	¥ 6,262	**$ 51,409**
Over one year	**8,811**	9,971	**73,299**
Total	**¥14,990**	¥16,233	**$124,708**

Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during the year 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Lease expenses paid	**¥7,396**	¥6,501	**$61,527**
Depreciation expenses	**6,920**	6,132	**57,568**
Interest expenses	**458**	464	**3,811**

Amounts equivalent to depreciation expenses are calculated by straight-line method over the period of finance lease. Amounts equivalent to interest expenses are calculated by the interest method based on an excess of the aggregate sum of lease payments over amounts equivalent to acquisition costs.

9. RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥(133,961)**	¥(135,079)	**$(1,114,483)**
Fair value of plan assets	**62,290**	72,424	**518,223**
Unrecognized transitional obligation	**13,701**	14,847	**113,982**
Unrecognized actuarial loss	**53,217**	41,518	**442,736**
Unrecognized prior service cost	**(2,054)**	(137)	**(17,092)**
Net liability	**(6,807)**	(6,427)	**(56,634)**
Prepaid pension cost	**285**	928	**2,370**
Employees' retirement benefits	**¥ (7,092)**	¥ (7,355)	**$ (59,004)**

The components of net periodic benefit costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 3,630**	¥ 3,489	**$ 30,201**
Interest cost	**4,589**	4,827	**38,183**
Expected return on plan assets	**(3,694)**	(4,018)	**(30,732)**
Amortization of transitional obligation	**1,134**	1,155	**9,432**
Recognition of actuarial gain/loss	**3,064**	1,331	**25,487**
Additional retirement payments and others	**2**	435	**19**
Net periodic benefit costs	**¥ 8,725**	¥ 7,218	**$ 72,590**

Assumption used for the year ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Periodic recognition of projected benefit obligation	**Straight-line method**	Straight-line method
Discount rate	**3.5%**	3.5%
Expected rate of return on plan assets	**Principally 5.5%**	Principally 5.5%
Recognition period of actuarial gain/loss	**Principally 14 years**	Principally 14 years
Amortization period of transitional obligation	**15 years**	15 years
Amortization period of prior service cost	**Principally 7 years**	

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Principal selling, general and administrative expenses during the year 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Carriage and storage charges	**¥30,842**	¥30,468	**$256,587**
Sales promotion expenses	**67,049**	67,349	**557,813**
Labor cost	**37,836**	39,476	**314,774**
Employees retirement benefits cost	**5,728**	4,513	**47,657**

11. CONTINGENT LIABILITIES

1) Guaranteed Financial Obligations

The Companies were contingently liable as guarantors of bank loans and others to unconsolidated subsidiaries and affiliated companies at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Meiji Rice Delica Co., Ltd.	**¥ 5**	¥ 15	**$ 42**
MEIJI-MGC Dairy Co. Pty. Ltd.	**—**	1,383	**—**
PT. INDOMEIJI Dairy Food	**89**	99	**740**
Kanedai Ohashi Dairy Co., Ltd.	**30**	50	**250**
Hitachi Dairy Pty., Ltd.	**40**	40	**333**
Meiji Beverage Co., Ltd.	**237**	205	**1,967**
Ryukyu Delica Service Co., Ltd.	**95**	116	**792**
Total	**¥496**	¥1,907	**$4124**

2) Trade Notes Endorsed

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Trade notes endorsed	**¥—**	¥32	**$—**

12. RESEARCH AND DEVELOPMENT COST

Research and development cost which were included in manufacturing expense, selling, general and administrative expenses during the year 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Research and development cost	**¥6,910**	¥7,114	**$57,485**

13. SEGMENT INFORMATION

	Millions of yen Consolidated accounting for current fiscal year (April 1, 2002 to March 31, 2003)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
(1) Sales to customers	**¥638,414**	**¥93,954**	**¥732,368**	**¥ —**	**¥732,369**
(2) Intersegment sales	**1,963**	**38,941**	**40,904**	**(40,904)**	**—**
Total	**¥640,377**	**¥132,895**	**¥773,272**	**¥(40,904)**	**¥732,369**
Operating expenses	**627,226**	**130,474**	**757,699**	**(41,101)**	**716,600**
Operating income	**13,151**	**2,421**	**15,573**	**197**	**15,769**
Assets, depreciation, and capital expenditures					
Assets	**284,707**	**90,028**	**374,735**	**(11,382)**	**363,354**
Depreciation	**16,491**	**4,875**	**21,366**	**—**	**21,366**
Capital expenditures	**16,717**	**6,074**	**22,791**	**—**	**22,791**

	Millions of yen Consolidated accounting for current fiscal year (April 1, 2001 to March 31, 2002)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
(1) Sales to customers	¥618,221	¥95,759	¥713,980	¥ —	¥713,980
(2) Intersegment sales	5,616	32,036	37,653	(37,653)	—
Total	¥623,838	¥127,795	¥751,632	¥(37,653)	¥713,980
Operating expenses	618,504	125,259	743,763	(37,724)	706,039
Operating income	5,334	2,536	7,870	71	7,941
Assets, depreciation, and capital expenditures					
Assets	314,580	83,267	397,846	(15,866)	381,980
Depreciation	16,049	4,446	20,495	—	20,495
Capital expenditures	31,761	8,114	39,875	—	39,875

	Thousands of U.S. dollars Consolidated accounting for current fiscal year (April 1, 2002 to March 31, 2003)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
(1) Sales to customers	$5,311,272	$ 781,645	$6,092,917	$ —	$6,092,917
(2) Intersegment sales	16,327	323,969	340,296	(340,296)	—
Total	$5,327,599	$1,105,614	$6,433,213	$(340,296)	$6,092,917
Operating expenses	5,218,188	1,085,469	6,303,658	(341,932)	5,961,726
Operating income	109,411	20,145	129,555	1,636	131,191
Assets, depreciation, and capital expenditures					
Assets	2,368,609	748,989	3,117,598	(94,689)	3,022,909
Depreciation	137,197	40,556	177,753	—	177,753
Capital expenditures	139,073	50,534	189,608	—	189,608

14. SUBSEQUENT EVENTS

Establishment of a holding company

FreshNetworkSystems Co., Ltd. was founded on April 1, 2003, as a holding company of the following eight of our consolidated subsidiaries through stock transfer: Tohoku Meihan Co., Ltd., Tokyo Meihan Co., Ltd., Chubu Meihan Co., Ltd., Kanazawa Meihan Co., Ltd., Kinki Meihan Co., Ltd., Chugoku Meihan Co., Ltd., TOKYO MILK TRANSPORTATION Co., Ltd., KANTORA Co., Ltd.

Outline of FreshNetworkSystems

Company Name	FreshNetworkSystems Co., Ltd.
Head office	1-26-11, Midori, Sumida-ku, Tokyo
President & CEO	Hajime Yoshioka
Paid-in Capital	¥4,604 million
Business operation	Management and administration of subsidiaries

Report of Independent Public Accountants

THE FUJI
ACCOUNTING OFFICE

Shin-Tokyo Bldg. 3-1-633, Marunouchi 3-chome,
Chiyodaku, Tokyo, Japan 100-0005
Tel : 03-3212-6943 Fax : 03-3215-9855

To the Board of Directors and Shareholders
Meiji Dairies Corporation

We have audited the accompanying consolidated balance sheets of Meiji Dairies Corporation and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese 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 generally accepted auditing standards in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meiji Dairies Corporation and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in Japan applied on a consistent basis during the periods.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1.

The Fuji Accounting Office
Certified Public Accountants

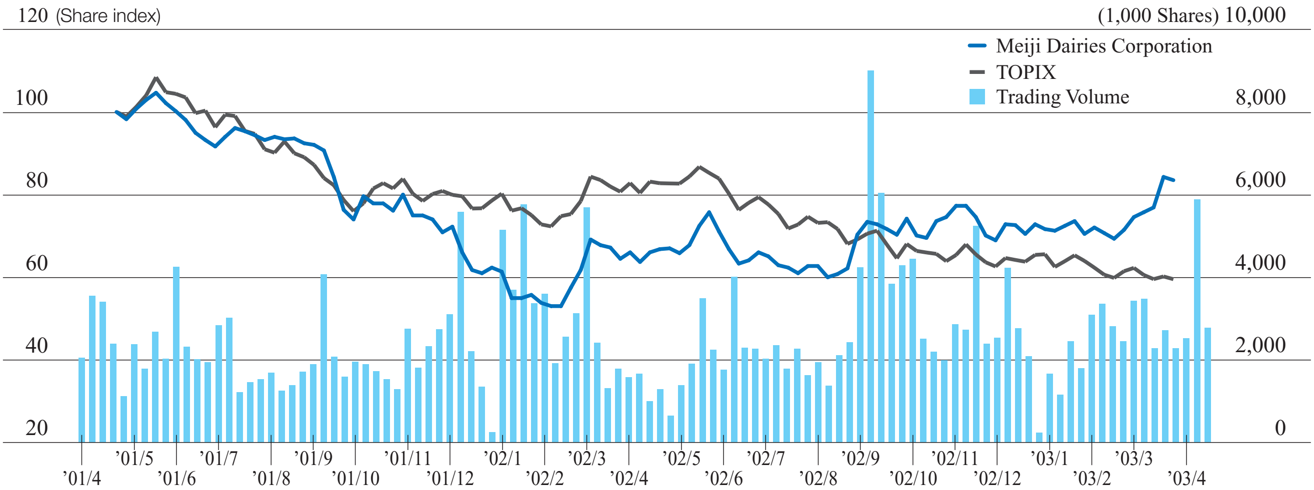
The Fuji Accounting Office

Tokyo, Japan
June 28, 2003

Corporate Directory

	Millions of yen (except for per share data)						Thousands of U.S. dollars (except for per share data)
	2003	2002	2001	2000	1999	1998	**2003**
Net sales	**¥732,369**	¥713,980	¥708,326	¥689,038	¥692,303	¥619,049	**$6,092,917**
Operating income	**15,769**	7,941	15,441	14,324	12,129	9,684	**131,191**
Net income	**4,051**	2,093	3,834	4,626	3,949	2,391	**33,701**
Depreciation expense	**21,366**	20,494	19,318	17,958	17,451	16,544	**177,753**
Total assets	**363,354**	381,980	366,894	345,435	336,423	324,229	**3,022,909**
Stockholders' equity	**82,241**	80,436	80,802	76,985	74,111	71,278	**684,204**
Per share:							
Net income	**13.56**	7.06	12.92	15.60	13.31	8.06	**0.113**
Cash dividends	**6.00**	6.00	6.00	6.00	6.00	6.00	**0.050**

• Share Performance and Trading Volume



Share price on April 2001 = 100

• Major Shareholders

Name of Shareholders	Number of Shares Held (Thousands)	Percentage of Total Shares in Issue
Mizuho Bank, Ltd.	14,581	4.92
Resona Bank, Ltd.	14,393	4.85
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,539	4.23
Nippon Life Insurance Company	11,380	3.84
Meiji Seika Kaisha, Ltd.	9,282	3.13
The Norinchukin Bank	8,085	2.73
Employees Stock Ownership Plan	7,021	2.37
The Sumitomo Trust & Banking Co., Ltd.	6,985	2.35
Japan Trustee Services Bank, Ltd. (Trust Account)	6,597	2.22
Meijinyugyou Kyoueikai	5,240	1.77
Total	96,107	32.40

(As of March 31, 2003)

• Corporate Data

Head Office (Investor Relations Office)
1-2-10, Shinsuna, Koto-ku, Tokyo
136-8908, Japan
Phone: 81 (3) 5653-0300
Fax: 81 (3) 5653-0400

Incorporated:	December 1917
Paid-in Capital:	¥23 billion
Common Stock:	
Authorized:	560,000,000
Issued:	296,648,786
Number of Shareholders:	38,379
Stock Listings:	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
General Meeting of Shareholders:	June 27, 2003
Transfer Agent of Common Stock:	The Mitsubishi Trust and Banking Corporation
URL:	http://www.meinyu.co.jp/

(As of March 31, 2003)

• Board of Directors and Auditors

Chairman
Hisashi Nakayama

President & CEO
Shigetaro Asano

Senior Managing Directors
Takehiko Tsurumaru
Kaname Tanaka

Managing Directors
Shigeo Saito
Takeaki Ohta
Tamotsu Kuwata
Shonosuke Iwakura
Tsuyoshi Nagata
Koichi Yoshioka

Directors
Hajime Yoshioka
Yoshio Taguchi
Kunitoshi Oda
Hiroshi Watanabe
Tetsuo Hayashi
Tsutomu Akimoto
Nobuyuki Okamoto
Tadashi Matsuzawa
Masahide Nishi
Kazuhiro Minemoto
Shouichi Ihara
Norio Shigenari
Yoshio Baba
Hiromi Tsukanishi
Naoki Kato

Standing Auditors
Toshio Ema
Hiroshi Yorifuji
Masahide Kano

Auditors
Hiroaki Yoshida

(As of June 27, 2003)

• Group Companies

	Shareholding (%)	Capital (Millions of yen)
Manufacturing and sales of milk, dairy products, ice cream and other foods		
Meiji Oils and Fats Co., Ltd.	100.00	38
Nihon kanzume, Co., Ltd.	63.50	314
Osaka Hosho Milk Products Co., Ltd.	100.00	473
Shikoku Meiji Dairy Products Co., Ltd.	100.00	480
Nihon Burugaery Co., Ltd.	100.00	44
Okinawa Meiji Milk Products Co., Ltd.	50.00	91
Tokyo Seafoods Ltd.	40.00	80
Pampy Foods Incorporation	30.30	99
Sales of milk, dairy products, ice cream, etc.		
Tokyo Meihan Co., Ltd.	100.00	2,285
Chubu Meihan Co., Ltd.	99.99	379
Kinki Meihan Co., Ltd.	100.00	490
Kyushu Meinyu Hanbai Co., Ltd.	100.00	400
Tokyo Meiji Foods Co., Ltd.	100.00	480
Tohoku Meihan Co., Ltd.	100.00	400
Chugoku Meihan Co., Ltd.	100.00	490
Niigata Meihan Co., Ltd.	100.00	60
Kanazawa Meihan Co., Ltd.	100.00	65
Hokkaido Meihan Co., Ltd.	100.00	90

	Shareholding (%)	Capital (Millions of yen)
Livestock business		
Asahi Broiler Co., Ltd.	70.00	150
Meiji Agris Co., Ltd.	100.00	250
Meiji Kenko Ham Co., Ltd.	88.07	100
Feed business		
Meiji Feed Co., Ltd.	100.00	480
Distribution service		
Tokyo Milk Transportation Co., Ltd.	100.00	98
Kantora Logistics Co., Ltd.	84.92	396
K.C.S. Co., Ltd.	100.00	480
Others		
Ohkura Pharmaceutical Co., Ltd.	100.00	42
Meiji Techno-Service Inc.	100.00	30
Nice Day Co., Ltd.	100.00	25

(As of March 31, 2003)

1-2-10, Shinsuna, Koto-ku, Tokyo 136-8908 Japan
Phone: 81 (3) 5653-0300
URL: http://www.meinyu.co.jp/