Meiji Dairies Corporation

Meiji Dairies Corporation

ANNUAL REPORT 2005

For the Year Ended March 31, 2005

Continuing to Offer Proposals for New Food Products

Meiji Dairies Corporation, which in 1950 was the first Japanese company to begin industrial production of yogurt, and in 1971 released Japan's first plain yogurt, is a pioneer of yogurt lactobacillus research, with a history of over 50 years. The custom of eating sugarless plain yogurt, which is now firmly entrenched in Japanese food culture, also began as an offering of new value for food by Meiji Dairies Corporation, which sought to balance delicious tasting and healthy food.

Because of our desire to support our customers' health through their daily diet, we believe in producing natural products that people can eat every day without growing tired of them, rather than products that may just taste great with the first bite. At the same time, since our products can be eaten every day, we believe that we cannot be too cautious regarding the inspection of safety and functions.

From now on, we will continue to uphold our customers' peace of mind and confidence in seeking new food frontiers, and we will continue to propose new foods, while keeping an eye on what should be preserved as well as what should be taken a step further.


MEIJI
明治
ブルガリア
ヨーグルトの正統

Corporate Philosophy

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

Profile

Meiji Dairies Corporation is Japan's largest manufacturer of dairy products. In addition to milk, our lineup has grown to include yogurts, cheeses, ice creams, and other dairy items, as well as a variety of nutraceutical and health foods. We distinguish ourselves through our knowledge and technological expertise related to food and health. We place top strategic priority on providing value-added products, services, and information that are unparalleled in terms of delicious taste, safety, and health. By honing our competitive edge in these ways, we will seek to earn the strong support of all stakeholders, including our customers, society, and investors. In the process, we will strive to further solidify the Meiji Dairies brand and maximize our corporate value.

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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 August 2005.

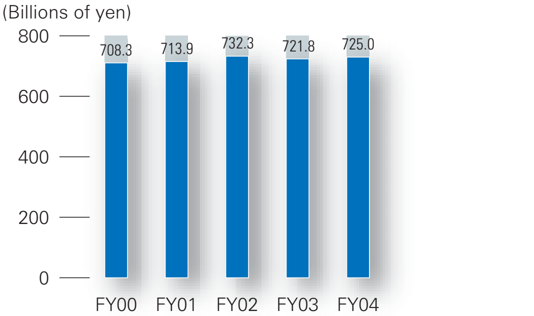
FINANCIAL HIGHLIGHTS

Meiji Dairies Corporation and Consolidated Subsidiaries

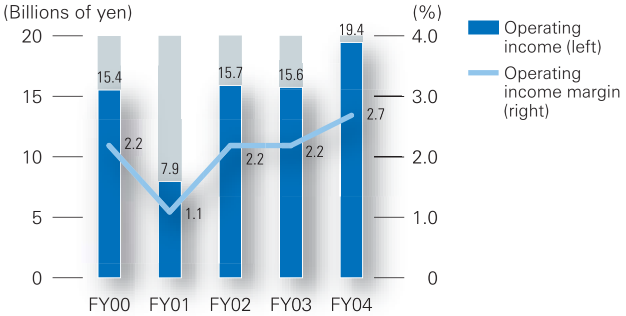
	Millions of yen (Unless otherwise noted)			Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
	FY2002 2002.4.1~2003.3.31	FY2003 2003.4.1~2004.3.31	FY2004 2004.4.1~2005.3.31	FY2004 2004.4.1~2005.3.31
For the fiscal year:				
Net sales	¥732,369	¥721,833	**¥725,024**	**$6,751,320**
Cost of sales	528,997	524,253	**522,970**	**4,869,828**
Selling, general and administrative (SG&A) expenses	187,603	181,899	**182,637**	**1,700,695**
Operating income	15,769	15,681	**19,415**	**180,797**
Ordinary income (Note 3)	14,602	15,747	**19,081**	**177,687**
Net income	4,051	7,950	**9,722**	**90,538**
At fiscal year-end:				
Total assets	¥363,354	¥364,958	**¥357,592**	**$3,329,853**
Shareholders' equity	82,241	91,892	**100,026**	**931,435**
Interest-bearing debt (Note 4)	150,317	142,352	**128,093**	**1,192,789**
Per share data (Yen, U.S. dollars):				
Net income (Note 5)	¥ 13.56	¥ 26.74	**¥ 32.73**	**$ 0.305**
Shareholders' equity	277.55	310.23	**337.86**	**3.146**
Cash dividends	6.00	6.00	**6.00**	**0.056**
Ratios:				
Return on equity (ROE)(%) (Note 6)	5.0	9.1	**10.1**	**—**
Return on assets (ROA)(%) (Note 7)	1.1	2.2	**2.7**	**—**
Debt-equity ratio (times) (Note 8)	1.8	1.5	**1.3**	**—**
Other information:				
Number of employees	7,754	7,482	**7,370**	**—**

Notes: 1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 107.39, the exchange rate prevailing on March 31, 2005.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Interest-bearing debt = Short-term loans payable + Long-term debt
5. Net income per share for the year ended March 2003 and onwards is calculated in accordance with a new accounting standard that came into effect from April 1, 2002.
6. ROE = Net income/Simple average of shareholders' equity at the beginning and end of the fiscal year
7. ROA = Net income/Simple average of total assets at the beginning and end of the fiscal year
8. Debt-Equity Ratio = Interest-bearing debt/Shareholders' equity

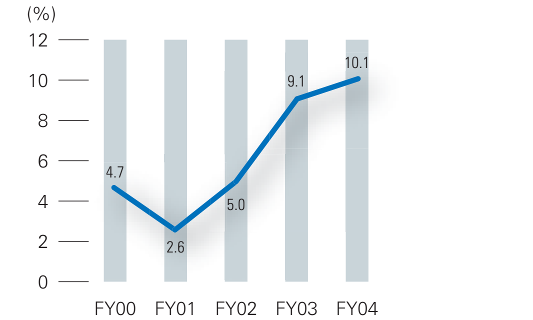
Net Sales



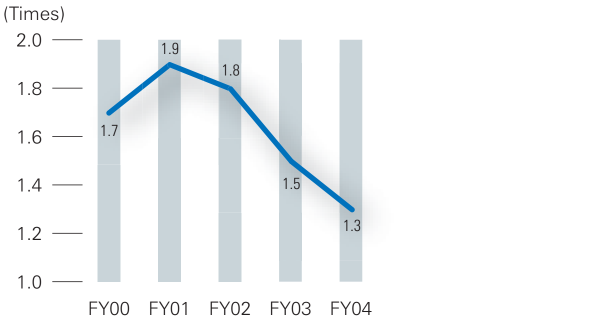
Operating Income and Operating Income Margin



ROE



Debt-Equity Ratio



MEIJI DAIRIES GROUP SNAPSHOT

Achieving record-high results in both consolidated and non-consolidated profits

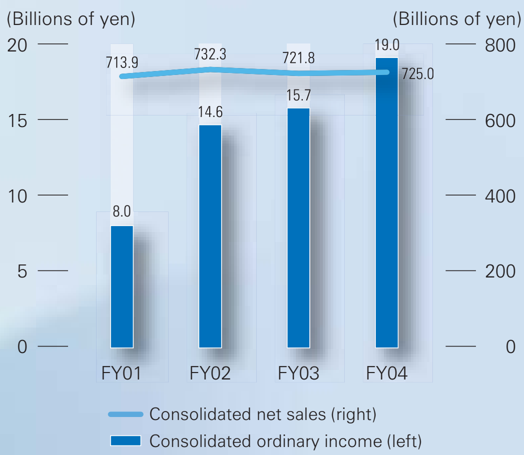
Under our medium-term management plan for FY2003 to FY2005, which adopts a “selection and concentration” strategy, we have been steadily implementing a concentration of management resources into products that can provide the value of “food that only Meiji Dairies can offer”—distinctive in terms of taste and function—to earn further customer confidence, and improving and expanding our management base toward future growth by strengthening our financial foundation and enhancing overall business efficiency. As a result, in FY2004, we extended our record-high consolidated and non-consolidated profits.

Results are steadily being reflected in performance

In a business environment where both domestic consumption and the dairy products market have experienced low growth, Meiji Dairies has placed top priority on improving profitability, expanding sales of new products that meet customer needs, and thoroughly promoting a reduction in operating costs. The success of Meiji Oishii Gyunyu, which has topped ¥40.0 billion in sales in only three years since it was released nationwide in 2002 and which continues to hold the leading share of the market, is one conspicuous example of the efforts of Meiji Dairies bearing fruit as a leading innovative company, from product development to marketing as well as all the processes that go into creating a new product.

As a result, our top-line revenue has remained mostly unchanged in the past three years, while consolidated ordinary income has jumped 2.4-fold during that period.

Our Performance Over the Past Four Years



Three Performance Drivers

Driver 1: Concentration on High-Value-Added Products

Meiji Oishii Gyunyu, which is made using our original manufacturing method that recreates the fresh taste of milk from the farm, enjoys overwhelming support at stores despite its high price. From such mainstay products to highly functional foods, we offer a rich lineup that also includes our yogurts, which hold by far the leading share of the domestic market. Meiji Dairies accurately grasps the needs of our customers, who demand delicious tasting and healthy foods, and we are accelerating our concentration on high-value-added products, namely highly profitable "core products."

* Core products: Meiji Oishii Gyunyu and other brand milks, Meiji Bulgaria Yogurt series, Meiji Probio Yogurt LG21, home delivery products, Meiji Hokkaido Tokachi cheeses, VAAM, etc.

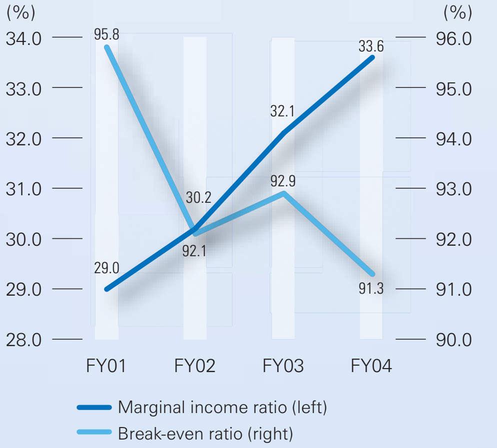
Percentage of Core Products to Net Sales (non-consolidated)

Driver 2: Management Efficiency

As a result of reviewing our product mix and concentrating sales promotion investment in core products, our reduction in variable costs exceeded reduced revenue. Over the two years starting in FY2003, we achieved a roughly 3.4% decrease in our marginal income ratio and a roughly 0.8% decrease in our break-even ratio.

We also achieved an extension of expiration dates of Meiji Oishii Gyunyu and other drinks through a hygienic management of cleaning and disinfection, from the factory production line to the package. In this and other ways, innovation in our management mechanisms as a whole is bearing fruit.

Marginal Income Ratio and Break-Even Ratio (non-consolidated)

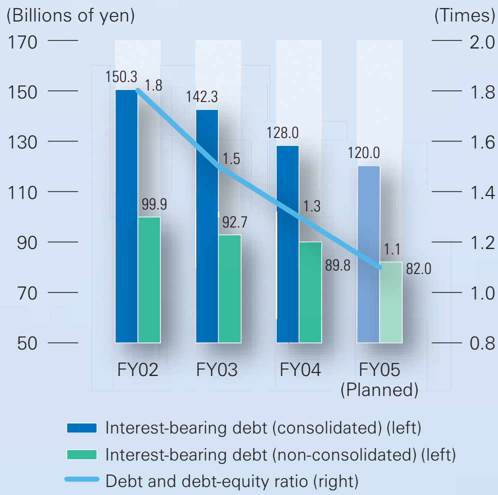


Driver 3: Improvement of Balance Sheet Structure

To realize increased corporate value through sustainable growth, it is important to shift our financial position toward a cost structure capable of producing stable profits, in addition to pouring energies into core products and increasing management efficiency.

As a result of promoting a continual reduction of debt from FY2002 onward, we achieved our end-of-FY2005 consolidated interest-bearing debt reduction target (¥130.0 billion) one year early, actually reducing it to ¥128.0 billion by the end of FY2004. Going forward, we will advance reductions further, using as a resource the free cash flow brought about by expanded sales of core products.

Interest-Bearing Debt and Debt-Equity Ratio



TO OUR SHAREHOLDERS AND CUSTOMERS

President and Chief Executive Officer
Shigetaro Asano

Guided by our medium-term management plan, we have made steady progress in terms of transforming ourselves into a highly profitable organization and improving our financial position. In fiscal 2005, ending March 2006, we will target further progress in these areas while stepping up research and developing applications for our original technologies. In these ways, we will prepare the groundwork to make great strides in fiscal 2006 and beyond.

FISCAL 2004 IN REVIEW

Personal Consumption Still Languishing

In fiscal 2004, the Japanese economy appeared to lose some steam despite maintaining an overall recovery trend. Inventory adjustments by companies in high-tech industries caused exports and capital spending to slow. The operating environment was further exacerbated by soaring raw materials prices. While there was some improvement in the employment situation, it had limited trickle-down effect on personal income. Moreover, deflation, low birthrates, and the aging of society continued, underscoring another year of challenges for the dairy products industry.

More Record——High Profits under Difficult Conditions

Although net sales languished under these conditions, the Meiji Dairies Group successfully implemented the core strategies of its current medium-term management plan, which focuses on improving its business structure. As a result, we again achieved record-high levels for all profit indicators.

Consolidated net sales for the year totaled ¥725.0 billion, edging up 0.4% from the previous fiscal period. Mainstay products, such as the Meiji Oishii Gyunyu and Meiji Bulgaria Yogurt line, again performed well, and extremely hot summer weather helped boost demand for our beverages and ice creams. These factors together compensated for inconsistent sales of butter and cheese.

We reported solid growth in operating income, which jumped 23.8%, to ¥19.4 billion. For the parent company, a decline in sales volume had a negative impact on earnings, which were also affected by increased costs associated with advertising and promotions, investment in systems, and a reinforcement of quality control standards. However, these factors were outweighed by a number of positive elements. For example, we improved our product mix and reformed our pension system, which led to lower retirement benefit costs. In addition, other members of the Group posted higher net sales and rationalized their operations. As a result, ordinary income rose 21.2%, to ¥19.0 billon, and net income climbed 22.3%, to ¥9.7 billion. ROE grew 1 percentage point, to 10.1%, finally reaching double digits.

Medium-Term Plan: Steady Improvement of Business Structure

A review of the first two years of the medium-term management plan, covering the three-year period to March 2006 shows that progressive deflation, intensified market competition, and other factors caused revenue to fall below our initial predictions. However, we were successful in terms of earnings, which showed solid improvement. We attribute this success to the various measures we took to achieve sustained growth after the plan's completion. Such measures, which focused on improving our business foundation, included enhancing our profitability and financial soundness.

For example, the share in net sales occupied by core products, which offer relatively high added value and profit margins, was 61% in fiscal 2002. We raised this share to 66% in fiscal 2003 and 68% in fiscal 2004.

Sales of Meiji Oishii Gyunyu, our core milk brand, rose 19% in fiscal 2004, surpassing the ¥40.0 billion mark. The Meiji Bulgaria Yogurt line and home delivery products also performed well.

We also actively launched new, high-value-added products incorporating our original technologies. Notable among these are Meiji Bulgaria Yogurt LB81 Domashuno,*[1] made using a new patented technology called the "Maroyaka Tannen Fermentation Method."*[2] Another is Meiji Hohoemi powered milk, the culmination of many years of research into infant nutrition combined with the latest technologies.

*1 "Domashuno" means home-made in Bulgarian.

*2 "Maroyaka Tannen Fermentation Method" means low dissolved oxygen & low temperature in Japanese.

We are making considerable progress in improving our financial position. Under our medium-term plan, we have sought to reduce consolidated interest-bearing debt to below ¥130.0 billion by March 2006. The figure at fiscal year-end totaled ¥128.0 billion, meaning that we reached our target one year ahead of schedule. Also, our debt-equity ratio, which stood at 1.8 times as of March 2003, has fallen to 1.3 times in just two years, underscoring a much improved financial situation.

During the year, we actively pursued Group management policies, which included streamlining and raising the efficiency of subsidiaries. As a result, the gap between consolidated and non-consolidated net sales and ordinary income expanded to 8% and 57%, respectively.

This progress in the Group's financial position is reflected in our marginal income ratio and break-even ratio. The marginal income ratio rose from 30.2% in fiscal 2002 to 33.6% in fiscal 2004. Over the same period, the break-even ratio declined from 92.1% to 91.3%.

FISCAL 2005 AND BEYOND: ISSUES, PLANS, AND FORECASTS

Tasks for the Final Year of Our Management Plan

The results described above are just that—results. However, my job as CEO is to be strongly mindful of the issues that remain and to take measures to address such issues. For example, although we have made good progress in improving our overall product mix, there are still a few core products that have not achieved the growth levels that we had envisaged. We also recognize that a decline in retirement benefit costs, a one-off event, was a factor contributing to our record-high earnings figures. Over the medium and long terms, we will concentrate on structural issues that affect our business, such as low birthrates, the aging population, stiff competition, and rising raw materials prices. Without relaxing our own reforms, we will take a number of proactive measures in fiscal 2005 and thereafter.

First, we will concentrate more resources on core businesses and focus on expanding sales of high-value-added products. Our plan is to raise the share of core products in net sales to 70%. Also, we will further strengthen our technological and product development capabilities, which represent a major factor distinguishing the Group from its competitors. In particular, we will step up basic and applied research into technologies related to fermentation, probiotics, infant nutrition, and emulsification technologies.

As we strive to enhance our financial position, we will aim to reduce interest-bearing debt by a further ¥8.0 billion during fiscal 2005, while also lowering the debt-equity ratio to 1.1.

In the year ahead, we will expedite our Group management strategy. We will introduce a new sales and distribution system and work to raise the efficiency of ordering, inventory management, distribution, and other processes. At the same time, we will endeavor to lower costs via centralized procurement of vehicles, fuel, and other items for the entire Group. In the livestock business, we will establish a framework conducive to stable improvements in profits. This will entail downsizing unprofitable businesses, upgrading production equipment, and developing new products.

Under our strategy of carrying out across-the-board structural reforms, we are building a new Kansai Plant to supply products to customers in the Kansai region and elsewhere in western Japan. The plant is scheduled to come on stream during fiscal 2005, and we expect productivity to increase as a result.

We will continue fortifying our product safety management system and rigorously pursuing compliance-related management. To this end, we will strengthen Groupwide initiatives, spearheaded by such dedicated bodies as the Food Safety Committee, Risk & Compliance Committee, and Information Security Committee.

In addition to the aforementioned activities, we will seek to raise the value of our corporate brand by strengthening communications. This will be crucial to ensuring that our customers and other stakeholders gain a deeper understanding of Meiji Dairies Group. To this end, in April 2005 we began sponsoring television programs focusing on food and food ingredients. We will also upgrade our website, through which we explain the Group's business, describe the results of its R&D, and introduce initiatives to ensure food safety and peace of mind. We also believe it is important that all Group employees remain aware of Meiji Dairies' distinguishing features and translate those features into tangible business results. Through in-house educational videos and training programs, we will strive to ensure that our corporate brand concepts are understood and practiced by the entire Group.

Fiscal 2005 Forecasts

In fiscal 2005, ending March 2006, we forecast consolidated net sales of ¥720.0 billion and ordinary income of ¥21.0 billion. These figures are lower than the targets outlined in our management plan of ¥760.0 billion and ¥23.0 billon, respectively. Our forecast revision stems from a number of factors, including unabated deflation, sharp increases in overseas milk raw materials costs, and surging crude oil prices, which push up our packaging costs. Our corporate strengths alone cannot compensate for these factors. Nevertheless, the ordinary income forecast is for 10.1% growth over the fiscal 2004 result. Even in this difficult business environment, we intend to achieve sustained growth through steady improvements to our business foundation.

Financial Target for FY2005 (Billions of yen)

	(Full fiscal year)			
	Mid-term plan target	FY2005 (Planned)	FY2004 (Actual)	Change (%)
Consolidated				
Net sales	760.0	720.0	725.0	▲ 0.7
Operating income	—	21.0	19.4	+8.2
Ordinary income	23.0	21.0	19.0	+10.1
Net income	—	9.8	9.7	+0.8
Non-consolidated				
Net sales	550.0	494.0	493.8	+0.0
Operating income	—	16.5	14.5	+13.6
Ordinary income	20.0	16.5	14.1	+16.7
Net income	—	6.3	6.2	+0.2

Targeting Long-Term Growth after the Current Plan

During fiscal 2005, we will formulate our next management plan, covering the three-year period to March 2009. Under our current plan, we enhanced our business structure by adopting a "selection and concentration" strategy. We will build on this success with our new plan, which will provide a roadmap for future growth with "selection and growth" as the keywords. At the heart of this plan will be our effort to deliver high-value-added products that create new markets, by complementing the value and potential of dairy products with our own technological and product development strengths. Therein lies the wellspring for sustained growth of the Group.

We at the Meiji Dairies Group will continue targeting steadfast, step-by-step progress. In these endeavors, we look forward to your understanding and support.

August 2005

Shigetaro Asano
President and Chief Executive Officer

SPECIAL FEATURE:

DISTINCTIVE TECHNOLOGIES TO SUPPORT LONG-TERM GROWTH

Meiji Dairies Group is committed to making increasing numbers of people happy by providing them with delicious tasting and healthy food. How successfully we fulfill this commitment will determine the extent and sustainability of our growth in the future. Key to this endeavor are our unique technologies and abilities, and our R&D system where these technologies are created. These strengths together constitute the basis for creating new levels of value in food that only Meiji Dairies can offer. Our distinctive technologies and our R&D system are the subjects of this Special Feature.

SPECIAL FEATURE

DISTINCTIVE TECHNOLOGIES TO SUPPORT LONG-TERM GROWTH

1. R&D SYSTEM AND POLICIES

Dairy Centered R&D: Teamwork among Three Specialized Research Facilities

Meiji Dairies' R&D organization consists of the Research Planning Department and three research facilities, each with their own specialization and capabilities. The Research Planning Department is responsible for R&D planning and intellectual property management. The three facilities are the Research & Development Center, which develops new products; the Food Functionality Science Institute, which conducts basic research into food nutrition and function; and the Technology Development Institute, which develops production technologies and conducts quality analysis and other research aimed at enhancing food safety. Through interaction among the Research Planning Department and the research facilities, we pursue wide-ranging and efficient R&D initiatives unified on the principle of continuously developing innovative food concepts that fully realize the potential of dairy ingredients by providing delicious taste and functional value. This is Meiji Dairies' basic R&D strategy.

For example, over many years we have accumulated a wealth of technological expertise related to fermentation, probiotics,*1 infant nutrition, and emulsification, and continue to develop further applications for these technologies. Below is a description of our lactobacillus research, which underpins our technological expertise in fermentation and probiotics and also represents the core strength of Meiji Dairies.

*1 Probiotics are live microorganisms (or foods or fungus compounds containing such live microorganisms) that provide favorable health benefits when ingested by humans or animals.

2. OUR LACTOBACILLUS RESEARCH

Taste and Health Benefits of Lactobacillus

Lactobacillus are bacteria that break down glucose, lactose, and other sugars (carbohydrates) to make lactic acid, which is part of the process of generating energy for human growth and development. More than 2,000 types of lactobacillus have been identified. Lactobacillus have a close relationship with food and contribute to the taste and function of food at each stage of the fermentation process. Moreover, lactobacillus foster the growth of good (beneficial) bacteria in the human intestinal tract, thus improving the balance between good and bad bacteria. Recently, it has become increasingly clear that lactobacillus help boost the immune system, lower the risk of cancer, improve resistance to pollen allergies, and reduce cholesterol and blood pressure levels.

Lactobacillus Research and Business Strength: Our Large Lactobacillus Library and Research into both Function and Taste

The domestic market for yogurt and other fermented milk products has grown from around ¥200.0 billion to about ¥300.0 billion over the past 10 years (according to manufacturers' shipment figures). While the overall market has leveled off in the past few years following the yogurt boom of fiscal 2002, our yogurt business has continued to grow. In fiscal 2004, we maintained our leading position in the industry, with a market share of around 30%.

Meiji Dairies has an extensive lactobacillus library, which forms the basis of our research to improve food taste and function. This library is one factor supporting our dominant market position. We were faster than our competitors to realize the health benefits of lactobacillus, and moved quickly to collect and manage our own lactobacillus library. Consisting of more than 2,500 strains, our library is among the largest in the world. This enables us to select the ideal strain for each specific product development purpose—a key factor distinguishing Meiji Dairies from its competitors.

In addition to providing functional, health-related benefits, lactobacillus are also a major determinant of taste. With this in mind, we have sought to improve the appeal of our products through research aimed at maximizing both the health and taste advantages of lactobacillus. For example, the Food Functionality Science Institute conducts research on the role of lactobacillus in improving intestinal tract function, while the Research & Development Center undertakes research aimed at using lactobacillus to create delicious products.

Another strength of Meiji Dairies is its international research network. As part of this research network, we have a particularly strong relationship with research institutes in Bulgaria, allowing us to quickly access and learn about lactobacillus collected in that nation.

We are employing the fruits of our research to develop new product applications, where we have a solid competitive advantage. With such a diversified product range, we are able to apply the results of our research to the development of products apart from yogurt and lactobacillus-based beverages. In addition to sales at retailers, we can also take advantage of our home delivery business, where we have the largest number of subscribers in the industry.

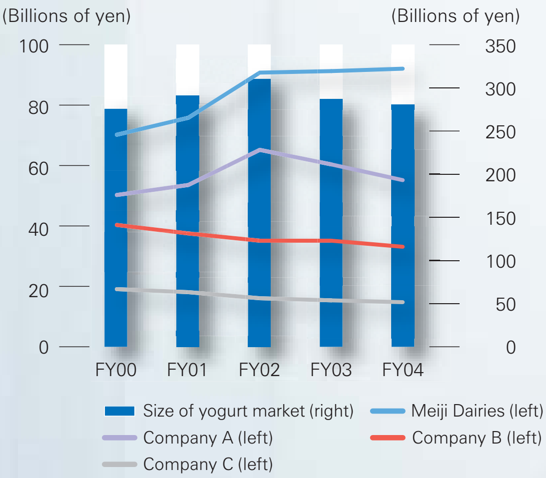
Meiji Dairies and Lactobacillus: More than 50 Years of Success

Meiji Dairies has conducted a wealth of research into fermented milk production technologies from a wide range of perspectives. We have used the results of this research to develop various yogurt-related products.

In 1950, we became the first Japanese company to start industrial production of yogurt when we launched Meiji Honey Yogurt. In 1964, we developed the world's first continuous fermentation machine, enabling us to ensure consistent quality in our fermented milk products. The 1970s saw a major surge in research related to intestinal bacteriology. In 1971, we released Japan's first plain yogurt, which we renamed Meiji Bulgaria Yogurt in 1973. Since then, we have upgraded the functional benefits of this product on two occasions. In 1984, we unveiled Meiji Bulgaria Yogurt LB51, containing the lactobacillus bulgaricus (LB51) strain. After further research into intestinal tract function, in 1993 we adopted a new strain, called LB81, and released Meiji Bulgaria Yogurt LB81. In 1996, that product was the first plain yogurt to receive government FOSHU*[2] approval.

In the meantime, our research has continued unabated. In 2000, we launched Meiji Probio Yogurt LG21, incorporating probiotic technology. This was followed by BGS (bifidogenic growth

Trends in Yogurt Market Size and Sales by Major Producers



Meiji Dairies' Lactobacillus Research Highlights

Japanese "Firsts" by Meiji Dairies

1950: Industrial production of yogurt

1971: Launch of plain yogurt (renamed Meiji Bulgaria Yogurt in 1973)

1996: Meiji Bulgaria Yogurt LB81 becomes the first plain yogurt to receive Japanese government FOSHU approval

2000: Meiji Probio Yogurt LG21 launched

stimulator) in 2001 and Meiji Onaka Katsuryoku Milk in 2004. Both of these products are FOSHU-approved foods and are highly effective in promoting the growth of bifidobactera, which are beneficial bacteria, thanks to the action of an ingredient called Profec,*[3] developed in-house by Meiji Dairies.

We have also spearheaded proactive research into production methods aimed at enhancing food flavor and texture. With respect to fermentation methods, in addition to temperature and time adjustments, we have achieved good success in fine-tuning the amount of dissolved oxygen contained in yogurt mix prior to fermentation—resulting in a smoother taste and texture than ever before. We call this patented technology, the "Maroyaka Tannen Fermentation Method"*[4] and incorporated it into the production of Meiji Bulgaria Yogurt LB81 Domashuno,*[5] launched in 2004. In March 2005, we unveiled a new product, called Tialence, which incorporates new original production method that delivers a full-bodied texture and pleasant aftertaste.

*2 FOSHU ("foods for specified health use") is a Japanese government functional food certification.
*3 Profec is a fermented whey product created using special propionic acid bacteria. Such bacteria are used when making traditional Swiss emmental cheese.
*4 "Maroyaka Tannnen Fermentation Method" means low dissolved oxygen and low temperature in Japanese.
*5 "Domashuno" means home-made in Bulgarian.

Our Lactobacillus Business: Growth Potential and Direction of Research

Consumption of yogurt in Japan remains low compared with Europe and North America, leaving ample room for market expansion. With this in mind, we will allocate more business resources to lactobacillus research, which is a core strength of Meiji Dairies.

One important research theme will be to develop more products using lactobacillus probiotics, which are beneficial to human health. Lactobacillus are expected to prove effective in preventing and alleviating disease and thus lowering dependence on antibiotics and other drugs. Especially in Japan, given its aging population, we anticipate solid market growth for products effective in preventing bacterial infections arising from aging and poor nutrition; lifestyle-related diseases, such as high blood pressure, diabetes, and high cholesterol; and hay fever and other allergies.

In the area of disease prevention, we have already started to identify the effectiveness of Profec in correcting imbalances within the intestinal environment. From our lactobacillus library, we have also found strains that prevent infectious diseases by boosting the immune system and others that correct cellular imbalance, a common cause of allergies.

In addition to improving our yogurt and other fermented milk products, we will apply the results of our probiotics research to the development of products that will attract growing demand due to Japan's aging society. This is the essence of Meiji Dairies' R&D strategy.

Types of Lactobacillus According to Our Product

Types of Lactobacillus	Major Products	Features
LB81	Meiji Bulgaria Yogurt LB81 Meiji Bulgaria Yogurt LB81 Domashuno Meiji Bulgaria Drink Yogurt LB81 Plain	FOSHU certified Traditional taste Market share of more than 45%
Mild Starter	Soft yogurt with fruit Tialence	Maximizing fruity flavor, with less sour taste
Hard Starter	Tokachi Yogurt Hard yogurt "Aijo"	Less aftertaste; good flavor release
LG21	Meiji Probio Yogurt LG21	No. 1 share among probiotic products

REVIEW OF OPERATIONS

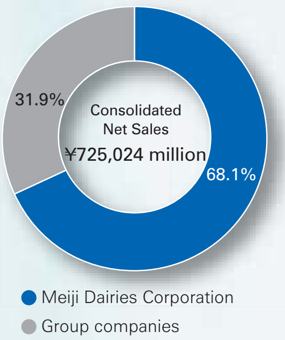
(NON-CONSOLIDATED)

In this section, we discuss in-depth business results and business strategies of each operating segment of Meiji Dairies Corporation, the parent company of the Meiji Dairies Group. We focus on the parent company because it accounts for a high share of consolidated revenue and earnings (68.1% of net sales and 74.8% of operating income in fiscal 2004). By doing so, we hope to deepen understanding of the Meiji Dairies Group's operations among all stakeholders.

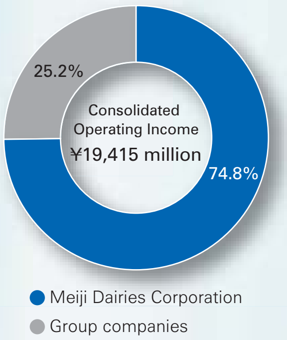
In fiscal 2004, net sales of the parent company amounted to ¥493.8 billion, down 1.0% from fiscal 2003. During the year, we pursued a strategy focusing on improving our product mix, with an emphasis on profitability over quantity. Partly due to this strategy, sales of city milk remained mostly unchanged, while sales of processed milk products and other products fell below previous-year levels. Owing to an extremely hot summer, however, sales of ice cream increased year-on-year.

In fiscal 2005, we continue our efforts to increase profitability. We concentrate management resources on our mainstay products, thereby expanding sales of existing high-value-added products including Meiji Oishii Gyunyu, and gaining the steady market acceptance of newly-launched products.

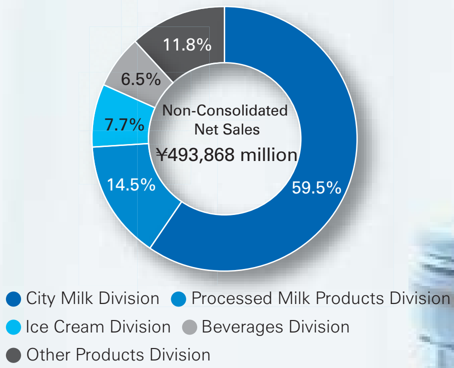
Breakdown of Consolidated Net Sales (Fiscal 2004)



Breakdown of Consolidated Operating Income (Fiscal 2004)



Non-Consolidated Net Sales by Division (Fiscal 2004)



Non-consolidated Projected Net Sales by Division and Product

(Billions of yen)

	FY2005	Change (%)
City milk	298.7	101.6
Drinking milk	132.2	100.1
Yogurt	96.1	104.6
Others	70.4	100.9
Processed milk products	69.8	97.9
Powdered milk	32.5	97.9
Condensed milk	1.0	90.9
Butter	14.5	100.0
Cheese	21.7	96.9
Ice cream	37.5	98.7
Beverages	31.3	97.5
Other products	56.5	96.9
Total	494.0	100.0

Note: In fiscal 2005, the Corporation will change its accounting method for butter and cheese (part of the "Processed milk" segment) and margarine ("Other products" segment). Under the change, amounts effectively discounted from the price, previously reported as part of selling, general and administrative expenses, will be reported as a direct deduction from net sales. The combined decline in sales of these three items is expected to be around ¥3.0 billion in fiscal 2005.

City Milk Continuous Focus on Original Products with High Added Value and Profitability

FISCAL 2004 RESULTS

Sales in this segment amounted to ¥294.0 billion, up 0.8% from the previous year.

Sales of milk, processed milk, and milk beverages edged down 0.9%, to ¥132.1 billion, as the Corporation continued eliminating unprofitable products. However, sales of mainstay Meiji Oishii Gyunyu exceeded our forecast, jumping 19%, to ¥40.5 billion. This was due to increased demand for this brand in 1,000ml and 500ml paper cartons, as well as expansion of our lineup to include smaller 200ml cartons and the inclusion of this brand in our home delivery offerings. Meiji Oishii Gyunyu and other brand milks accounted for 63% of all milk sold in 1,000ml and 500ml paper cartons in fiscal 2004, up from 59% in fiscal 2003. Thanks to our shift to high-value-added, highly profitable products, the 0.9% decline in sales was not as large as the 2.7% fall in sales volume (in terms of kiloliters).

Sales of yogurt rose 1.3%, to ¥91.9 billion, despite ongoing weakness in the overall market. Within this total, sales of our core Meiji Bulgaria Yogurt series grew 6%, to ¥61.5 billion, owing to healthy demand for mainstay Meiji Bulgaria Yogurt LB81 and the contribution of new products. These included Meiji Bulgaria Yogurt LB81 Domashuno (launched in June 2004), which incorporates our patented "Maroyaka Tannen Fermentation Method." By contrast, sales of Meiji Probio Yogurt LG21 fell 10%, to ¥22.5 billion.

Sales in the "others" category rose 3.4%, to ¥69.8 billion, thanks largely to favorable sales of puddings and other dessert items.

In home delivery services, sales grew 2%, to ¥47.0 billion in fiscal 2004. And the number of home delivery service subscribers rose to 2.82 million as of the end of November 2004. This category benefited from the launch of Meiji Oishii Gyunyu in 200ml bottles in August 2004, as well as the introduction of new lightweight coated bottles in September 2004.

Meiji Oishii Gyunyu

Reflecting our obsession with taste, Meiji Oishii Gyunyu is made using our original patented Natural Taste Manufacturing Method, which minimizes oxidation of the milk's components, resulting in a smooth, rich flavor and aroma and a fresh aftertaste.

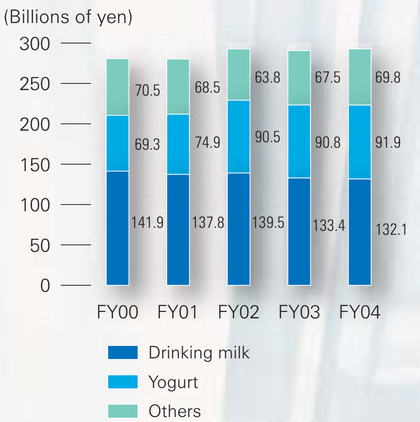
FISCAL 2005 STRATEGIES AND OUTLOOK

In fiscal 2005, we will adhere to our medium-term management plan, which emphasizes profitability. Specifically, we will focus on expanding sales of high-value-added, profitable items. Based on this strategy, we forecast a 1.6% rise in sales of city milk, to ¥298.7 billion.

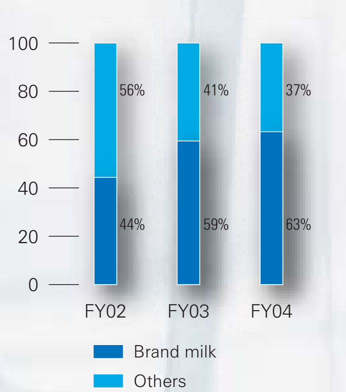
Although we expect overall sales of milk, processed milk, and milk beverages to remain mostly unchanged, we are targeting a 7.4% increase in sales of Meiji Oishii Gyunyu, to ¥43.5 billion. We have four specific strategies for achieving this target. First, we will aggressively continue promotional activities, centering on television commercials. Second, we will ensure favorable exposure for this product in 1,000ml containers at retail stores. Third, we will endeavor to increase the number of convenience stores handling this product in 200ml containers via active promotional efforts. Fourth, we will step up the transition to Meiji Oishii Gyunyu, from the conventional Meiji Gyunyu brand, in our home delivery business.

In March 2005, we launched Meiji Hokkaido Zeitaku Shibori Milk in a 1,000ml container. Through test sales and other activities, we will seek to educate more and more consumers about the excellent taste and value of this new product, which we hope to firmly entrench in the market. In other milk-related products, we will seek to attract new

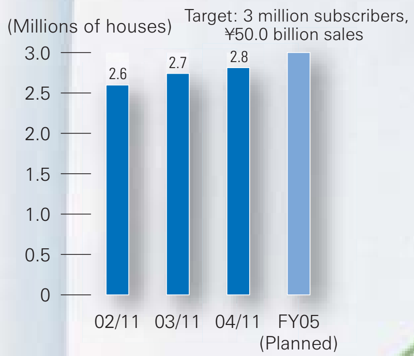
Breakdown of City Milk Division's Net Sales



Share of Brand Milk among Cartoned Milk (1,000ml, 500ml)



Number of Home Delivery Service Subscribers



Meiji Hokkaido Zeitaku Shibori Milk

This milk is made using only top-quality raw milk from Japan's northern Hokkaido region. It is a fortified milk product, in which the calcium and protein have been condensed via nano-filtration (membrane concentration) to remove moisture. The natural taste of raw milk is retained because condensation takes place at low temperatures.

Meiji Bulgaria Yogurt LB81

Recognized as "FOSHU" by the Japanese government, Meiji Bulgaria Yogurt LB81 is made using the LB81 lactobacillus strain and raw milk. Meiji Bulgaria Yogurt has been a long-time favorite among consumers since its launch in 1973. We now have a full lineup of offerings, each the refreshing taste of authentic Bulgaria yogurt.

customers by upgrading and highlighting the health benefits of our offerings.

We are targeting a 4.6% increase in sales of yogurt in fiscal 2005, to ¥96.1 billion. Within this amount, we expect a 4.9% rise in sales of the Meiji Bulgaria Yogurt series, to ¥64.5 billion, which will benefit from ongoing television commercial and other promotional activities, as well as steady market acceptance of Meiji Bulgaria Yogurt LB81 Domashuno and other products launched in fiscal 2004. As for Meiji Probio Yogurt LG21, which reported weak sales in fiscal 2004, we will target a 2.2% sales gain in fiscal 2005, to ¥23.0 billion, through promotions aimed as fostering greater recognition and understanding of this product. The Tialence series, unveiled in March 2005, incorporates another original production method that delivers a smooth, full-bodied taste. Through a large-scale promotional campaign based mainly on television commercials, we will seek to establish a new food genre, called "premium yogurt." In addition, we will hold forums and symposiums related to lactobacillus and yogurt and introduce cooking styles using yogurt in order to broaden that market. Through these and other ongoing initiatives, we will strive to energize the market and foster further proliferation and understanding of yogurt.

In the "others" category, we launched Meiji Milk & Coffee in June 2005. The new series is made using our original "Produced with Unheated and Rapid Extraction" method and fully retains the delicious taste of milk.

In home delivery services, we will step up market cultivation efforts, centering on Meiji Oishii Gyunyu (in 200ml containers) and Meiji Onaka Katsuryoku Milk (100ml), as well as Meiji Collagen 3000 Ceramide Plus (125ml), launched in March 2005. In addition, we have introduced new lightweight coated bottles in various regions since 2004, and completed the nationwide rollout in August 2005. In March 2005, we set up a Eating Habit Support Hotline for delivery service subscribers and have been test-operating this new service in several regions. By boosting communications with customers in these ways, we will address their needs more swiftly and accurately. For fiscal 2005, we are targeting around 3 million subscribers and hope to reach the ¥50.0 billion mark in home delivery sales.

Tialence

Tialence is made using an original production method (patent pending) that delivers a smooth taste sensation thanks to a combination of thick dairy ingredients and low-acidity lactobacillus. Moreover, the absence of a stabilizing agent results in a rich texture. Containing an abundance of well-selected fruit pulp, Tialence offers the natural, sweet taste of real fruit.

Processed Milk Products

Seeking Higher Profitability from Infant Formula and Cheese Amid Difficult Business Conditions

FISCAL 2004 RESULTS

Sales in this segment declined 5.0% in fiscal 2004, to ¥71.4 billion. In a fiercely competitive market environment, demand for infant formula continued to languish due to declining birthrates and the trend toward providing nutrition through mother's milk. Due to the extremely hot summer of 2004, sales of cheese and butter fell 7.0% and 4.8%, respectively. The cheese category suffered from soaring prices of materials sourced overseas, making profits difficult to obtain.

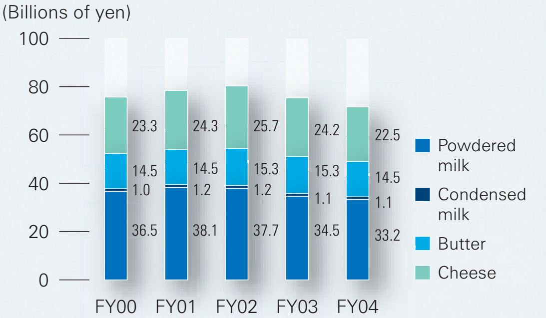
FISCAL 2005 STRATEGIES AND OUTLOOK

In fiscal 2005, Meiji Dairies expects the business environment to remain challenging and forecasts a 2.1% declines in sales of processed milk products, to ¥69.8 billion.

In the infant formula market, which is impacted by falling birthrates, we unveiled Meiji Hohoemi in March 2005. This new product stemmed from many years of research into mother's milk. Going forward, we will further upgrade our Internet-based childcare information service in order to deepen understanding of our products.

In the cheese category, we forecast a 3.1% sales decline due partly to an accounting change. Confronted with surging prices of cheese ingredients, we will focus on maintaining profitability by concentrating on the Meiji Hokkaido Tokachi brand and setting appropriate prices. Through proactive television commercials and other promotions, we are targeting ¥9.7 billion in sales of this brand in fiscal 2005.

Breakdown of Processed Milk Products Division's Net Sales



Meiji Hokkaido Tokachi Camembert

Made of fresh milk from the Tokachi region in Hokkaido, Meiji Hokkaido Tokachi Camembert boasts an excellent aroma and aftertaste. Regular camembert is soft at the center and gradually gets thicker toward the outside. Tokachi camembert, by contrast, is soft throughout, except for the thin external mold layer.

Ice Cream Ongoing Focus on Profitability

FISCAL 2004 RESULTS

In fiscal 2004, we reported a solid increase in sales of Meiji Essel Super Cup, a long-time bestselling ice cream celebrating its 10th anniversary. With the added benefit of a very hot summer, total sales of ice cream grew 4.2%, to ¥38.0 billion. However, sales of the Aya premium brand dropped 44%, to ¥1.3 billion, despite active sales promotional efforts, including special campaigns held every three months focusing on limited time periods and themes.

FISCAL 2005 STRATEGIES AND OUTLOOK

In the wake of the extremely hot summer, which boosted sales in the period under review, we expect year-on-year sales of ice cream to decline in fiscal 2005. Nevertheless, we will deploy our technological capabilities to develop and market attractive products. At the same time, we will focus on improving profitability.

We will also explore various options with a view to reorganizing our premium ice cream business in fiscal 2006.

Beverages Continuing Emphasis on Segment Earnings

FISCAL 2004 RESULTS

The effects of hot summer weather helped boost sales of tea beverages and our Minute Maid line of 100% fruit juices. As a result, total sales of beverages climbed 2.0%, to ¥32.1 billion.

FISCAL 2005 STRATEGIES AND OUTLOOK

In the fiercely competitive beverage market, we will continue our strategy focusing on segment profitability. Specifically, we will launch high-value-added products with improved health benefits. We will also concentrate on expanding sales of the Brick series in vending machines.

Other Products Targeting Functional, Liquid, and Nursing Care Foods

FISCAL 2004 RESULTS

This segment includes margarine, frozen foods, and nutraceuticals. In the fiscal 2004, segment sales fell 8.6%, to ¥58.1 billion. Although the hot summer caused sales of margarine and frozen foods to decline, sales of nutraceuticals were up year-on-year thanks to healthy demand for Meibalance and other liquid foods. Among nutraceuticals, however, sales of VAAM dropped 12%, to ¥7.5 billion due to intense competition in the functional beverages market.

FISCAL 2005 STRATEGIES AND OUTLOOK

Despite concern about rising prices of oil ingredients for margarine, in fiscal 2005 we will continue working hard to ensure that our prices are appropriate for the market. At the same time, we will stimulate demand by developing value-added products from the consumer's perspective.

Due to Japan's progressively aging population, we expect demand for liquid and functional foods to grow in the future, and we have adopted aggressive strategies to increase our presence in these areas. In liquid foods, our main strategy focuses on shifting to products with added trace elements, such zinc and copper, as well as placing an emphasis on highly functional foods. In nursing care food, we will not only target growing demand for ready-made meals but also tap the general market as well.

In fiscal 2005, we will celebrate the 10th anniversary of the launch of VAAM. To celebrate, we will conduct more aggressive promotions and increase the exposure of this brand through advertising and our website. In these ways, we will seek to attract new customers.

VAAM

VAAM is a drink incorporating a balanced blend of 17 amino acids to metabolize fat and promote more effective use of energy stored by the body. People seeking more stamina during exercise or an efficient fitness program are encouraged to drink VAAM before training.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Meiji Dairies Group believes that its corporate social responsibility (CSR) extends beyond providing new levels of value in food to its customers. Our CSR commitment also encompasses such areas as ensuring the safe delivery of our products, proactively contributing to environmentally and socially beneficial causes, and building an effective internal control system. By properly demonstrating our CSR commitment, we hope to foster happier and healthier lives for our customers while further improving the value of our corporate brand.

FOOD SAFETY INITIATIVES

In addition to making delicious food with added health benefits, we are also responsible for assuring food safety—enabling people to experience our products with total peace of mind. Adopting the latest systems and technologies, we will build a quality control system that delivers uncompromising food safety, and thus fulfill our role as a leader in the food industry.

HACCP

Hazard Analysis and Critical Control Point (HACCP) is a hygiene management system developed in the 1960s to ensure the safety of food provided to astronauts in the U.S. space program. It focuses on preventing various types of risks associated with the food manufacturing processes. Food safety assurance under HACCP first of all involves conducting a preemptive hazard analysis of risks inherent in all processes—from the receipt of raw materials to manufacturing, processing, and even final storage and distribution. Based on such analysis, critical control points are determined to control the risks identified. Focused management of the critical control points enables food manufacturers to assure food safety by eliminating food poisoning or other potential risks.

Meiji Dairies obtained HACCP authorization from Japan's Ministry of Health, Labor and Welfare at an early stage, and has also established its own HACCP certification system. In addition, we are promoting Groupwide hygiene management initiatives, including training and guidance for employees involved in HACCP-related activities.

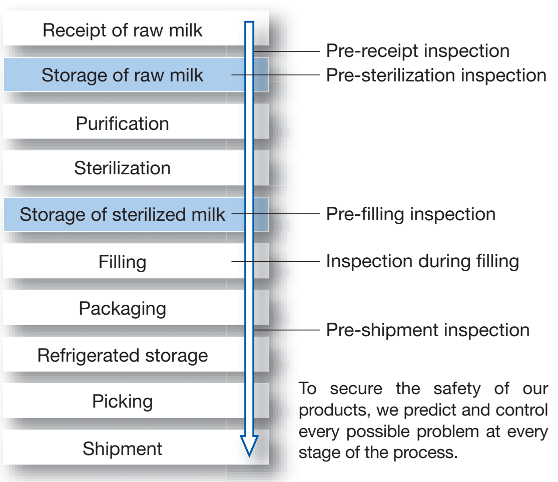
ESL TECHNOLOGIES

The Group is working to improve its production and quality control technologies to ensure that we deliver products in a fresh, delicious state as much as possible. One of these initiatives focuses on extended shelf life (ESL) technology, which covers the whole manufacturing process, from the handling of raw materials to the packaging of the final product. ESL technology takes hygiene levels to new heights by rigorously improving equipment cleanliness and sterilization and eliminating microbial contamination, resulting in significantly extended shelf life for our products relative to conventional chilled products.

PRODUCTION AND DISTRIBUTION SYSTEMS ASSURING TRACEABILITY

We centrally manage all data, covering everything from production to shipment and delivery, by organically integrating four vitally important support systems: manufacturing execution system (MES), refrigeration system, dispatch support system, and traffic control system. In this way, we are creating an effective traceability system that pin-

Milk Manufacturing Process



Extended Shelf Life (ESL) Technology

points the manufacturing line, production time, and delivery destination of defective products, and also permits swift recall and causal analysis.

In the manufacturing processes, data related to filling lines and raw milk storage tanks are recorded and controlled by the MES, which enables us to systematically issue instructions covering all factory production lines. It also permits a real-time understanding of each line's operating status, significantly boosting progress in eliminating human error on the manufacturing side.

The Group's refrigeration system manages information related to inventory and shipping. This system uses a dedicated server and data readers to track each product's history by recording all data, from shipping instructions to shipment time, delivery destination, and transport vehicle driver.

After shipment, our dispatch support system and traffic control system manage all information related to the movement of products until they reach their delivery destination. These systems are proving highly valuable in maintaining and improving product quality.

FOOD SAFETY COMMITTEE

Our Food Safety Committee, established in April 2003, is responsible for discerning risks associated with our food products from a scientific and technological viewpoint. The Committee consists of 18 members from within the Group, as well as two outside experts in chemistry and microbiology. It meets four times a year and reports the substance of those meetings to the Managing Committee. The main functions of the Food Safety Committee are listed below.

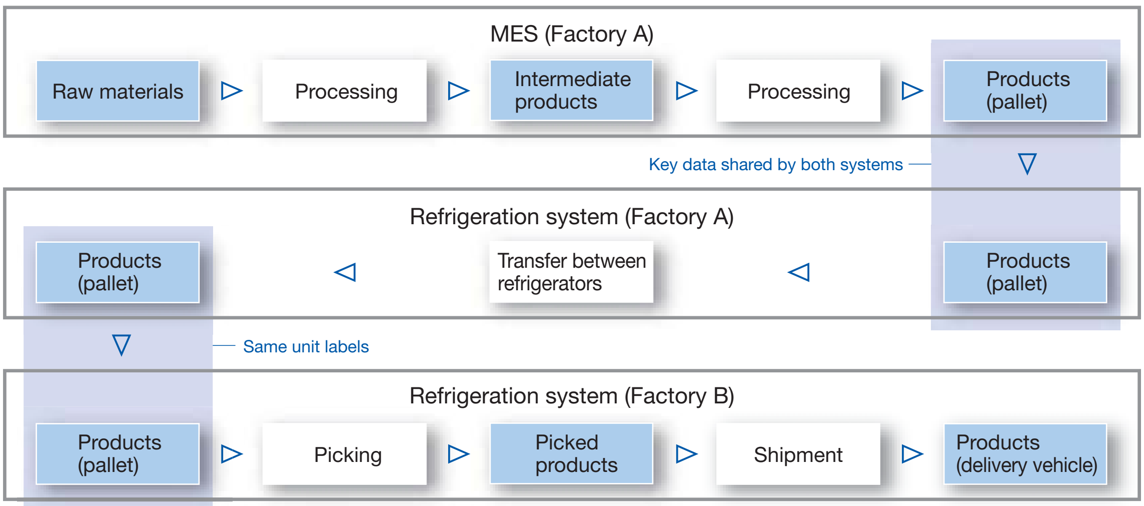
—To formulate measures for assuring the safety of newly developed products and for preventing foreseeable risks in the overall production system from arising;

—To establish risk standards and evaluation systems, and manage various risks related to raw materials, production, and distribution based on such standards and systems; and

—To collect relevant information and maximize Groupwide awareness of food safety.

Effective Lot-Tracing through Integration of Our MES and Refrigeration System

By linking our manufacturing execution system (MES) and refrigeration system, we can perform lot-tracing, from raw materials to shipped products, even if manufacture and shipment are conducted at different locations.



ENVIRONMENTAL AND SOCIAL COMMITMENTS

The business activities of the Meiji Dairies Group are made possible through the gift of nature and trust of society. Our crucial Groupwide mission centers on coexisting harmoniously with local communities, protecting the environment, and contributing to society. We have set a number of numerical targets for protecting the environment and are pursuing various initiatives aimed at meeting those targets.

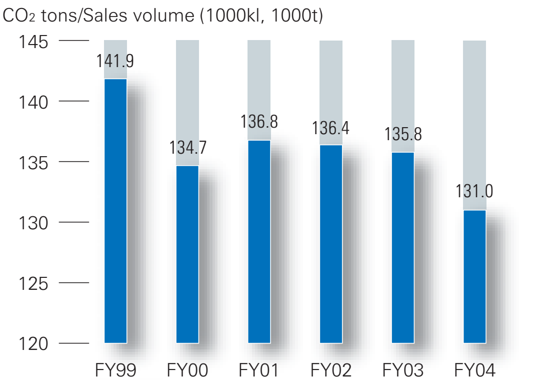
ENVIRONMENTAL INITIATIVES

In October 2001, we formulated the Meiji Dairies Environment Charter. The philosophy of the Charter is embodied in our current medium-term plan, one stated aim of which is to "promote environment-oriented corporate management geared toward harmonious coexistence with society." Our six basic environmental policies are described below.

1. Reduce CO_2 Emissions

In fiscal 2004, we introduced cogeneration systems into two more factories and completed conversion of energy sources at five factories from heavy oil to city gas, which emits minimal CO_2. As a result, the parent company's CO_2 emission per sales unit in fiscal 2004 was 7.7% lower than the fiscal 1999 level. Our target for fiscal 2005 is for the parent company to achieve a 10% reduction in CO_2 emissions per sales unit compared with the fiscal 1999 level. To this end, we will continue introducing cogeneration systems and high-efficiency cooling equipment.

Meiji Dairies' CO_2 Emissions per Sales Unit



2. Zero Emission Systems

In fiscal 2004, we generated a total of 29,805 tons of waste, down 3.8% from fiscal 2003. Our waste recycling ratio in fiscal 2004 reached 80.1%, up 4.7 points year-on-year. We will strive to meet our objective of zero emissions in fiscal 2005 by meticulously targeting each type of waste, including conversion of food scraps to animal feed and fertilizers, and recycling of packaging containers.

3. ISO14001 Certification

As of August 2005, all 25 factories operated by the parent company, as well as 12 associated production companies, have obtained ISO14001 certification, an international standard for environmental management systems. Thus, we have achieved the target set under our medium-term plan. Going forward, we will continue to maintain and improve our environmental management initiatives while supporting the efforts of marketing and sales operations and affiliated companies seeking to obtain ISO14001 certification.

4. Organizational Initiatives to Protect the Environment

Environmental initiatives at our headquarters are spearheaded by the director in charge of the environment, chief environmental manager, the Environmental Management Committee, and the Environmental Management Promotion Committee. We are also setting up a check system controlled by internal environmental auditors and a support system headed by the Environmental Management Secretariat. In addition, we are stepping up initiatives in each business location, where monthly meetings are held to discuss environmental protection matters.

5. Harmonious Coexistence with Regional Society

In the course of encouraging employees to interact more closely with local communities, in fiscal 2004 we conducted a campaign to recruit environmental protection volunteers by introducing related information to employees via our local area network (LAN). As a company, we also participated in Eco Products 2004, an environmental products exhibition, and the Ministry of the Environment's Light Down Campaign, aimed at reducing CO_2 emissions.

6. Environmental Education and Information Activities

We are constantly working to improve environmental awareness among employees through such activities as seminars for in-house environmental managers and our newsletter. At the Meiji Dairies Museum of Milk, we teach children about the Group's environmental initiatives. In these and other ways, we are promoting environmental education and information activities to people outside the Company.

SOCIAL CONTRIBUTION

The greatest contribution a company can make to society is to conduct its core business of providing products and services in a reliable manner. At Meiji Dairies, the cornerstone of our operations is to foster healthy and happy culinary lifestyles by delivering products that are highly nutritious, tasty, and safe. In this regard, we are pursuing a variety of ongoing initiatives. These include research into (1) the nutritional value and function of cow's milk, (2) the health effects of lactobacillus and processing technologies, (3) infant nutrition, specifically ways to make powdered milk more like mother's milk, and (4) home care food for the elderly. We actively disclose the results of these research programs, as well as information about food nutritional values and safety, to the public via our corporate website and other media.

The key to creating a vibrant society is to foster the healthy growth of babies, our next generation of leaders. At Meiji Dairies, we believe our corporate social responsibility is to support such efforts. With this in mind, in 1976 we set up a telephone hotline to answer a broad range of inquiries, from baby's food and child-rearing to nutrition for women before and after childbirth. More than 300,000 people have made inquiries through this hotline. We also have two other websites, including a member's-only site, dedicated to providing a wide range of information about child-rearing. In these and other ways, we are working to help mothers and to promote the healthy growth of babies.

CORPORATE GOVERNANCE AND COMPLIANCE

To achieve sustained increases in corporate value and earn the trust of society, a company must have a sound internal control system. The Meiji Dairies Group's corporate governance framework centers on its Board of Directors and corporate auditors. To improve corporate governance, we have set up an Internal Auditing Department and a Risk & Compliance Committee.

INTERNAL CONTROL SYSTEM

Board of Directors and Corporate Auditors as the pivot of Internal Control System

The Group's internal control system centers on its Board of Directors. Consisting of 24 members, the Board of Directors formulates management strategies, studies and analyzes operating issues, and determines appropriate measures for addressing those issues. Important matters are discussed in advance at weekly meetings of the Managing Committee, made up of directors with representative status. In these ways, we are working to speed up decision-making and enhance overall business efficiency.

We have four corporate auditors, including two outside auditors, who oversee the performance of the Board of Directors. In addition to discussing and deciding auditing policies, our corporate auditors have regular meetings with directors and also attend and offer their opinions at meetings of the Board of Directors, Managing Committee, and Executive Committee. To strengthen the auditing function, we have assigned specialist staff to support the activities of corporate auditors, and we have set up an Internal Auditing Department to handle internal audits.

Reinforcing Compliance

The Group's fundamental stance on legal and ethical compliance is embodied in the Meiji Dairies Corporation Behavior Charter and the Meiji Dairies Corporation Code of Ethics. These documents are used to promote widespread compliance-related awareness among directors and employees, covering all companies of the Group. At the same time, Risk & Compliance Offices in all of our operations nationwide spearhead training of Risk & Compliance Leaders, dissemination of risk-related information, and issue of Compliance Information. We have also set up an internal compliance hotline and an external system through which employees can report problems through attorneys. In addition, we established the Risk & Compliance Committee, with the goal of creating a system for risk management including compliance risks.

Information Security

Based on our Groupwide Information Security Policy and our Privacy Policy, we are harnessing all of our efforts to prevent unauthorized system access and information leakage, provide relevant staff training, and otherwise build an airtight information management system.

Incorporating Outside Opinions into Management

The Group endeavors to maximize opportunities for communicating directly with shareholders and other investors, including through its annual General Meeting of Shareholders, semiannual financial results presentations to investors and analysts, and visits to institutional investors by top management. In these ways, we are able to obtain direct feedback from the capital markets. In addition, our Customer Support Center receives around 140,000 calls a year from people offering opinions and suggestions or seeking advice, and we actively incorporate information thus obtained into our management policies.

BOARD OF DIRECTORS AND AUDITORS

(AS OF JULY 1, 2005)

Chairman	**Hisashi Nakayama**	
President & CEO	**Shigetaro Asano**	
Senior Managing Directors	**Takehiko Tsurumaru**	
	Kaname Tanaka	
	Tsuyoshi Nagata	
Managing Directors	**Shigeo Saito**	General Manager, International Division
	Tamotsu Kuwata	General Manager, R&D Planning Division
	Koichi Yoshioka	
	Shouichi Ihara	General Manager, City Milk Consolidated Marketing Division
	Hiromi Tsukanishi	General Manager, Tokyo Main Branch
Directors	**Tetsuo Hayashi**	General Manager, Tokai Main Branch
	Tadashi Matsuzawa	General Manager, Processed Foods & Foodservice Consolidated Marketing Division
	Kazuhiro Minemoto	General Manager, Kyushu Branch
	Norio Shigenari	General Manager, Raw Milk Department
	Yoshio Baba	General Manager, Production Technology Department
	Naoki Kato	General Manager, Production Department
	Kouichirou Kawashima	President & Chief Executive Officer, Fresh Network Systems Co., Ltd.
	Jyunji Yamamoto	General Manager, Affiliated Companies Administration Department
	Masami Eguro	General Manager, Administration Department
	Kenichi Nonaka	General Manager, Kansai Main Branch
	Hidesada Kaneko	General Manager, Personnel Department
	Toshiaki Yoshida	General Manager, Nutritionals Consolidated Marketing Division
	Kaoru Koide	General Manager, Quality Assurance Department
	Shouzou Nawata	Vice General Manager, City Milk Consolidated Marketing Division
Standing Auditors	**Hajime Yoshioka**	
	Nobukuni Hoshino	
Auditors*	**Shouji Akahane**	
	Yoshiaki Fujii	

* Outside Corporate Auditors stipulated by Article 18, Section 1 of the Law for Special Exceptions to the Commercial Code Concerning Audit, etc., of Corporations (Kabushiki-Kaisha)

FACTS & FIGURES

1. Consolidated Financial Summary

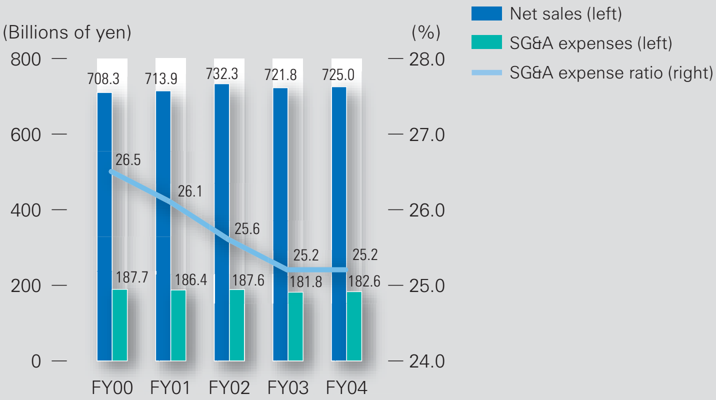
Millions of yen
(Unless otherwise noted)

	FY2000	FY2001	FY2002	FY2003
Operating Results (For the Fiscal Year):				
Net sales	¥708,326	¥713,980	¥732,369	¥721,833
Cost of sales	505,113	519,587	528,997	524,253
Selling, general and administrative (SG&A) expenses	187,772	186,452	187,603	181,899
Operating income	15,441	7,941	15,769	15,681
Ordinary income (Note 3)	14,691	8,007	14,602	15,747
Net income	3,834	2,093	4,051	7,950
Capital expenditure (Cash base)	39,554	38,946	22,336	24,546
Depreciation expenses (Tangible Fixed Assets)	18,985	20,208	20,942	20,324
Research and development (R&D) expenses	7,025	7,113	6,909	7,422
Financial Position (At Fiscal Year-End):				
Total assets	¥366,894	¥381,980	¥363,354	¥364,958
Shareholders' equity	80,802	80,436	82,241	91,892
Interest-bearing debt (Note 4)	135,369	153,040	150,317	142,352
Per share data (Yen, U.S. dollars):				
Net income (Note 5)	¥ 12.92	¥ 7.06	¥ 13.56	¥ 26.74
Shareholders' equity	272.39	271.18	277.55	310.23
Cash dividends	6.00	6.00	6.00	6.00
Ratios:				
Return on equity (ROE)(%) (Note 6)	4.7	2.6	5.0	9.1
Return on assets (ROA)(%) (Note 7)	1.0	0.5	1.1	2.2
Equity ratio (%)	22.0	21.1	22.6	25.2
Debt-equity ratio (times) (Note 8)	1.7	1.9	1.8	1.5
Other information:				
Number of employees	8,315	8,083	7,754	7,482

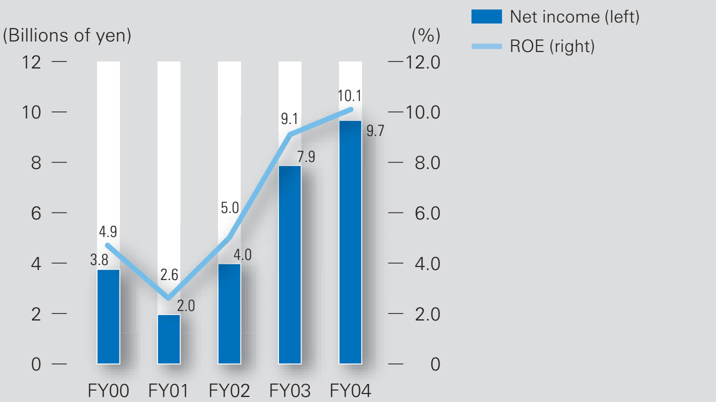
Notes:
1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 107.39, the exchange rate prevailing on March 31, 2005.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Interest-bearing debt = Short-term loans payable + Long-term debt
5. Net income per share for the year ended March 2003 and onwards is calculated in accordance with a new accounting standard that came into effect from April 1, 2002.
6. ROE = Net income/Simple average of shareholders' equity at the beginning and end of the fiscal year
7. ROA = Net income/Simple average of total assets at the beginning and end of the fiscal year
8. Debt-Equity Ratio = Interest-bearing debt/Shareholders' equity

	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
FY2004	FY2004
¥725,024	$6,751,320
522,970	4,869,828
182,637	1,700,695
19,415	180,797
19,081	177,687
9,722	90,538
20,527	191,147
19,734	183,760
7,558	70,384
¥357,592	$3,329,853
100,026	931,435
128,093	1,192,789
¥ 32.73	$ 0.305
337.86	3.146
6.00	0.056
10.1	—
2.7	—
28.0	—
1.3	—
7,370	—

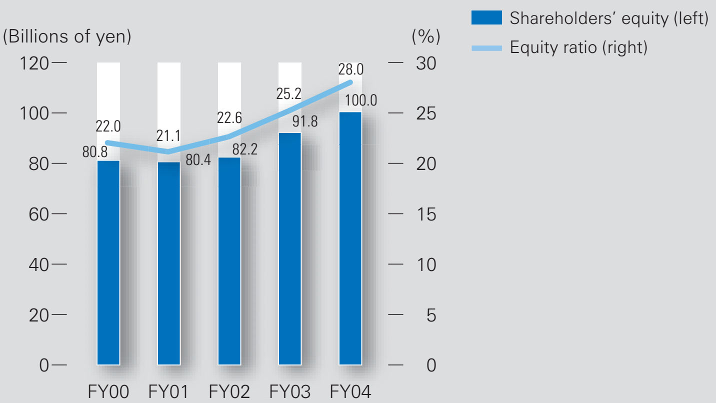
Net Sales, SG&A Expenses and SG&A Expense Ratio



Net Income and ROE



Shareholders' Equity and Equity Ratio



2. Non-Consolidated Financial Summary

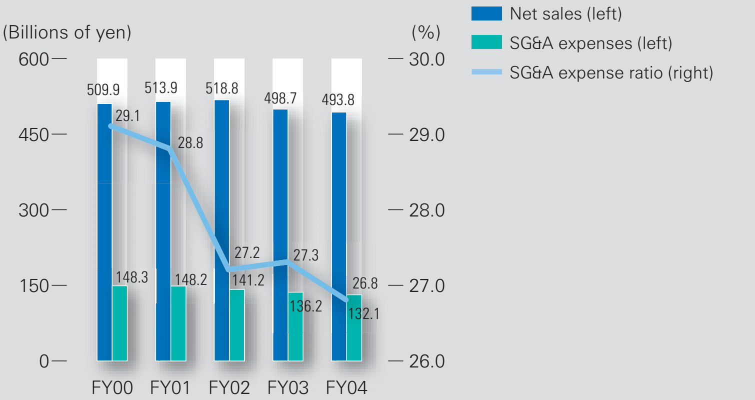
Millions of yen
(Unless otherwise noted)

	FY2000	FY2001	FY2002	FY2003
Operating Results (For the Fiscal Year):				
Net sales	¥509,945	¥513,935	¥518,843	¥498,748
Cost of sales	351,151	359,468	365,266	351,008
Selling, general and administrative (SG&A) expenses	148,300	148,230	141,237	136,278
Operating income	10,495	6,237	12,340	11,462
Ordinary income (Note 3)	10,568	6,508	11,482	11,401
Net income	3,570	1,858	4,009	5,596
Capital expenditure (Cash base)	¥ 17,668	¥ 31,068	¥ 20,590	¥ 13,286
Depreciation expenses (Tangible Fixed Assets)	13,050	13,747	14,298	14,141
Research and development (R&D) expenses	6,573	6,690	6,562	7,049
Cash dividends per share (yen, U.S. dollar)	6.00	6.00	6.00	6.00
Financial Position (At Fiscal Year-End):				
Total assets	¥273,492	¥290,115	¥275,686	¥274,561
Shareholders' equity	76,227	75,629	77,130	84,539
Interest-bearing debt	86,347	102,168	99,884	92,743
Other information:				
Number of employees (Note 4)	4,923	4,844	4,698	4,512
	(5,200)	(5,106)	(4,949)	(4,734)

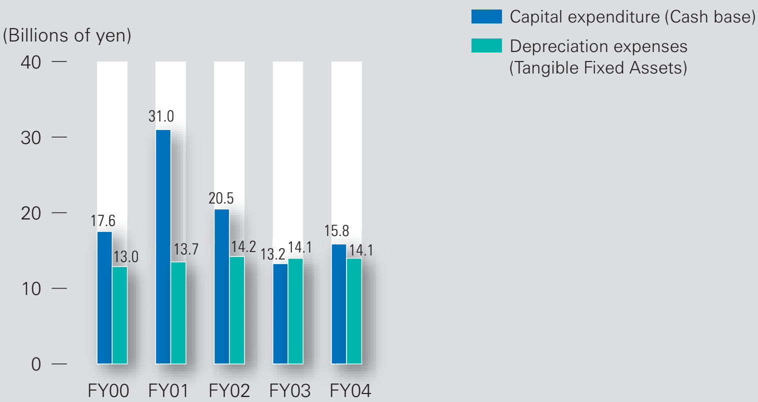
Notes:
1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 107.39, the exchange rate prevailing on March 31, 2005.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Number of employees in parentheses includes employees seconded from Meiji Dairies Corporation to other companies, and excludes employees seconded to Meiji Dairies Corporation.

	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
FY2004	FY2004
¥493,868	$4,598,831
347,158	3,232,693
132,179	1,230,833
14,530	135,304
14,144	131,709
6,290	58,576
¥ 15,864	$ 147,723
14,123	131,517
7,164	66,717
6.00	0.056
¥275,013	$2,560,884
89,382	832,314
89,763	835,865
4,457	—
(4,673)	—

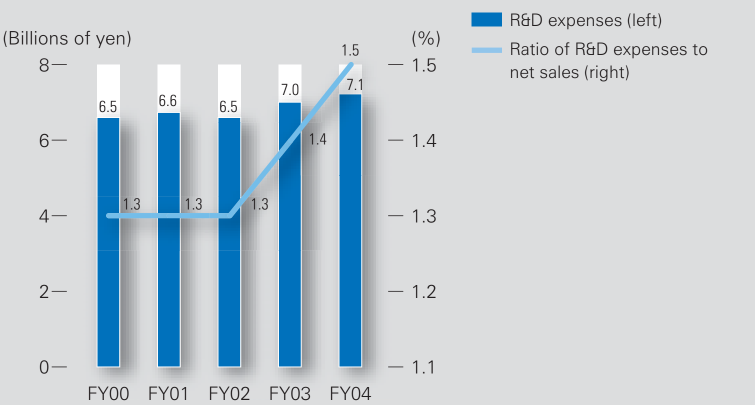
Net Sales, SG&A Expenses and SG&A Expense Ratio



Capitatl Expenditure and Depreciation Expenses



R&D Expenses and Its Ratio to Net Sales



3. Segment Information

Millions of yen
(Unless otherwise noted)

	FY2000	FY2001	FY2002	FY2003
Consolidated Performance by Segment				
Net sales				
Foods	¥615,814	¥623,838	¥640,377	¥623,077
Service and Others (Note 3)	125,338	127,795	132,895	144,529
Operating income				
Foods	12,725	5,334	13,151	13,662
Service and Others (Note 3)	2,657	2,536	2,421	2,659
Operating income margin				
Foods	2.1%	0.9%	2.1%	2.2%
Service and Others (Note 3)	2.1%	2.0%	1.8%	1.8%

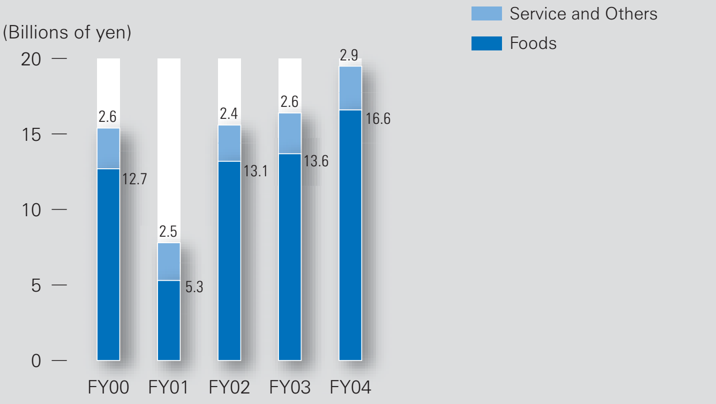
* Net sales and operating income figures are before exclusion of intersegment transactions.

	FY2000	FY2001	FY2002	FY2003
Non-consolidated Net Sales by Division and Product				
City milk	¥281,829	¥281,372	¥293,911	¥291,807
Drinking milk	141,958	137,809	139,574	133,410
Yogurt	69,310	74,977	90,516	90,801
Others	70,560	68,585	63,821	67,596
Processed milk products	75,566	78,307	80,182	75,269
Powdered milk	36,597	38,142	37,789	34,540
Condensed milk	1,089	1,245	1,209	1,147
Butter	14,511	14,577	15,388	15,329
Cheese	23,367	24,342	25,794	24,252
Ice cream	48,009	43,128	41,228	36,506
Beverages	37,721	39,282	34,408	31,534
Other products	66,818	71,843	69,112	63,629
Total	¥509,945	¥513,935	¥518,843	¥498,748

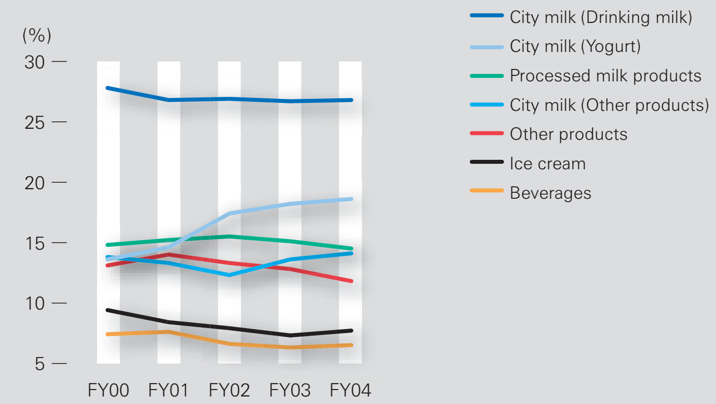
Notes:
1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 107.39, the exchange rate prevailing on March 31, 2005.
3. "Service and Others" segment covers the distribution business (including transportation and storage), the feed business, and other businesses, such as finance and leasing.

	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
FY2004	FY2004
¥621,978	$5,791,774
148,370	1,381,601
16,633	154,888
2,923	27,219
2.7%	—
2.0%	—
¥294,010	$2,737,780
132,182	1,230,865
91,947	856,199
69,880	650,714
71,485	665,665
33,236	309,490
1,103	10,277
14,588	135,845
22,557	210,053
38,045	354,278
32,175	299,613
58,151	541,494
¥493,868	$4,598,831

Consolidated Operating Income by Segment



Percentage of Product Sales to Total Net Sales (Non-consolidated)



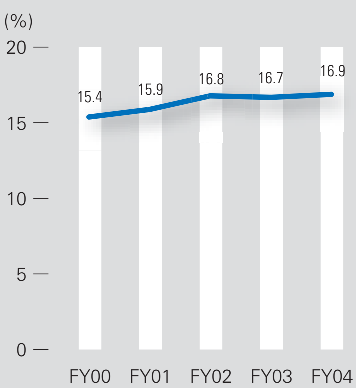
4. Industry Statistics

	FY2000	FY2001	FY2002	FY2003	FY2004
Production, Consumption, and Sales of Major Dairy Products					
Raw milk production (kl) *1	8,416,878	8,311,848	8,379,969	8,404,910	**8,289,444**
Drinking milk production (kl) *1	4,565,450	4,402,203	4,430,271	4,479,722	**4,401,151**
Milk production (kl) *1	3,923,874	3,840,122	3,976,636	4,024,942	**3,925,103**
Processed milk production (kl) *1	641,576	562,081	453,635	454,780	**476,048**
Yogurt produced by dairy companies (kl) *1	684,373	698,142	798,915	794,687	**788,399**
Yogurt produced by non-dairy companies (kl) *2	135,687	129,466	127,171	123,254	**124,872**
Cheese consumption (tons) *1	258,993	256,423	248,472	255,043	**265,729**
Natural cheese consumption for direct consumption (tons) *1	146,195	147,286	135,943	141,185	**150,742**
Processed cheese consumption (tons) *3	112,797	109,137	112,529	113,858	**114,987**
Ice cream sales (thousand kl) *4	814	786	771	752	**818**

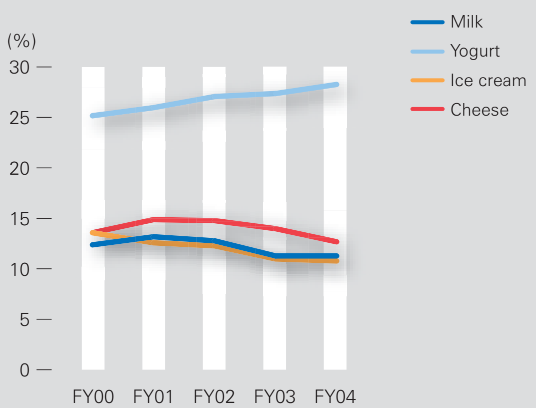
Sources:
*1 Statistics on Milk and Dairy Products, Ministry of Agriculture, Forestry and Fisheries (MAFF)
*2 Food Market Research and Information Center (calendar-year base)
*3 MAFF Livestock Industry Department, Milk and Dairy Products Division
*4 Japan Ice Cream Association

	FY2000	FY2001	FY2002	FY2003	FY2004
Our Position in the Industry:					
Meiji Dairies' Share in Milk Collection	15.4%	15.9%	16.8%	16.7%	**16.9%**
Meiji Dairies' Market Share by Product (Estimated)					
Milk	12.4%	13.2%	12.8%	11.3%	**11.3%**
Yogurt	25.2%	26.0%	27.1%	27.4%	**28.3%**
Ice cream	13.6%	12.6%	12.3%	11.0%	**10.8%**
Cheese	13.6%	14.9%	14.8%	14.0%	**12.7%**

Meiji Diaries' Share in Milk Collection



Meiji Dairies' Market Share by Product (Estimated)



FINANCIAL SECTION

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REVIEW AND ANALYSIS OF FISCAL 2004 RESULTS

MACROECONOMIC ENVIRONMENT

In fiscal 2004, ended March 31, 2005, the Japanese economy, despite maintaining a general expansionary trend, saw a major slowdown in the momentum that characterized the previous fiscal year. This was due to deceleration in exports and capital expenditures amid widespread inventory adjustments by companies in high-tech industries. Soaring prices of crude oil and other raw materials also had a suppressing effect on the economy. In this environment, employment conditions improved somewhat, but the impact on personal income was limited.

The food industry continued to face structural impediments as Japan's population peaked out amid declining birthrates and an aging society. Consumption tax-inclusive pricing, record-high summer temperatures, and frequent natural disasters also had a negative effect on the industry. Ongoing deflation, though at a slower rate, also had a restricting impact on corporate earnings. In the milk sector, companies worked hard to address their excessive inventories of non-fat powdered milk, but a complete solution to this problem appears a long way off.

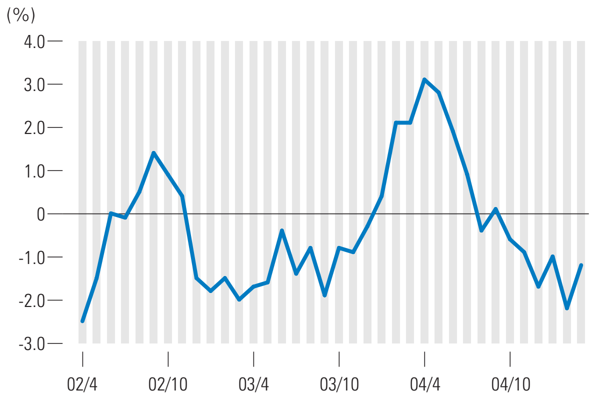
REVENUE AND EARNINGS

In fiscal 2004, the Meiji Dairies Group posted consolidated net sales of ¥725,024 million, an increase of 0.4% from the previous fiscal year. This is the result of increased sales of Meiji Oishii Gyunyu, yogurt, and ice cream by the parent company, as well as higher revenue from sales and distribution subsidiaries. However, cost of sales declined 0.2% owing to an improved product mix and successful cost-cutting measures. As a result, gross profit grew 2.3%, to ¥202,053 million.

Operating income jumped 23.8% from the previous fiscal year, to ¥19,415 million. In addition to lower cost of sales, a substantial drop in retirement benefit expenses (down 31.8%) associated with the return of the substitutional portion of the employees' welfare pension plan adequately compensated for increases in other selling, general and administrative (SG&A) expenses items, such as advertising and promotional costs and investments in systems. Total SG&A expenses, therefore, remained mostly unchanged, edging up 0.4%.

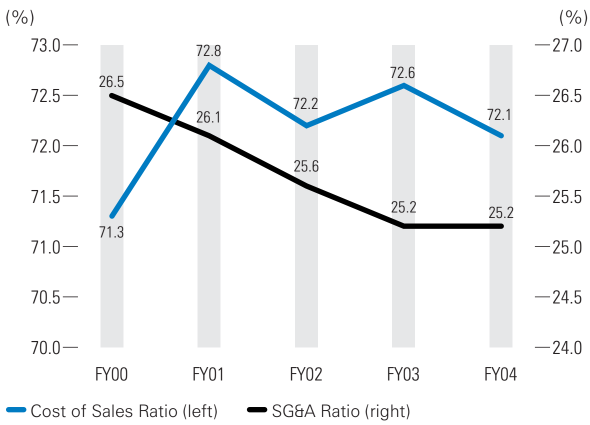
Other income declined 5.9% year-on-year as increases in interest and dividend income, as well as

Personal Consumption Expenditure - All Japan, All Households, Nominal (Three-month moving average of year-on-year changes)



Souce: Ministry of Internal Affairs and Communications

Cost of Sales Ratio and SG&A Expense Ratio



income from sales of inventories, were outweighed by fall in miscellaneous income. However, other expenses rose 7.7% due to increased losses on disposal of inventories and losses on redemption of bonds, which offset a 9.6% decline in interest expense owning to reductions in interest-bearing debt. As a result, ordinary income climbed 21.2%, to ¥19,081 million.

Total extraordinary income declined 77.5% from the previous fiscal year, in which a gain on the sale of land was accrued. Total extraordinary losses fell 43.4% thanks to a decline in allowance for doubtful accounts.

As a consequence, net income for the year surged 22.3%, to ¥9,722 million. Net income per share grew to ¥32.7, from ¥26.7, and the equity ratio improved to 10.1%, from 9.1%.

Segment Breakdown

Food

The food segment encompasses the manufacture and sales of milk, dairy products, ice cream and other foods, as well as the livestock business.

In fiscal 2004, sales in the food segment edged down 0.2% year-on-year, to ¥621,978 million. On the positive side, sales of Meiji Oishii Gyunyu and yogurt were healthy, and the extremely hot summer boosted sales of ice cream by a solid 4.2%. However, these factors failed to compensate for intensified competition and the negative aspects of the hot summer, which weakened sales of cheese and other dairy products.

Segment operating income jumped a strong 21.8%, to ¥16,636 million. Parent company operating income grew significantly, thanks to the benefits of the improved product mix and the decline in retirement benefit expenses, while sales subsidiaries also reported earnings increases.

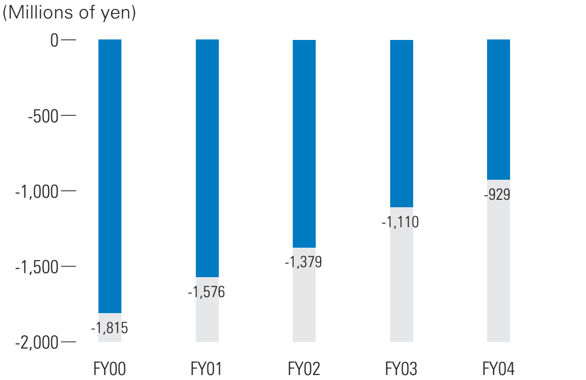
Service and Others

This segment covers the distribution business (including transportation and storage), the feed business, and other businesses, such as finance and leasing.

Sales in this segment climbed 2.7% from the previous fiscal year, to ¥148,370 million, owing to another solid performance by our transportation and storage businesses, together with increased revenue from our feed business.

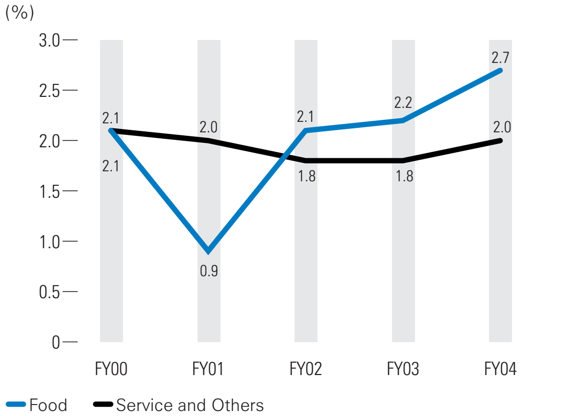
Operating income advanced 9.9%, to ¥2,923 mil-

Net Financial Expense



* Net Financial Expense = Interest and dividend income – Interest expense

Operating Income Ratio, by Segment



* Figures are before exclusion of intersegment transactions.

lion, thanks to a decline in costs in the feed business resulting from efforts to enhance efficiency and streamline operations.

Performances of Major Subsidiaries

Thanks to the beneficial effects of the extremely hot summer, our sales and distribution subsidiaries reported substantial increases in revenue from their frozen food and other businesses.

Our main subsidiaries in the livestock business — Meiji Kenko Ham Co., Ltd., and Asahi Broiler Co., Ltd. — improved their earnings by downsizing unprofitable operations.

In the feed business, Meiji Feed Co., Ltd., achieved higher profits by cutting sales and other costs.

Financial Position

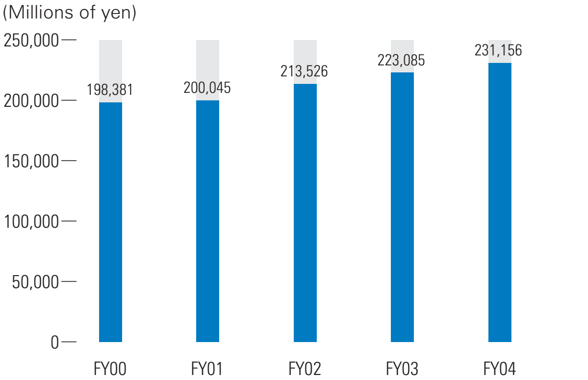
As of March 31, 2005, consolidated total assets stood at ¥357,592 million, down ¥7,364 million from a year earlier. Current assets declined ¥5,763 million, to ¥142,360 million (or 39.8% of total assets), due mainly to a decrease in inventories stemming from reduction of non-fat powdered milk inventories. Fixed assets decreased ¥1,601 million, to ¥215,232 million (60.2% of total assets), owing largely to declines in buildings and structures and land.

Total liabilities fell ¥15,468 million from a year earlier, to ¥255,269 million. Current liabilities declined ¥11,597 million, to ¥163,972 million, owing mainly to ¥9,076 million repayments of short-term loans and ¥5,000 million in redemption of bonds. Long-term liabilities were down ¥3,870 million, to ¥91,296 million, due largely to ¥9,182 million in repayments of long-term debt and a ¥1,066 million decline in retirement benefits as a result of returning the substitutional portion of the employees' welfare pension plan.

Minority interests edged down ¥31 million, to ¥2,296 million.

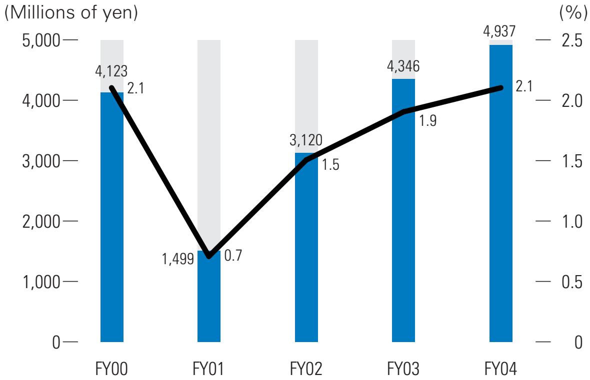
Total shareholders' equity advanced ¥8,134 million from a year earlier, to ¥100,026 million, thanks mainly to increased retained earnings stemming from the higher net income figure. At the fiscal year-end, the equity ratio was 28.0%, up 2.8 points, and shareholders' equity per share increased ¥27.63, to ¥337.86.

Net Sales of Consolidated Subsidiaries



* Net sales and ordinary income of consolidated subsidiaries are calculated as the difference between consolidated sales and non-consolidated sales of Meiji Dairies' Group.

Ordinary Income and Ordinary Income Ratios of Consolidated Subsidiaries



Cash Flows

Net cash provided by operating activities was ¥34,519 million, up ¥8,730 million from the previous year. Major factors included the increase in net income, a decline in inventories, and an increase in notes and accounts payable.

Net cash used in investing activities totaled ¥18,738 million, up ¥2,572 million. Primary factors included a decline in proceeds from the sale of property, plant and equipment.

As a result, free cash flow* rose ¥6,158 million year-on-year, to ¥15,781 million.

Net cash used in financing activities was ¥16,137 million, up ¥5,780 million from fiscal 2003. This was mainly the result of declines in long-term debt and short-term loans.

As a consequence, cash and cash equivalents at fiscal year-end stood at ¥3,774 million, down ¥356 million from year earlier.

* Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities

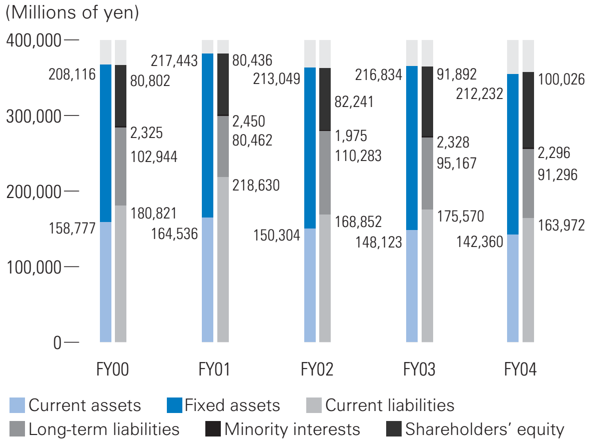
Capital Investments

In fiscal 2004, the Meiji Dairies Group made capital investments totaling ¥21,401 million (construction start base), down 4.2% from fiscal 2003. In the food segment, the Group spent ¥17,789 million, mainly on construction of its new Kansai Plant and on expanding its fermented milk production facility at Moriya. Capital investments in the food and others segment amounted to ¥3,612 million, centering on investments in systems to enhance the efficiency of consolidated subsidiaries in the distribution business.

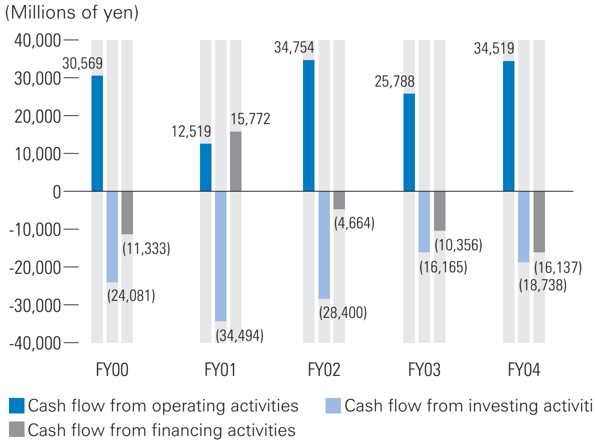
Research and Development

Total research and development expenses in fiscal 2004 amounted to ¥7,558 million. Of this total, ¥4,858 million was allocated to the food segment. Here, the Group conducted active R&D on new products, leveraging its solid technological foundation related to taste, nutrition, function, product quality, taste, and food production. The food and others segment, which made ¥2,699 million in R&D investments, selected and concentrated on focal R&D themes and conducted ongoing development, mainly in the pharmaceuticals field.

Breakdown of Total Assets, Total Liabilities and Shareholders' Equity



Cash Flow



CONSOLIDATED BALANCE SHEETS

Meiji Dairies Corporation and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
ASSETS			
Current assets:			
Cash	**¥ 3,793**	¥ 4,154	**$ 35,324**
Notes and accounts receivable:			
Trade	**82,367**	83,096	**766,990**
Unconsolidated subsidiaries and affiliates	**1,548**	1,093	**14,417**
Others	**3,752**	5,220	**34,944**
Allowance for doubtful accounts	**(835)**	(984)	**(7,776)**
Inventories (Note 3)	**39,628**	44,028	**369,015**
Deferred tax assets (Note 7)	**6,267**	4,736	**58,361**
Other current assets	**5,838**	6,781	**54,361**
Total current assets	**142,360**	148,124	**1,325,638**
Property, plant and equipment (Notes 4,6)	**403,967**	396,919	**3,761,682**
Less-accumulated depreciation	**(227,017)**	(218,609)	**(2,113,952)**
Net property, plant and equipment	**176,949**	178,310	**1,647,730**
Investments and other noncurrent assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliates	**5,177**	4,566	**48,212**
Others (Note 6)	**21,055**	21,327	**196,061**
Long-term loans	**1,264**	1,473	**11,772**
Intangible assets	**2,799**	2,435	**26,071**
Deferred tax assets (Note 7)	**577**	1,085	**5,374**
Others	**8,682**	8,986	**80,852**
Allowance for doubtful accounts	**(1,273)**	(1,348)	**(11,859)**
Total investments and other noncurrent assets	**38,282**	38,524	**356,484**
Total assets	**¥ 357,592**	¥ 364,958	**$ 3,329,853**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans payable (including current portion of long-term debt) (Notes 5,6)	¥ 48,190	¥ 58,267	$ 448,743
Notes and accounts payable:			
Trade	62,484	63,030	581,845
Unconsolidated subsidiaries and affiliates	2,211	2,313	20,589
Income taxes payable	4,014	4,962	37,385
Accrued liabilities	29,251	28,610	272,390
Other current liabilities	17,819	18,389	165,937
Total current liabilities	163,972	175,571	1,526,891
Long-term liabilities:			
Long-term debt, less current portion (Notes 5,6)	79,903	84,086	744,046
Deferred tax liabilities (Note 7)	2,871	1,483	26,738
Employees' retirement benefits (Note 9)	7,186	8,253	66,922
Other long-term liabilities	1,334	1,345	12,431
Total long-term liabilities	91,296	95,167	850,138
Minority interests	2,296	2,328	21,388
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock			
Authorized—560,000,000 shares			
Issued 2005 and 2004—296,648,786 shares	23,090	23,090	215,012
Additional paid-in capital	21,432	21,421	199,577
Retained earnings	50,260	42,605	468,022
Net unrealized gains on investments in securities	5,546	4,978	51,650
Treasury stock, at cost— 2005: 691,653 shares, 2004: 541,737 shares	(303)	(202)	(2,827)
Total shareholders' equity	100,026	91,892	931,435
Total liabilities, minority interests and shareholders' equity	¥ 357,592	¥ 364,958	$ 3,329,853

CONSOLIDATED STATEMENTS OF INCOME

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Net sales	**¥ 725,024**	¥ 721,833	**$ 6,751,320**
Cost of sales (Note 12)	**522,970**	524,253	**4,869,828**
Gross profit	**202,053**	197,580	**1,881,492**
Selling, general and administrative expenses (Notes 10,12)	**182,637**	181,899	**1,700,695**
Operating income	**19,415**	15,681	**180,797**
Other income (expenses):			
Interest and dividend income	**532**	506	**4,958**
Amortization of goodwill arising from consolidation	**176**	174	**1,641**
Equity in income of affiliates	**122**	138	**1,144**
Interest expenses	**(1,461)**	(1,617)	**(13,608)**
Other, net	**(1,601)**	831	**(14,914)**
Income before income taxes	**17,184**	15,713	**160,018**
Income taxes			
Current	**7,480**	8,361	**69,657**
Deferred	**(29)**	(668)	**(275)**
Minority interests	**(10)**	(70)	**(97)**
Net income	**¥ 9,722**	¥ 7,950	**$ 90,538**

	Yen		U.S. dollars
	2005	2004	**2005**
Amounts per share of common stock:			
Net income	**¥ 32.73**	¥ 26.74	**$ 0.305**
Cash dividends	**6.00**	6.00	**0.056**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2005, 2004 and 2003

	Numbers of shares of common stock (thousands)	Millions of yen				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investments in securities	Treasury stock
Balance at March 31, 2003	296,648	¥ 23,090	¥ 21,421	¥ 36,755	¥ 1,134	¥ (159)
Net income	—	—	—	7,950	—	—
Net unrealized gains on investments in securities	—	—	—	—	3,844	—
Increase in earnings from the merger	—	—	—	381	—	—
Increase in earnings from the change of settling term of consolidated subsidiaries	—	—	—	39	—	—
Cash dividends (¥6.0 per share)	—	—	—	(1,777)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(30)	—	—
Decrease in retained earnings resulting from a change in equity stake due to the transfer of shares of a consolidated subsidiary	—	—	—	(713)	—	—
Treasury stock	—	—	—	—	—	(43)
Balance at March 31, 2004	296,648	23,090	21,421	42,605	4,978	(202)
Net income	**—**	**—**	**—**	**9,722**	**—**	**—**
Net unrealized gains on investments in securities	**—**	**—**	**—**	**—**	**568**	**—**
Excess arising from retirement of treasury stock	**—**	**—**	**11**	**—**	**—**	**—**
Increase in retained earnings resulting from a change in equity stake due to the change of shares of a consolidated subsidiary	**—**	**—**	**—**	**2**	**—**	**—**
Cash dividends (¥6.0 per share)	**—**	**—**	**—**	**(1,776)**	**—**	**—**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(35)**	**—**	**—**
Decrease in retained earnings for liquidation of consolidated subsidiary	**—**	**—**	**—**	**(44)**	**—**	**—**
Decrease in retained earnings for elimination of affiliate	**—**	**—**	**—**	**(213)**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(101)**
Balance at March 31, 2005	**296,648**	**¥ 23,090**	**¥ 21,432**	**¥ 50,260**	**¥ 5,546**	**¥ (303)**

	Numbers of shares of common stock (thousands)	Thousands of U.S. dollars				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investments in securities	Treasury stock
Balance at March 31, 2004	296,648	$ 215,012	$ 199,472	$ 396,730	$ 46,356	$ (1,884)
Net income	**—**	**—**	**—**	**90,538**	**—**	**—**
Net unrealized gains on investments in securities	**—**	**—**	**—**	**—**	**5,293**	**—**
Excess arising from retirement of treasury stock	**—**	**—**	**105**	**—**	**—**	**—**
Increase in retained earnings resulting from a change in equity stake due to the change of shares of a consolidated subsidiary	**—**	**—**	**—**	**21**	**—**	**—**
Cash dividends ($0.056 per share)	**—**	**—**	**—**	**(16,542)**	**—**	**—**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(325)**	**—**	**—**
Decrease in retained earnings for liquidation of consolidated subsidiary	**—**	**—**	**—**	**(412)**	**—**	**—**
Decrease in retained earnings for elimination of affiliate	**—**	**—**	**—**	**(1,986)**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(942)**
Balance at March 31, 2005	**296,648**	**$ 215,012**	**$ 199,577**	**$ 468,022**	**$ 51,650**	**$ (2,827)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income tax and minority interests	**¥ 17,184**	¥ 15,713	**$ 160,018**
Depreciation	**20,538**	20,973	**191,253**
Amortization of goodwill arising from consolidation	**(176)**	(174)	**(1,641)**
Increase (decrease) in provision for retirement benefits	**(1,066)**	1,161	**(9,930)**
Interest and dividend income	**(532)**	(506)	**(4,958)**
Interest expenses	**1,461**	1,617	**13,608**
(Gain) loss on sale and disposal of property	**1,045**	(3,175)	**9,735**
(Gain) loss on sale and revaluation of securities	**370**	229	**3,447**
(Increase) decrease in notes and accounts receivable	**732**	(101)	**6,824**
(Increase) decrease in inventories	**4,399**	1,977	**40,967**
Increase (decrease) in notes and accounts payable	**(647)**	(3,125)	**(6,030)**
Increase (decrease) in accrued expense	**641**	75	**5,977**
Others	**(80)**	1,213	**(745)**
Cash received for interest and dividend	**541**	521	**5,043**
Cash paid for interest	**(1,466)**	(1,755)	**(13,653)**
Cash paid for income tax	**(8,427)**	(8,855)	**(78,477)**
Net cash provided by operating activities	**34,519**	25,788	**321,438**
Cash flows from investing activities:			
Purchases of property, net of proceeds	**(18,346)**	(16,676)	**(170,839)**
Proceeds from sale (payments for purchases) of investment securities	**110**	(189)	**1,028**
Others	**(502)**	699	**(4,674)**
Net cash used in investing activities	**(18,738)**	(16,166)	**(174,486)**
Cash flows from financing activities:			
Proceeds from long-term debt	**10,100**	6,350	**94,049**
Repayment of long-term debt	**(20,237)**	(8,178)	**(188,453)**
Proceeds from issuance of bonds	**15,000**	—	**139,677**
Payment for redemption of bonds	**(15,000)**	—	**(139,677)**
Cash dividends paid	**(1,776)**	(1,777)	**(16,542)**
Net increase (decrease) in short-terms loans payable	**(4,120)**	(6,696)	**(38,369)**
Others	**(102)**	(56)	**(952)**
Net cash provided by (used in) financing activities	**(16,137)**	(10,357)	**(150,267)**
Net increase (decrease) in cash and cash equivalents	**(356)**	(735)	**(3,315)**
Cash and cash equivalents at beginning of year	**4,130**	4,865	**38,462**
Cash and cash equivalents at end of year	**¥ 3,774**	¥ 4,130	**$ 35,146**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Meiji Dairies Corporation (the "Company") and subsidiary companies 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 as to application and disclosure requirements of International Financial Reporting 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 ¥107.39 to $1 prevailing on March 31, 2005. Amounts of less than one million yen and one thousand dollar have been omitted since the fiscal year ended March 31, 2005. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S dollars) do not necessarily agree with the sums of the individual amounts.

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-six in 2004) 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 two affiliates (three in 2004) are accounted for on the equity method. The difference between the cost and underlying net equity at acquisition of investments in consolidated subsidiaries and affiliates accounted for by the equity method 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 building for leasing acquired after April 1, 1985 has been provided based on the straight-line method. Also, depreciation of buildings newly acquired after April 1, 1998 as well as the Moriya plant, the Tohoku plant, the Kyushu plant, and the Head and Tokyo offices 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, equipment and vehicles	2-30 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. On April 26, 2004, the Company received approval of the exemption from payment of benefits related to future benefit obligation in respect of substitutional portion of the public pension fund. The approval was received from the minister of Health, Labor and Welfare, based on the Law Concerning Defined-Benefit Corporate Pension Plans.

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 are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance lease 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 derivative financial instruments to manage its exposures to fluctuations in foreign exchange and in interest rates. Foreign exchange contracts and foreign currency option are utilized to reduce foreign exchange fluctuation risks. Interest rate swaps are utilized to reduce interest fluctuation risks.

Such derivative financial instruments are recognized as either assets or liabilities in the consolidated balance sheets and measured at fair value and such gains and losses are recognized in the consolidated 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.

3. INVENTORIES

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Finished goods and merchandise	**¥ 29,130**	¥ 33,233	**$ 271,258**
Raw materials and supplies, others	**10,498**	10,795	**97,756**
Total	**¥ 39,628**	¥ 44,028	**$ 369,015**

4. PROPERTY, PLANT AND EQUIPMENT

Fixed assets at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Land	**¥ 43,565**	¥ 44,131	**$ 405,672**
Buildings and structures	**66,152**	67,645	**615,998**
Machinery, equipment and vehicles	**54,505**	53,798	**507,551**
Tools and furniture	**9,463**	9,664	**88,126**
Construction in progress	**3,262**	3,072	**30,381**
Total	**¥ 176,949**	¥ 178,310	**$ 1,647,730**

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 0.54% and 0.56% for the year ended March 31, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Short-term loans	**¥ 36,190**	¥ 45,267	**$ 337,001**
1.8% yen bonds due October 5, 2004	**—**	5,000	**—**
Commercial paper	**12,000**	8,000	**111,742**
Total	**¥ 48,190**	¥ 58,267	**$ 448,743**

2) Long-term debt

Long-term debt at March 31, 2005 and 2004 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
2.0% yen bonds due October 5, 2005	**¥ —**	¥ 10,000	**$ —**
1.1% yen bonds due May 10, 2007	**20,000**	20,000	**186,237**
0.8% yen bonds due June 10, 2009	**15,000**	—	**139,677**
1.1% yen bonds due March 12, 2007	**600**	600	**5,587**
Loans from domestic banks, insurance companies, government agencies and others	**61,735**	71,828	**574,869**
Less portion due within one year	**(17,432)**	(18,342)	**(162,324)**
Total	**¥ 79,903**	¥ 84,086	**$ 744,046**

Due to debt assumption agreement, the Company assigned the obligation to repay 2.0% yen bonds due October 5, 2005 to financial institution. Accordingly, the bond has been treated as redeemed.

The aggregate annual maturities of long-term debt excluding bonds at March 31, 2005 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	**¥ 17,647**	**$ 164,331**
2008	**13,089**	**121,887**
2009	**5,713**	**53,206**
2010 and after	**7,852**	**73,120**
Total	**¥ 44,303**	**$ 412,544**

6. COLLATERAL AND SECURED LIABILITY

Assets pledged as collateral for liability at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Buildings and structures	**¥ 13,056**	¥ 12,816	**$ 121,582**
Machinery, equipment and vehicles	**11,033**	9,497	**102,739**
Tools and furniture	**139**	121	**1,295**
Land	**16,113**	16,411	**150,048**
Investment securities	**4,010**	6,067	**37,348**
Total	**¥ 44,353**	¥ 44,912	**$ 413,011**

Liability secured by the above assets at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Short-term loans	**¥ 2,637**	¥ 2,063	**$ 24,560**
Long-term loans (current portion)	**1,894**	1,282	**17,641**
Long-term loans	**19,186**	24,497	**178,663**
Employees' saving deposit	**2,619**	2,675	**24,392**
Postage	**—**	—	**—**
Total	**¥ 26,338**	¥ 30,517	**$ 245,259**

7. DEFERRED TAX ASSETS AND LIABILITIES

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets			
Retirement benefit	**¥ 3,685**	¥ 3,949	**$ 34,316**
Accrued bonus	**2,769**	2,751	**25,789**
Unrealized gain	**1,158**	1,297	**10,783**
Accrued expense	**1,100**	837	**10,244**
Depreciation	**999**	1,071	**9,307**
Accrued enterprise taxes	**384**	458	**3,579**
Loss carryforward	**1,178**	954	**10,969**
Other	**1,818**	1,467	**16,931**
Subtotal deferred tax assets	**13,093**	12,784	**121,921**
Valuation allowance	**(1,544)**	(1,416)	**(14,377)**
Total deferred tax assets	**11,549**	11,368	**107,543**
Deferred tax liabilities			
Tax deductible reserve	**(3,581)**	(3,688)	**(33,348)**
Net unrealized gains on investments in securities	**(3,780)**	(3,379)	**(35,207)**
Other	**(213)**	37	**(1,990)**
Total deferred tax liabilities	**(7,575)**	(7,030)	**(70,546)**
Net deferred tax assets	**¥ 3,973**	¥ 4,338	**$ 36,998**

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, 2005 and 2004 concerning the finance lease assets which do not transfer ownership to lessees were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Acquisition costs	**¥ 26,020**	¥ 29,514	**$ 242,302**
Accumulated depreciation	**15,613**	16,723	**145,395**
Net book value	**¥ 10,406**	¥ 12,791	**$ 96,906**

The amounts of outstanding future lease payments at March 31, 2005 and 2004, excluding interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Within one year	**¥ 4,816**	¥ 5,842	**$ 44,846**
Over one year	**6,020**	7,468	**56,059**
Total	**¥ 10,836**	¥ 13,310	**$ 100,907**

Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during the year 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Lease expenses paid	**¥6,497**	¥ 7,199	**$ 60,499**
Depreciation expenses	**6,109**	6,719	**56,888**
Interest expenses	**279**	378	**2,600**

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, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ (133,743)**	¥ (134,063)	**$ (1,245,401)**
Fair value of plan assets	**77,146**	74,752	**718,375**
Unrecognized transitional obligation	**11,441**	12,586	**106,541**
Unrecognized actuarial loss	**51,421**	47,038	**478,825**
Unrecognized prior service cost	**(13,219)**	(8,352)	**(123,097)**
Net liability	**(6,954)**	(8,039)	**(64,756)**
Prepaid pension cost	**232**	214	**2,166**
Employees' retirement benefits	**¥ (7,186)**	¥ (8,253)	**$ (66,922)**

The components of net periodic benefit costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 2,331**	¥ 2,585	**$ 21,714**
Interest cost	**3,735**	4,496	**34,780**
Expected return on plan assets	**(2,386)**	(2,075)	**(22,226)**
Amortization of transitional obligation	**1,136**	1,107	**10,579**
Recognition of actuarial gain/loss	**3,923**	4,223	**36,539**
Additional retirement payments and others	**(2,027)**	(414)	**(18,876)**
Net periodic benefit costs	**¥ 6,713**	¥ 9,922	**$ 62,512**

Assumption used for the year ended March 31, 2005 and 2004 were set forth as follows:

	2005	2004
Periodic recognition of projected benefit obligation	**Straight-line method**	Straight-line method
Discount rate	**2.5%**	3.0%
Expected rate of return on plan assets	**Principally 3.5%**	Principally 3.5%
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**	Principally 7 years

10. SELLING,GENERAL AND ADMINISTRATIVE EXPENSES

Principal Selling, general and administrative expenses for the fiscal years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Carriage and storage charges	**¥ 28,029**	¥ 27,351	**$ 261,009**
Sales promotion expenses	**55,454**	54,484	**516,384**
Labor cost	**38,556**	38,664	**359,036**
Employees retirement benefits cost	**4,397**	6,450	**40,944**

11. CONTINGENT LIABILITIES

Contingent liabilities at March 31,2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Guaranteed financial obligations			
PT.INDOMEIJI Dairy Food	**¥ 27**	¥ 27	**$ 260**
Kanedai Ohashi Dairy Co., Ltd.	**—**	10	**—**
Hitachi Dairy Pty., Ltd.	**40**	40	**372**
Meiji Beverage Co., Ltd.	**196**	229	**1,830**
Letter of awareness	**82**	—	**771**
Debt assumption agreement	**10,000**	—	**93,118**
Notes receivable endorsed	**30**	—	**283**
Total	**¥ 10,377**	¥ 306	**$ 96,636**

12. RESEARCH AND DEVELOPMENT COST

Research and development cost which were included in manufacturing expense, selling, general and administrative expenses for the fiscal years ended March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Research and development cost	**¥ 7,558**	¥ 7,423	**$ 70,384**

13. SEGMENT INFORMATION

Information about industry segments for the fiscal years ended March 31, 2005 and 2004 was as follows:

	Millions of yen Consolidated Accounting for Current Fiscal Year April 1,2004 to March 31,2005				
	Foods	Service / Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
Sales to customers	¥ 620,316	¥ 104,707	¥ 725,024	¥ —	¥ 725,024
Intersegment sales	1,662	43,662	45,324	(45,324)	—
Total	¥ 621,978	¥ 148,370	¥ 770,348	¥ (45,324)	¥ 725,024
Operating expenses	605,345	145,447	750,792	(45,183)	705,608
Operating income	16,633	2,923	19,556	(140)	19,415
Assets, depreciation, and capital expenditures:					
Assets	274,894	94,184	369,079	(11,486)	357,592
Depreciation	16,262	4,276	20,538	—	20,538
Capital expenditures	18,041	4,595	22,636	—	22,636

	Millions of yen Consolidated Accounting for Previous Fiscal Year April 1,2003 to March 31,2004				
	Foods	Service / Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
Sales to customers	¥ 621,171	¥ 100,662	¥ 721,833	¥ —	¥ 721,833
Intersegment sales	1,906	43,867	45,772	(45,772)	—
Total	¥ 623,077	¥ 144,529	¥ 767,605	¥ (45,772)	¥ 721,833
Operating expenses	609,415	141,870	751,284	(45,132)	706,153
Operating income	13,662	2,659	16,321	(640)	15,681
Assets, depreciation, and capital expenditures:					
Assets	283,765	100,933	384,697	(19,740)	364,958
Depreciation	16,225	4,599	20,823	—	20,823
Capital expenditures	20,045	4,009	24,054	—	24,054

	Thousands of U.S.dollars Consolidated Accounting for Current Fiscal Year April 1,2004 to March 31,2005				
	Foods	Service / Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
Sales to customers	$ 5,776,296	$ 975,024	$ 6,751,320	$ —	$ 6,751,320
Intersegment sales	15,477	406,576	422,054	(422,054)	—
Total	$ 5,791,774	$ 1,381,601	$ 7,173,375	$ (422,054)	$ 6,751,320
Operating expenses	5,636,885	1,354,382	6,991,268	(420,745)	6,570,523
Operating income	154,888	27,219	182,107	(1,309)	180,797
Assets, depreciation, and capital expenditures:					
Assets	2,559,779	877,035	3,436,815	(106,952)	3,329,853
Depreciation	151,432	39,821	191,253	—	191,253
Capital expenditures	167,996	42,791	210,787	—	210,787

14. SUBSEQUENT EVENTS

On April 1, 2005, the Company received approval of the exemption from payment of benefits related to past employee services in respect of substitutional portion of the public pension fund. The approval was received from the minister of Health, Labor and Welfare, based on the Law Concerning Defined-Benefit Corporate Pension Plans.

In consequence of the above, an extraordinary gain of 2,882 million yen is expected to be recorded for the fiscal year ending March 31, 2006.

REPORT OF INDEPENDENT AUDITORS

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

Report of Independent Auditors

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, 2005 and 2004, 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, 2005 and 2004, 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.

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

The Fuji Accounting Office
Certified Public Accountants

Tokyo, Japan
June 29, 2005

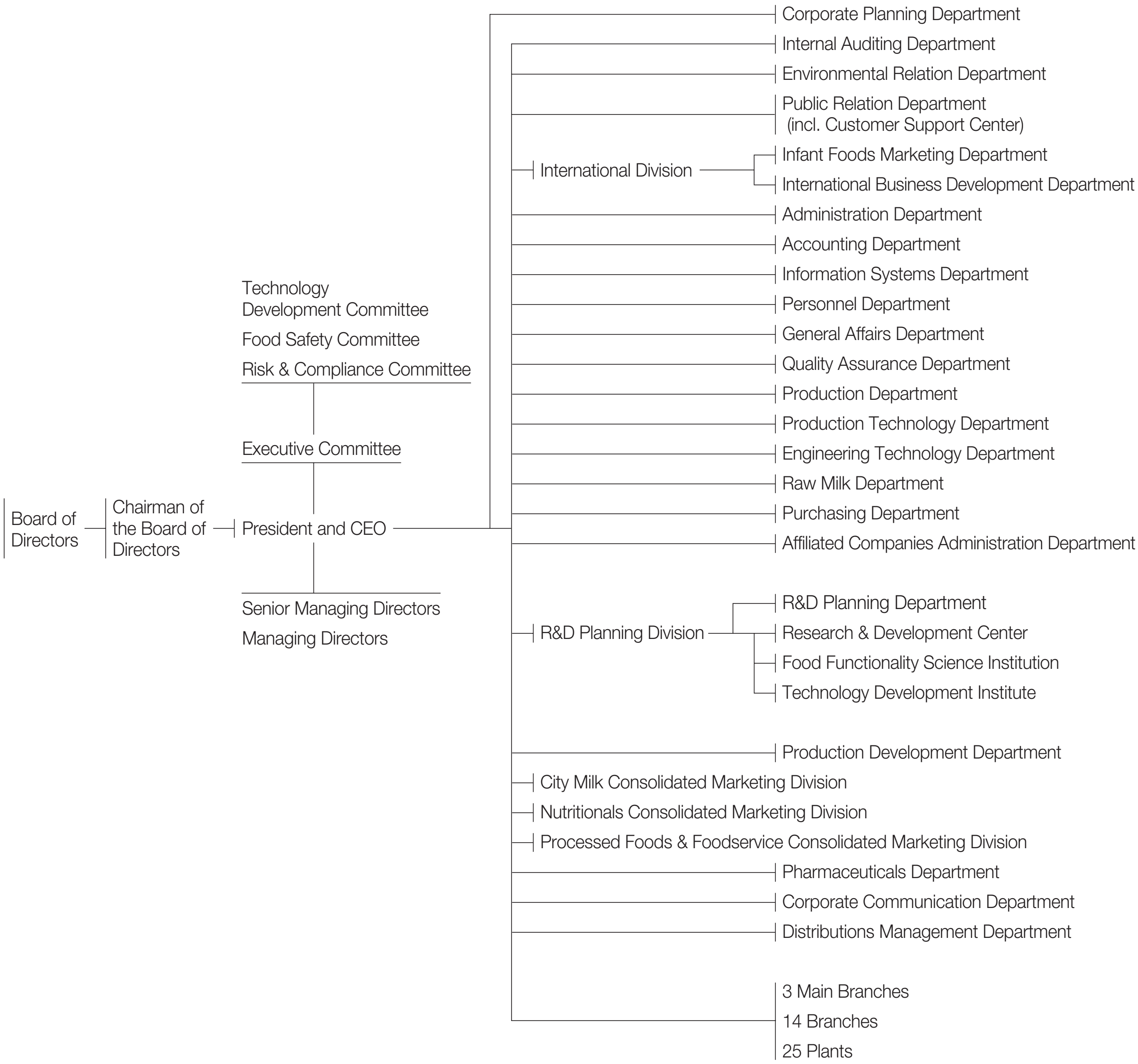
CORPORATE DATA

(As of March 31, 2005)

Head Office:	1-2-10, Shinsuna, Koto-ku, Tokyo 136-8908, Japan
IR Contact:	Phone: 81 (3) 5653-0300 Fax: 81 (3) 5653-0400
Incorporated:	December 21, 1917
Paid-in Capital:	¥23,090 million

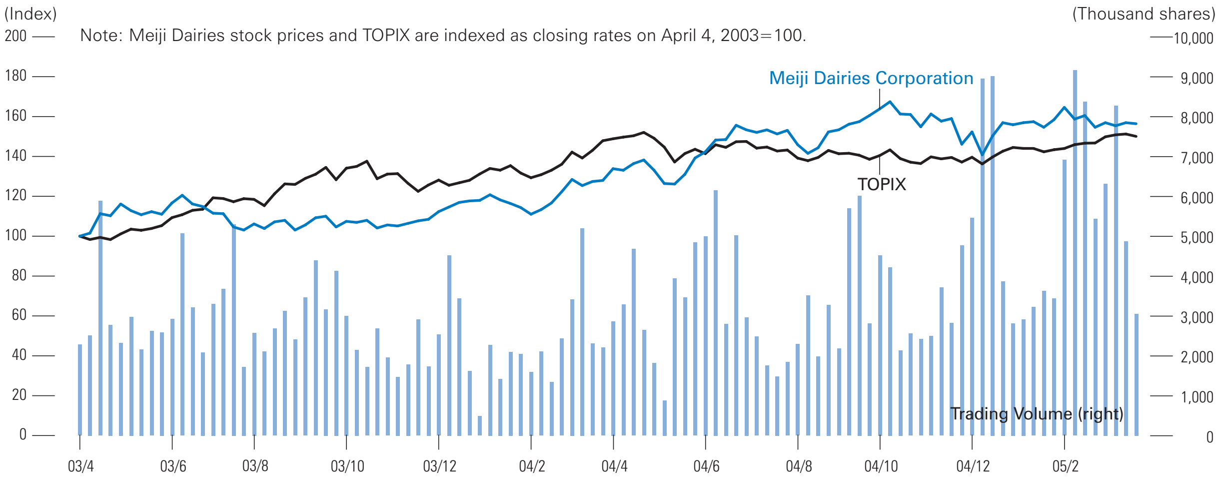
Common Stock:	Authorized: 560,000,000 Issued: 296,648,786
Number of Shareholders:	37,144
Stock Listings:	Tokyo, Nagoya
General Meeting of Shareholders:	June 29, 2005
Transfer Agent of Common Stock:	The Mitsubishi Trust and Banking Corporation
URL:	http://www.meinyu.co.jp/
Number of Employees: (Non-consolidated)	4,673

Organization (As of September 1, 2005)



STOCK INFORMATION

Share Performance and Trading Volume

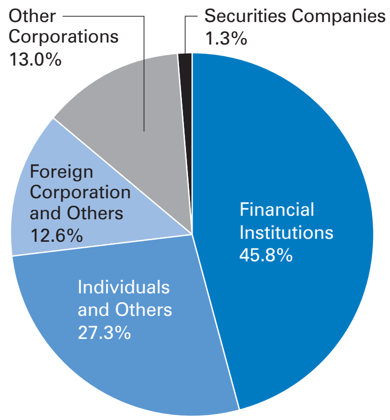


Major Shareholders (As of March 31, 2005)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares in Issue (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,004	6.41
Japan Trustee Services Bank, Ltd. (Trust Account)	17,618	5.94
Mizuho Bank, Ltd.	14,581	4.92
Resona Bank, Ltd.	11,000	3.71
Nippon Life Insurance Company	10,062	3.39
Meiji Seika Kaisha, Ltd.	9,282	3.13
The Norinchukin Bank	8,085	2.73
The Sumitomo Trust & Banking Co., Ltd.	6,985	2.35
Employees Stock Ownership Plan	5,723	1.93
Meijinyugyou Kyoueikai	5,363	1.81
Total	107,707	36.31

Breakdown of Shareholders

(As of March 31, 2005)



GROUP COMPANIES

(As of March 31, 2005)

Manufacturing and sales of milk, dairy products, ice cream and other foods

	Shareholding (%)	Capital (Millions of yen)
Meiji Oils and Fats Co., Ltd.	100.00	38
Nihon Kanzume, Co., Ltd.	64.53	314
Osaka Hosho Milk Products Co., Ltd.	100.00	473
Shikoku Meiji Dairy Products Co., Ltd.	100.00	480
Tokai Meiji Co., Ltd.	99.17	74
Okinawa Meiji Milk Products Co., Ltd.*	50.00	91
Pampy Foods Incorporation*	30.30	99

*Equity-method affiliate

Sales of milk, dairy products, ice cream, etc.

Tokyo Meihan Co., Ltd.	94.67	2,285
Chubu Meihan Co., Ltd.	94.67	379
Kinki Meihan Co., Ltd.	94.67	490
Kyushu Meinyu Hanbai Co., Ltd.	94.67	445
Tokyo Meiji Foods Co., Ltd.	100.00	480
Tohoku Meihan Co., Ltd.	94.67	400
Chugoku Meihan Co., Ltd.	94.67	490
Kanazawa Meihan Co., Ltd.	94.67	65
Hokkaido Meihan Co., Ltd.	94.67	90

Livestock business

	Shareholding (%)	Capital (Millions of yen)
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.	94.67	98
Kantora Logistics Co., Ltd.	94.67	396
K.C.S. Co., Ltd.	100.00	480

Others

Fresh Network Systems Co., Ltd.	94.67	4,604
Ohkura Pharmaceutical Co., Ltd.	100.00	72
Meiji Techno-Service Inc.	100.00	30
Nice Day Co., Ltd.	100.00	25

Meiji Dairies Corporation

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Phone: +81 (3) 5653-0300
URL: http://www.meinyu.co.jp/

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