Meiji Dairies Corporation

Meiji Dairies Corporation

ANNUAL REPORT 2004

For the Year Ended March 31, 2004

Meticulous in every detail, even packaging —That's Meiji Dairies.

"Meiji Oishii Gyunyu" is one of our core products. We are meticulous about each of the elements that make up flavor—including richness, mouth-feel, aftertaste, and fragrance—and to maximize each of these elements we process our milk using proprietary, patented manufacturing methods. We are also highly focused on the design and functionality of our packaging. This photograph is of a "Meiji Oishii Gyunyu" container prior to assembly.

By paying attention even to small details, we at Meiji Dairies are able to create differentiated products.

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 safety, health, and taste. By honing our competitive edge in these ways, we will seek to earn the strong support of all stakeholders, including our customers, the society, and investors. In the process, we will strive to further solidify the Meiji Dairies brand and maximize corporate value.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

Unless specifically stated otherwise, information in this annual report is as of August, 2004.

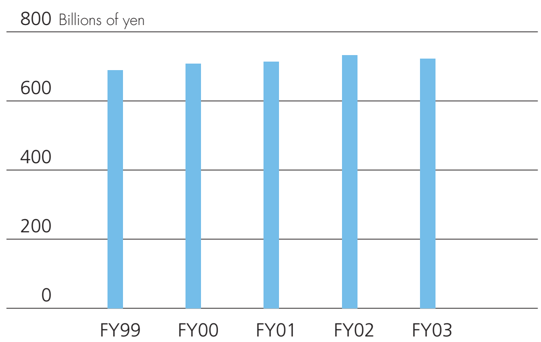
Financial Highlights

Meiji Dairies Corporation and Consolidated Subsidiaries

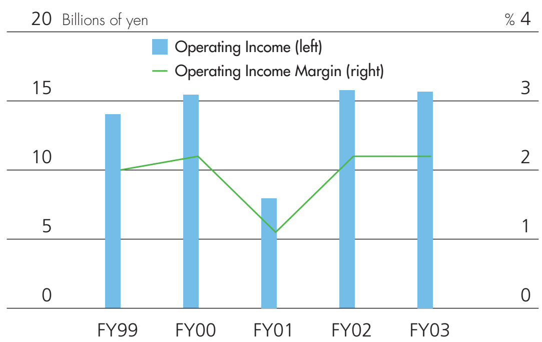
	Millions of yen (Unless otherwise noted)			Thousands of U.S. dollars (Unless otherwise noted)
	FY2001 April 2001~ March 2002	FY2002 April 2002~ March 2003	FY2003 April 2003~ March 2004	FY2003 April 2003~ March 2004
For the year:				
Net sales	¥ 713,980	¥ 732,369	¥ 721,833	$ 6,829,724
Cost of sales	519,587	528,997	524,253	4,960,293
Selling, general and administrative expenses	186,452	187,603	181,899	1,721,065
Operating income	7,941	15,769	15,681	148,366
Net Income	2,093	4,051	7,950	75,218
At year-end:				
Total assets	¥ 381,980	¥ 363,354	¥ 364,958	$ 3,453,096
Shareholders' equity	80,436	82,241	91,892	869,451
Interest-bearing debt	153,040	150,317	142,352	1,346,884
Per share data (Yen, U.S. dollars):				
Net income	¥ 7.06	¥ 13.56	¥ 26.74	$ 0.25
Shareholders' equity	271.18	277.55	310.23	2.94
Cash dividends	6.00	6.00	6.00	0.06
Ratios:				
Return on equity (ROE)(%)	2.6	5.0	9.1	—
Return on assets (ROA)(%)	0.5	1.1	2.2	—
Debt-equity ratio (times)	1.9	1.8	1.5	—
Other information:				
Number of employees	8,083	7,754	7,482	—

Notes:
1. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 105.69, the exchange rate prevailing on March 31, 2004.
2. Interest-bearing debt = Short-term loans payable + Long-term debt
3. Net income per share for the year ended March 2003 and 2004 was calculated in accordance with a new accounting standard (Refer to Note 2 (n) of the Notes to Consolidated Financial Statements).
4. ROE = Net income/simple average of shareholders' equity at the beginning and at the end of the fiscal year
5. ROA = Net income/simple average of total assets at the beginning and at the end of the fiscal year
6. Debt-equity ratio = Interest-bearing debt/Shareholders' equity

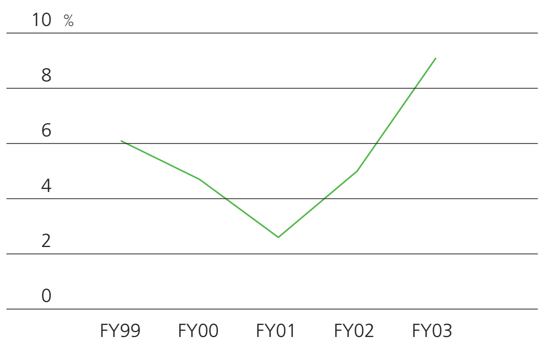
Net Sales



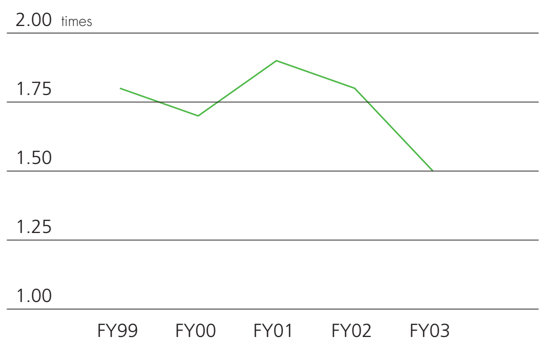
Operating Income and Operating Income Margin



ROE



Debt-Equity Ratio



To Our Shareholders and Customers

President and Chief Executive Officer
Shigetaro Asano

Maximizing enterprise value

— The Meiji Dairies Group will accelerate toward this goal under an efficient management system, gaining unparalleled trust and support from all our stakeholders by providing high-value-added products and services as well as through our ongoing commitment to contribute to society.

Fiscal 2003 in Review

Business Environment—Downbeat Conditions Continue

The recovery in the Japanese economy that began in fiscal 2002 gathered steam going into fiscal 2003. China emerged as a new driver of the global economy, supplementing the United States, and exports from Japan increased steadily. In addition, digital consumer electronics and other industries in which Japanese firms can wield their originality grew rapidly, and there were also signs of a recovery in capital investment, which had fallen for many years. However, the operating environment surrounding the Meiji Dairies Group, particularly in the area of personal consumption, remained downbeat in fiscal 2003. Employment uncertainties and the growing burden of social expenses weighed heavily on personal consumption overall, and both consumer spending and retail sales were below year-ago levels through the third quarter. In the fourth quarter, however, signs of brightness at last started to appear in both consumer spending and the employment situation.

Results Report—Overcoming Unfavorable Operating Conditions through Self-Help Efforts

Consolidated Results

—Self-Help Efforts Compensated for Deterioration in External Environment, Enabling Increase in Ordinary Income

Consolidated net sales decreased 1.4% year-on-year in fiscal 2003. As noted, consumer spending was poor overall. In addition, the unseasonably cool summer weather, intense market competition, and termination of sales of some low-profitability products in an effort to improve the parent company's product mix negatively affected our sales for the whole year. In the second half of the year, however, net sales rose 2.5% year-on-year. Meanwhile, operating income decreased 0.6% year-on-year. The parent company was hindered by lower revenue, deterioration in the external environment, such as increased pension benefit expenses, and higher advertising and promotion costs stemming from an aggressive marketing strategy. However, it compensated for these factors through self-help measures, including improving product mix through a shift to high-value-added products, reviewing prices, and reducing procurement costs. Ordinary income rose 7.8% year-on-year despite the decline in revenue, owing to reductions in non-operating expenses. Net interest expense improved ¥270 million as a result of a reduction in interest-bearing debt, while inventory disposal losses decreased ¥400 million. In addition to the increase in ordinary income, we recorded a ¥3.53 billion increase in gains on the sale of fixed assets. As a result, net income roughly doubled year-on-year, to ¥7.94 billion, or ¥26.74 per share.

Factor Analysis of Operating Income (Non-Consolidated)

(Billions of yen)

Effect from deterioration in external environment:	
Decrease in sales amount due to unseasonably cool summer etc.	–4.7
Increase in retirement benefit costs	−1.2
Total	–5.9
Effect from self-help measures:	
Increase in advertising and promotion costs	−1.1
Review of core products' prices	+2.1
Improvement in product mix	+3.7
Reduction of procurement costs	+0.4
Total	+5.1
Total decrease in operating income:	–0.8

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Progress in Our Medium-Term Management Plan —Structural Improvement Strategy Succeeding

Fiscal 2003 was the first year of a three-year medium-term management plan that will guide us through fiscal 2005. The basic concept of the plan is "Transformation into an enterprise of advanced innovation—Establishing our corporate brand and transforming our business into a high-profitability structure." The plan targets consolidated net sales for fiscal 2005 of ¥760 billion (up 3.8% from fiscal 2002) and ordinary income of ¥23 billion (up 57.5%). To achieve this, the plan sets forth seven important strategies as outlined below. Although we encountered a difficult operating environment in the first year of the plan, we believe we made a certain amount of progress in implementing these strategies. Our marginal income ratio rose sharply in fiscal 2003, from 30.2% to 32.1%.

1. Concentrating management resources on our core operations

Our core products, which feature high added value, accounted for 66% of net sales in fiscal 2003, a sharp increase from the 61% recorded in fiscal 2002. Sales of high-value-added milk "Meiji Oishii Gyunyu*" and premium ice cream "Aya" rose 55% and 53% year-on-year, respectively.

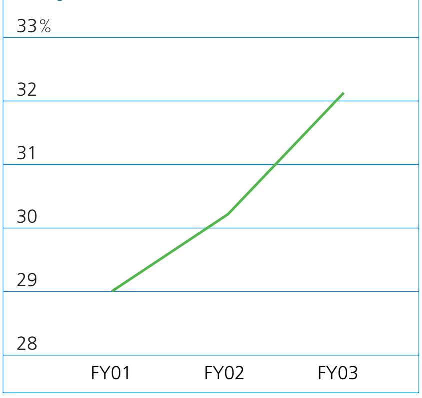
* "Oishii Gyunyu" means "delicious milk" in Japanese.

2. Maximizing our technological and product development capabilities

We worked to increase our technological and product development capabilities, which differentiate us from the competition, through such steps as merging research facilities in April 2003. One manifestation of these efforts is the aforementioned shifting of the product mix toward high-value-added products. We note that the ratio of milk products sold in 1-liter and 500ml paper cartons on which we applied Extended Shelf Life (ESL)* technology, one of the Meiji Dairies Group's core technologies, increased sharply in fiscal 2003, to 90% from 70% in fiscal 2002.

* ESL technology increases the hygiene level of chilled products through sophisticated quality control throughout the manufacturing process, enabling significantly longer products shelf life.

Marginal Income Ratio (Non-consolidated)



3. Increasing the value of our corporate brand

We established a new Communications Department in April 2003 in an effort to strengthen the Meiji Dairies brand. While adhering to a strategy of "selectivity and focus," we increased total advertising and promotion spending by 16% in fiscal 2003. We believe that this, along with the aforementioned shifting of the product mix toward high-value-added products, will lead to an improvement in our brand strength. "Brand milk," such as "Meiji Oishii Gyunyu," accounted for 59% of all milk in 1-liter and 500ml paper cartons in fiscal 2003, up from 44% in fiscal 2002.

4. Carrying out across-the-board structural reforms

We lowered the number of regular full-time employees at the parent company, from 4,766 at the end of fiscal 2002 to 4,496 at the end of fiscal 2003. We compensated for the reduction in the workforce by increasing productivity through the introduction of a Manufacturing Execution System (MES) and supply-chain management.

5. Bolstering the product safety management system and maximizing compliance

We actively worked to promote food safety and compliance-based management by newly establishing a Food Safety Committee and a Risk & Compliance Committee. Moreover, our Customer Support Center is contacted by our customers and consumers more than 130,000 times a year. We value this input and frequently use it as a management resource.

6. Improving our financial structure

We reduced non-consolidated interest-bearing debt from ¥99.9 billion at the end of fiscal 2002 to ¥92.7 billion at the end of fiscal 2003.

7. Promoting group management

We established Fresh Network Systems Co., Ltd. in April 2003, and worked to increase the efficiency of our sales and distribution companies. As evidence of the results of our efforts to restructure subsidiaries and affiliates, the gap between consolidated and non-consolidated operating income expanded from ¥3.4 billion in fiscal 2002 to ¥4.2 billion in fiscal 2003.

Sales of High-Value-Added Products

(Billions of yen)

	FY02	FY03	Change
Meiji Oishii Gyunyu	22.0	34.0	+55%
Meiji Bulgaria Yogurt Series	58.0	58.0	—
Meiji Probio Yogurt LG21	24.0	25.0	+4%
Home Delivery Products	44.8	46.2	+3%
Aya	1.5	2.3	+53%
VAAM	9.0	8.5	–6%

Fiscal 2004 Outlook

Operating Environment

Because consumer spending is a lagging indicator of the broader economy, we think the operating environment will improve somewhat in fiscal 2004. Over the longer term, however, the situation is decidedly not promising, owing to such structural issues as Japan's decreasing population along with its declining birthrate and growing proportion of elderly people. Amid these conditions, we at the Meiji Dairies Group will work to achieve the numerical targets in our medium-term management plan by proactively and quickly comprehending customers' needs. Recently, consumer awareness of food safety issues has increased sharply. In addition, there has been a rise in health consciousness as the population ages. Moreover, changes in lifestyles have led to a diversification of consumer preferences. In this environment, we believe that differentiating our products and services as well as strengthening our cost advantages will ensure our success.

Earnings Outlook

On a consolidated basis, we aim to increase net sales by 2.1%, operating income by 19.9%, and net income by 14.5% from fiscal 2003. We believe improvement in the parent company's product mix and increased sales of high-value-added products will be the biggest drivers of profit growth. We think a decrease in pension benefit expenses stemming from the revision of Japan's pension system will also contribute to earnings growth (we project that this will add roughly ¥1.6 billion to non-consolidated earnings).

In Closing

Strengthening the Meiji Dairies brand—not only through cost-competitiveness, but also by differentiating our products and services in terms of safety and meeting consumer preferences—will enable sustained profit growth.

Although our efforts are steadily yielding results, we are far from satisfied with our present state. We are well aware that our consolidated ordinary income margin is still low, at 2.2%, and that we still have excess debt, with a debt-equity ratio remaining at 1.5 times. We are working diligently to shore up our base—both in terms of our profit structure and our financial structure—through further increases in distribution and production system efficiency, headcount reduction, and priority repayment of debt. In addition, we are working to fully leverage our technology, a core management resource accumulated over many years, to accurately grasp changes in consumer needs resulting from enhanced consumer awareness of food safety and health issues and diversification of consumer preferences. By providing products and services that achieve differentiation in these respects, we believe we will achieve unparalleled customer trust and support. We believe that this will lead to an even stronger Meiji Dairies brand, a sustained increase in enterprise value, and ultimately, rewards for shareholders and other investors.

I appreciate your continued support and understanding.

August 2004

Shigetaro Asano

President and Chief Executive Officer
Shigetaro Asano

Special Feature: Aiming for Growth Through Differentiation

Amid a challenging business environment marked by a shrinking population, a declining birthrate, and an aging society, we at the Meiji Dairies Group are working to achieve sustainable profit growth through differentiation in products and services as well as in costs. Our current medium-term management plan was formulated to achieve this, and is based on the following seven major policies. We have already discussed the results we have achieved thus far by executing these strategies, and in this section, we will focus on our future endeavors.

Unceasing effort until Meiji Dairies establishes a robust brand image

1. Concentrating Management Resources on Our Core Operations

We are working to further concentrate management resources on value-added core businesses and products by leveraging our advantages in technology and R&D. Our core businesses include brand milk, yogurt including probiotics products, home delivery products, nutraceutical products, and premium ice creams. Sales in these core businesses accounted for 66% of total sales in fiscal 2003. We plan to increase this figure to 70% in fiscal 2005. To that end, we are working to further strengthen the Meiji Bulgaria Yogurt brand, which we have positioned as a core product, and to increase sales of Meiji Oishii Gyunyu, Meiji Probio Yogurt LG21, home delivery products, Aya, VAAM, and others. To accomplish this, we are striving to enhance the lineup for each of our product lines. At the same time, we are working to increase awareness and understanding of our products and promote the Meiji brand through more aggressive advertising, including TV commercials. In addition, through our Website we are providing detailed information on our products that is difficult to convey through advertising alone (such as the products' attributes, functions, nutritional value, and effects). Moreover, we plan to sponsor a symposium on yogurt.

Sales Targets for Our Core Products

(Billions of yen)

	FY03 (Actual)	FY04 (Target)	Change
Meiji Oishii Gyunyu	34.0	39.0	+15%
Meiji Bulgaria Yogurt Series	58.0	60.0	+3%
Meiji Probio Yogurt LG21	25.0	26.0	+4%
Home Delivery Products	46.2	48.0	+4%
Aya	2.3	3.8	+65%
VAAM	8.5	9.0	+6%

2. Maximizing Our Technological and Product Development Capabilities

The medium-term management plan calls for (1) product innovation through the maximum use of the new research system, (2) the enhancement of major new product development in core businesses, and (3) aggressive augmentation of the product safety management system. To achieve these ends, in April 2004 the Company realigned its research organizations into three units: the Research & Development Center, the Food Functionality Science Institute, and the Technology Development Institute. The Research & Development Center focuses on new product development, while the Food Functionality Science Institute specializes in the basic research of food function. The Technology Development Institute develops new manufacturing methods, and conducts research activities such as quality analysis aimed at enhancing the food safety management system.

Meiji Dairies' core technologies include fermentation technology, probiotics technology, infant nutrition technology, and emulsification technology. By developing further applications for these technologies, we intend to utilize derivative technologies in developing new products that will create even more differentiation between ourselves and our competitors. We plan to spend ¥7.0 billion on R&D in fiscal 2004 and a similar amount in fiscal 2005.

3. Increasing the Value of Our Corporate Brand

It will take more than just image creation to increase the value of our corporate brand over the longer term. We are well aware that upgrading our operations in every respect, including our technology, production, sales, and distribution, and at the same time providing products our customers can rely on and have confidence in are among the first steps in creating a brand. On top of these, we are working to enhance outside communication. This goes beyond simply promoting the existence of our products. Through our Website and other means, we intend to actively provide detailed ancillary information regarding the technologies behind our products, the nutritional aspects of our milk and milk products, and food safety and reliability.

4. Carrying Out Across-the-Board Structural Reforms

We plan to reduce the number of regular full-time employees at the parent company from nearly 4,500 at the end of fiscal 2003 to 4,250 at the end of fiscal 2005. While the number of employees reaching mandatory retirement age is concentrated in this period, we are also curtailing new hires. To enable us to continue steadily manufacturing and supplying high-quality, safe products with fewer employees, we are working to establish a more efficient management system and to increase productivity. We believe that doing so will increase our cost-competitiveness, allow us to provide differentiated products at a fair price, and enable us to win even stronger support from consumers.

As a means of increasing productivity, in fiscal 2004 we will introduce the manufacturing execution system (MES)* at four plants (Asahikawa, Sapporo, Moriya, and Aichi), completing the process of adopting MES at all existing city milk production facilities. We then plan to consider its introduction at production facilities that manufacture milk products such as cheese and butter. In addition, in fiscal 2004 we will expand the application of supply-chain management (SCM), which we have introduced for products manufactured at our own production facilities, to include products manufactured by external companies to which we outsource production, including Chiba Meiji Co., Ltd., and Meiji and Fats Co., Ltd. In addition, we will build a new plant for the Kansai area in Kaizuka, Osaka Prefecture, and close two others, the Kansai Plant and the Hyogo Plant. The new facility will be the core plant in western Japan for the manufacturing of yogurt and probiotics products. The new plant is scheduled to come on stream in stages from October 2005 through January 2006.

As part of our cost-reduction efforts, we are working to optimize manufacturing and the transfer of product between production facilities by consolidating the number of city milk order centers to two—one each for eastern and western Japan. We also aim to streamline the delivery process and control distribution expenses. Moreover, as a means of reducing retirement benefit costs, in fiscal 2004 and fiscal 2005 we plan to return the portion of welfare pension assets administered on behalf of the government and introduce a cash balance pension plan, as well as a similar plan. By doing so, we expect to reduce retirement benefit costs by ¥1.6 billion in fiscal 2004, and by a maximum of ¥4.0 billion in fiscal 2005, compared to fiscal 2003.

* MES is a system developed by Meiji Dairies that centrally controls production by automating manufacturing instructions and collecting manufacturing data in real time.

wth Through

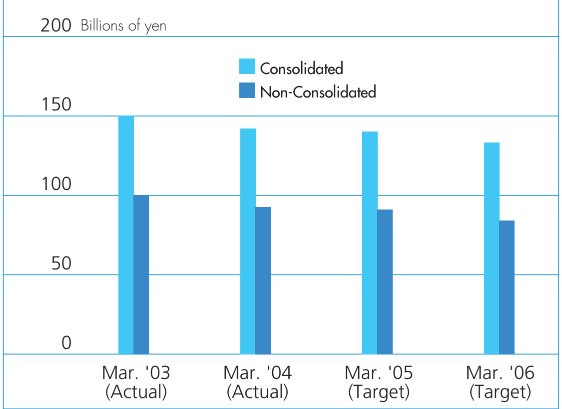
5. Bolstering the Product Safety Management System and Maximizing Compliance

We continue in our efforts to win consumers' confidence in the safety and reliability of our food products by augmenting the activities of our in-house Food Safety Committee. At the same time we are putting in place a system that will enhance our ability to deal with various forms of risk.

In March 2004, we developed our Crisis Management Committee into a Risk & Compliance Committee, and appointed dedicated staffs. Thus, in addition to the measures in place for quickly and smoothly dealing with emergencies, we are working to project and prevent emergency situations while conditions are normal, and are promoting activities designed to ensure compliance.

In addition, through the Information Security Committee established in September 2003, we are working to enhance information management.

Reduction in Interest-Bearing Debt



6. Improving Our Financial Structure

We are making progress in lowering interest-bearing debt by making debt repayment a priority in allocating free cash flow. On a consolidated basis, we plan to lower interest-bearing debt from ¥142.3 billion at the end of fiscal 2003 to ¥133.0 billion by the end of fiscal 2005, and on a non-consolidated basis from ¥92.7 billion from ¥84.0 billion over the same time frame. Although we plan to lower consolidated and non-consolidated interest-bearing debt by only around ¥2 billion in fiscal 2005, we plan to reduce these by roughly ¥7 billion in fiscal 2005, as we expect a further expansion in profit and the winding down of capital investments to result in an increase in free cash flow. By the same token, the expected increase in profits should cause shareholders' equity to rise, resulting in a decline in consolidated debt-equity ratio to a level lower than the 1.5 times at the end of fiscal 2003.

7. Promoting Group Management

The medium-term management plan targets a strengthening of Meiji Dairies' management base through realignment and consolidation of Group companies with a new emphasis.

In April 2004, two subsidiaries (Hokkaido Meihan Co., Ltd. and Kyushu Meinyu Hanbai Co., Ltd.) were placed under the aegis of a holding company, Fresh Network Systems Co., Ltd. This move completed the creation of a nationwide chilled products distribution network system spanning the entire Meiji Dairies Group. Going forward, we will pursue lower costs and economies of scale by further improving efficiencies in distribution.

We are also concentrating service operations with subsidiary Nice Day Co., Ltd. We plan to augment its functions by making it able to handle mail-order, group financing, and IT operations, as well as making it responsible for the Group's back-office outsourcing.

Cash Flow Plan

(Billions of yen)

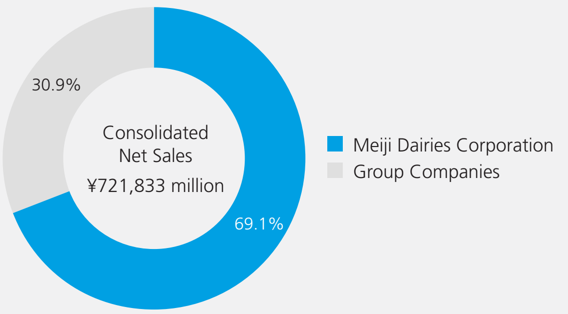
		FY03 (Actual)	FY04 (Target)	FY05 (Target)	Three-year Total
Consolidated	Cash flows from operating activities	25.7	33.0	35.0	93.7
	Cash flows from investing activities	–16.1	–29.0	–26.0	–71.1
	Net cash flow	9.6	4.0	9.0	22.6
Non-Consolidated	Cash flows from operating activities	18.0	26.0	28.0	72.0
	Cash flows from investing activities	–9.0	–22.0	–19.0	–50.0
	Net cash flow	9.0	4.0	9.0	22.0

Review of Operations
(Non-Consolidated)

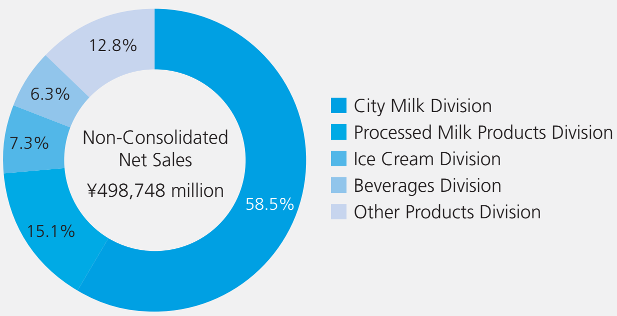
Overview and Perspectives

- In this section, we discuss in depth business results and business strategy at 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 around 70% of consolidated net sales and operating income (in fiscal 2003, 69.1% of net sales and 73.1% of operating income). By doing so, we hope to deepen understanding of the Meiji Dairies Group's operations among all stakeholders.
- Parent sales declined year-on-year for all segments, attributable to unseasonably cool summer in 2003, stepped-up market competition, and efforts to improve the product mix. Overall, net sales fell 3.9%, to ¥498.7 billion. However, we believe fiscal 2003 results show conclusively that, even amid an unfavorable external environment, we made steady progress in improving the structure of Meiji Dairies, in accordance with the Company's medium-term management plan. Specifically, we have been quite successful in shifting to high added-value products such as brand milk and yogurt and in reducing costs.

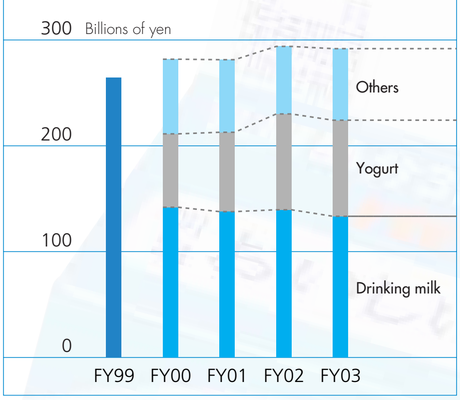
Breakdown of Consolidated Net Sales



Non-Consolidated Net Sales by Division



Breakdown of Divisional Net Sales



*Breakdown of divisional net sales is only available from FY00.

City Milk:
Pursuing a High Value-Added Strategy, Centering on Brand Milk and Yogurt

1. Results for Fiscal 2003

Sales in this division decreased 0.7% year-on-year, to ¥291.8 billion. Sales fell 4.6% in the first half of the year, owing to cool summer weather and other factors, but rebounded in the second half, rising 3.6% year-on-year.

Sales of milk, processed milk and milk beverages fell 4.4% year-on-year, to ¥133.4 billion. This was attributable to the cool summer and to the elimination of unprofitable products. However, the 4.4% decline in sales was not as large as the 7.4% fall in sales volume (in terms of kiloliters), demonstrating that our efforts to shift to high value-added products and to correct prices had positive effects. Sales of "Meiji Oishii Gyunyu" rose 55% year-on-year, to ¥34.0 billion, despite the aforementioned challenging business environment. Brand milks (such as "Meiji Oishii Gyunyu" and "Meiji Tokachi Gyunyu") accounted for 59% of all milk sold in one-liter and 500ml paper cartons in fiscal 2003, up from 44% in fiscal 2002.

Sales of yogurt rose 0.3% year-on-year, to ¥90.8 billion (but fell 0.8% on a volume basis). We estimate that overall market for yogurt shrank by 4% in fiscal 2003, reflecting a reaction to the surge in the popularity of yogurt in fiscal 2002 as a health food. Given this, we think the Company made a strong showing in yogurt products. As was the case in milk, we made progress in shifting to high added-value yogurt products. Specifically, sales of "Meiji Probio Yogurt LG21" rose 4%, to ¥25.0 billion.

Sales in the "others" category rose 5.9% year-on-year,

Meiji Oishii Gyunyu

Meiji Bulgaria Yogurt LB81

Meiji Probio Yogurt LG21
Drink Type

to ¥67.5 billion, thanks to the successful launch of new products such as pudding and other dessert items and "Café Fresso," which is made using Meiji Dairies' proprietary P.U.R.E.* manufacturing method.

In home delivery services, sales rose 3% year-on-year, to ¥46.2 billion, thanks to the revamping of the entire product line. The number of subscribers rose sharply, reaching 2.75 million households as of the end of November 2003, up 6% from the year-ago level.

* P.U.R.E. stands for "Produced with Unheated and Rapid Extraction." This method involves obtaining coffee extract rapidly (roughly 40 seconds) and at low temperature (20 degrees Celsius). This produces coffee with rich aroma and little acidity.

2. Strategy for Fiscal 2004

We will continue working to increase sales of high value-added products.

In milk, processed milk and milk beverages, our sales target for "Meiji Oishii Gyunyu" in fiscal 2004 is ¥39.0 billion. We will expand home delivery of this product in bottles, as well as sales in 200ml containers, from a regional basis to a nationwide basis. At the same time, we will spend aggressively on advertising, including TV commercials, as a means of further increasing awareness and understanding of "Meiji Oishii Gyunyu." By doing so, we intend to solidify our superior market position. In processed milk products, we will put energy into adding nutritional and functional value to our products. We will work to expand sales of "Meiji Onaka Katsuryoku Milk" and "Meiji Sodachizakari," both of which we launched in March 2004. "Meiji Onaka Katsuryoku Milk" helps increase the amount of bifidobacteria in the body, and we have received government approval to label this product a "specified health food." "Meiji Sodachizakari" supplies calcium and three kinds of essential amino acids. At the same time, we will invest aggressively in new products, and work to create a unique industry position and brand.

We believe the market for yogurt has significant room to grow, and we aim to expand sales in this area, centering on "Meiji Bulgaria Yogurt" and " Meiji Probio Yogurt LG21." Our sales target for yogurt overall in fiscal 2004 is ¥95.0 billion, a 5% year-on-year increase. Of this, our sales target for "Meiji Probio Yogurt LG21" is ¥26.0 billion, up 4%. We will work to differentiate our yogurt products by launching high value-added products, and at the same time continuing to invest in TV commercials to increase customer loyalty. In addition, in order to stimulate the yogurt market as a whole, we will disseminate information related to the beneficial health effects of lactobacillus and yogurt, and sponsor a symposium on the subject.

In home delivery services, we aim for ¥50.0 billion in sales and 3 million subscribers in fiscal 2005. Having completed construction of a new plant at Tokai Meiji (the Fukuroi Plant), thereby expanding the number of small bottle production bases from two to three, we will aggressively launch new products. In addition, we plan to start introducing new lightweight coated bottles in September 2004. These bottles are resin-coated, making them more scratch-resistant, and lighter.

Processed Milk Products:

Continuing to Put Energy Into Formula and Cheese Amid a Challenging Business Environment

Meiji Kogen-Sodachi

Meiji Hohoemi, Bonyu-Science-Milk

1. Results for Fiscal 2003

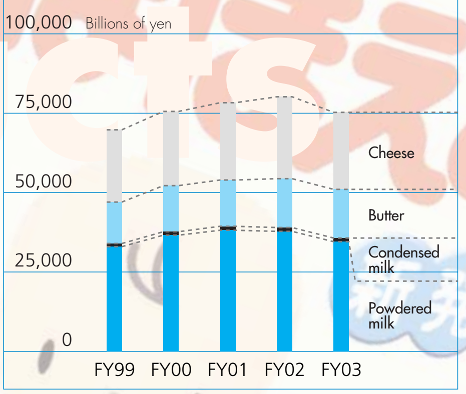
Sales in this division fell 6.1% year-on-year in fiscal 2003, to ¥75.2 billion. Largely because demand for infant formula was down year-on-year owing to structural issues such as the declining birthrate, sales of powdered milk declined 8.6%. Sales of cheese fell 6.0%, owing partly to a difficult comparison with fiscal 2002, when cheese sales surged, and partly to stepped up competition. Sales of condensed milk fell 5.1%, while sales of butter were essentially flat, declining 0.4%.

2. Strategy for Fiscal 2004

In fiscal 2003, the number of births in Japan was the lowest on record, falling 3% year-on-year, to 1.12 million. There is no indication that this decline will slow, and we think the external environment surrounding powdered milk operations will become even more unfavorable. Amid these conditions, we will continue working to develop powdered milk with properties closer to those of mother's milk. In addition, we will enhance the "Hohoemi Club," our Internet-based child-care information service and work to deepen understanding of our products. Through these efforts, we hope to overcome the challenging business environment.

In processed cheese, the cost of imported natural cheese, a raw material, has soared, but we intend to keep prices reasonable by focusing on high added-value products. Specifically, we will concentrate management resources on

Breakdown of Divisional Net Sales



sliced cheese, which accounts for around 30% of the household-use cheese market, and will launch differentiated products following "Meiji Ajiwai Kaoru Torokeru Sliced Cheese" (released in March 2004). In natural cheese, which uses domestically produced milk as a raw material, we will actively promote "Meiji Tokachi Camembert," which marks its fifth anniversary in fiscal 2004, and will work to increase our brand strength.

Ice Cream:

Aiming for Even Greater Penetration for the Aya Brand

AYA

Essel Super Cup

1. Results for Fiscal 2003

Fiscal 2003 was marked by not only a challenging business environment, including a declining birth rate and increased competition, but also by cool summer weather. As a result, sales of ice cream decreased 11.5% year-on-year, to ¥36.5 billion. Amid this, however, we implemented a shift in business structure to put greater emphasis on profitability, and we believe this yielded a certain amount of benefit. In addition, sales of Aya brand premium ice cream surged 53%, to ¥2.3 billion.

2. Strategy for Fiscal 2004

We intend to expand sales of high added-value products (such as "Meiji Essel") by exercising greater selectivity and focus, thereby strengthening our profit-generating power. Premium ice cream is a field in which we can harness our technologies in areas such as taste and mouthfeel, and we plan to continue concentrating management resources on this field. In April 2004, we launched "Aya Creamy," a new product with even better flavor. In fiscal 2004, we will step up our advertising activities in an effort to achieve even greater market penetration for the Aya brand.

Beverages:
Putting Emphasis on Segment Profitability

1. Results for Fiscal 2003
Owing to the impact of cool summer weather and increased market competition, beverage sales decreased 8.4% year-on-year, to ¥31.5 billion.

2. Strategy for Fiscal 2004
As in other segments, we are putting emphasis on segment profitability, and are working to sell our products at a reasonable price. We will maximize the use of our strengths in the area of chilled beverages, and we will start vending-machine sales of the "Brick" series.

Minute Maid

Other Products:
Targeting Nutraceuticals, Liquid and Nursing Care Food

1. Results for Fiscal 2003
This segment includes margarine, frozen foods, and nutraceuticals. In fiscal 2003, segment sales fell 7.9%, to ¥63.6 billion. This was primarily attributable to margarine and frozen foods, sales of which fell year-on-year, partly in reaction to the surge in sales in fiscal 2002. In nutraceuticals, sales of "VAAM" fell 6%, to ¥8.5 billion, owing to the cool summer. However, sales of "Meibalance" and other liquid foods rose, and as a result nutraceuticals sales overall increased year-on-year.

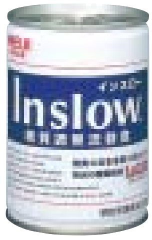
2. Strategy for Fiscal 2004
In margarine, we aim to achieve the top market share by promoting sales of existing products such as "Meiji Corn-Soft," and by stimulating demand growth and the overall market by introducing value-added spreadable products. In nutraceuticals, we will continue to put energy into expanding sales of "VAAM," and have set a sales target for this product of ¥9.0 billion (up 6% year-on-year). What differentiates "VAAM" from other amino acid drinks is that it provides a balance of 17 amino acids, enabling the user to burn fat through exercise. We will conduct sales and promotion activities in order to increase awareness of this concept, and will enhance the product line-up.

We believe our liquid and nursing care foods will become an important product line as Japan's population ages, and we will put energy into the Meibalance brand in an effort to expand sales in this area. We have launched "Meibalance S300 ZCS," a high added-value product that contains trace elements such as zinc and copper, and aim to increase our market share. In addition, in light of the growth of the home care market, we will work to expand sales of liquid and nursing care foods by leveraging our home-delivery sales channel, one of the Company's strengths.

Meiji Corn-Soft

Pizza & Pizza

VAAM



Inslow

Facts & Figures
1. Consolidated Financial Summary

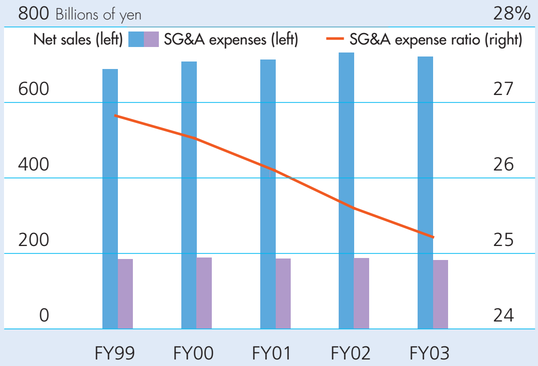
	Millions of yen (Unless otherwise noted)			
	FY1999	FY2000	FY2001	FY2002
For the year:				
Net sales	¥ 689,038	¥ 708,326	¥ 713,980	¥ 732,369
Cost of sales	490,278	505,113	519,587	528,997
Selling, general and administrative (SG&A) expenses	184,436	187,772	186,452	187,603
Operating income	14,324	15,441	7,941	15,769
Net income	4,626	3,834	2,093	4,051
At year-end:				
Total assets	¥ 345,435	¥ 366,894	¥ 381,980	¥ 363,354
Shareholders' equity	76,985	80,802	80,436	82,241
Interest-bearing debt	141,724	135,369	153,040	150,317
Per share data (Yen, U.S. dollars):				
Net income	¥ 15.60	¥ 12.92	¥ 7.06	¥ 13.56
Shareholders' equity	259.52	272.39	271.18	277.55
Cash dividends	6.00	6.00	6.00	6.00
Ratios:				
Return on equity (ROE)(%)	6.1	4.7	2.6	5.0
Return on assets (ROA)(%)	1.3	1.0	0.5	1.1
Equity ratio (%)	22.3	22.0	21.1	22.6
Debt-equity ratio (times)	1.8	1.7	1.9	1.8
Other information:				
Number of employees	8,681	8,315	8,083	7,754

Notes:
1. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 105.69, the exchange rate prevailing on March 31, 2004.
2. Interest-bearing debt = Short-term loans payable + Long-term debt
3. Net income per share for the year ended March 2003 and 2004 was calculated in accordance with a new accounting standard (Refer to Note 2 (n) of the Notes to Consolidated Financial Statements).
4. ROE = Net income/simple average of shareholders' equity at beginning and at the end of the fiscal year
5. ROA = Net income/simple average of total assets at the beginning and at the end of the fiscal year
6. Debt-Equity Ratio = Interest-bearing debt/Shareholders' equity

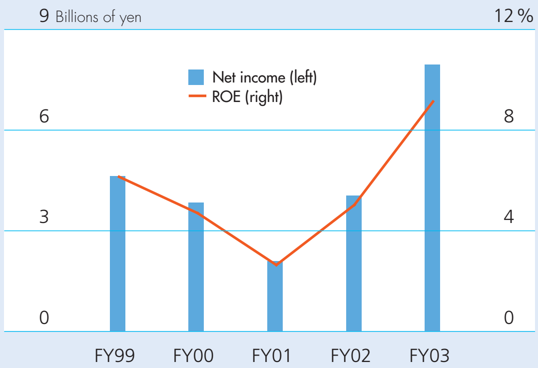
Consolidated Financial Summary

	Thousands of U.S. dollars (Unless otherwise noted)
FY2003	FY2003
¥ 721,833	$ 6,829,724
524,253	4,960,293
181,899	1,721,065
15,681	148,366
7,950	75,218
¥ 364,958	$ 3,453,096
91,892	869,451
142,352	1,346,884
¥ 26.74	$0.25
310.23	2.94
6.00	0.06
9.1	—
2.2	—
25.2	
1.5	—
7,482	—

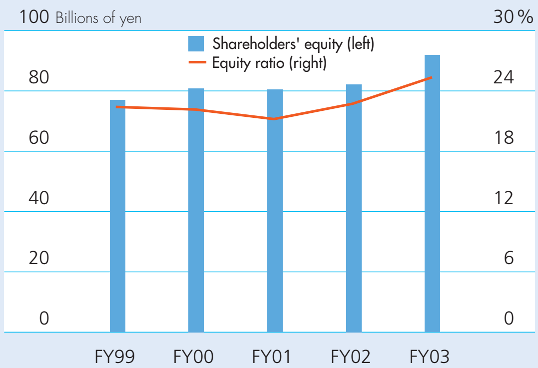
Net Sales and SG&A Expenses



Net Income and ROE



Shareholders' Equity and Equity Ratio



Facts & Figures
2. Non-Consolidated Financial Summary

	Millions of yen (Unless otherwise noted)			
	FY1999	FY2000	FY2001	FY2002
For the year:				
Net sales	¥ 484,970	¥ 509,945	¥ 513,935	¥ 518,843
Cost of sales	337,933	351,151	359,468	365,266
Selling, general and administrative expenses	137,915	148,300	148,230	141,237
Operating income	9,122	10,495	6,237	12,340
Net income	3,480	3,570	1,858	4,009
Cash dividends per share (yen, U.S. dollar)	6.00	6.00	6.00	6.00
At year-end:				
Total assets	¥ 261,495	¥ 273,492	¥ 290,115	¥ 275,686
Shareholders' equity	72,338	76,227	75,629	77,130
Interest-bearing debt	98,003	86,347	102,168	99,884
Other information:				
Capital expenditure (accrual base)	¥ 16,260	¥ 17,668	¥ 31,068	¥ 20,590
Depreciation expenses (fixed assets)	13,633	13,050	13,747	14,298
Research and development (R&D) expenses	6,612	6,573	6,690	6,562
Number of employees	5,126	4,923	4,844	4,698
	(5,423)	(5,200)	(5,106)	(4,949)

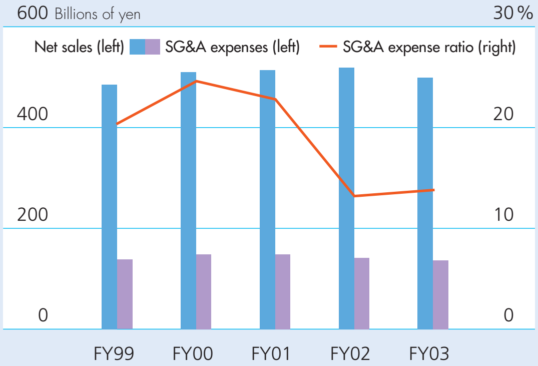
Notes:
1. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 105.69, the exchange rate prevailing on March 31, 2004.
2. Number of employees in parentheses includes employees seconded from Meiji Dairies Corporation to other companies, and excludes employees seconded to Meiji Dairies Corporation.

Thousands of U.S. dollars
(Unless otherwise noted)

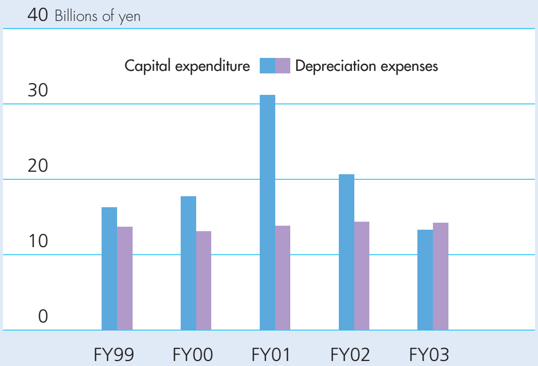
	FY2003	FY2003
	¥ 498,748	$ 4,718,967
	351,008	$ 3,321,111
	136,278	1,289,408
	11,462	108,448
	5,596	52,946
	6.00	0.06
	¥ 274,561	$ 2,597,792
	84,539	799,881
	92,743	877,503
	¥ 13,286	$ 125,707
	14,141	133,797
	7,049	66,695
	4,512	—
	(4,734)	—

Non-Consolidated Financial Summary

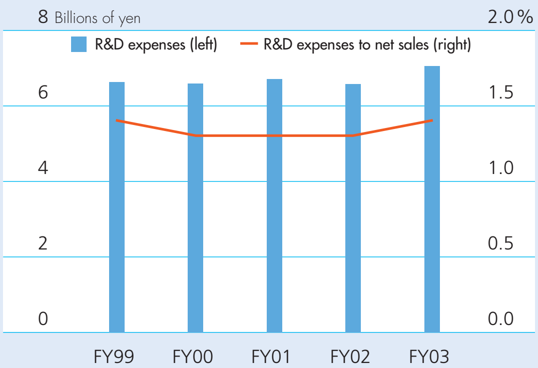
Net Sales and SG&A Expenses



Capital Expenditure and Depreciation Expenses



R&D Expenses and Its Ratio to Net Sales



Facts & Figures
3. Segment Information

	FY1999	FY2000	FY2001	FY2002
	Millions of yen (Unless otherwise noted)			
Consolidated Performance by Segment				
Net sales*				
Foods	¥ 598,809	¥ 615,814	¥ 623,838	¥ 640,377
Service and Others	115,746	125,338	127,795	132,895
Operating income*				
Foods	12,038	12,725	5,334	13,151
Service and Others	2,224	2,657	2,536	2,421
Operating income margin				
Foods	2.0%	2.1%	0.9%	2.1%
Service and Others	1.9%	2.1%	2.0%	1.8%

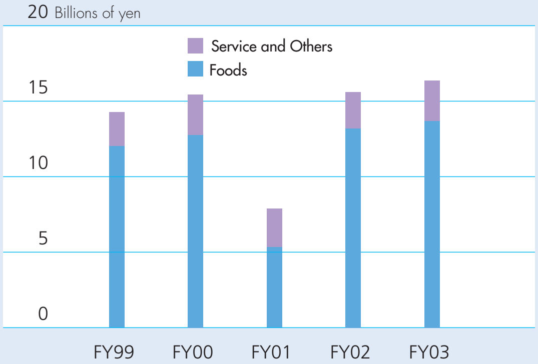
* Net sales and operating income figures are before exclusion of intersegment transactions.

	FY1999	FY2000	FY2001	FY2002
Non-consolidated Net Sales by Division and Product (sales value basis)				
City milk	¥ 264,494	¥ 281,829	¥ 281,372	¥ 293,911
Drinking milk	—	141,958	137,809	139,574
Yogurt	—	69,310	74,977	90,516
Others	—	70,560	68,585	63,821
Processed milk products	69,773	75,566	78,307	80,182
Powdered milk	32,973	36,597	38,142	37,789
Condensed milk	987	1,089	1,245	1,209
Butter	13,060	14,511	14,577	15,388
Cheese	22,752	23,367	24,342	25,794
Ice cream	49,636	48,009	43,128	41,228
Beverages	35,943	37,721	39,282	34,408
Other products	65,122	66,818	71,843	69,112

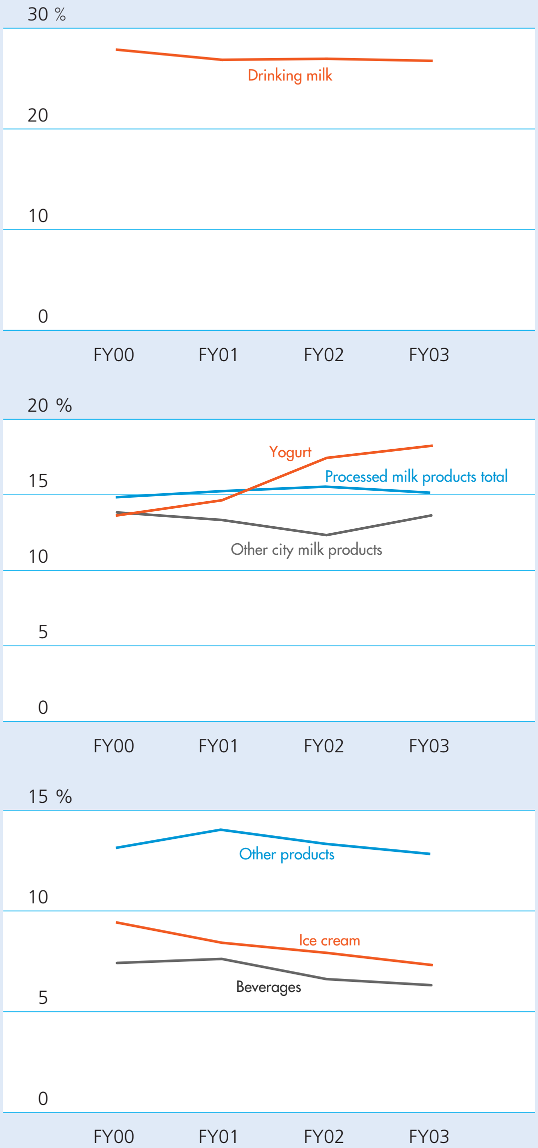
Note:
U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 105.69, the exchange rate prevailing on March 31, 2004.

	Thousands of U.S. dollars (Unless otherwise noted)
FY2003	FY2003
¥ 623,077	$ 5,895,328
144,529	1,367,477
13,662	129,266
2,659	25,160
2.2%	—
1.8%	—
¥ 291,807	$ 2,760,971
133,410	1,262,276
90,801	859,126
67,596	639,569
75,269	712,168
34,540	326,805
1,147	10,852
15,329	145,037
24,252	229,464
36,506	345,406
31,534	298,363
63,629	602,034

Consolidated Operating Income by Segment



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



Segment Information

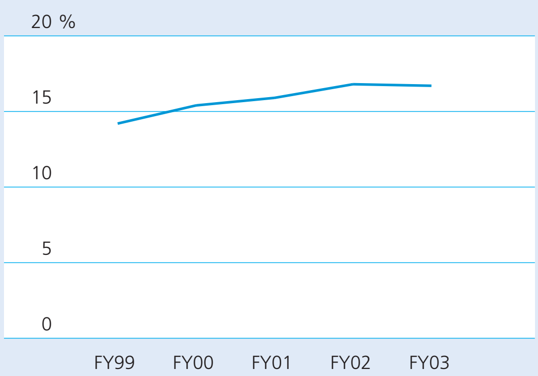
Facts & Figures
4. Industry Statistics

	FY1999	FY2000	FY2001	FY2002	FY2003
Production, Consumption, and Sales of Major Dairy Products					
Raw milk production (kl) *1	8,513,035	8,416,878	8,311,848	8,379,969	8,404,910
Drinking milk production (kl) *1	4,644,732	4,565,450	4,402,203	4,430,271	4,479,722
Milk production (kl) *1	3,883,362	3,923,874	3,840,122	3,976,636	4,024,942
Processed milk production (kl) *1	761,370	641,576	562,081	453,635	454,780
Yogurt produced by dairy companies (kl) *1	721,403	684,373	698,142	798,915	794,687
Yogurt produced by non-dairy companies (kl) *2	142,434	135,687	129,466	127,171	123,254
Cheese production (thousand kg) *1	125,953	124,805	121,458	124,946	124,880
Natural cheese production for direct consumption (thousand kg) *1	15,978	14,628	14,159	13,448	13,766
Processed cheese consumption (tons) *3	115,859	117,045	114,234	118,696	119,403
Ice cream sales (thousand kl) *4	826	814	786	771	752

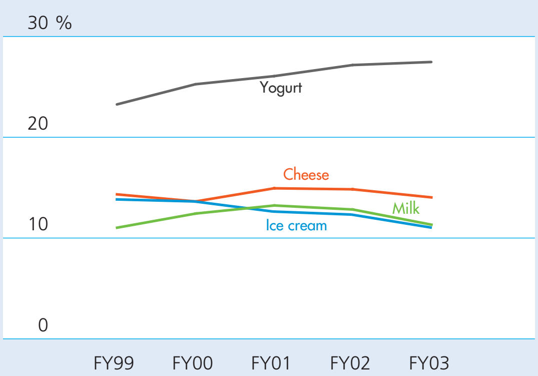
Sources:
*1 Statistics on Milk and Dairy Products, Ministry of Agriculture, Forestry and Fisheries (MAFF)
*2 Food Market Research and Information Center (calendar-year base)
*3 MAFF Livestock Industry Department, Milk and Dairy Products Division
*4 Japan Ice Cream Association

	FY1999	FY2000	FY2001	FY2002	FY2003
Our Position in the Industry:					
Meiji Dairies' Share in Milk Collection	14.2%	15.4%	15.9%	16.8%	16.7%
Meiji Dairies' Market Share by Product (Estimated)					
Milk	11.0%	12.4%	13.2%	12.8%	11.3%
Yogurt	23.2%	25.2%	26.0%	27.1%	27.4%
Ice cream	13.8%	13.6%	12.6%	12.3%	11.0%
Cheese	14.3%	13.6%	14.9%	14.8%	14.0%

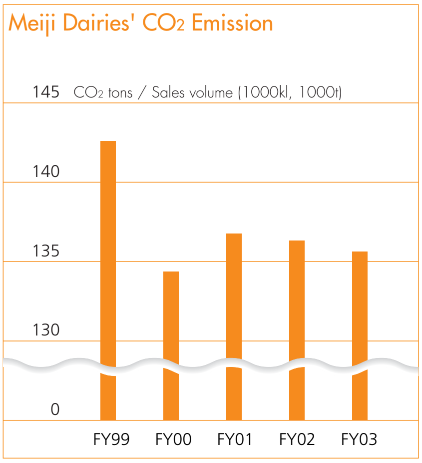
Meiji Dairies' Share in Milk Collection

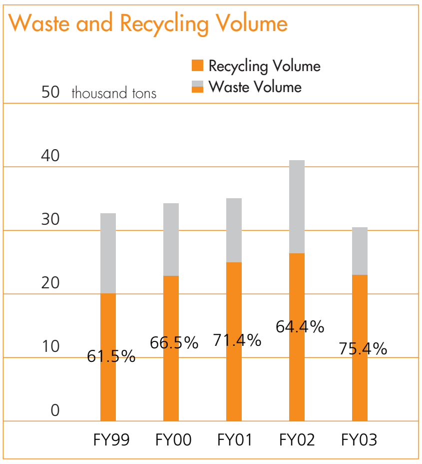


Meiji Dairies' Market Share by Product (Estimated)



Environmental and Social Commitments





Environmental Initiatives

All of our offerings, centering on milk and processed milk products, are made possible only through the gift of nature. For this reason, we are fully aware that protection of the environment is a crucial mission for our company.

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

Seeking to lower emissions of CO_2, we have introduced cogeneration systems in our factories and employed inverters and high-efficiency cooling equipment. However, in fiscal 2003 we reported an increase in energy usage for cooling and heating, stemming from rigorous temperature management aimed at reinforcing product safety. As a result, the parent company's CO_2 emission per sales unit in fiscal 2003 was only 4.3% lower than the fiscal 1999 level—compared with our 8% reduction target. In fiscal 2004, we plan to convert our energy source from heavy oil to city gas, consider introducing cogeneration systems in two more factories, and improve the efficiency of our boilers. 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.

2. Zero Emission Systems

Our waste recycling ratio in fiscal 2003 reached 75.4%, exceeding our 70% target. We took a variety of measures to lower waste emission from the manufacturing stage, and reduced total waste by 26% year-on-year. We also promoted use of reusable bottles and plastic boxes, while recycling plastic waste and converting food scraps to feedstuff and fertilizers. By reaffirming our priority on waste reduction, in fiscal 2004 we are targeting a recycling ratio of 85% or higher.

3. ISO14001 Certification

As of August 2004, 18 factories and branches operated by the parent company, as well as seven facilities of associated companies, had obtained ISO14001 certification, an international standard for environmental management systems. By the end of fiscal 2004, a further six parent company factories and branches, and four associated company facilities, plan to obtain certification. Our goal is to have all facilities of the parent company and production-related associated companies certified by the end of fiscal 2005.

4. Organizational Initiatives to Protect the Environment

With the aim of instituting Company-wide environmental protection activities that include all business locations, we formed the Environmental Management Committee, with members from all of the Company's business divisions. Tasks for fiscal 2004 include building and operating an environment information network system.

5. Harmonious Coexistence with Regional Society

In the course of pursuing comprehensive recycling initiatives, we have progressively terminated the use of incinerators at our various business locations. By July 2004, we had discarded incinerators at all such facilities. We also work together with local communities to protect the environment through various volunteer efforts, including participation in milk carton recycling activities, clean-up operations, and tree-planting campaigns.

6. Environmental Education and Information Activities

Improving environmental awareness among employees is vital to ensuring effective environmental protection activities. To this end, we are building an environment-related education and study system that uses our in-house LAN. We also hold environmental seminars and other study forums, including at our associated companies. In addition, we use our corporate website to provide information related to the environment to people inside and 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 of people in society 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) nutrition and function of cow's milk, 2) health effects of lactobacilli 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. We have two other websites, including a member's-only site, dedicated to providing a wide range of information about child-rearing. In addition, we have set up a telephone hotline to answer inquiries about nutrition for pregnant women and babies from up to around three years old. In these and other ways, we are working to help mothers and foster the healthy growth of babies, the future leaders of society.

Corporate Governance and Compliance

Corporate Governance

Meiji Dairies practices corporate governance centered on its directors and auditors. The Company's Board of Directors (which comprised 24 members as of July 2004) determines management strategy, studies and analyzes a variety of management issues surrounding the Meiji Dairies Group, and formulates measures for addressing these issues. The Company's auditors (of which there were four as of July 2004, including two outside auditors) oversee the Board of Directors. In addition, we strive to reflect in its management the opinions of those outside the Company, which we receive through our general shareholders' meeting, customer service center, and various investors and analysts meetings. We also hold business results briefings for investors and analysts twice a year, and upper management visits investors.

Risk Management and Compliance

We at Meiji Dairies are keenly aware that as a public institution, adhering to the law and achieving rock-solid trust from the society (including our customers) are fundamental to the sustainable growth of the Meiji Dairies Group. We are aware above all that as a food company, assuring food safety is the number one precondition for our continued corporate existence.

1. Food Safety Committee

We established a Food Safety Committee in April 2003 to act as an organization for discerning risks associated with our food products from a scientific and technological viewpoint. In addition to 14 members from inside the Company, two experts in chemistry and microorganisms from outside the Company serve as members. The Committee meets four times a year, reporting on the substance of these meetings to the Managing Committee. The main functions of the Food Safety Committee are as follows:

- To formulate measures for assuring the safety of newly developed products and for preventing foreseeable risks in the overall production system from arising;
- To formulate risk standards and evaluation standards, and based on these, to manage various forms of risks, including those associated with raw materials, production, and distribution; and
- To collect information on food safety, and maximize awareness of this information throughout the Company.

2. Compliance-Related Efforts

We enacted the Meiji Dairies Corporation Code of Ethics in April 2002, and in May of the same year we established a mechanism for receiving reports from whistle-blowers by setting up Compliance Offices at all of our operation centers nationwide. In June 2003, we set up external Compliance Counseling Office in which employees can report compliance problems through attorneys. In addition, in March 2004 we developed our Crisis Management Committee into a Risk & Compliance Committee, with the goal of creating a system for further entrenching compliance and for efficient and unified risk management.

3. Strengthening the Information Security System

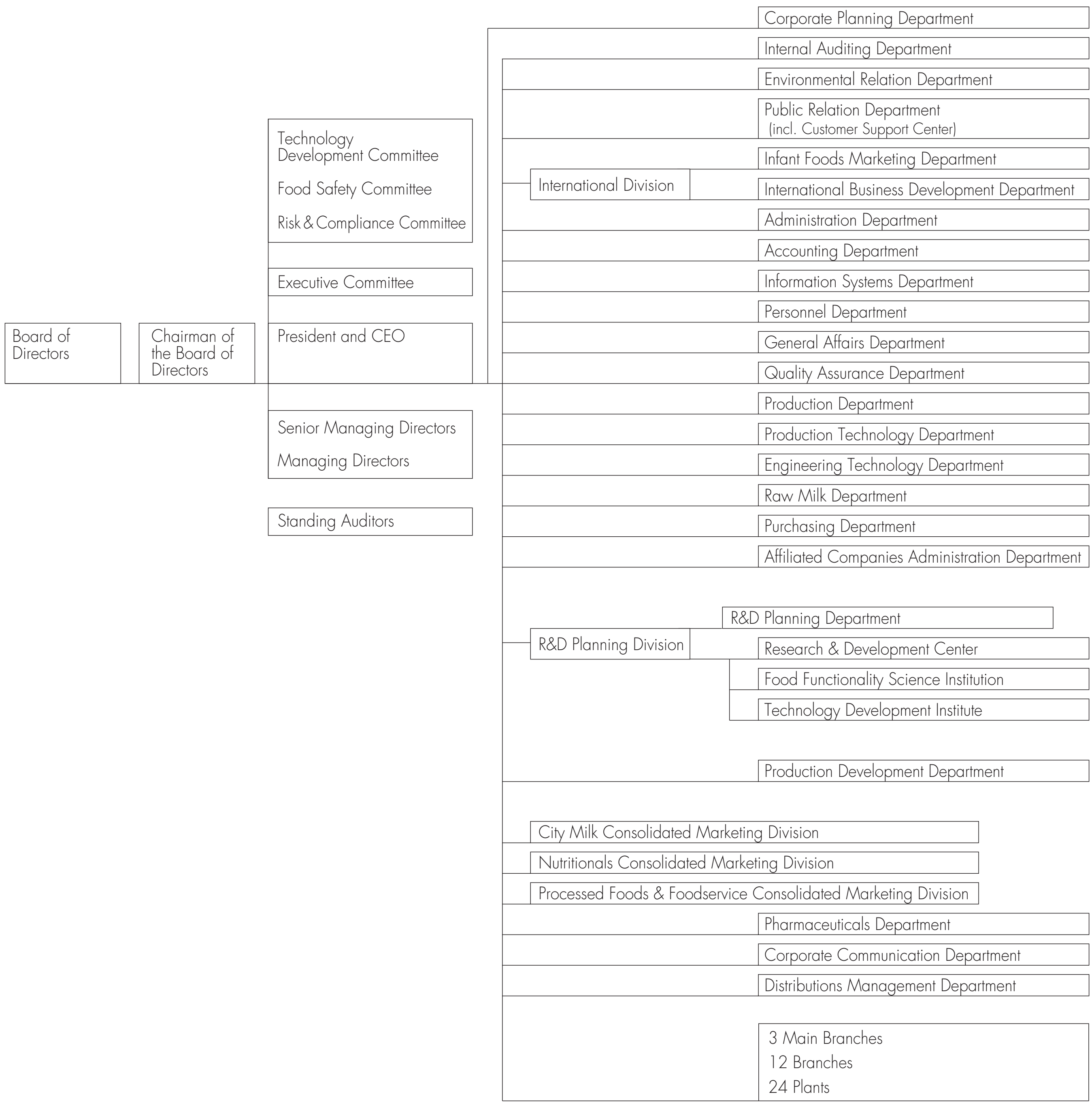
Information management problems—such as the leaking of personal information and the unauthorized accessing of information systems—are extremely important issues for a company in terms of its social responsibility and its self-defense. Based on this awareness, we began in 2002 to formulate an information security policy. We also worked to comprehend the present information security situation and develop a policy based on ISO/IEC 17799, a global standard for information security used by many corporations and organizations, both in Japan and abroad. In September 2003 we established an Information Security Committee and subsequently promoted a Company-wide security policy.

Board of Directors and Auditors (As of June 29, 2004)

Chairman	Hisashi Nakayama	
President & CEO	Shigetaro Asano	
Senior Managing Directors	Takehiko Tsurumaru	
	Kaname Tanaka	
Managing Directors	Shigeo Saito	General Manager, Tokyo Main Branch
	Takeaki Ohta	
	Tamotsu Kuwata	General Manager, R&D Planning Division
	Shonosuke Iwakura	
	Tsuyoshi Nagata	
	Koichi Yoshioka	
Directors	Yoshio Taguchi	General Manager, Processed Foods & Foodservice Consolidated Marketing Division
	Kunitoshi Oda	General Manager, Public Relations Office
	Hiroshi Watanabe	General Manager, Nutritionals Consolidated Marketing Division
	Tetsuo Hayashi	General Manager, Tokai Main Branch
	Tsutomu Akimoto	General Manager, Personnel Department
	Nobuyuki Okamoto	General Manager, International Division and General Manager, Infant Foods Marketing Department
	Tadashi Matsuzawa	Vice General Manager, Tokyo Main Branch
	Masahide Nishi	General Manager, Kyushu Branch
	Kazuhiro Minemoto	Vice General Manager, Processed Foods & Foodservice Consolidated Marketing Division
	Shouichi Ihara	General Manager, Kansai Main Branch
	Norio Shigenari	General Manager, Raw Milk Department
	Yoshio Baba	General Manager, Production Technology Department
	Hiromi Tsukanishi	General Manager, City Milk Consolidated Marketing Division
	Naoki Kato	General Manager, Production Department
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)

Organization (As of October 1, 2004)



Management's Discussion and Analysis

Business Performance of Fiscal 2003

In fiscal 2003, ended March 31, 2004, the Japanese economy saw signs of recovery, boosted by such factors as rising share prices and increased corporate capital investments. However, personal consumption remained flat, due to prolonged deflation as well as unstable employment and wage conditions.

In the food industry, one of the coolest summers on record dampened demand for beverages and ice cream. In addition, outbreaks of bird flu in Asia and BSE in the United States led to heightened concern about food safety.

In the milk sector, generally weak demand for ready-to-drink milk and processed milk led to excessive inventories of non-fat powdered milk, causing a marked imbalance between supply and demand.

The Meiji Dairies Group undertook a number of resolute measures to address these conditions. For example, we concentrated our resources on core areas, such as the yogurt and probiotics business, and reinforced development of products based on original technologies. We also enhanced management efficiency in order to create more streamlined operations system. At the same time, we continued to actively work on building the strong "Meiji" brand as an evidence of the unshakable trust and support of our customers and improved our operations control framework through establishment of an internal Food Safety Committee as well as a Risk & Compliance Committee.

Despite these efforts, however, consolidated net sales for the year slipped 1.4% year-on-year, to ¥721,833 million, due to a decline in the parent company's net sales stemming from the effects of the cool summer, intensified competition, and efforts to improve its product mix. The cool summer also negatively affected the profit side and consolidated operating income edged down 0.6% from the previous fiscal year, to ¥15,681 million. However, improvement in other income/expenses resulted in a 7.8% year-on-year rise in ordinary income, to ¥15,747 million. Net income surged 96.3% year-on-year, to ¥7,950 million, thanks to the rise in ordinary income, a gain on the sale of land in Higashi-Murayama, Tokyo, by the parent company.

The Group's performance by business segment was as follows.

Food

Net sales in the food segment dipped 2.7% year-on-year, to ¥623,077 million, due to a decline in the parent company's performance stemming from the effects of the cool summer, stiff competition, and efforts to achieve an optimal product mix. Despite the revenue decrease, segment operating income rose 3.9%, to ¥13,662 million, thanks to the benefits of the improved product mix.

Service and Others

Net sales in this segment climbed 8.8% from the previous fiscal year, to ¥144,529 million, owing to solid performances by our transportation and storage businesses. Operating income advanced 9.8%, to ¥2,659 million, thanks to a decline in costs in the feedstuff business.

Financial Position

As of March 31, 2004, consolidated total assets stood at ¥364,958 million, up ¥1,604 million from a year earlier. Current assets declined ¥2,180 million, to ¥148,124 million (or 40.6% of total assets), due mainly to a decrease in inventories. Fixed assets rose ¥3,784 million, to ¥216,834 million (59.4% of total assets), largely owing to an increase in investment securities.

Total liabilities declined ¥8,398 million from a year earlier, to ¥270,737 million. This figure was equivalent to 74.2% of the sum of total liabilities, minority interests, and total shareholders' equity. Despite declines in notes and accounts payable and commercial paper, current liabilities rose ¥6,717 million, to ¥175,571 million, due to an increase in the current portion of long-term debt. Long-term liabilities were down ¥15,116 million, to ¥95,167 million, as a major portion of long-term debt was shifted to the current liabilities account during the year. Minority interests grew ¥352 million, to ¥2,328 million.

Shareholders' equity advanced ¥9,650 million from a year earlier, to ¥91,892 million, thanks mainly to the higher net income figure. At the fiscal year-end, the equity ratio was 25.2%, and shareholders' equity per share increased ¥32.68, to ¥310.23.

Cash Flows

Net cash provided by operating activities was ¥25,788 million, down ¥8,965 million from the previous year. Two major factors were behind the decline in cash flow. First, the amount of notes and accounts receivable at the end of this fiscal year showed a substantial rebound from a year earlier when the level of accounts receivable was unusually low as an effect of banking holidays. Secondly, there was an increase in cash paid for income tax.

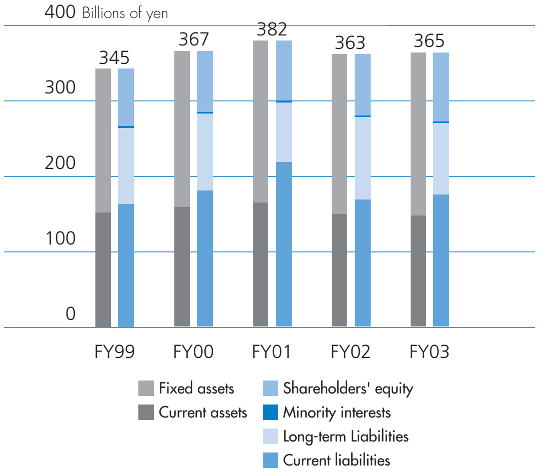
Net cash used in investing activities totaled ¥16,166 million, down ¥12,234 million. Primary factors included a decline in purchases of property and investment securities as we curbed investments, as well as an increase in proceeds from the sale of property.

As a result, free cash flow (the sum of net cash flows from operating and investing activities) rose ¥3,269 million year-on-year, to ¥9,622 million.

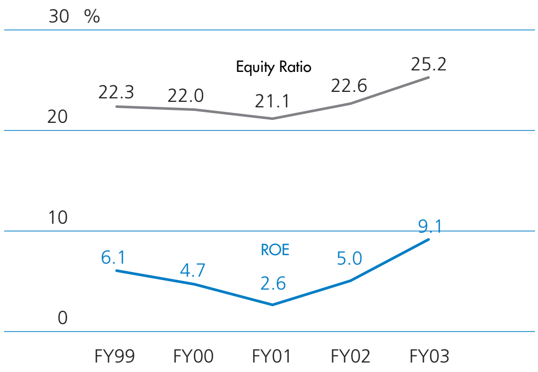
Net cash used in financing activities was ¥10,357 million of outflow, compared to ¥4,664 million of outflow in fiscal 2002. The change in cash flow was due mainly to declines in long- and short-term debt.

As a consequence, cash and cash equivalents at fiscal year-end stood at ¥4,130 million, down ¥735 million from year earlier.

Breakdown of Total Assets, Total Liabilities and Shareholders' Equity



Equity Ratio and ROE



Consolidated Balance Sheets

Meiji Dairies Corporation and Consolidated Subsidiaries
As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
ASSETS	2004	2003	2004
Current assets:			
Cash (Note 6)	¥ 4,154	¥ 4,893	$ 39,304
Notes and accounts receivable:			
Trade	83,096	82,245	786,220
Unconsolidated subsidiaries and affiliates	1,093	2,104	10,344
Others	5,220	4,303	49,392
Allowance for doubtful accounts	(984)	(1,085)	(9,311)
Inventories (Note 3)	44,028	46,005	416,577
Deferred income tax (Note 7)	4,736	4,573	44,812
Other current assets	6,781	7,266	64,154
Total current assets	148,124	150,304	1,401,491
Property, plant and equipment (Notes 4, 6)	396,919	389,839	3,755,498
Less-accumulated depreciation	(218,609)	(210,872)	(2,068,395)
Net property, plant and equipment	178,310	178,967	1,687,103
Investments and other noncurrent assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliates	4,566	4,751	43,202
Others (Note 6)	21,327	14,998	201,787
Long-term loans	1,473	2,792	13,936
Intangible assets	2,435	2,202	23,039
Deferred income tax (Note 7)	1,085	1,998	10,268
Others	8,986	8,100	85,024
Allowance for doubtful accounts	(1,348)	(758)	(12,754)
Total investments and other noncurrent assets	38,524	34,083	364,502
Total assets	¥ 364,958	¥363,354	$3,453,096

Notes: 1. The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥105.69 to $1, the exchange rate prevailing on March 31, 2004.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars 2004
Current liabilities:			
Short-term loans payable (including current portion of long-term debt)(Notes 5,6)	¥ 58,267	¥ 48,591	$ 551,298
Notes and accounts payable:			
Trade	63,030	64,875	596,364
Unconsolidated subsidiaries and affiliates	2,313	2,759	21,889
Income taxes payable	4,962	5,457	46,949
Accrued liabilities	28,610	28,534	270,698
Other current liabilities	18,389	18,637	173,985
Total current liabilities	175,571	168,853	1,661,183
Long-term liabilities:			
Long-term debt, less current portion (Notes 5,6)	84,086	101,726	795,586
Deferred income taxes (Note 7)	1,483	382	14,033
Employees' retirement benefits (Note 9)	8,253	7,092	78,089
Other long-term liabilities	1,345	1,084	12,728
Total long-term liabilities	95,167	110,284	900,436
Minority interests	2,328	1,976	22,027
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock, no par value in 2004 and 2003:			
Authorized—560,000,000 shares			
Issued 2004 and 2003—296,648,786 shares	23,090	23,090	218,471
Additional paid-in capital	21,421	21,421	202,681
Retained earnings	42,605	36,755	403,112
Net unrealized gains on investments in securities	4,978	1,134	47,102
Treasury stock, at cost—2004: 541,737 shares, 2003: 440,062 shares	(202)	(159)	(1,915)
Total shareholders' equity	91,892	82,241	869,451
Total liabilities, minority interest and shareholders' equity	¥364,958	¥363,354	$3,453,096

Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net sales	¥721,833	¥732,369	$6,829,724
Cost of sales (Note 12)	524,253	528,997	4,960,293
Gross profit	197,580	203,372	1,869,431
Selling, general and administrative expenses (Notes 10, 12)	181,899	187,603	1,721,065
Operating income	15,681	15,769	148,366
Other income (expenses):			
Interest and dividend income	506	548	4,788
Amortization of goodwill arising from consolidation	174	45	1,645
Equity in income of affiliates	138	130	1,303
Interest expenses	(1,617)	(1,927)	(15,299)
Other, net	831	(4,273)	7,864
Income before income taxes	15,713	10,292	148,668
Income taxes:			
Current	8,361	8,189	79,106
Deferred	(668)	(2,070)	(6,317)
Minority interests	(70)	(122)	(661)
Net income	¥ 7,950	¥ 4,051	$ 75,218
	yen		U.S. dollars
Amounts per share of common stock:			
Net income	¥ 26.74	¥ 13.56	$ 0.253
Cash dividends	6.00	6.00	0.057

Notes: 1.The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥105.69 to $1, the exchange rate prevailing on March 31, 2004.
2.Certain reclassifications of previously reported amounts have been made to conform with current classifications.

Consolidated Statements of Shareholders' Equity

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

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

	Numbers of shares of common stock (Thousands)	Thousands of U.S. dollars				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains	Treasury stock
Balance at March 31, 2003	296,648	$218,471	$202,681	$347,761	$10,730	$(1,504)
Net income	—	—	—	75,218	—	—
Net unrealized gains on investments in securities	—	—	—	—	36,372	—
Increase in earnings from the merger	—	—	—	3,602	—	—
Increase in earnings from the change of business year-end of consolidated subsidiaries	—	—	—	376	—	—
Cash dividends ($0.057 per share)	—	—	—	(16,814)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(284)	—	—
Decrease in retained earnings resulting from a change in equity stake due to the transfer of shares of a consolidated subsidiary	—	—	—	(6,748)	—	—
Treasury stock	—	—	—	—	—	(411)
Balance at March 31, 2004	296,648	$218,471	$202,681	$403,112	$47,102	$(1,915)

Note: The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥105.69 to $1, the exchange rate prevailing on March 31, 2004.

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash flows from operating activities:			
Income before income tax and minority interests	¥ 15,713	¥ 10,292	$ 148,668
Depreciation and amortization	20,973	21,503	198,438
Amortization of goodwill arising from consolidation	(174)	(45)	(1,645)
Provision for retirement benefits	1,161	(263)	10,984
Interest and dividend income	(506)	(548)	(4,788)
Interest expenses	1,617	1,927	15,299
Gain on sale and disposal of property	(3,175)	(473)	(30,038)
Gain (loss) on sale and revaluation of securities	229	2,892	2,166
(Increase) decrease in notes and accounts receivable	(101)	17,590	(958)
(Increase) decrease in inventories	1,977	(1,520)	18,708
Increase (decrease) in notes and accounts payable	(3,125)	(14,236)	(29,566)
Increase (decrease) in accrued expense	75	(594)	719
Others	1,213	4,022	11,480
Cash received for interest and dividend	521	531	4,928
Cash paid for interest	(1,755)	(1,841)	(16,609)
Cash paid for income tax	(8,855)	(4,483)	(83,785)
Net cash provided by operating activities	25,788	34,754	244,001
Cash flows from investing activities:			
Purchases of property, net of proceeds	(16,676)	(25,393)	(157,783)
Proceeds from sale (payments for purchases) of securities	(189)	(3,498)	(1,786)
Others	699	491	6,616
Net cash used in investing activities	(16,166)	(28,400)	(152,953)
Cash flows from financing activities:			
Proceeds from long-term debt	6,350	18,730	60,080
Repayment of long-term debt	(8,178)	(9,048)	(77,377)
Issue (redemption) of bonds	—	(9,999)	—
Cash dividends paid	(1,777)	(1,780)	(16,814)
Increase (decrease) in loans payable	(6,696)	(2,407)	(63,351)
(Increase) decrease in others	(56)	(160)	(532)
Net cash provided by (used in) financing activities	(10,357)	(4,664)	(97,994)
Net increase (decrease) in cash and cash equivalents	(735)	1,690	(6,946)
Cash and cash equivalents at beginning of year	4,865	3,175	46,027
Cash and cash equivalents at end of year	¥ 4,130	¥ 4,865	$ 39,081

Notes: 1. The accompanying U.S. dollar amounts represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥105.69 to $1, the exchange rate prevailing on March 31, 2004.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Meiji Dairies Corporation (the "Company") and 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 from the application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present them in a form which is familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen. For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by arithmetically translating all Japanese yen amounts at the exchange rate of ¥105.69 to $1 prevailing on March 31, 2004.

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-six (twenty-five in 2003) significant subsidiaries. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends differ by three months from March 31 have been included using financial information with appropriate adjustment. Investments in three affiliates are accounted for using the equity method. The difference between the cost and underlying net equity at acquisition of investments in consolidated subsidiaries and affiliates is allocated to identifiable assets based on fair market value at the date of acquisition. The unallocated portion of the differences is amortized over 5 years on a straight-line basis.

b) Translation of foreign currency accounts

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

c) Securities

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

d) Inventories

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

e) Property, plant and equipment

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

Building and structure	2-60 years
Machinery and equipment	2-30 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 benefits

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

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

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

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

i) Deferred charges

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

j) Cash and cash equivalents

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

k) Leases

Under the Japanese accounting standards for leases, finance leases 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 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 risks.

Interest rate swaps are utilized to reduce interest fluctuation risks.

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

n) Net income per share

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

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

3. INVENTORIES

Inventories outstanding on March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods and merchandise	¥33,233	¥33,216	$314,441
Raw materials and supplies, others	10,795	12,789	102,136
Total	¥44,028	¥46,005	$416,577

4. PROPERTY, PLANT AND EQUIPMENT

Fixed assets outstanding on March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Land	¥ 44,131	¥42,468	$ 417,556
Buildings and structures	67,645	69,199	640,028
Machinery and equipment	53,798	54,177	509,016
Tools and furniture	9,664	10,309	91,438
Construction in progress	3,072	2,814	29,065
Total	¥178,310	¥178,967	$1,687,103

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 0.56% and 0.55% for the years ended March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Short-term loans payable	¥45,267	¥ 36,591	$428,297
1.8% yen convertible bonds due October 5, 2004	5,000	—	47,308
Commercial paper	8,000	12,000	75,693
Total short-term loans payable	¥58,267	¥ 48,591	$551,298

2) Long-term debt

Long-term debt at March 31, 2004 and 2003 were summarized as follows.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
1.8% yen bonds due October 5, 2004	¥ —	¥ 5,000	$ —
2.0% yen bonds due October 5, 2005	10,000	10,000	94,616
1.1% yen bonds due March 12, 2007	600	600	5,677
1.1% yen bonds due May 10, 2007	20,000	20,000	189,233
Loans from domestic banks, insurance companies, government agencies and others	71,828	73,637	679,609
Less portion due within one year	(18,342)	(7,511)	(173,549)
Total Long-Term Debt	¥84,086	¥101,726	$ 795,586

The aggregate annual maturities of long-term debt excluding bonds outstanding at March 31, 2004 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥14,121	$133,607
2007	15,404	145,745
2008	5,488	51,924
2009 and after	18,473	174,784
Total	¥53,486	$506,060

6. COLLATERAL AND SECURED LIABILITY

A summary of assets pledged as collateral for liability at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Buildings and structures	¥ 12,816	¥14,373	$121,258
Machinery and equipment	9,497	10,654	89,855
Tools and furniture	121	164	1,145
Land	16,411	18,089	155,275
Fixed deposit	—	2	—
Investment securities	6,067	2,920	57,404
Total	¥ 44,912	¥46,202	$424,937

A summary of secured liability at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Short-term loans	¥ 2,063	¥ 2,372	$ 19,527
Long-term loans (current portion)	1,282	915	12,135
Long-term loans	24,497	23,294	231,777
Employees' saving deposit	2,675	2,766	25,306
Postage	—	—	—
Total	¥30,517	¥29,347	$288,745

7. DEFERRED TAX ASSETS AND LIABILITIES

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Retirement benefit	¥ 3,949	¥ 3,328	$ 37,372
Bonus payment reserve	2,751	2,290	26,036
Unrealized gain	1,297	1,365	12,268
Accrued expense	837	1,022	7,916
Depreciation	1,071	1,157	10,131
Accrued enterprise taxes	458	488	4,330
Loss carryforward	954	1,153	9,030
Other	1,467	1,596	13,878
Subtotal deferred tax assets	12,784	12,399	120,961
Valuation allowance	(1,416)	(1,589)	(13,403)
Total deferred tax assets	11,368	10,810	107,558
Deferred tax liabilities:			
Tax deductible reserve	(3,688)	(3,753)	(34,892)
Net unrealized gains on investments in securities	(3,379)	(812)	(31,969)
Other	37	(56)	350
Total deferred tax liabilities	(7,030)	(4,621)	(66,511)
Net deferred tax assets	¥ 4,338	¥ 6,189	$ 41,047

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

8. LEASE TRANSACTION

The companies lease certain tools and furniture and other assets. Amounts of equivalent to acquisition costs, accumulated depreciation and net book value as of March 31, 2004 and 2003 concerning the finance lease assets which do not transfer ownership to lessees were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Acquisition costs	¥29,514	¥30,079	$279,254
Accumulated depreciation	16,723	15,705	158,226
Net book value	¥12,791	¥14,374	$121,028

The amounts of outstanding future lease payments at March 31, 2004 and 2003, excluding interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Within one year	¥ 5,842	¥ 6,179	$ 55,275
Over one year	7,468	8,811	70,658
Total	¥13,310	¥14,990	$125,933

Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during the year 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Lease expenses paid	¥7,199	¥7,396	$68,118
Depreciation expenses	6,719	6,920	63,571
Interest expenses	378	458	3,576

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, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation	¥(134,063)	¥(133,961)	$(1,268,455)
Fair value of plan assets	74,752	62,290	707,275
Unrecognized transitional obligation	12,586	13,701	119,082
Unrecognized actuarial loss	47,038	53,217	445,056
Unrecognized prior service cost	(8,352)	(2,054)	(79,021)
Net liability	(8,039)	(6,807)	(76,063)
Prepaid pension cost	214	285	2,025
Employees' retirement benefits	¥ (8,253)	¥ (7,092)	$ (78,089)

The components of net periodic benefit costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 2,585	¥3,630	$24,455
Interest cost	4,496	4,589	42,539
Expected return on plan assets	(2,075)	(3,694)	(19,628)
Amortization of transitional obligation	1,107	1,134	10,473
Recognition of actuarial gain/loss	4,223	3,064	39,955
Additional retirement payments and others	(414)	2	(3,913)
Net periodic benefit costs	¥ 9,922	¥8,725	$93,881

Assumption used for the year ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Periodic recognition of projected benefit obligation	Straight-line method	Straight-line method
Discount rate	3.0%	3.5%
Expected rate of return on plan assets	Principally 3.5%	Principally 5.5%
Recognition period of actuarial gain/loss	Principally 14 years	Principally 14 years
Amortization period of transitional obligation	15 years	15 years
Amortization period of prior service cost	Principally 7 years	Principally 7 years

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Principal selling, general and administrative expenses during the year 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Carriage and storage charges	¥27,351	¥30,842	$258,789
Sales promotion expenses	54,484	67,049	515,510
Labor cost	38,664	37,836	365,822
Employees retirement benefits cost	6,450	5,728	61,027

11. CONTINGENT LIABILITIES

Guaranteed financial obligations

The Companies were contingently liable as guarantors of bank loans and others to unconsolidated subsidiaries and affiliated companies at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Meiji Rice Delica Co., Ltd.	¥ —	¥ 5	$ —
PT. INDOMEIJI Dairy Food	27	89	260
Kanedai Ohashi Dairy Co., Ltd.	10	30	95
Hitachi Dairy Pty., Ltd.	40	40	378
Meiji Beverage Co., Ltd.	229	237	2,158
Ryukyu Delica Service Co., Ltd.	0	95	—
Total	¥306	¥496	$2891

12. RESEARCH AND DEVELOPMENT COST

Research and development cost which were included in manufacturing expense, selling, general and administrative expenses during the year 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Research and development cost	¥7,423	¥6,910	$70,233

13. Segment Information

	Millions of yen Consolidated accounting for current fiscal year (April 1, 2003 to March 31, 2004)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales:					
(1) Sales to customers	¥621,171	¥100,662	¥721,833	¥ —	¥721,833
(2) 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

	Millions of yen Consolidated accounting for previous fiscal year (April 1, 2002 to March 31, 2003)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales:					
(1) Sales to customers	¥638,415	¥ 93,954	¥ 732,369	¥ —	¥732,369
(2) Intersegment sales	1,962	38,941	40,904	(40,904)	—
Total	¥640,377	¥132,895	¥ 773,273	¥(40,904)	¥732,369
Operating expenses	627,226	130,474	757,700	(41,101)	716,600
Operating income	13,151	2,421	15,573	197	15,769
Assets, depreciation, and capital expenditures:					
Assets	284,707	90,028	374,735	(11,382)	363,354
Depreciation	16,491	4,875	21,366	—	21,366
Capital expenditures	16,717	6,074	22,791	—	22,791

	Thousands of U.S. dollars Consolidated accounting for current fiscal year (April 1, 2003 to March 31, 2004)				
	Foods	Service/Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales:					
(1) Sales to customers	$5,877,297	$ 952,428	$6,829,724	$ —	$6,829,724
(2) Intersegment sales	18,031	415,049	433,080	(433,080)	—
Total	$5,895,328	$1,367,477	$7,262,804	$(433,080)	$6,829,724
Operating expenses	5,766,062	1,342,317	7,108,379	(427,021)	6,681,358
Operating income	129,266	25,160	154,425	(6,059)	148,366
Assets, depreciation, and capital expenditures:					
Assets	2,684,877	954,987	3,639,864	(186,769)	3,453,096
Depreciation	153,512	43,510	197,022	—	197,022
Capital expenditures	189,663	37,930	227,593	—	227,593

14. SUBSEQUENT EVENTS

1. Return of part of the employee pension fund to the government

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.

In the future, the Company is due to recognize elimination of prior benefit obligation and account for gain or loss of settlement of the return on the date of the approval of the exemption from payment of benefits related to prior benefit obligation and return of pension assets, respectively.

2. Issue of unsecured bond

On June 10, 2004, the Company issued unsecured bonds amounting ¥15,000 million ($141,924 thousand) due on June 10, 2009 with an interest rate of 0.81% in accordance with resolution of the Board of Directors held on May 18.

Report of Independent Public Accountants

THE FUJI ACCOUNTING OFFICE

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

To the Board of Directors and Shareholders
Meiji Dairies Corporation

We have audited the accompanying consolidated balance sheets of Meiji Dairies Corporation and its subsidiaries as of March 31, 2004 and 2003, 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 auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meiji Dairies Corporation and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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. to the consolidated financial statements.

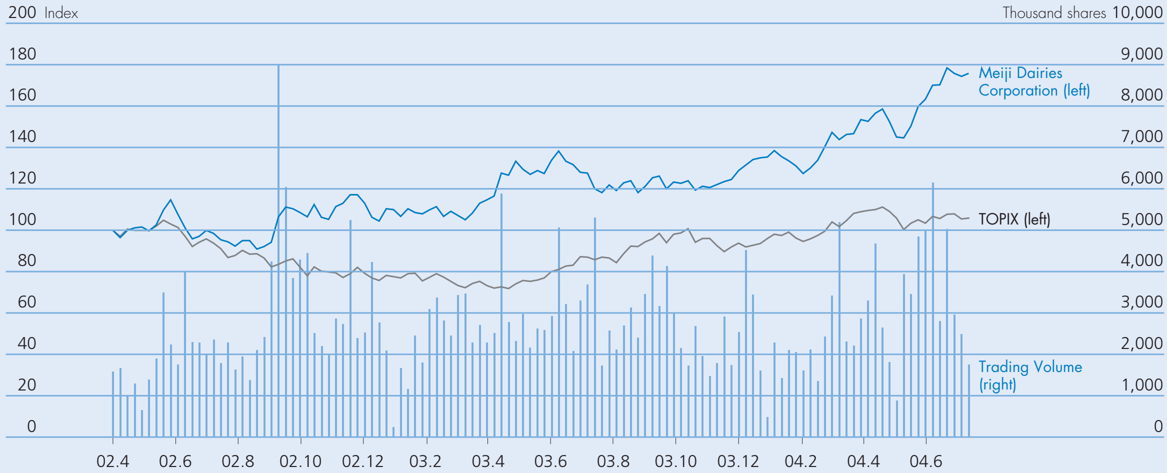
The Fuji Accounting Office
Certified Public Accountants

The Fuji Accounting Office

Tokyo, Japan
June 29, 2004

Stock Information

Share Performance and Trading Volume

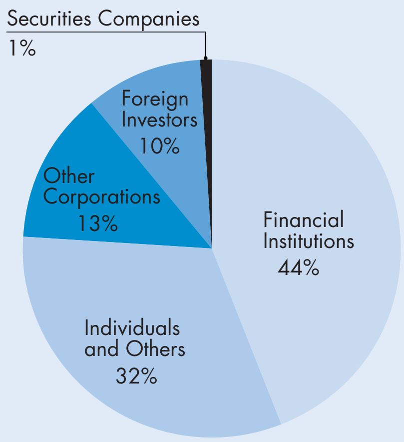


Note: Meiji Dairies stock prices and TOPIX are indexed as closing rates on April 5, 2002 = 100.

Major Shareholders (As of March 31, 2004)

	Number of Shares Held (Thousands)	Percentage of Total Shares in Issue(%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,354	6.52
Mizuho Bank, Ltd.	14,581	4.92
Japan Trustee Services Bank, Ltd. (Trust Account)	13,016	4.39
Nippon Life Insurance Company	11,380	3.84
Resona Bank, Ltd.	11,000	3.71
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	6,528	2.20
Meijinyugyou Kyoueikai	5,440	1.83
Total	105,655	35.62

Breakdown of Shareholders (As of March 31, 2004)



Corporate Data (As of March 31, 2004)

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: 42,832

Stock Listings: Tokyo, Nagoya

General Meeting of Shareholders: June 29, 2004

Transfer Agent of Common Stock: The Mitsubishi Trust and Banking Corporation

URL: http://www.meinyu.co.jp/

Number of Employees: 4,512
(Non-consolidated)

Group Companies (As of June 29, 2004)

	Shareholding (%)	Capital (Millions of yen)
Manufacturing and sales of milk, dairy products, ice cream and other foods		
Meiji Oils and Fats Co., Ltd.	100.00	38
Nihon Kanzume, Co., Ltd.	63.65	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
Tokyo Seafoods Ltd.*	40.00	80
Pampy Foods Incorporation*	30.30	99

*Equity-method subsidiary

	Shareholding (%)	Capital (Millions of yen)
Sales of milk, dairy products, ice cream, etc.		
Tokyo Meihan Co., Ltd.	94.29	2,285
Chubu Meihan Co., Ltd.	94.29	379
Kinki Meihan Co., Ltd.	94.29	490
Kyushu Meinyu Hanbai Co., Ltd.	100.00	445
Tokyo Meiji Foods Co., Ltd.	100.00	480
Tohoku Meihan Co., Ltd.	94.29	400
Chugoku Meihan Co., Ltd.	94.29	490
Kanazawa Meihan Co., Ltd.	94.29	65
Hokkaido Meihan Co., Ltd.	100.00	90

	Shareholding (%)	Capital (Millions of yen)
Livestock business		
Asahi Broiler Co., Ltd.	70.00	150
Meiji Agris Co., Ltd.	100.00	250
Meiji Kenko Ham Co., Ltd.	88.07	100
Feed business		
Meiji Feed Co., Ltd.	100.00	480
Distribution service		
Tokyo Milk Transportation Co., Ltd.	94.29	98
Kantora Logistics Co., Ltd.	94.29	396
K.C.S. Co., Ltd.	100.00	480
Others		
Fresh Network Systems Co., Ltd.	94.29	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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