



Meiji Dairies Corporation

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**ANNUAL REPORT 2005**

For the Year Ended March 31, 2005

# Continuing to Offer Proposals for New Food Products

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

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

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



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

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

## FINANCIAL HIGHLIGHTS

Meiji Dairies Corporation and Consolidated Subsidiaries

### For the fiscal year:

Net sales
Cost of sales
Selling, general and administrative (SG&A) expenses
Operating income
Ordinary income (Note 3)
Net income

### At fiscal year-end:

Total assets
Shareholders' equity
Interest-bearing debt (Note 4)

### Per share data (Yen, U.S. dollars):

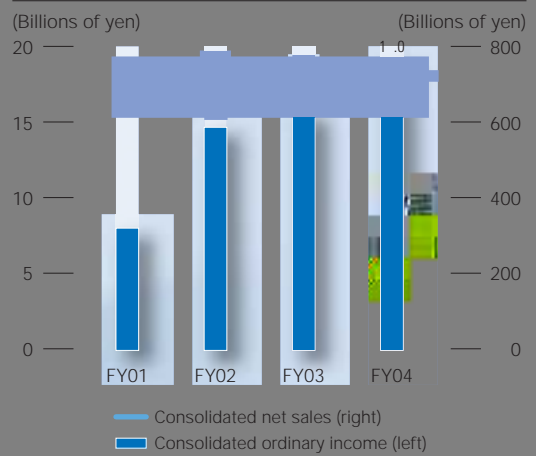
Net income (Note 5)
Shareholders' equity
Cash dividends

### Ratios:

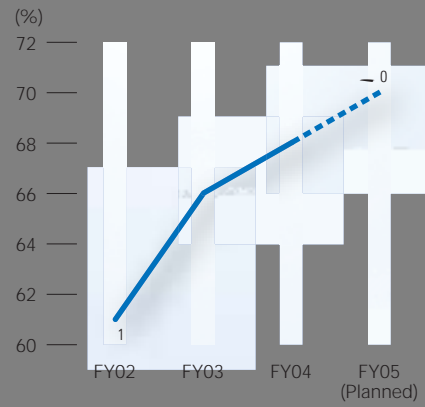
Return on equity (ROE)(%) (Note 6)
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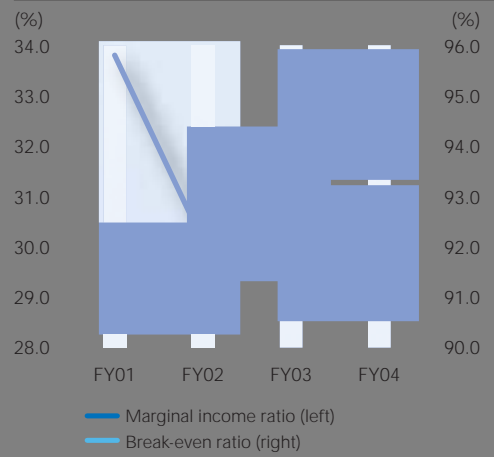
### Our Performance Over the Past Four Years



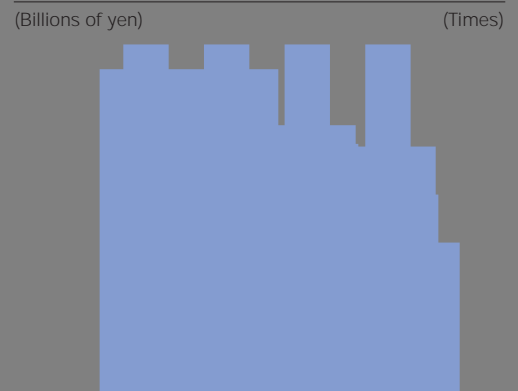
**Percentage of Core Products to Net Sales  
(non-consolidated)**



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



**Interest-Bearing Debt and Debt-Equity Ratio**



## TO OUR SHAREHOLDERS AND CUSTOMERS



President and Chief Executive Officer  
Shigetaro Asano

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

## FISCAL 2004 IN REVIEW

### Personal Consumption Still Languishing

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

### More Record—High Profits under Difficult Conditions

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

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

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

### Medium-Term Plan: Steady Improvement of Business Structure

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

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





bodies as the Food Safety Committee, Risk & Compliance Committee, and Information Security Committee.

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

### **Fiscal 2005 Forecasts**

In fiscal 2005, ending March 2006, we forecast consolidated net sales of ¥720.0 billion and ordinary income of ¥21.0 billion. These figures are lower than the targets outlined in our management plan of ¥760.0 billion and ¥23.0 billion, respectively. Our forecast revision stems from a number of factors, including unabated

## SPECIAL FEATURE: DISTINCTIVE TECHNOLOGIES TO SUPPORT LONG-TERM GROWTH

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

## SPECIAL FEATURE

## DISTINCTIVE TECHNOLOGIES TO SUPPORT LONG-TERM GROWTH

**1. R&D SYSTEM AND POLICIES****Dairy Centered R&D: Teamwork among Three Specialized Research Facilities**

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

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

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

**2. OUR LACTOBACILLUS RESEARCH****Taste and Health Benefits of Lactobacillus**

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

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

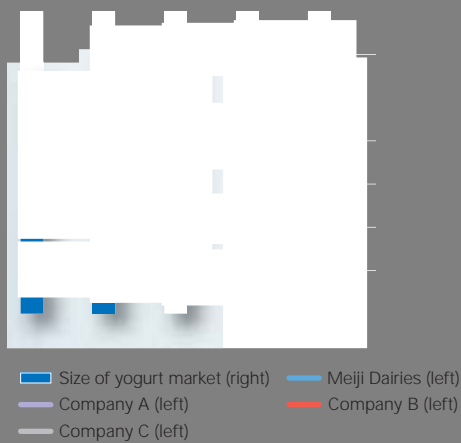
The domestic market for yogurt and other fermented milk products has grown from around ¥200.0 billion to about ¥300.0 billion over the past 10 years (according to manufacturers' shipment figures). While the overall market has leveled off in the past few years following the yogurt boom of fiscal 2002,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

Meiji Dairies has an extensive lactobacillus library, which forms the basis of our research to

### Trends in Yogurt Market Size and Sales by Major Producers

(Billions of yen)

(Billions of yen)

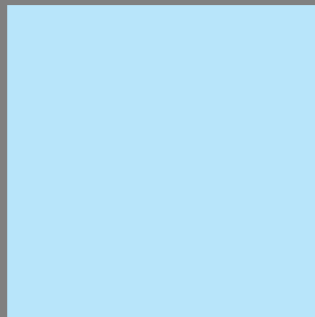




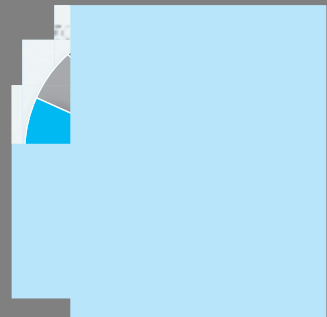
**Breakdown of Consolidated  
Net Sales (Fiscal 2004)**

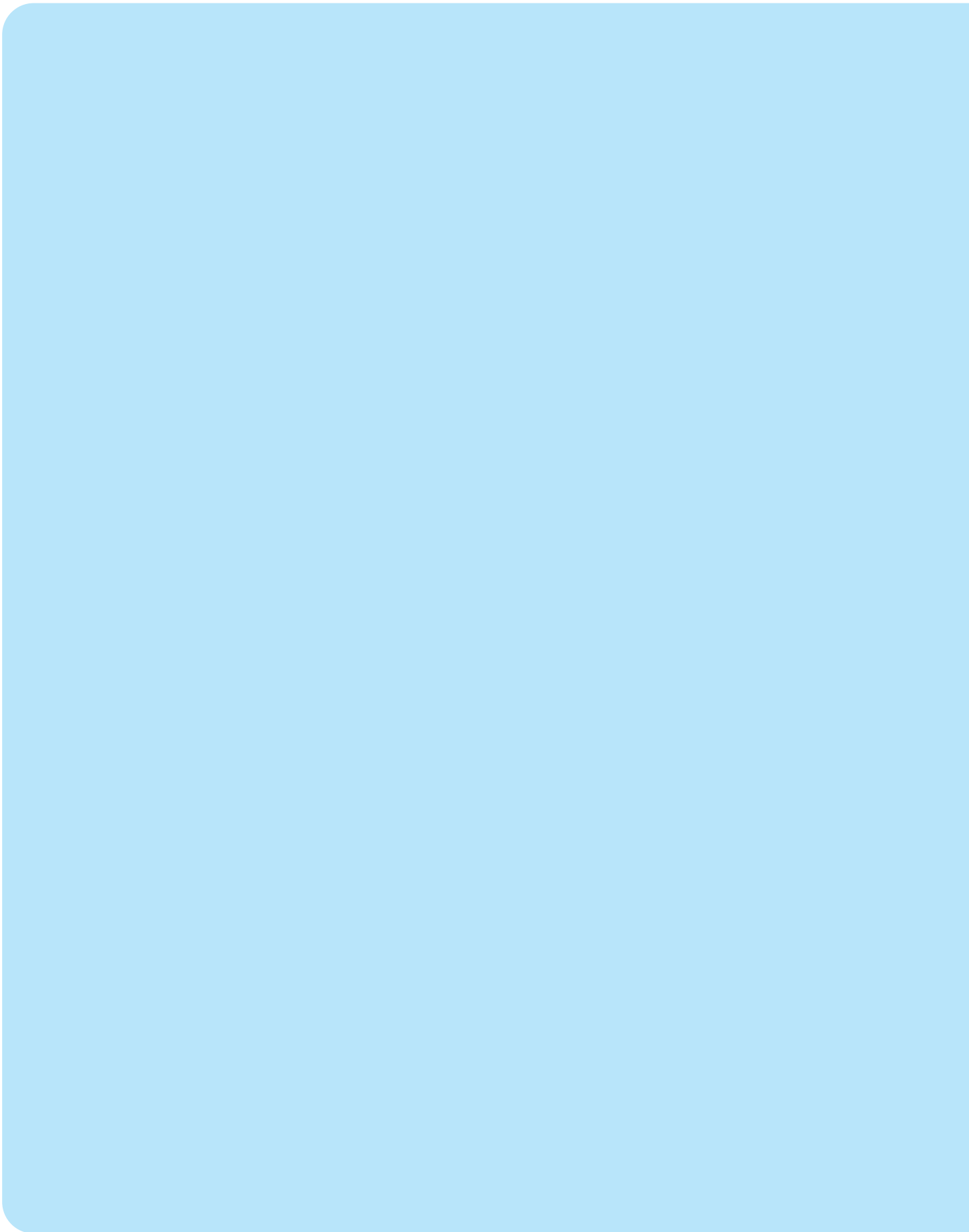


**Breakdown of Consolidated  
Operating Income (Fiscal 2004)**



**Non-Consolidated Net Sales  
by Division (Fiscal 2004)**





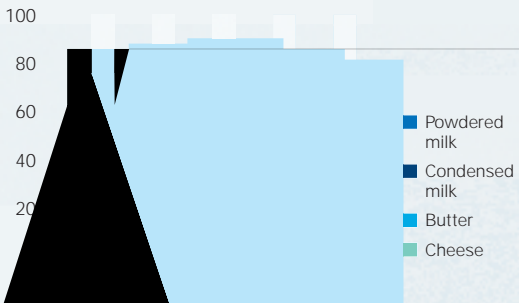






### Breakdown of Processed Milk Products Division's Net Sales

(Billions of yen)





## CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

## FOOD SAFETY INITIATIVES

### HACCP

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

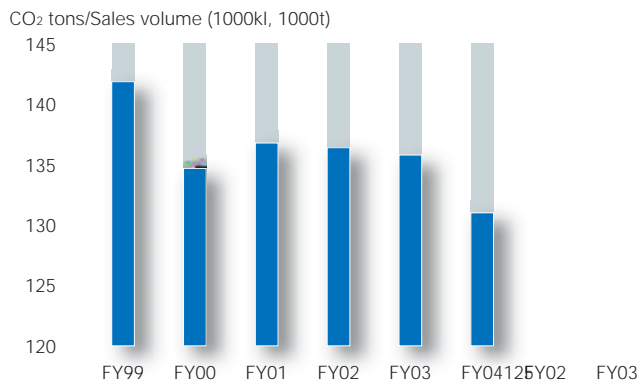
Meiji Dairies obtained HACCP authorization from Japan's Ministry of Health, Labor and Welfare at an early stage, and has also established its own HACCP certification system. In addition, we are promoting Groupwide hygiene management initiatives, including training and guidance for employees involved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



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

In the manufacturing processes, data related to filling lines and raw milk storage tanks are recorded and controlled by the MES, which enables us to systematically issue instructions covering all factory

## ENVIRONMENTAL AND SOCIAL COMMITMENTS





### 5. Harmonious Coexistence with Regional Society

In the course of encouraging employees to interact more closely with local communities, in fiscal 2004 we conducted a campaign to recruit environmental protection volunteers by introducing related information to employees via our local area network (LAN). As a company, we also participated in Eco Products 2004, an environmental products exhibition, and the Ministry of the Environment's Light Down Campaign, aimed at reducing CO<sub>2</sub> emissions.

### 6. Environmental Education and Information Activities

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

## SOCIAL CONTRIBUTION

The greatest contribution a company can make to society is to conduct its core business of providing products and services in a reliable manner. At Meiji Dairies, the cornerstone of our operations is to foster healthy and happy culinary lifestyles by delivering products that are highly nutritious, tasty, and safe. In this regard, we are pursuing a variety of ongoing initiatives. These include research into (1) the nutritional value and function of cow's milk, (2) the health effects of lactobacillus and processing technologies, (3) infant nutrition, specifically ways to make powdered milk more like mother's milk,

and (4) home care food for the elderly. We actively disclose the results of these research programs, as well as information about food nutritional values and safety, to the public via our corporate website and other media.

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





Millions of yen  
(Unless otherwise noted)

	FY2000	FY2001	FY2002	FY2003
<b>Operating Results (For the Fiscal Year):</b>				
Net sales				
Cost of sales				
Selling, general and administrative (SG&A) expenses				
Operating income				
Ordinary income (Note 3)				
Net income				
Capital expenditure (Cash base)				
Depreciation expenses (Tangible Fixed Assets)				
Research and development (R&D) expenses				
<b>Financial Position (At Fiscal Year-End):</b>				
Total assets				
Shareholders' equity				
Interest-bearing debt (Note 4)				
<b>Per share data (Yen, U.S. dollars):</b>				
Net income (Note 5)				
Shareholders' equity				
Cash dividends				
<b>Ratios:</b>				
Return on equity (ROE)(%) (Note 6)				
Return on assets (ROA)(%) (Note 7)				
Equity ratio (%)				
Debt-equity ratio (times) (Note 8)				
<b>Other information:</b>				
Number of employees				

Notes:





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

### 3. Segment Information

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

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

#### Non-consolidated Net Sales by Division and

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

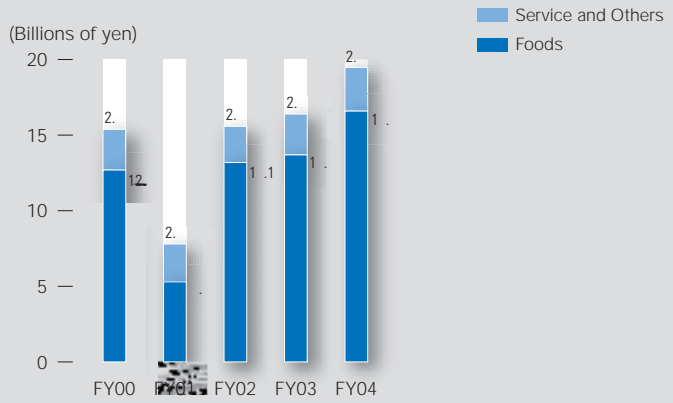
Notes:

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

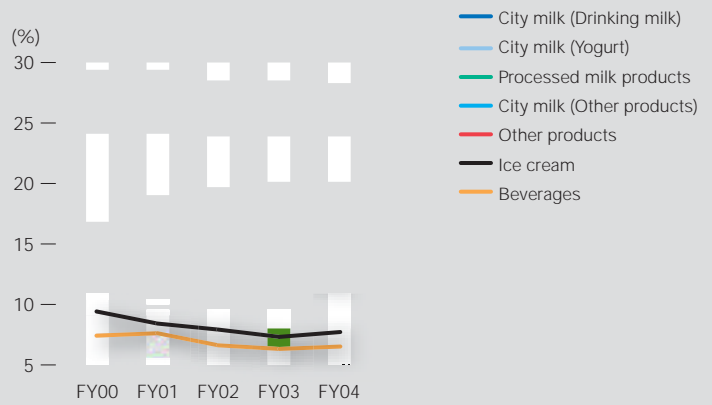


	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)	
FY2004	FY2004	
¥ 621,978	\$ 5,791,774	
148,370	1,381,601	
16,633	154,888	
2,923	27,219	
2.7%	—	
2.0%	—	
¥ 294,010	\$ 2,737,780	
132,182	1,230,865	
91,947	856,199	
69,880	650,714	
71,485	665,665	
33,236	309,490	
1,103	10,277	
14,588	135,845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

**Consolidated Operating Income by Segment**



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



**Production, Consumption, and Sales of  
Major Dairy Products**

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Raw milk production (kl) \*1

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Drinking milk production (kl) \*1

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    Milk production (kl) \*1

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    Processed milk production (kl) \*1

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Yogurt produced by dairy companies (kl) \*

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## FINANCIAL SECTION

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## REVIEW AND ANALYSIS OF FISCAL 2004 RESULTS

### MACROECONOMIC ENVIRONMENT

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

The food industry continued to face structural impediments as Japan's population peaked out amid declining birthrates and an aging society. Consumption tax-inclusive pricing, record-high summer temperatures, and frequent natural disasters also had a negative effect on the industry. Ongoing deflation, though at a slower rate, also had a restricting impact on corporate earnings. In the milk sector, companies worked hard to

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

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

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

**Segment Breakdown**

**Food**

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

In fiscal 2004, sales in the food segment edged down 0.2% year-on-year, to ¥621,978 million. On the

positive side, sales of Meiji Oishii Gyunyu and yogurt were healthy, and the extremely hot summer boosted sales of ice cream by a solid 4.2%. However, these factors failed to compensate for intensified competition and the negative aspects of the hot summer, which weakened sales of cheese and other dairy products.

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

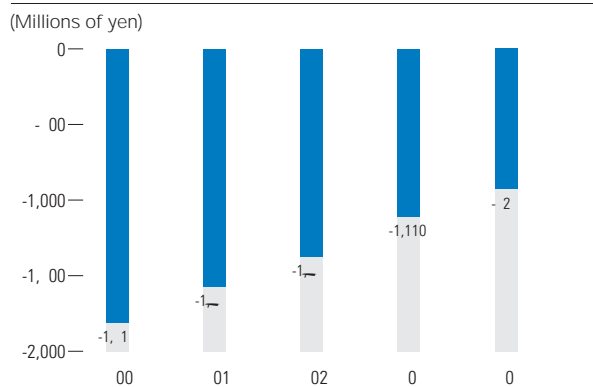
**Service and Others**

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

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

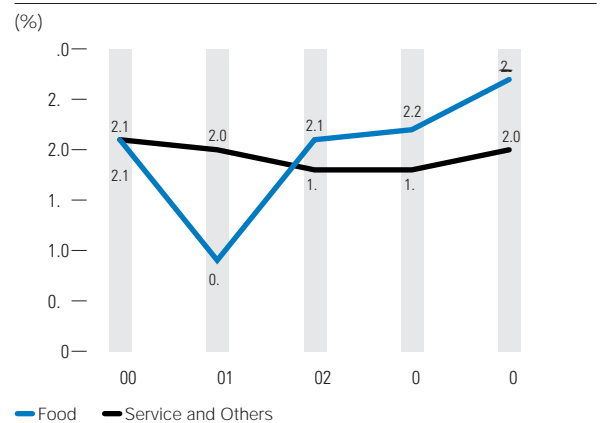
Operating income advanced 9.9%, to ¥2,923 mil-

**Net Financial Expense**



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

**Operating Income Ratio, by Segment**



\* Figures are before exclusion of intersegment transactions.

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

**Performances of Major Subsidiaries**

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

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

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

**Financial Position**

As of March 31, 2005, consolidated total assets stood at ¥357,592 million, down ¥7,364 million from a year earlier. Current assets declined ¥5,763 million, to ¥142,360 million (or 39.8% of total assets), due mainly to a decrease in inventories stemming from reduction of non-fat powdered milk inventories. Fixed assets

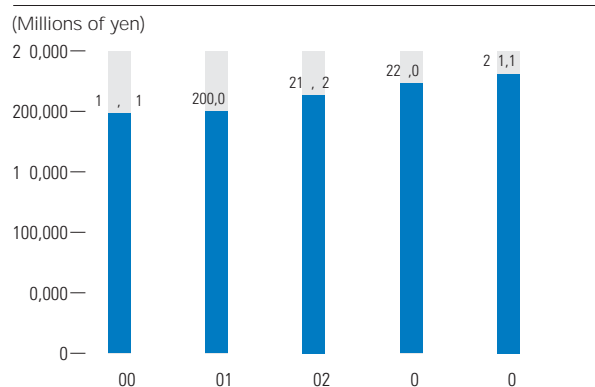
decreased ¥1,601 million, to ¥215,232 million (60.2% of total assets), owing largely to declines in buildings and structures and land.

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

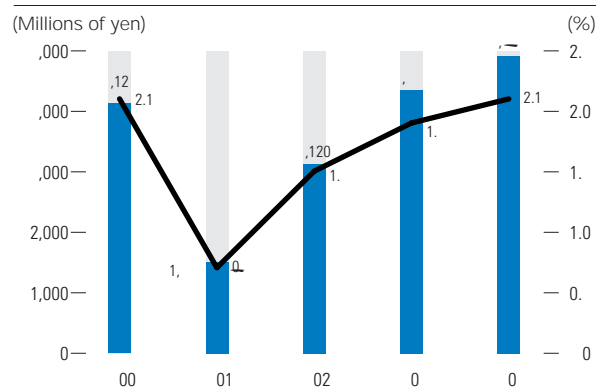
Minority interests edged down ¥31 million, to ¥2,296 million.

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

**Net Sales of Consolidated Subsidiaries**



**Ordinary Income and Ordinary Income Ratios of Consolidated Subsidiaries**



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

■ Ordinary Income of Consolidated Subsidiaries (left)  
 — Ordinary Income Ratios of Consolidated Subsidiaries (right)

## Cash Flows

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

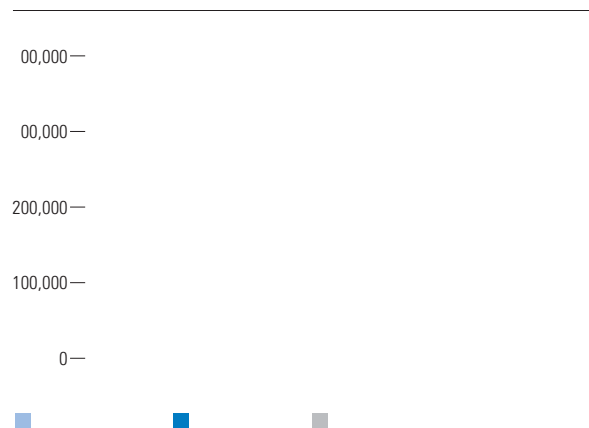
Net cash used in investing activities totaled ¥18,738 million, up ¥2,572 million. Primary factors included a decline in proceeds from the sale of property, plant and equipment.

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

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

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

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



ASSETS

Current assets:



Millions of yen

Thousands of U.S. dollars

**LIABILITIES AND SHAREHOLDERS' EQUITY****Current liabilities:**

Short-term loans payable (including current portion of  
long-term debt) (Notes 5,6)

---

Notes and accounts payable:

Trade

---

Unconsolidated subsidiaries and affiliates

---

Income taxes payable

---

Accrued liabilities

---

Other current liabilities

---

Total current liabilities

---

**Long-term liabilities:**

Long-term debt, less current portion (Notes 5,6)

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Deferred tax liabilities (Note 7)

---

Employees' retirement benefits (Note 9)

---

Other long-term liabilities

---

Total long-term liabilities

---

Minority interests

---

Contingent liabilities (Note 11)

**Shareholders' equity:**

Common stock

Authorized—560,000,000 shares

Issued 2005 and 2004—296,648,786 shares

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Additional paid-in capital

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Retained earnings

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## CONSOLIDATED STATEMENTS OF INCOME

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Net sales</b>	<b>¥ 725,024</b>	¥ 721,833	<b>\$ 6,751,320</b>
<b>Cost of sales</b> (Note 12)	<b>522,970</b>	524,253	<b>4,869,828</b>
<b>Gross profit</b>	<b>202,053</b>	197,580	<b>1,881,492</b>
<b>Selling, general and administrative expenses</b> (Notes 10,12)	<b>182,637</b>	181,899	<b>1,700,695</b>
<b>Operating income</b>	<b>19,415</b>	15,681	<b>180,797</b>
<b>Other income (expenses):</b>			
Interest and dividend income	532	506	4,958
Amortization of goodwill arising from consolidation	176	174	1,641
Equity in income of affiliates	122	138	1,144
Interest expenses	(1,461)	(1,617)	(13,608)
Other, net	(1,601)	831	(14,914)
<b>Income before income taxes</b>	<b>17,184</b>	15,713	<b>160,018</b>
<b>Income taxes</b>			
Current	7,480	8,361	69,657
Deferred	(29)	(668)	(275)
<b>Minority interests</b>	<b>(10)</b>	(70)	<b>(97)</b>
<b>Net income</b>	<b>¥ 9,722</b>	¥ 7,950	<b>\$ 90,538</b>
	Yen		U.S. dollars
	2005	2004	2005
<b>Amounts per share of common stock:</b>			
Net income	¥ 32.73	¥ 26.74	\$ 0.305
Cash dividends	6.00	6.00	0.056

See accompanying notes to consolidated financial statements.

**Balance at March 31, 2003**

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Net income
Net unrealized gains on investments
in securities
Wunrealized gains on investments

---

**Cash flows from operating activities:**

Income before income tax and minority interests
Depreciation
Amortization of goodwill arising from consolidation
Increase (decrease) in provision for retirement benefits
Interest and dividend income
Interest expenses
(Gain) loss on sale and disposal of property
(Gain) loss on sale and revaluation of securities
(Increase) decrease in notes and accounts receivable
(Increase) decrease in inventories
Increase (decrease) in notes and accounts payable
Increase (decrease) in accrued expense
Others
Cash received for interest and dividend
Cash paid for interest
Cash paid for income tax
Net cash provided by operating activities

**Cash flows from investing activities:**

Purchases of property, net of proceeds
Proceeds from sale (payments for purchases) of investment securities
Others
Net cash used in investing activities

**Cash flows from financing activities:**

Proceeds from long-term debt
Repayment of long-term debt
Proceeds from issuance of bonds
Payment for redemption of bonds
Cash dividends paid
Net increase (decrease) in short-terms loans payable

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Meiji Dairies Corporation (the “Company”) and subsidiary companies have been prepared from the consolidated financial statements in Japanese filed with the Kanto Finance Bureau as required by the Securities and Exchange Law of Japan, which are in conformity with accounting principles and practices generally accepted in Japan. These are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present them in a form which is familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen. For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by arithmetically translating all Japanese yen amounts at the exchange rate of ¥107.39 to \$1 prevailing on March 31, 2005. Amounts of less than one million yen and one thousand dollar have been omitted since the fiscal year ended March 31, 2005. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S dollars) do not necessarily agree with the sums of the individual amounts.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (the “Companies”), over which the Company has power of control through majority voting rights or existence of certain conditions evidencing control by the Company. Investments in affiliates over which the Company has ability to exercise significant influences over operating and financial policies of the investees, are accounted for using the equity method. The consolidated financial statements consist of the Company and its twenty-five (twenty-six in 2004) significant subsidiaries. All significant intercompany trans-



### 3. INVENTORIES

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

	2005	2004	2005
Finished goods and merchandise	¥ 29,130	¥ 33,233	\$ 271,258
Raw materials and supplies, others	10,498	10,795	97,756
Total	¥ 39,628	¥ 44,028	\$ 369,015

### 4. PROPERTY, PLANT AND EQUIPMENT

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

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

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

#### 1) Short-term loans payable

The weighted average interest rate of short-term bank loans were 0.54% and 0.56% for the year ended March 31, 2005 and 2004.

Short-term loans	¥ 36,190	¥ 45,267	\$ 337,0019T/1.14 286.26 22.2
1.8% yen bonds due October 5, 2004	—	5,000	
Commercial paper	12,000	8,000	
Total	¥ 48,190	¥ 58,267	

## 2) Long-term debt

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

2.0% yen bonds due October 5, 2005	¥ —
1.1% yen bonds due May 10, 2007	20,000
0.8% yen bonds due June 10, 2009	15,000
1.1% yen bonds due March 12, 2007	600
Loans from domestic banks, insurance companies, government agencies and others	61,735
Less portion due within one year	
Total	

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

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

Years ending March 31	¥	\$
2007	¥ 17,647	\$ 164,331
2008	13,089	121,887
2009	5,713	53,206
2010 and after	7,852	73,120
Total	¥ 44,303	\$ 412,544

## 6. COLLATERAL AND SECURED LIABILITY

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

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

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

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



## 7. DEFERRED TAX ASSETS AND LIABILITIES

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

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

## 8. LEASE TRANSACTION

The companies lease certain tools and furniture and other assets. Amounts of equivalent to acquisition costs, accumulated depreciation and net book value as of March 31, 2005 and 2004 concerning the finance lease assets which do not transfer ownership to lessees were as follows:

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

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

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

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

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

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

## 9. RETIREMENT BENEFITS

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

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

The components of net periodic benefit costs were as follows:

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

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

	2005	2004
Periodic recognition of projected benefit obligation	<b>Straight-line method</b>	Straight-line method
Discount rate	<b>2.5%</b>	3.0%
Expected rate of return on plan assets	<b>Principally 3.5%</b>	Principally 3.5%
Recognition period of actuarial gain/loss	<b>Principally 14 years</b>	Principally 14 years
Amortization period of transitional obligation	<b>15 years</b>	15 years
Amortization period of prior service cost	<b>Principally 7 years</b>	Principally 7 years

## 10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

## 11. CONTINGENT LIABILITIES

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

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

## 12. RESEARCH AND DEVELOPMENT COST

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

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



# REPORT OF INDEPENDENT AUDITORS



## CORPORATE DATA

(As of March 31, 2005)

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