



CORPORATE PHILOSOPHY

THE MEIJI DAIRIES GROUP CONTRIBUTES
TO A HEALTHY AND HAPPY DAILY LIFE
FOR OUR CUSTOMERS BY OFFERING
NEW LEVELS OF VALUE IN FOOD.

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CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

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

Unless specifically stated otherwise, information in this annual report is as of August, 2007.

PROFILE

Since its establishment in 1917, Meiji Dairies Corporation has based its corporate activities on the motto of contributing to our customers' "health" by providing products and services on a foundation of milk and processed milk products. Today, as the largest manufacturer of dairy products in Japan, we provide a broad lineup of products from yogurts, cheeses, ice creams, and other dairy products to liquid food and nutraceutical products.

Meiji Dairies Corporation's corporate philosophy is to contribute to a healthy and

FINANCIAL HIGHLIGHTS:

Meiji Dairies Corporation and Consolidated Subsidiaries

For the fiscal year:

Net sales.....
Cost of sales.....

MEIJI DAIRIES GROUP SNAPSHOT

POLICIES AND PROGRESS IN THE 2008 MEDIUM-TERM MANAGEMENT PLAN

The Meiji Dairies Group 2008 Medium-term Management Plan is based on a fundamental concept of creating a new and comprehensive dairy business* by further establishing the leading positions of our core products Meiji Bulgaria Yogurt and Meiji Oishii Gyunyu and by initiating an aggressive focus of management resources in designated future growth businesses, including cheese, liquid foods, and nursing foods. We are also implementing measures to construct a profit structure resilient to the increasing competitive business environment and to establish maximum management efficiency. The plan sets consolidated targets for fiscal 2008 of ¥755 billion in net sales, ¥26 billion in ordinary income and a 3.4% ordinary income to sales ratio.

*Our objective to create a new and comprehensive dairy business involves much more than the basic expansion of our business scope and product lineup. Becoming a comprehensive dairy industry group requires developing industry-leading businesses in each business segment and creating synergies from closely interlinked operations to generate an even greater overall strength.

2008 Medium-term Management Plan Objectives

The Meiji Dairies Group Long-Term Vision

Our Objective is to Utilize Our Unique Technological and Product Strengths to Become a Globally Competitive Food Business Corporate Group on Par with World's Leading Food Companies.

2008 Medium-term Management Plan Performance Targets

Consolidated:		Non-Consolidated:		Group Companies:	
Net Sales	755 billion	Net Sales	525 billion	Net Sales*	230 billion
Ordinary Income	26 billion	Ordinary Income	21 billion	Ordinary Income*	5 billion
Ordinary Income to Sales Ratio	3.4 %	Ordinary Income to Sales Ratio	4.0 %	Ordinary Income to Sales Ratio	2.2 %

*After eliminations for intersegment transactions

(Billions of yen)		(Billions of yen)	
40	721.8	725.0	710.9
30			23.4
20	15.7	19.0	20.1
10			
0			
	FY02	FY03	FY04
	FY05	FY06	

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Four Consecutive Years of Record Profits in Consolidated Ordinary Income

1

Focus on High Value-added Products

Raise the ratio of Meiji Oishii Gyunyu and other high value-added core products* in overall net sales to fortify our earning power.

*Core products: Me

2

Improving the Profit Structure

The improving product mix, reduction of SG&A expenses, and revisions to the overall group operating structure have lowered the break-even point to under 90% of current sales levels.

3

Seeking Greater Group Operating Efficiency

We are steadily fortifying our consolidated earning capabilities by actively seeking to improve the operating efficiency of the five group companies; the sales, manufacturing, livestock and feed, distribution, and other operations of Meiji Dairies Corporation and Group companies.

We raised the ordinary year-end dividend by ¥1 to ¥5 per share to reflect our record profit performance for the year and supplemented this with a special ¥2 commemorative dividend in recognition of the 90th anniversary of the company's founding. With the ¥3 midterm dividend payment, these additions raised the annual dividend by ¥3 from the previous year to ¥10 for fiscal 2006.

Achievement Status of the 2008 Medium-term Management Plan

Strengthening Mechanisms for Growth

The 2008 Medium-term Management Plan launched in fiscal 2006 sets targets of consolidated net sales of ¥755.0 billion, consolidated ordinary income of ¥26.0 billion, and an ordinary income margin of 3.4% for fiscal 2008.

The fundamental mission of our 2008 Medium-term Management Plan is to build a new and comprehensive dairy business. This plan is the second stage of our long-term vision of becoming a food business corporate group with unique technological capability and product strengths that can compete equally with the top food companies of the world.

Creating a new and comprehensive dairy business requires more than merely expanding our business scope and product lineup. It means creating industry-leading businesses in each business segment as well as conscientiously planning business operations and development with full awareness of overlapping businesses and business boundaries, and creating synergies from tightly interlinked operations to form a comprehensive dairy industry group that generates an even greater overall strength.

The 2008 plan's theme of "strengthening mechanisms for growth" sets an action plan classified into two categories: Core and Non-Core businesses as shown below. Core existing business with superior competitiveness will be thoroughly upgraded and strengthened and business foundations will be established in areas with growth potential. Non-Core businesses will be strictly reviewed to improve their earnings structure.

The plan aims to recreate Meiji Dairies as "a new comprehensive dairy business" by building an operating structure that draws a steady and high level of revenue via further establishing our competitive superiority, and by advancing investment in growth businesses.

Key Strategies of the 2008 Medium-term Management Plan

Strengthen select core businesses and further concentrate management resources

Core Businesses

1. Existing businesses with superior competitiveness (yogurt business, home delivery business)

Establish unassailable competitiveness and secure business growth

- Establish unassailable market share for the Yogurt (Probio) business (sales target: ¥110.0 billion)
- Establish unassailable market share for Meiji Oishii Gyunyu brand milk (sales target: ¥48.0 billion)
- Further strengthen the home delivery business to secure business growth

2. Growth businesses (cheese business, liquid foods business)

Proactively allocate management resources to establish foundations for growth

- Strengthen and develop the cheese business
- Expand the liquid foods business
- Create new businesses where businesses overlap and at boundaries between businesses

Non-Core Businesses

Implement thorough improvement in earnings structure

Shift to High Value-added Products

The current environment for the dairy market in Japan is strongly influenced by the country's declining population and aging society. In generating and expanding profit in this environment, the top priority is to raise the make up of high value-added products in our product lineup.

The 2008 plan identifies Meiji Oishii Gyunyu brand milk as a core existing business with superior competitiveness and sets the target sales of ¥48.0 billion. We are implementing an aggressive strategy to expand market share spearheaded by a steady stream of TV commercials and sales promotion at stores.

Specific strategies also focus on stepping up sales activities, launching new products, expanding production capacity for Meiji Bulgaria Yogurt, and increasing consumer recognition and knowledge of Meiji Probio Yogurt LG21 products to raise sales of the yogurt business to a combined ¥110.0 billion.

In fiscal 2006, the first year of the 2008 plan, we succeeded in raising sales of these products and lifted their percentage of total company net sales to 60.7%, which represents a 2.6% percentage point increase from the previous year. Our promotional and communication efforts for Meiji Probio Yogurt LG21 were particularly successful, as sales jumped 29% to ¥28.1 billion. In fiscal 2008, the final year of the 2008 plan, we plan to raise the percentage of total company sales for the core business products to 63%.

Growth Investment: Strengthening the Cheese and Liquid Foods Businesses (See special feature on pages 11–12)

Our existing markets for milk and milk products are reaching maturity, making it indispensable that we invest in new growth business where the Group can apply its strengths. We will focus on the cheese and liquid food businesses as they present significant growth potential, and we are making moves now to foster these businesses.

In the cheese business, construction of the new domestic natural cheese plant in Hokkaido is steadily progressing toward its planned start of operations in spring of 2008. Fiscal 2007 marks the 15th anniversary of the launch of Meiji Hokkaido Tokachi Cheese, and we will actively undertake promotional sales campaigns. In the liquid foods business, to keep up with increasing demand as the population ages, a new factory is being built on the Gunma Plant grounds. We plan to invest ¥8.5 billion in the new factory in fiscal 2007 toward a scheduled start of operations in August 2008. The new factory will triple the current production capacity of our liquid foods business (including outsourced production) and position us to achieve our objective of raising liquid foods business net sales from ¥9.0 billion in fiscal 2006 to ¥15.0 billion in fiscal 2008.

Business-wide Structural Reforms

We are also introducing extensive structural reform to improve the operating structure of the entire Meiji Dairies Group. In January 2007, we launched the Meiji Qualias in-house quality assurance system (see special feature on page 26) for all our products. This comprehensive system is another step in our efforts to raise the value of the MEIJI brand by providing a stable supply of attractive and high-quality products and services.

Over the past several years, we have introduced the refrigeration systems used at our City Milk plants to our processed milk product factories and have fortified our traceability systems linked with our Manufacturing Execution System (MES)*. In fiscal 2008, we plan to introduce nation6415.5a-e0 -9281ES)*6.r1rodu25 1lifostw T95 8ct factories and havSb-tified4assurance the4,pvoseid0002 Tu0759 Tw 0 -14tefrtpepspsine

Company and greatly strengthen real-time inventory management and product traceability.

We have also introduced key structural reforms to our divisional operations, including creating a single integrated order center for the entire country for the Processed Milk Products segment and an upgraded Electronic Data Interchange (EDI) and internet-based order system for the City Milk segment. These steps enable faster information exchange and fortify our product traceability capabilities while also improving food safety and reliability.

*Manufacturing Execution System (MES): a comprehensive online information management system that raises factory production efficiency. The system issues instructions via computer for on-site managers to carry out in each manufacturing process and thereby acts as a preventive measure for human error, such as operating oversight or procedural mistakes.

Fiscal 2007 Outlook

In fiscal 2007, we anticipate consolidated results of a 0.2% increase from the previous year in net sales to ¥704.2 billion, a 3.8% decline in operating income to ¥22.7 billion, a 3.5% decline in ordinary income to ¥22.6 billion, and a 0.7% increase in net income to ¥13.8 billion. We forecast non-consolidated results of a 0.3% increase from the previous year in net sales to ¥482.8 billion, a 4.2% decline in operating income to ¥17.5 billion, a 4.8% decline in ordinary income to ¥17.5 billion, and a 13.7% increase in net income to ¥10.5 billion.

We anticipate an increasingly challenging operating environment in fiscal 2007 with a weak yen exacerbating the sharply rising prices for overseas raw materials and packaging materials. Despite the anticipated increased cost burden, we expect a further improved product mix, effective advertising spending, reduced logistics costs, and other measures to absorb the cost increases and lead to improving underlying profit. However, revisions to depreciation cost accounting methods will draw ¥1.1 billion from the consolidated and ¥800 million from the non-consolidated income accounts, and this will ultimately result in year on year declines for both operating and ordinary income.

The Meiji Dairies view a 4.8% decline in operating income to ¥17.5 billion, a 4.8% decline in ordinary income to ¥17.5 billion, and a 13.7% increase in net income to ¥10.5 billion.

Cheese Business Growth Potential

Cheese consumption has increased roughly 3% annually in Japan over the past decade following the trend of growing demand for western food. Nevertheless, domestic consumption of cheese remains markedly below the consumption rates in European countries. We believe this factor indicates that there is room for growth in the domestic cheese market and that promotion of a diverse range of good tasting cheeses can stimulate sales growth.

Cheese is one of relatively few product segments where imported products can be very competitive in Japan as the customs duty rate on cheese is about 30%, which is lower than on other imported dairy products, and this





Liquid Foods Market Growth Potential

Several elements make liquid foods an extremely promising market segment, including the aging population in Japan and the increasing use of nutritional management as a component of health care treatment.

We estimate the liquid foods market has been growing at an average rate of 7-8% annually over the past five years and we expect the following factors to fuel accelerating growth in coming years.

1) The progression from an aging society to a super aging society (especially aged 75 years or older)

The number of people aged 75 and older in the Japanese population is estimated to grow from 12 million in 2006 to 16 million in 2015 and 20 million in 2025. A rising need for health care services and products is expected to parallel the advancing age trend of the population.

2) Growing awareness of the importance of natural nutrient absorption by the digestive tract

The process of absorbing nutrients in the digestive tract strengthens the natural immune system of the intestinal tract. The nutrition absorption

OVERALL BUSINESS SITUATION (NON-CONSOLIDATED) & CORPORATE SOCIAL RESPONSIBILITY (CSR)

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AT A GLANCE

This section goes deeper into the strategies and results for the Meiji Dairies Corporation parent company, which accounts for about 70% of Meiji Dairies Group results (in fiscal 2006: 68.5% of sales and 77.1% of operating income), by segment, with the objective of helping stakeholders to gain an even deeper understanding of the Meiji Dairies Group.

Meiji Dairies Corporation non-consolidated net sales declined 0.6% year on year to ¥481.2 billion in fiscal 2006. Sales improved for the Meiji Bulgaria Yogurt series, Meiji Probio Yogurt LG21, and other yogurt products as well as for our cheeses, butters, and ice creams.

The dairy industry implemented a strong promotional campaign to boost milk consumption during the year, but increasing competition with other health drink providers as well as unfavorable weather conditions led to an overall decline in sales that outpaced the sales growth for our other products.

Meiji Dairies Corporation non-consolidated operating income increased 19.9% year on year to ¥18.2 billion in fiscal 2006.

The improved product mix from the increased sales volume of yogurt and other product lines increased operating income and overcame the impact of rising costs for overseas raw materials and packaging materials.

City Milk

Processed
Milk
Products

Ice Cream

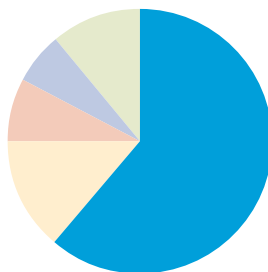
Beverages

Other
Products

This segment includes milk, processed milk, and milk beverages; yogurt; and others.

In addition to Meiji Oishii Gyunyu with its smooth, rich flavor and aroma and a fresh aftertaste achieved by our original "Natural Taste" manufacturing method, we offer such products as Meiji Zeitaku Shibori Milk utilizing 100% raw milk from Hokkaido and our original filtration and enrichment technology, and Meiji Love, a milk beverage fortified with calcium and iron.

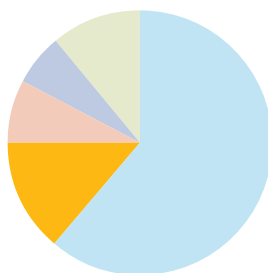
We have a broad variety of products in our yogurt line utilizing our original fermentation technology, including our representative plain yogurt Meiji Bulgaria Yogurt LB81, and Meiji Probio Yogurt LG21 which contains a mixture of LG21 lactobacillus.



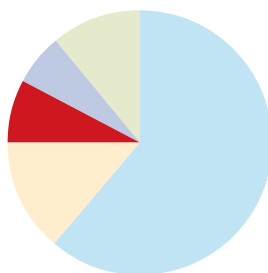
This segment includes powdered milk, condensed milk, butter and cheese.

In powdered milk we offer Meiji Hohoemi, milk for infants which is almost exactly like mother's milk in terms of ingredients and function.

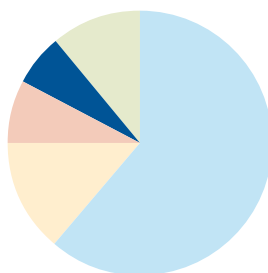
In cheese, more than 60% of the raw milk used to make the products in our Meiji Hokkaido Tokachi Cheese series comes from the Tokachi region of Hokkaido, and these products are highly thought of as they appeal to the Japanese palate.



We offer the premium ice cream Aya as well as our standard cup ice cream Meiji Essel Super Cup series.



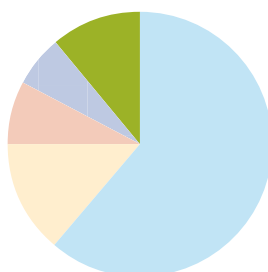
Our offerings in this segment include the Minute Maid series and the Soreike Anpanman series.



This segment includes frozen foods, nutraceuticals and margarine.

In frozen foods, we concentrate on pizza, gratin and similar products where we can leverage our strengths as a milk manufacturer.

Our nutraceutical products include the sports nutrition drink VAAM, which is highly regarded by many athletes. The segment is expanding its lines of liquid food and nursing care products geared to the needs of the aging Japanese population, such as the comprehensive nutritional liquid food Meibalance series and the Yawaraka Food series.



CITY MILK

Fiscal 2006 Results

In fiscal 2006, sales in the City Milk segment edged up 0.1 % from the previous year to ¥294.6 billion.

Sales of milk, processed milk, and milk beverages declined 5.0% to ¥121.7 billion. The main cause of the decline was the trend in declining demand for drinking milk.

However, demand remained strong for our mainstay Meiji Oishii Gyunyu brand products in 1,000ml and 500ml cartons and continued to be favorable for small-sized cartons (200ml) and home delivery products. Meiji Oishii Gyunyu garnered 2.0% sales growth to ¥45.0 billion from the previous year.

Yogurt sales surpassed the ¥100 billion mark for the first time, rising 9.1% to ¥103.8 billion year on year. Sales of the core Meiji Bulgaria Yogurt series rose 4% to ¥67.3 billion from the previous year on steady demand for the mainstay LB81 Plain (500g) and Meiji Bulgaria Yogurt Four-pack Type products. Meiji Probio Yogurt LG21 sales soared 29.0% to ¥28.1 billion, boosted by a successful promotional campaign consisting of new TV commercials and advertisements in trains, stations, and other strategic sites.

Sales in the Other Products category declined 2.7% to ¥68.9 billion on slowing sales of milk beverages and dessert products. Also, intensifying competition led to a sales decline of 2.0% to ¥44.3 billion for the home delivery service business.

Strategy and Outlook for Fiscal 2007 and Beyond

In fiscal 2007, we aim to raise City Milk segment sales by 1.8% from fiscal 2006 to ¥299.8 billion as we continue our focus on expanding sales of high value-added products.

Amid a declining trend in consumption of drinking milk, we are aiming to increase sales of the core Meiji Oishii Gyunyu brand products by 5.0% to ¥47.3 billion, while overall sales of milk, processed milk, and milk beverages will decline 1.7% to ¥119.6 billion. Specific marketing strategies will continue to focus on promotional sales activities led by TV commercials while we increase product visibility for 1,000ml carton products at stores by stepping up on-site communications with taste sampling promotions and by utilizing effective displays. Marketing strategies for 200ml carton products will focus on expanding sales at convenience stores and bringing in new customers for our home delivery service. Meiji Hokkaido Zeitaku Shibori Milk 1,000ml cartons have reached their third year on the market, and we plan to initiate a new campaign to establish market presence by presenting a redesigned package and emphasizing the difference in flavor this product offers supported by ongoing sampling promotions.

We are targeting yogurt sales growth of 4.7% to ¥108.7 billion in fiscal 2007. We plan to spur sales of

Meiji Oishii Gyunyu

We created this product to get the actual taste of milk you drink right on the farm. Using our original patented Natural Taste Manufacturing Method, which minimizes the oxidation of milk ingredients and the changes in flavor, we have achieved a smooth, rich flavor and aroma, and a fresh aftertaste.

Meiji Bulgaria Yogurt LB81 Plain

Meiji Bulgaria Yogurt has been a long-time favorite among consumers since its launch in 1973. We use LB81 lactobacillus, which has received government approval as a food for specified health use, and plenty of raw milk and have created a yogurt with a refreshing sour taste.



Meiji Probio Yogurt LG21

This product combines LG21 lactobacillus that contributes to stomach health, and uses plenty of raw milk, for a yogurt that is moderately sweet. The drink made from this yogurt is also highly evaluated, with smooth sourness, moderate sweetness, and a refreshing aftertaste.

the Meiji Bulgaria Yogurt product series with new product entries, TV commercials, and promotional campaigns to stimulate further demand for the LB81 Plain (500g) and the four-pack type products. We also plan to revitalize the yogurt market through special promotions presenting attractive yogurt recipes and engaging in educational activities on the health value of yogurt on the inside of package lids and on product websites.

With these strategies, we expect to raise Meiji Bulgaria Yogurt series sales by 8.0% to ¥73.0 billion year on year. Meanwhile, we are targeting Meiji Probio Yogurt LG21 sales growth of 3.0% to ¥29.0 billion year on year with support from active promotion, including focusing on increasing recognition of the benefits of LG21 lactobacillus probiotics.

We are stepping up our promotional campaign for the Meiji Milk & Coffee brand series and expect it to contribute to a 3.6% rise in Other Product segment sales to ¥71.5 billion year on year.

The home delivery service is subject to stiff market competition because many companies from other industry segments have entered the market. However, we aim to raise home delivery service sales in fiscal 2006 by 2.0% to ¥45.1 billion year on year. Specifically, our sales expansion strategies will focus on products, such as Meiji Yogurt Utsukushii Ashita, Meiji Oishii Gyunyu, and Meiji Probio Yogurt LG21, which are differentiated by our unique milk-related technologies and materials.

For products exclusive to the home delivery service, as we use our unique technologies and materials, centering on milk, we will develop new and upgraded

products that provide an even higher level of flavor and clarify the distinction and superiority to products on store shelves. We will also tackle sales activities, including strengthening our links to sales outlets, to increase our rate of contracts concluded and prevent cancellation of contracts.

Achievement Status of the 2008 Medium-term Management Plan

	Initial Plan	Fiscal 2006 Results	Fiscal 2007 Projection
Meiji Oishii Gyunyu	¥45.5 billion	¥45.0 billion	¥47.3 billion
Meiji Bulgaria Yogurt	¥66.5 billion	¥67.3 billion	¥73.0 billion
Meiji Probio Yogurt LG21	¥23.0 billion	¥28.1 billion	¥29.0 billion
Home Delivery Services	¥45.4 billion	¥44.3 billion	¥45.1 billion



PROCESSED MILK PRODUCTS

Fiscal 2006 Results

In fiscal 2006, sales in the Processed Milk Products segment declined 1.0% from the previous year to ¥66.5 billion. Butter sales grew 3.1% and cheese sales increased 1.7%, but powdered milk sales fell 5.0% year on year.

Sales of Meiji Hokkaido Tokachi Cheese* series products were affected by a price hike implemented in March 2006 and declined 2.0% to ¥9.8 billion.

Strategy and Outlook for Fiscal 2007 and Beyond

We anticipate the shrinking market for Processed Milk Products to lead to a 1.5% decline in sales of processed milk products to ¥65.5 billion in fiscal 2007.

On the other hand, we believe the cheese segment is primed for growth, and we are initiating strategies aimed at raising cheese sales by 3.6% from the previous year. Particularly, we will expand the product range

of the Meiji Hokkaido Tokachi Cheese series and step up promotional activities to strengthen the Meiji Hokkaido Tokachi brand as we approach the spring 2008 start of operations of a new domestic natural cheese plant. We anticipate these aggressive initiatives coupled with competitive product pricing to support growth in Meiji Hokkaido Tokachi Cheese series sales in fiscal 2007 of 5.0% year on year to ¥10.3 billion.

*Tokachi – a region of Hokkaido

Fiscal 2006 Results

In fiscal 2006, sales in the Ice Cream segment increased 1.8% from the previous year to ¥37.2 billion, largely on strong 19.0% sales growth for the mainstay Meiji Essel Super Cup series.

BEVERAGES

Fiscal 2006 Results

In fiscal 2006, sales in the Beverages segment declined 3.3% from the previous year to ¥30.2 billion, due to intensifying competition and other factors.

Strategy and Outlook for Fiscal 2007 and Beyond

In fiscal 2007, we forecast Beverages segment sales declining 3.6% year on year. Our strategy in this segment will be to maintain our focus on ensuring profitability while launching health-promoting products and on expanding vending machine sales of Brick series products.

OTHER PRODUCTS

Fiscal 2006 Results

In fiscal 2006, net sales in the Other Products segment declined 4.3% from the previous year to ¥52.5 billion. Nutraceuticals continued drawing steady demand, however sales volume declined as we reduced commercial-use frozen food products that carried low profitability.

induced production of IL-8. Research also found that testers with H. pylori infection (10 people) that consumed yogurt not containing LG21 did not exhibit the same effects. (Joint research with the Tokai University School of Medicine)

Controlled Study of Immunomodulatory Effects on Healthy Individuals of Polysaccharides Produced by Yogurt Fermented with Lactobacillus Bulgaricus OLL1073R-1

(Announced at the fiscal 2006 Meeting of the Japanese Association for Food Immunology)

Our research found that polysaccharides produced by yogurt fermented with Lactobacillus Bulgaricus OLL1073R-1 generated an immunological response in older-aged individuals (29 people) who consumed the yogurt over an eight week period. Further, we also found that people with indications of excessively low or high natural killer (NK) cell activity for cancer or infection immunity before consuming the yogurt adjusted their NK cell activity to normal ranges after consuming yogurt with polysaccharide producing lactobacillus for eight weeks. The research concluded that yogurt with polysaccharide producing lactobacillus can regulate an immunological function in the human body.

Blood Sugar Level Change and the Second-meal Effect in Healthy Men That Consume Liquid Foods

(Published in Metabolism, Japan Edition, Volume 56 (2007))

Palatinose is known for limiting the rise in blood sugar levels because its absorption is slower than sucrose. Our research found that healthy males (7 people) that consumed a breakfast with liquid foods (Patent No. 3545706) containing palatinose as the primary sugar exhibited a more controlled rise in blood sugar levels after the meal. The research also found that blood sugar levels in these individual rose at a more controlled rate after lunch as well, even if no liquid foods

containing palatinose were consumed at the second meal. This is known as the second-meal effect. (Joint research with the University of Tokushima, Department of Medicine, Graduate Health Bio Research Institute)

Ice Cream with Palatinose Moderates Blood Sugar Rise in Rats, Healthy Adults, and People with Type 1 Diabetes

(Published in the Journal of the Japan Society of Metabolism and Clinical Nutrition Volume 9 (3) 2007)

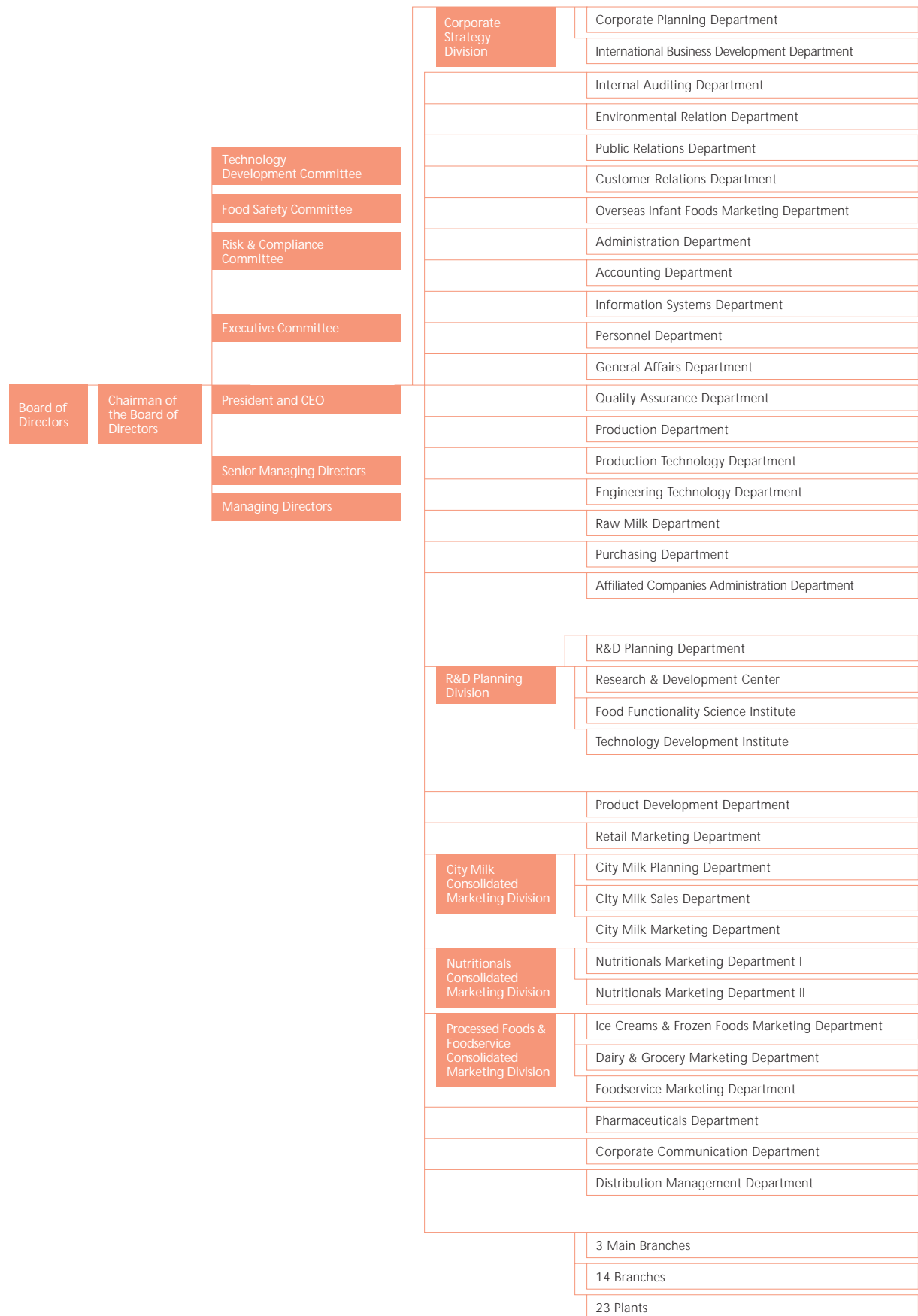
Our research found that blood sugar levels remained lower in healthy adults (six people) that consumed ice cream with carbohydrate comprised of 58% palatinose compared to healthy adults (six people) that consumed ice cream not containing palatinose. When consumed by diabetics (five men, 12 women), ice cream with palatinose was also found to produce lower blood sugar levels compared to ice cream without palatinose. This effect clearly indicated that palatinose was the main factor differentiating the results (joint research with the Clinical Nutrition Department of Ryokufuso Hospital). The International Dairy Federation awarded our palatinose ice cream "Ice de Genki! LoGIC" the 2006 IDF Marketing Award.

2006年10月13日、第1345706号特許を授けられた。The International Dairy Federation (IDF) Marketing Award 2006

MAJOR GROUP COMPANIES

ORGANIZATION

(As of April 1, 2007)



The Meiji Dairies Group constantly strives to strengthen its corporate governance to ensure management transparency and swift decision-making and business execution. The group similarly aims to improve its compliance system structure and risk management to retain the absolute trust of all of our stakeholders and enhance our sustainable corporate value.

Internal Control System

The Company's corporate governance system is reinforced by a corporate auditor system and the Internal Auditing Department as well as the Risk & Compliance Committee.

Corporate Governance Focused on Board of Directors and Corporate Auditors

The 25-member Board of Directors formulates management strategies, examines and analyzes business issues, and determines appropriate measures to address those issues. The Board follows a policy of establishing relevant executive boards, management committees, or other pertinent groups in advance of any potential issue to ensure management is fully prepared to discuss important management issues and matters related to the Board and to support quick decision-making and to enhance overall business efficiency.

Our corporate auditor system is made up of 6 corporate auditors, including 3 outside auditors, who discuss and determine auditing policies and provide oversight for the performance of the Board of Directors. Corporate auditors attend regular meetings with directors and offer opinions at meetings of the Board of Directors, Managing Committee, Executive Committee, as well as other corporate group meetings and express their opinion, as necessary.

We have also further strengthened our auditing functions with the appointment of dedicated staff to support the auditors in fulfilling their duties. This staff is strictly autonomous from the directors and does not participate in any activities related to the business and affairs of the corporation.

Internal Auditing Department Audits

The Internal Auditing Department conducts primarily systematic audits focused on risk analysis and evaluation and, as needed, provides advice and recommendations to related departments. In addition, the Internal Auditing Department prepares audit reports and informs the Managing Committee, the Auditing Department director and the corporate auditors of its audit activities.

Reinforcing Compliance and Risk Management

1. The company's fundamental spirit is embodied in the Meiji Dairies Corporation Code of Ethics and the Meiji Dairies Corporation Behavior Charter, which familiarize compliance awareness among all directors and employees throughout all the companies of the Group.
2. The Risk Compliance Committee has formulated a risk management system that includes preparatory and preventive compliance that may be necessary in emergency situations as well during standard operations. Additional steps to enhance our risk management and compliance activities include establishing the Risk & Compliance Office at headquarters and risk and compliance offices at our business sites nationwide as well as placing compliance officers at our Group member and subsidiary companies.
3. Our internal reporting system includes compliance consultation counters set up at the company headquarters, regional offices and subsidiaries across the country. We also provide external consultation sites at unaffiliated external law offices.
4. With the rapid progress of the IT sector, the Information Security Committee maintains and strengthens information security to prevent unauthorized system access and data leakage. The Committee formulates and enforces the Group-wide Information Security Policy and the Privacy Policy regarding the management of p18Td(Inform Tc 0.1nt of pd headqua)TJ

safety risk and develops preventive measures. The committee also focuses examinations and analysis on specific safety themes as occasion arises and recommends policies and measures for the company.

We are also instituting the Meiji Dairies Quality Assurance System (Meiji Qualias) based on the quality assurance systems of each segments of all the companies in the Group to further enhance our abilities to provide safe and attractive products and services. Overseen by the Meiji Qualias Council, the system will be a fundamental element in our ability to provide the product quality that will continue to earn customer satisfaction and trust.

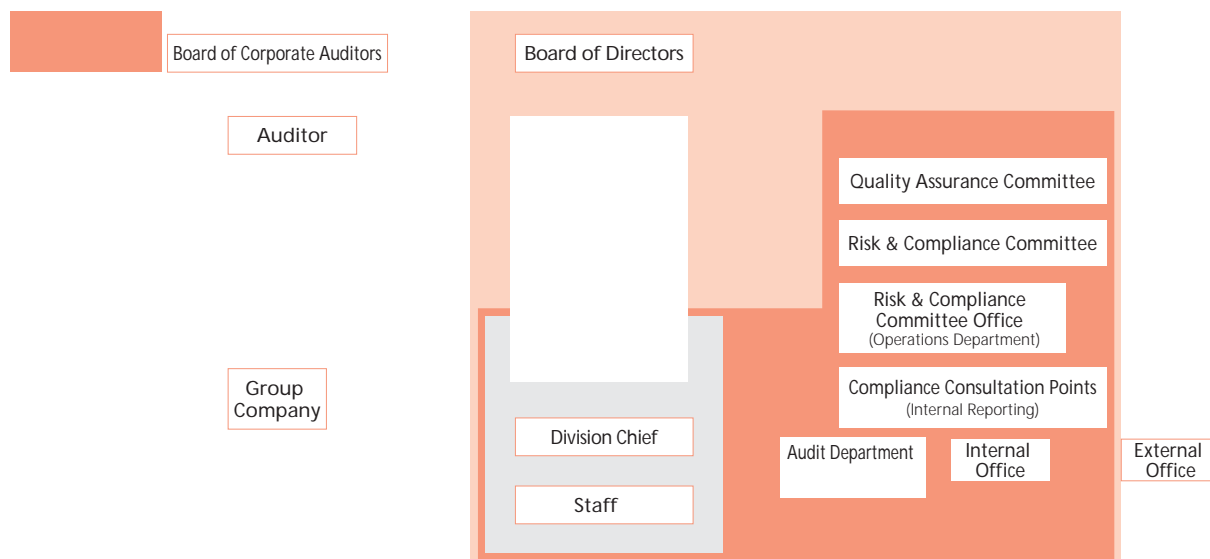
Integrating Feedback to Our Operations

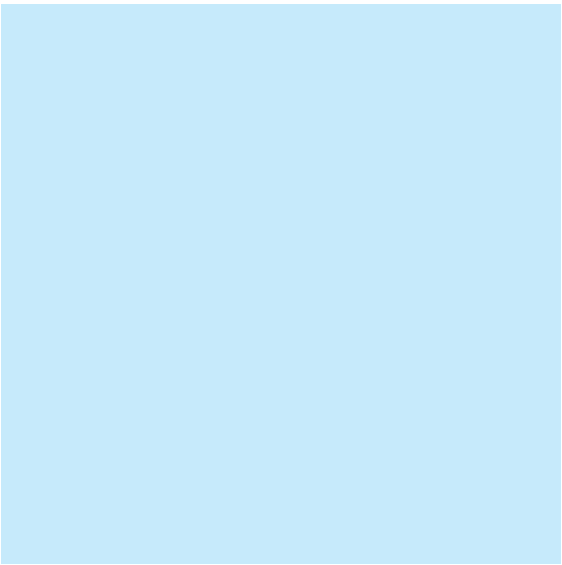
Meiji Dairies Corporation views the feedback and opinions of our stakeholders as an invaluable asset to the company's operation and management. We seek external views through communications with shareholders and investors at our General Meeting of Shareholders, the semiannual financial results presen-

tations to investors and analysts, and visits to institutional investors by top management as well as periodic surveys of the candid opinions of consumers. The Customer Support Center represents an open channel of communication for customer opinions, suggestions and feedback. We receive roughly as many as 135,000 such communications annually and actively respond and analyze each item with the objective of integrating this invaluable feedback to improve our operation and management activities.

Introduction of Takeover Countermeasures

Meiji Dairies has adopted hostile takeover countermeasures as a preventive measure against a takeover attempt that would seriously threaten to damage corporate value or the common interest of our shareholders. The countermeasures are formulated with the ultimate resolution to be decided by shareholders and are designed to act as warning mechanism and provide a period of time for due consideration by shareholders in the case of a large-scale stock purchase proposal.

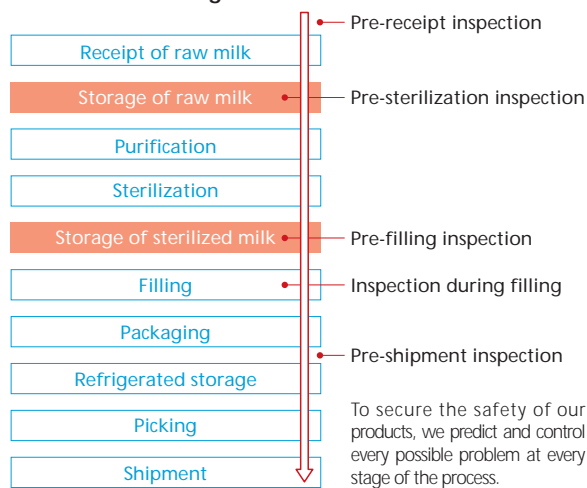




Meiji Qualias

Meiji Qualias, which is short for Meiji Quality Assurance System, is our unique in-house developed company-wide quality assurance system initiated to

Milk Manufacturing Process



2. ESL Technology

The Group has introduced extended shelf life (ESL) technology to ensure we deliver products that are as fresh and delicious as possible. Implemented across the whole manufacturing process from receiving raw milk to final product packaging, ESL technology enables superior hygienic conditions by eliminating factors that can lead to post-pasteurization microbial contamination. ESL technology does not require elevating the temperature of the pasteurization process, and thereby effectively preserves the product's original flavor while substantially extending its storage stability.

3. Manufacturing Execution System (MES)

Our Group fully integrates information technology and maintains an extensive database of information from our filling lines, raw milk storage tanks, and all other manufacturing processes. Stored in our Manufacturing Execution System (MES), this data allows management to activate effective and informed procedures and enables meticulous monitoring to prevent human error. MES enables us to systematically issue applicable instructions for each

production line on the system, and to track and evaluate operating status in real-time.

Production and Distribution Systems Assuring Traceability

The Group centrally manages all data from the receipt of raw material through production, shipment, and delivery using an organic integration of four systems: the Manufacturing Execution System (MES), Refrigeration System, Dispatch Support System, and Traffic Control System. This total coverage creates a comprehensive traceability framework capable of quickly identifying the route of any defective product to the manufacturing line, production time, and delivery destination, and facilitating swift response for recall and causal analysis. The Refrigeration System collects and manages all information related to inventory and shipping. Finally, the Dispatch Support and Traffic Control Systems collect and manage in an integrated fashion various data related to product delivery logistics from the point of shipment to the final delivery destination.

The Food Safety Committee

The Meiji Dairies Group established the Food Safety Committee in April 2003 to examine potential product risk from a scientific and technological perspective. The Committee of 18 members from within the Group and two external experts in chemistry and microbiology meets four times annually and advises the content of the meetings to the Managing Committee.



Environmental Initiatives

The Medium-term Management Plan that culminates in fiscal 2008 mandates "corporate management be conducted with full awareness of preserving the harmony between our operations and the environment" following the principles set forth in the Meiji Dairies Environment Charter established in October 2001. We focus on the following three issues as primary environmental policies.

*Additional details and information are available in our "2007 Environmental Report".

1. Construct an environmental management system that promotes environmental awareness and elevates the overall quality of the Group's environmental management levels.

All our factories received ISO 14001 certification in fiscal 2005. For remaining operations centers that had not yet earned ISO 14001 approval, in fiscal 2006, we created our own in-house corporate environmental checklist and implemented scheduled environmental inspections. We will continue to promote environmental awareness through our educational and training systems and promote environmental activities at all our operations centers based on the ISO standards.

2. Continue to reduce CO₂ emissions to assist help prevent global warming following the Kyoto Protocol guidelines.

We continue to coordinate the environmental ISO activities of our headquarters and business locations to

promote more efficient and effective reduction of CO₂ emission. Our immediate objective is to reduce factory CO₂ emission levels by fiscal 2008 to less than 100Kg-CO₂/t (representing 91.2% of the 109.6 Kg-CO₂/t levels in fiscal 2004). We also actively implement measures to reduce CO₂ emissions in our distribution and sales operations.

3. Aim for zero waste emissions.

In fiscal 2006, we raised our waste recycling ratio to a company record of 92.1% (up from 77.8% in fiscal 2005).

BOARD OF DIRECTORS AND AUDITORS

(As of July 1, 2007)

From the front left :

President & CEO
Shigetaro Asano

Chairman
Hisashi Nakayama

Senior Managing Directors
Shouichi Ihara
Kaname Tanaka
Tsuyoshi Nagata

Chairman

Hisashi Nakayama

President & CEO

Shigetaro Asano

Senior Managing Directors

Kaname Tanaka
Tsuyoshi Nagata
Shouichi Ihara

Managing Directors

Koichi Yoshioka

Hiromi Tsukanishi

General Manager, Tokyo Main Branch

Tadashi Matsuzawa

General Manager, Processed Foods & Foodservice Consolidated Marketing Division

Yoshio Baba

General Manager, R&D Planning Division

Kenichi Nonaka

General Manager, City Milk Consolidated Marketing Division

Directors

Kazuhiro Minemoto

General Manager, Kansai Main Branch

Norio Shigenari

General Manager, Raw Milk Department

Naoki Kato

General Manager, Production Department

Jyunji Yamamoto

President & Chief Executive Officer Fresh Network Systems Co., Ltd.

Masami Eguro

General Manager, Affiliated Companies Administration Department

Hidesada Kaneko

General Manager, Personnel Department

Kaoru Koide

General Manager, Quality Assurance Department

Shouzou Nawata

General Manager, Tokai Main Branch

Toshiyuki Sakaguchi

General Manager, City Milk Sales Department

Takashi Hirahara

General Manager, Administration Department

Susumu Ohba

General Manager, Kyusyu Branch

Tadashi Nakatsubo

Director, Research & Development Center

Kazuo Kawamura

General Manager, Nutritionals Consolidated Marketing Division

Takaaki Yanaka

General Manager, Corporate Strategy Division

Katsuyoshi Kotake

General Manager, Engineering Technology Department

Standing Auditors

Hajime Yoshioka

Nobukuni Hoshino

Kouichirou Kawashima

Auditors

Shouji Akahane

Yoshiaki Fujii

Youko Sanuki

FINANCIAL SECTION

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38	REVIEW AND ANALYSIS OF FISCAL 2006 RESULTS
42	CONSOLIDATED BALANCE SHEETS
44	CONSOLIDATED STATEMENTS OF INCOME
45	CONSOLIDATED STATEMENTS

1. Consolidated Financial Summary

Millions of yen
(Unless otherwise noted)
(Note 1)

	FY2002	FY2003	FY2004	FY2005
Operating Results (For the Fiscal Year):				
Net sales.....	¥ 732,369	¥ 721,833	¥ 725,024	¥ 710,908
Cost of sales.....	528,997	524,253	522,970	515,712
Selling, general and administrative (SG&A) expenses.....	187,603	181,899	182,637	175,205
Operating income.....	15,769	15,681	19,415	19,989
Ordinary income (Note 3)	14,602	15,747	19,081	20,179
Net income.....	4,051	7,950	9,722	10,055
Capital expenditure (Cash base)	22,336	24,546	20,527	20,147
Depreciation expenses (Tangible Fixed Assets)	20,942	20,324	19,734	19,664
Research and development (R&D) expenses	6,909	7,422	7,558	7,398
Financial Position (At Fiscal Year-End):				
Total assets.....	¥ 363,354	¥ 364,958	¥ 357,592	¥ 361,134
Net assets (Note 4)	82,241	91,892	100,026	112,695
Interest-bearing debt (Note 5).....	150,317	142,352	128,093	116,475
Per share data (Yen, U.S. dollars):				
Net income.....	¥ 13.56	¥ 26.74	¥ 32.73	¥ 33.86
Net assets (Note 4)	277.55	310.23	337.86	380.85
Cash dividends	6.00	6.00	6.00	7.00
Ratios:				
Return on equity (ROE) (%) (Note 6)	5.0	9.1	10.1	9.5
Return on assets (ROA) (%) (Note 7)	1.1	2.2	2.7	2.8
Equity ratio (%)	22.6	25.2	28.0	31.2
Debt-equity ratio (times) (Note 8).....	1.8	1.5	1.3	1.0
Other information:				
Number of employees	7,754	7,482	7,370	7,185

- 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 = 118.09, the exchange rate prevailing on March 31, 2007.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. In accordance to the revised Japanese regulations concerning consolidated financial statements, beginning in fiscal year 2006 shareholders' equity includes equity capital held by minority shareholders.
5. Interest-bearing debt = Short-term loans payable + Long-term debt
6. ROE = Net income/Simple average of shareholders' equity at the beginning and end of the fiscal year
7. ROA = Net income/Simple average of total assets at the beginning and end of the fiscal year
8. Debt-Equity Ratio = Interest-bearing debt/Shareholders' equity

Thousands of U.S. dollars
(Unless otherwise noted)
(Note 2)

FY2006	FY2006
¥ 702,750	\$ 5,950,973
502,635	4,256,380
176,517	1,494,770
23,597	199,822
23,421	198,338
13,708	116,087
20,798	176,123
18,915	160,174
7,570	64,107

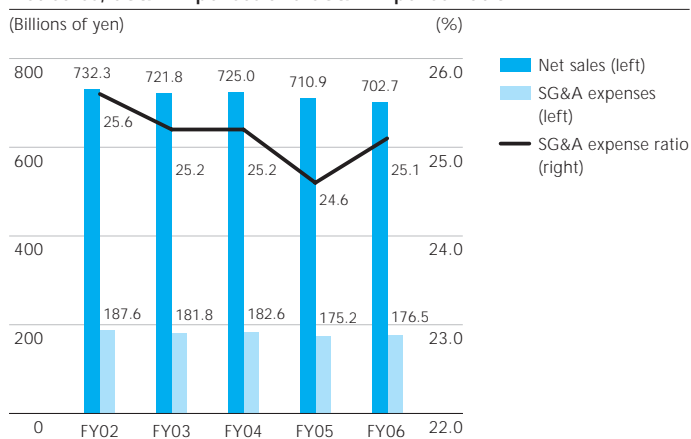
¥ 383,560	\$ 3,248,036
146,044	1,236,724
86,286	730,687

¥ 42.81	\$ 0.363
437.45	3.704
10.00	0.085

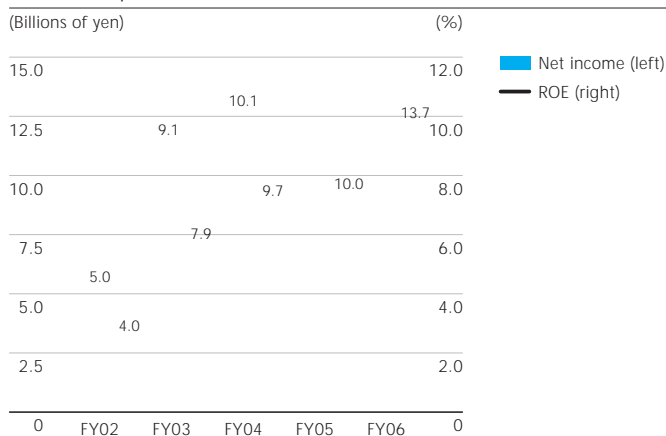
10.7	—
3.6	—
37.5	—
0.6	—

7,054	—
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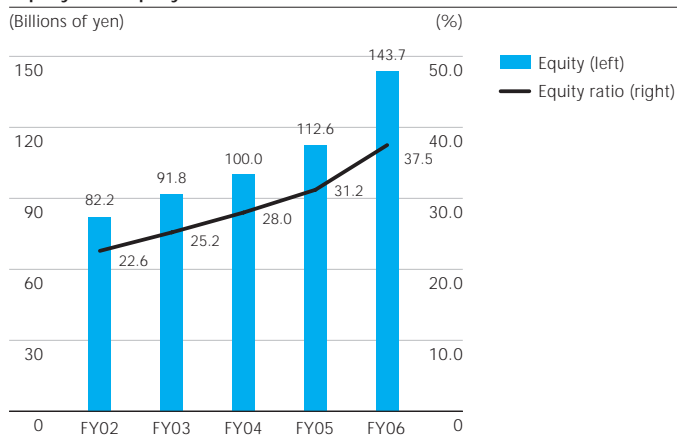
Net Sales, SG&A Expenses and SG&A Expense Ratio



Net Income, ROE



Equity and Equity Ratio



2. Non-Consolidated Financial Summary

Millions of yen
(Unless otherwise noted)
(Note 1)

	FY2002	FY2003	FY2004	FY2005
Operating Results (For the Fiscal Year):				
Net sales.....	¥ 518,843	¥ 498,748	¥ 493,868	¥ 484,285
Cost of sales.....	365,266	351,008	347,158	344,458
Selling, general and administrative (SG&A) expenses.....	141,237	136,278	132,179	124,588
Operating income.....	12,340	11,462	14,530	15,239
Ordinary income (Note 3)	11,482	11,401	14,144	15,702
Net income.....	4,009	5,596	6,290	8,096
Capital expenditure (Cash base)	¥ 20,590	¥ 13,286	¥ 15,864	¥ 14,707
Depreciation expenses (Tangible Fixed Assets)	14,298	14,141	14,123	14,005
Research and development (R&D) expenses	6,562	7,049	7,164	6,969
Financial Position (At Fiscal Year-End):				
Total assets.....	¥ 275,686	¥ 274,561	¥ 275,013	¥ 282,554
Equity.....	77,130	84,539	89,382	99,847
Interest-bearing debt	99,884	92,743	89,763	85,713
Other information:				
Number of employees	4,698	4,512	4,457	4,352

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 = 118.09, the exchange rate prevailing on March 31, 2007.

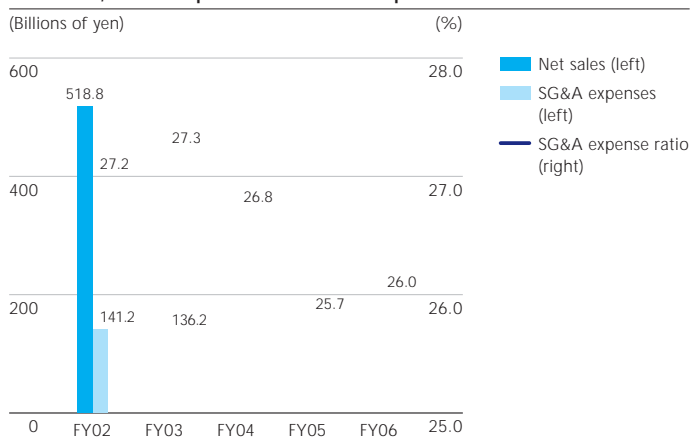
3. Ordinary income = Operating income + Net financial expenses + Other non-operating income and expenses

Thousands of U.S. dollars
(Unless otherwise noted)
(Note 2)

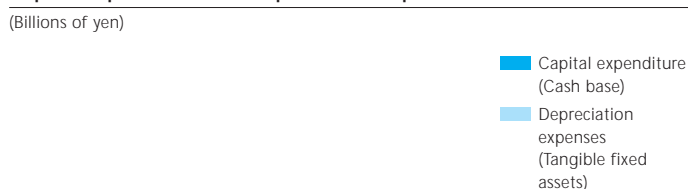
FY2006	FY2006
¥ 481,206	\$ 4,074,911
338,037	2,862,541
124,897	1,057,646
18,271	154,723
18,373	155,589
9,235	78,208
¥ 14,905	\$ 126,221
13,298	112,613
7,093	60,068

¥ 322,137	\$ 2,727,898
126,168	1,068,405
75,828	642,125
4,339	—

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



Capital Expenditure and Depreciation Expenses



R&D Expenses and Its Ratio to Net Sales



Consolidated Performance**by Segment****Net sales**

Foods.....
Service and Others (Note 3) ..

Operating income

Foods.....
Service and Others (Note 3) ..

Operating income margin

Foods.....
Service and Others (Note 3) ..

Non-consolidated Net Sales**by Division and Product**

City milk.....
 Drinking milk
 Yogurt
 Others.....
Processed milk products
 Powdered milk
 Condensed milk.....
 Butter
 Cheese.....
Ice cream.....
Beverages.....
Other products.....

4. Industry Statistics

	FY2002	FY2003	FY2004	FY2005	FY2006	Change (%)
Production, Consumption, and Sales of Major Dairy Products						
Raw milk production (tons) *1	8,379,969	8,404,910	8,289,444	8,291,534	8,085,830	-2.48%
Drinking milk production (kl) *1	4,430,271	4,479,722	4,401,151	4,261,231	4,115,169	-3.43%
Milk production (kl) *1	3,976,636	4,024,942	3,925,103	3,793,862	3,678,835	-3.03%
Processed milk production (kl) *1	453,635	454,780	476,048	467,369	436,334	-6.64%
Yogurt produced by dairy companies (kl) *1	798,915	794,687	788,399	801,630	849,468	5.97%
Yogurt produced by non-dairy companies (kl) *2	127,171	123,254	124,872	113,794	120,155	5.59%
Cheese consumption (tons) *1 ...	248,472	255,043	265,729	261,822	270,059	3.15%
Natural cheese consumption for direct consumption (tons) *1	135,943	141,185	150,742	143,582	152,719	6.36%
Processed cheese consumption (tons) *3	112,529	113,858	114,987	118,240	117,340	-0.76%
Ice cream sales (thousand kl) *4	771	752	818	780	773	-0.90%

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

	FY2002	FY2003	FY2004	FY2005	FY2006	Change (%)
Our Position in the Industry:						
Meiji Dairies' Share in Milk Collection	16.8%	16.7%	16.9%	16.9%	16.9%	0pt
Meiji Dairies' Market Share by Product (Estimated)						
Milk	12.8%	11.3%	11.3%	11.7%	12.4%	+0.7pt
Yogurt	27.1%	27.4%	28.3%	30.3%	30.7%	+0.4pt
Ice cream	12.3%	11.0%	10.8%	10.4%	10.5%	+0.1pt
Cheese.....	14.8%	14.0%	12.7%	12.4%	11.4%	-1.0pt

REVIEW AND ANALYSIS OF FISCAL 2006 RESULTS

Macroeconomic and Market Environment

The Japanese economy recovered moderately in fiscal 2006 supported by steadily improving corporate earnings and increasing capital investment. Despite a slight improvement in the employment market, personal consumption was weighed down by slowing growth in income levels, rising social insurance premiums, and other factors and failed to develop sustainable recovery momentum.

In the dairy industry, unfavorable weather conditions and other factors resulted in continuing sluggish demand for drinking milk, although the industry-wide aggressive tackle to boost consumption of milk and processed milk products.

Revenue and Earnings

Consolidated net sales declined 1.1% from the previous period to ¥702,750 million. Sales increased for yogurt and several other items, but declined for milk, processed milk, and milk beverages while the contribution from sales subsidiaries also decreased from the previous year. Meanwhile, cost of sales declined ¥13,076 million from the previous year, which lowered cost to sales ratio by one percentage point. Increased sales of yogurt and other items, which improved the product mix by ¥4.9 billion on a non-consolidated basis, coupled with our overall cost reduction efforts to overcome the impact from rising costs for raw materials from overseas and packaging.

Selling, general and administrative (SG&A) expenses increased 0.7% increase to ¥176,517 million, largely due to aggressive advertising and promotional

Service and Others

The Service and Others segment comprises the distribution business comprising transportation and storage, the feed business, and other businesses, including finance and leasing. Segment sales rose 1.3% from the previous fiscal year to ¥151,193 million, primarily due to increased sales in the distribution and the feed businesses. Operating income declined due to a rise in feed grains cost in the feed business, however, lowered operating income by 1.6% from the previous year to ¥3,460 million.

Performance of Major Subsidiaries

Amid adverse market conditions, sales group net sales decreased ¥4.6 billion from the previous year to ¥155.2 billion in fiscal 2006 while operating income remained steady at ¥0.6 billion, partly on the positive effects of our improved management efficiency.

Improved management efficiency helped the manufacturing group raise sales ¥0.5 billion year on year to ¥38.6 billion and maintain operating income at a steady ¥0.9 billion year on year.

Livestock and feed group results were affected by rising raw materials costs and a weak yen. Net sales declined ¥1.9 billion to ¥65.9 billion as operating income rose ¥0.1 billion to ¥0.7 billion from the previous year. Company results were mixed, with Meiji Feed Co., Ltd. posting higher sales and lower profit while Meiji Kenko Ham Co., Ltd. reported lower sales and higher profit. Subsidiary Meiji Agris Co., Ltd. was sold during the year as the company moved to concentrate management resources on its core businesses.

Distribution group sales grew ¥1.3 billion to ¥97.9

billion and operating income increased ¥0.2 billion to ¥1.9 billion. The impact of rising gasoline prices was overcome by increased delivery volume.

In the Other group segment, the transfer of control of the Group finance operation led to sales decline of ¥1.0 billion to ¥14.5 billion while operating income remained even at ¥0.4 billion compared with the previous year.

Financial Position

As of March 31, 2007, consolidated total assets were ¥383,560 million, up ¥22,426 million from the previous year end. Current assets increased ¥19,321 million to ¥155,780 million from the previous year end. The increase was primarily due to higher cash and deposits, largely from the higher profit, and a rise in accounts receivable caused by the consolidated closing date landing on a business holiday for financial institutions. Tangible fixed assets, less accumulated depreciation, remained essentially unchanged from the previous fiscal year at ¥172,596 million. Investments and other noncurrent assets increased 6.0% from the previous year to ¥55,183 million owing to a ¥4.4 billion increase in prepaid pension costs. Current assets represented 40.6% of total assets at the fiscal year end.

Total liabilities declined ¥8,648 million from the previous year to ¥237,515 million. Current liabilities increased ¥14,909 million to ¥182,255 million, largely due to increases in accounts payable and notes payable-equipment caused by the consolidated closing date landing on a business holiday for financial institutions. Long-term liabilities decreased ¥23,557 million to ¥55,260 million, primarily due a ¥4,057 million reduc-

tion in long-term debt from the previous fiscal year end.

Total shareholders' equity increased ¥31,076 million from a year earlier to ¥146,044 million as the public stock offering raised shareholders' equity and additional paid-in capital while retained earnings also increased. At the fiscal year-end, the equity ratio was up 6.3 percentage points to 37.5% year on year, and shareholders' equity per share increased ¥56.6 to ¥437.45 year on year.

Cash Flows

Net cash inflow provided by operating activities was ¥37,123 million. Cash outlays increased by ¥5,866 million from the previous fiscal year on largely on increases in income before income taxes increase and accrued liabilities.

Net cash used in investing activities totaled ¥15,447 million, down ¥2,471 million from the previous year due owing to factors including decreased income from sale of tangible fixed assets.

As a result, free cash flow* increased ¥8,339 million year on year to ¥21,675 million.

Net cash used in financing activities declined ¥2,057 million to ¥11,433 million from the previous fiscal year due primarily to repayment of debt and the ¥21,112 million inflows from the issue of new shares.

The result was an increase in cash and cash equivalents of ¥10,242 million to ¥13,863 million compared with the previous fiscal year-end.

* Free cash flow = Cash flow from operating income plus cash flow from investing income

Capital Investment

Capital investment in fiscal 2006 totaled ¥26,924 million, an increase of 40.5% from the previous fiscal year. Food segment capital investment increased 38.1% to ¥21,459 million. The most substantial investment was ¥20,056 million centered on construction of the new Tokachi Plant in Hokkaido for domestic-produced natural cheese. Capital investment in the Service and Others segment increased 51.1% to ¥5,464 million, and largely focused on consolidated subsidiary distribution businesses.

Research and Development

Total research and development expenses increased 2.3% from the previous year to ¥7,570 million in fiscal 2006. Of this total, ¥5,014 million, an increase of 6.7%, was allocated to the food segment to advance development of new products based on comprehensive fundamental technological R&D for flavor, nutrition, function, product quality, safety, and production technologies. In the Service and Others segment, we narrowed our research theme selection and concentration, and allocated research funds of ¥2,556 million, 5.2% less from the previous year, primarily for R&D activity in the pharmaceuticals field.

Business Risk and Other Risk

The following section discusses various risk factors that have the potential to impact the Group's business results and financial position and material

1) Weather

Weather has the potential to affect our ice cream, city milk and beverages segments. Cool summer weather, in particular, can cause sales in these segments to decline, which may negatively impact the Group's business results and financial position.

2) Dairy Products and Farming Industries

Excessive product inventories of nonfat dry milk due to lower demand for drinking milk and processed milk, WTO (World Trade Organization) negotiations to liberalize imports of milk products, and changes in the market environment due to the effects of Japan's aging society with fewer birthrates have the potential to influence our business results. The Provisional Law on Subsidies for Producers of Milk for Manufacturing Use, which is an important legislation, sets clear guidelines for dairy operation policies, including transaction prices for raw milk. Changes to the law's guidelines for volume limitations, subsidy unit rate, or other elements would have the potential to impact aspects of our business operations, such as raw materials procurement costs.

3) Overseas Raw Materials and Packaging Prices

Increases in prices of overseas raw materials for cheese due to restricted demand and the depreciation of the yen, of overseas sugar, coffee or juices caused by bad weather, and of packaging materials due to rising crude oil prices or other factors have the potential to effect on our business results.

4) Food Safety

Food safety and quality control are strongly demanded

of the food industry. The Group has established the Food Safety Committee to take all possible measures to ensure the safety of the products developed by our Corporation and to create preventive measures against any foreseeable risks in all of our manufacturing processes. We have also entered into commitment-line contracts with seven financial institutions for a total of ¥20 billion to procure funds in the event of emergencies due to acts of food terrorism or product incidents.

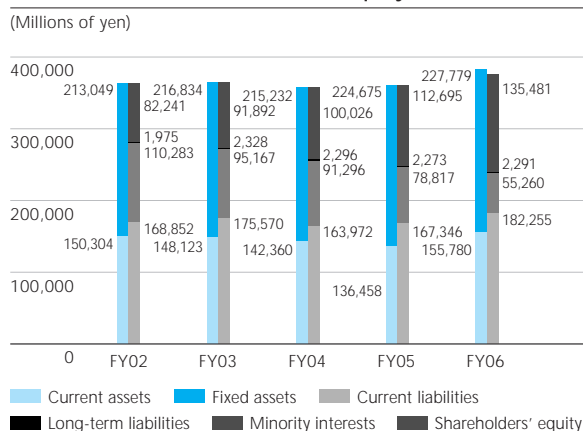
However, society-wide product quality problems exceeding the scope of the efforts described above would have the potential to effect on our business results.

5) Information Security

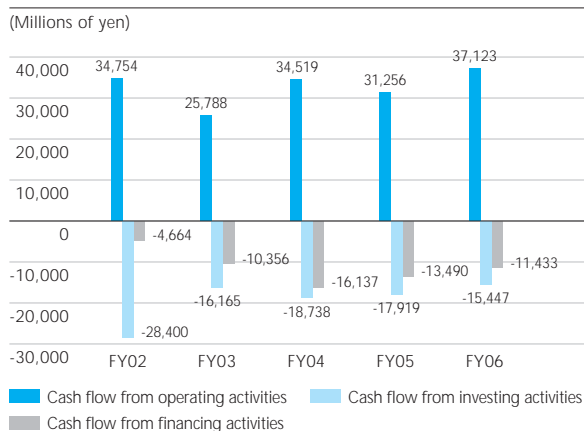
Information security incidents have occurred in recent years in Japan involving leaks of private individual information or unauthorized system access to information systems. As a corporate entity, the Corporation recognizes this is an important issue in terms of our social responsibility and from the perspective of the protection of our Corporation. We have responded by establishing the Information Security Committee and adopting a comprehensive information security policy. Despite our efforts, an unanticipated information security incident in the future may have the potential to effect on our business results

The Risk Compliance Committee was established in March 2004 to formulate a risk management system that includes preparatory and preventive compliance that may be necessary in emergency situations as well during standard operations. The committee also works to enhance the traditional crisis management system.

Breakdown of Total Assets, Total Liabilities and Shareholders' Equity



Cash Flow



CONSOLIDATED BALANCE SHEETS

Meiji Dairies Corporation and Consolidated Subsidiaries
As of March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets:			
Cash (Note 13)	¥ 13,877	¥ 3,638	\$ 117,514
Notes and accounts receivable (Note 11):			
Trade	90,036	81,210	762,443
Unconsolidated subsidiaries and affiliates	1,764	1,552	14,939
Others	5,508	3,760	46,649
Allowance for doubtful accounts	(452)	(666)	(3,831)
Inventories (Note 4)	34,653	36,967	293,451
Deferred income tax (Note 8)	6,933	6,886	58,711
Other current assets	3,459	3,110	29,292
Total current assets	155,780	136,458	1,319,171
Property, plant and equipment (Notes 5, 7)	406,946	401,092	3,446,067
Less-Accumulated depreciation	(234,349)	(228,490)	(1,984,502)
Net property, plant and equipment	172,596	172,602	1,461,565
Investments and other noncurrent assets:			
Investments securities:			
Unconsolidated subsidiaries and affiliates	4,640	5,664	39,299
Others (Note 7)	29,476	29,153	249,612
Long-term loans	1,357	1,429	11,492
Intangible assets	4,119	3,573	34,880
Deferred income tax (Note 8)	444	369	3,764
Others	16,082	12,853	136,192
Allowance for doubtful accounts	(937)	(970)	(7,941)
Total investments and other noncurrent assets	55,183	52,072	467,300
Total assets	¥ 383,560	¥ 361,134	\$ 3,248,036

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS' EQUITY

Current liabilities:

Short-term loans payable	
(including current portion of long-term debt) (Notes 6, 7).....	
Notes (Note 11) and accounts payable:	
Trade	
Unconsolidated subsidiaries and affiliates	
Income taxes payable	
Accrued liabilities.....	
Reserve for directors' and statutory auditors' bonuses.....	
Other current liabilities.....	
<hr/>	
Total current liabilities	
<hr/>	

Long-term Liabilities:

Long-term debt, less current portion (Notes 6, 7)	
Deferred income taxes (Note 8)	
Employees' retirement benefits (Note 10).....	
Reserve for directors' retirement benefits	
Other long-term liabilities	
<hr/>	
Total long-term liabilities	
<hr/>	

Contingent Liabilities (Note 12)

Net Assets

CONSOLIDATED STATEMENTS OF INCOME

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

Net sales	
Cost of sales (Note 15)	
<hr/>	
Gross profit	
Selling, general and administrative expenses (Notes 14, 15)	
<hr/>	
Operating income	
Other income (expenses):	
Interest and dividend income	
Amortization of consolidation differences	
Amortization of negative goodwill	
Equity in income of affiliates	
Interest expenses	
Other, net	

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

Cash flows from operating activities:

Income before income tax and minority interests
Depreciation
Amortization of consolidation differences
Amortization of negative goodwill
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

Sub-total
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 securities
Others

Net cash used in investing activities

Cash flows from financing activities:

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

Net cash provided by (used in) financing activities

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 Local Finance Bureau as required by the Securities and Exchange Law of Japan. The statements conform to generally accepted accounting principles and practices in Japan, which are different in certain respects regarding the application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations or cash flows in

h) Retirement Benefit

The reserve for retirement benefits represents the estimated payment amount at the end of the consolidated fiscal year based on the projected sum of retirement benefits and pension payments at the end of the consolidated fiscal year. The cost differential (¥10,939 million) from adoption of revised accounting standards is amortized on a straight-line basis over a period of 15 years. The unrecognized actuarial loss is amortized on a straight-line basis over a fixed number of years (principally 14 years) within the estimated average remaining service years of employees. The unrecognized prior service cost is amortized on a straight-line basis over a fixed number of years (principally 7 years) within the estimated average remaining service years of employees.

i) Reserve for Bonuses of Directors and Corporate Auditors

The Company and some of its consolidated subsidiaries maintain a reserve for director bonuses of directors and corporate auditors based on the projected obligation at the end of the current fiscal year.

j) Reserve for Retirement Benefits for Directors and Corporate Auditors

The Company and some of its consolidated subsidiaries maintain a reserve for director retirement benefits of directors and corporate auditors based on the projected obligation at the end of the current fiscal year under the company bylaws.

k) Deferred Charges

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

l) 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.

m) Lease

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.

n) 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.

o) Derivative Financial Instruments

The Company and certain subsidiaries use derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange contracts and foreign currency options are utilized to reduce the risk from foreign exchange fluctuation. Interest rate swaps are utilized to reduce the risk from interest rate fluctuation risks. Such derivative financial instruments are recognized as either assets or liabilities in the consolidated balance sheets and measured at fair value and such gains and losses are recognized in the consolidated statements of income.

p) Net Income Per Share

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

q) Presentation of Net Assets in the Balance Sheets

Beginning in the fiscal year ended March 31, 2007, the Company has applied the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards for Business Enterprises No.5, December 9, 2005) and the Application Guideline for the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards for Business Enterprises No.8, December 9, 2005). The amount equivalent to the total of the conventional "Assets" section is ¥143,753 million. Net assets in the consolidated balance sheets for the current consolidated fiscal year are prepared in accordance with the revised regulations.

r) Amortization of Goodwill Arising from Consolidation

"Amortization of consolidation adjustment account" appearing in previous year consolidated accounting statements is presented in the current year as "Amortization of negative goodwill".

s) Change in Accounting Policy

1) Accounting Method for Director Bonuses

Beginning in the consolidated fiscal year ended March 31, 2007, the Company applies the Accounting Method for Director Bonuses (Corporate Accounting Standard No. 4, November 29, 2005). Application of this accounting method reduced each of operating income, ordinary income, and income before income taxes by ¥35 million (\$296 thousand).

2) Reserve for Retirement Benefits for Directors

Retirement benefits for directors were previously accounted primarily as expenses at the time of payment. The previous system was abolished as authorized at the General Meeting of Shareholders in June 2007 and has

been replaced with the current customary practice of maintaining a reserve amount for retirement benefits for directors. Amounts payable to directors upon retirement are based on time in office and are subject to the

2) Long-Term Debt

Long-term debt at March 31, 2007 and 2006 were summarized as follows:

1.08% yen bonds due May 10, 2007

7. Collateral and Secured Liability

Assets pledged as collateral for liability at March 31, 2007 and 2006 were as follows:

Liability secured by the above assets at March 31, 2007 and 2006 were as follows:

9. Lease Transaction

Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during the year 2007 and 2006 were as follows:

11. Effect of Bank Holiday on March 31, 2007

In case the balance sheet date is bank holiday, note maturing on the balance sheet date were settled on the following business day and accounted for accordingly.

Note receivable	¥459 million (\$3,886 thousand)
Note payable	¥735 million (\$6,224 thousand)

12. Contingent Liabilities

Contingent liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2007	2006	2007
Guaranteed financial obligations			
PT. INDOMEIJI Dairy Food	¥ —	¥ 28	\$ —
Sendai Feed Co., Ltd.....	160	160	1,355
Meiji Beverage Co., Ltd.....	98	115	833
Tonyu Logistic Service Co., Ltd.....	35	—	296
Letter of awareness.....	95	84	808
Notes receivable endorsed	—	30	—

13. Cash and Cash Equivalents

	Millions of yen		Thousands of U.S.dollars
	2007	2006	2007
Cash	¥ 13,877	¥ 3,638	\$ 117,514
Fixed term deposits over 3 months	(13)	(17)	(115)
Cash and cash equivalents	¥ 13,863	¥ 3,621	\$ 117,398

14. Selling, General and Administrative Expenses

Principal Selling, general and administrative expenses for the fiscal years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2007	2006	2007
Carriage and storage charges.....	¥ 28,807	¥ 28,927	\$ 243,947
Sales promotion expenses	51,772	49,942	438,414
Labor cost	38,120	38,199	322,807
Employees retirement benefits cost	1,929	2,763	16,336

15. Research and Development Expense

Research and development expense which were included in manufacturing expense, selling, general and administrative expenses for the fiscal years ended March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S.dollars
	2007	2006	2007
Research and development expense.....	¥ 7,570	¥ 7,398	\$ 64,107

16. Segment Information

Information about industry segments for the fiscal years ended March 31, 2007 and 2006 was as follows:

Millions of yen
Consolidated Accounting for Current Fiscal Year April 1, 2006 to March 31, 2007

Sales and Operating Profit and Loss
Sales
(1) Sales to customers
(2) Intersegment sales
<hr/> Total
<hr/> Operating expenses.....

REPORT OF INDEPENDENT AUDITORS



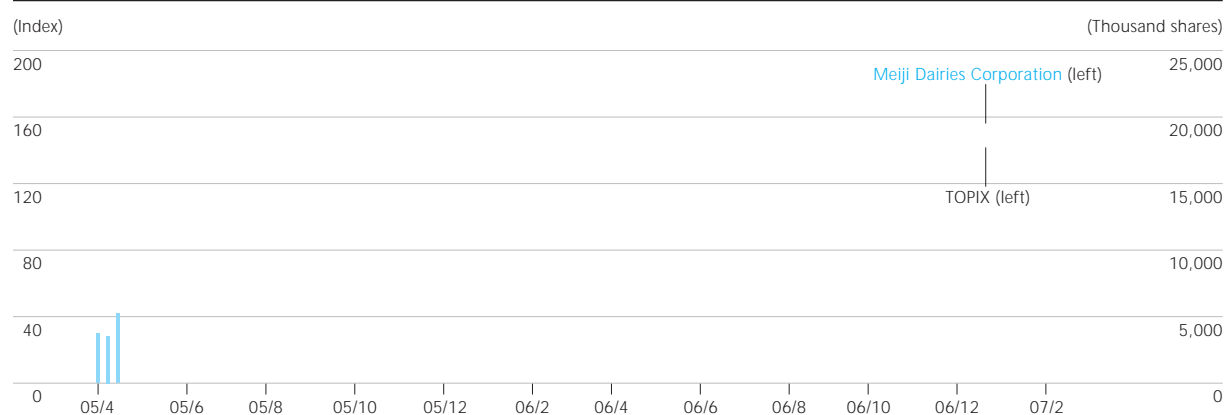
Shin-Tokyo Bldg.3-1-633,
Marunouchi 3-chome,Tokyo
Japan, 100-0005

REPORT OF INDEPENDENT AUDITORS

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STOCK INFORMATION

Share Performance and Trading Volume



Major Shareholders (As of March 31, 2007)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares in Issue (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,566	5.94
Mizuho bank, Ltd.	14,581	4.42
Japan Trustee Services Bank, Ltd. (Trust Account)	12,251	3.72
Meiji Seika Kaisha, Ltd.	12,211	3.70
Resona bank, Ltd.	11,000	3.34
Nippon Life Insurance Company	10,013	3.04
The Norinchukin bank	8,085	2.45
The Sumitomo Trust & Banking Co.,Ltd.	6,985	2.12
Meijinyugyou Kyoeikai	5,221	1.58
Sompo Japan Insurance Inc.	4,610	1.40
Total	104,527	31.71

Breakdown of Shareholders

(As of March 31, 2007)

CORPORATE DATA

(As of March 31, 2007)

