Meiji Dairies Corporation

Meiji Dairies Corporation

ANNUAL REPORT 2006

For the Year Ended March 31, 2006

Turning Nature's Strength into Power for the Future.

Meiji Dairies Corporation
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We Offer New Levels of
Value in Food by
Our Definite Technologies

Contents

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.

Profile

Ever since Meiji Dairies Corporation was founded in 1917, we have based our 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. Now, as the largest manufacturer of dairy products in Japan, we provide a broad lineup including yogurts, cheeses, ice creams, and other dairy products, as well as a variety of nutraceutical and health foods.

Meiji Dairies Corporation's corporate philosophy is to contribute to a healthy and happy daily life for our customers by offering new levels of value in food, and we aim to provide products with high added value in all of the areas of delicious taste, health, and safety. Through the accumulation of these efforts we will strive to obtain the trust and support of all of our stakeholders, and to further solidify the Meiji Dairies brand and maximize our corporate value.

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, 2006.

Financial Highlights:

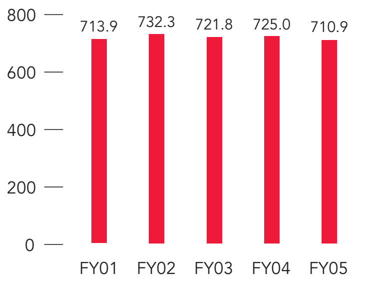
Meiji Dairies Corporation and Consolidated Subsidiaries

	Millions of yen (Unless otherwise noted) (Note 1)			Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
	FY2003 2003.4.1~2004.3.31	FY2004 2004.4.1~2005.3.31	FY2005 2005.4.1~2006.3.31	FY2005 2005.4.1~2006.3.31
For the fiscal year:				
Net sales	¥ 721,833	¥ 725,024	**¥ 710,908**	**$ 6,052,342**
Cost of sales	524,253	522,970	**515,712**	**4,390,540**
Selling, general and administrative (SG&A) expenses	181,899	182,637	**175,205**	**1,491,617**
Operating income	15,681	19,415	**19,989**	**170,184**
Ordinary income (Note 3)	15,747	19,081	**20,179**	**171,800**
Net income	7,950	9,722	**10,055**	**85,603**
At fiscal year-end:				
Total assets	¥ 364,958	¥ 357,592	**¥ 361,134**	**$ 3,074,527**
Shareholders' equity	91,892	100,026	**112,695**	**959,440**
Interest-bearing debt (Note 4)	142,352	128,093	**116,475**	**991,618**
Per share data (Yen, U.S. dollars):				
Net income (Note 5)	¥ 26.74	¥ 32.73	**¥ 33.86**	**$ 0.288**
Shareholders' equity	310.23	337.86	**380.85**	**3.242**
Cash dividends	6.00	6.00	**7.00**	**0.059**
Ratios:				
Return on equity (ROE)(%) (Note 6)	9.1	10.1	**9.5**	—
Return on assets (ROA)(%) (Note 7)	2.2	2.7	**2.8**	—
Debt-equity ratio (times) (Note 8)	1.5	1.3	**1.0**	—
Other information:				
Number of employees	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 = 117.46, the exchange rate prevailing on March 31, 2006.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Interest-bearing debt = Short-term loans payable + Long-term debt
5. Net income per share for the year ended March 2003 and onwards is calculated in accordance with a new accounting standard that came into effect from April 1, 2002.
6. ROE = Net income/Simple average of shareholders' equity at the beginning and end of the fiscal year
7. ROA = Net income/Simple average of total assets at the beginning and end of the fiscal year
8. Debt-equity ratio = Interest-bearing debt/Shareholders' equity

Net Sales

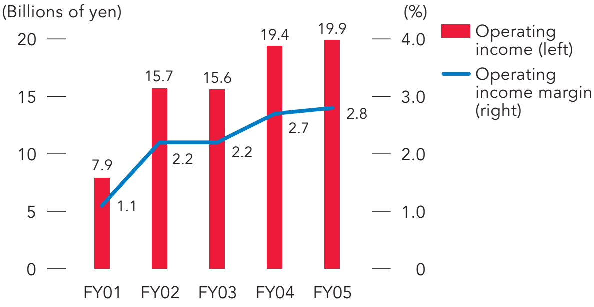
(Billions of yen)



Operating Income and Operating Income Margin

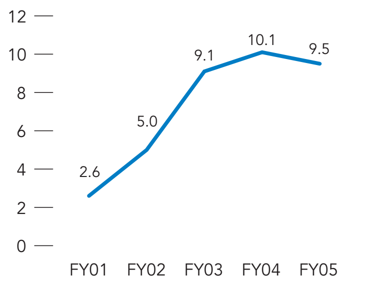
(Billions of yen)

(%)



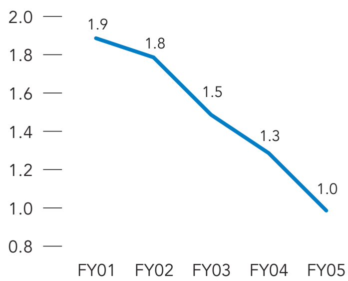
ROE

(%)



Debt-Equity Ratio

(Times)

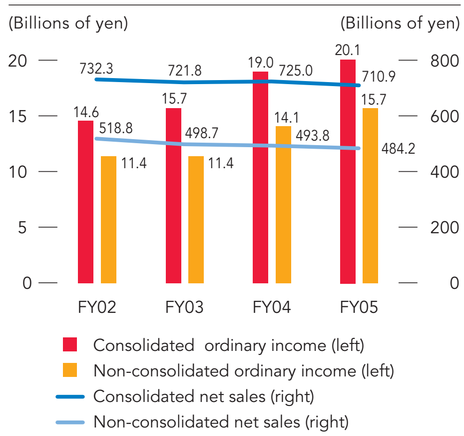


Meiji Dairies Group Snapshot

We Achieved the Highest Levels of Profits yet for the Second Consecutive Period for both Consolidated and Non-Consolidated Results.

— As a result of the 2005 Medium-term Management Plan, "Strengthening the corporate structure" is solidly linked with results.

Result Trends



FY2003 to FY2005

"Strengthening the Corporate Structure"

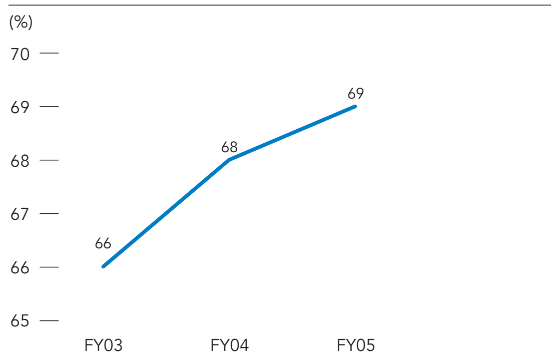
These have Supported Our Corporation's Profitability and Growth

1 Focusing on High-Value-Added Products

The ratio of high-value-added core products* like Meiji Oishii Gyunyu to net sales has steadily grown.

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

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



Meiji Dairies Group's Long-Term Vision

— We aim to become a food business corporate group that can compete equally with the top food corporations of the world utilizing our own technological and product strengths.

- We will create multiple No.1 businesses in the areas of fermentation and chilled foods, nutrition, emulsification and foods.
- We will achieve an ordinary income ratio to sales of 5%.

FY2006 to FY2008
"Strengthen Mechanisms for Growth"

FY2009 to FY2011
Move Towards "Achieving the Long-Term Vision"

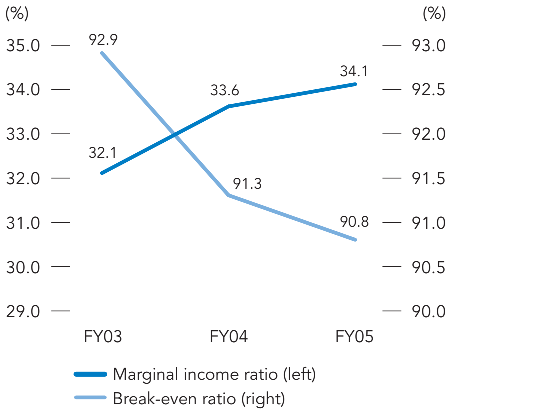
2 More Efficient Management

In addition to improving the product mix and reducing sales management expenses, the results of business-wide structural innovations have been linked to improving the break-even ratio.

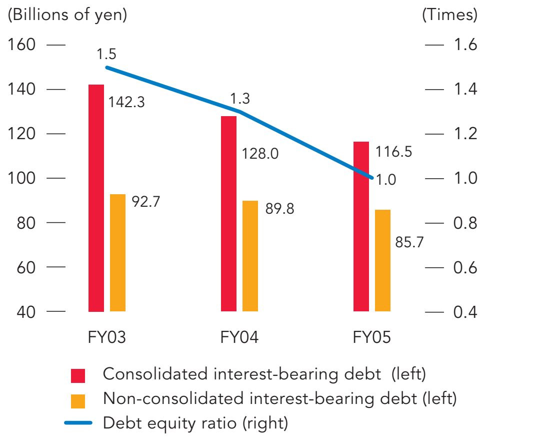
3 Improving the Balance Sheet Structure

We are rapidly strengthening our balance sheet structure by greatly reducing our interest-bearing debt.

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



Interest-Bearing Debt and Debt-Equity Ratio



To Our Shareholders and Customers

We at Meiji Dairies Group achieved some positive results in our medium-term management plan ending in 2005 on the theme of strengthening our corporate structure, including concentration on high-value-added products, management efficiency and improvement of balance sheet structure. In fiscal 2006 we are beginning a new medium-term management plan with the theme of positioning the company strongly for higher growth, in which we will aim to strengthen our core product lines and create multiple No.1 products, based on the brand strength and original technologies that only we possess.

President and Chief Executive Officer
Shigetaro Asano

Fiscal 2005 in Review

Business Environment In fiscal 2005 the Japanese economy recovered moderately as capital investment increased due to improved corporate earnings. Meanwhile personal consumption failed to achieve any conspicuous recovery despite improvements in employment and incomes as feelings of unease about the future continued due to revisions to the taxation system and increased social insurance premiums.

While the dairy products industry moved to reduce excess inventories of nonfat dry milk in the industry overall, consumption of drinking milk turned downwards, and inventories continued at a high level.

Consolidated Results In that environment, our Group focused on (1) concentrating management resources on our core businesses, (2) thorough strengthening of our technologies and product development capabilities, (3) promoting our Group management and strengthening of the competitiveness, and (4) establishing the reliability of the Meiji brand. As a result, while sales fell below the previous fiscal year, all profit indicators increased from the previous period, achieving record-high levels.

I will describe these results in more detail. Consolidated net sales were down by 1.9% to ¥710.9 billion from the previous year as sales of processed milk products and ice cream products fell, and our Company changed its accounting procedures for butter, cheese and margarine products.

However, our consolidated operating income increased by 3.0% to ¥19.9 billion. This meant that positive factors such as reductions in fixed expenses such as for retirement benefit costs and improvements to our product mix overcame the impact of negative factors like lower sales and soaring raw material costs. Consequently, ordinary income was ¥20.1 billion (up 5.8% from the previous period), and net income was ¥10.0 billion (up 3.4% year on year), at record-high levels for the second consecutive year.

Summary of the Achievement Status of the 2005 Medium-Term Management Plan (from fiscal 2003 to fiscal 2005)

Referring to the objective of the 2005 medium-term management plan to strengthen the corporate structure, we judge that we did achieve certain results. In practical terms, we made progress improving our product mix, especially with increased sales of core products like Meiji Oishii Gyunyu and Meiji Bulgaria Yogurt, and overall sales of core products grew from 61% to 69% of total sales (non-consolidated). This expanded sales of core products and low cost operations contributed to steady improvements in profitability, so that our marginal income ratio was 34.1% (3.9 percentage points improvement) and our break-even ratio was 90.8% (1.3 percentage points lower).

Meanwhile, our Group aimed to strengthen our city milk line which is suitable for internationalization, and after investing about ¥150.0 billion over the 10-year period to fiscal 2005 we were able to reorganize city milk production system and set up a distribution system. We completed the Kansai Plant in 2005 and finished modernizing and rationalizing our city milk plants and facilities nationwide, thus strengthening our city milk business. This strengthening of our organization contributed to the establishment of core products such as Meiji Oishii Gyunyu and Meiji Probio Yogurt LG21.

Furthermore, one major objective of the 2005 medium-term management plan was to improve the value of our corporate brands, and the results for our Group's efforts to stand out before the minds of consumers were evident as we received awards such as the Excellent Corporation Caring for Consumers award 2005 from the Minister of Economy, Trade and Industry.

As we review the management reforms of the past three years, we can see that we were able to reduce our consolidated interest-bearing debt by ¥33.8 billion (112.4% of our goal) in the midst of difficult environmental changes that were beyond what we could imagine. However, we did not achieve our goals for net sales, ordinary income or other earnings targets, and a major objective of expanding sales of core products (in other words, selling the products that we need to in order to increase our profits) still remains unachieved for some core products, and is thus left over to the next medium-term management plan.

Future Growth Strategy

Overall Concept for the 2008 Medium-Term Management Plan (fiscal 2006 to fiscal 2008) Based on the results and issues from the 2005 medium-term management plan, we are starting the new 2008 medium-term management plan with the requirement of positioning the company strongly towards new growth. This 2008 plan will be the second stage of our Group's long-term vision of utilizing our own technological and product strengths to become a food product corporate group that can compete equally with the top food companies in the world.

When we drew up the 2008 plan, our Group presumed we would face the following five environmental changes: (1) arrival of an age of a declining population and an aging society, (2) heightened consumer consciousness of food safety and reliability, (3) environmental changes enveloping Japanese dairy farming, (4) advancing internationalization and deregulation, and (5) increasing impact and permeation of IT. In particular our Group will focus on strengthening our cheese products business as the industry overall is required to make efforts to expand demand for raw milk products because of environmental changes enveloping the Japanese dairy industry.

Based on this environmental awareness our Group has made the creation of a new and comprehensive dairy industry the fundamental concept of our 2008 plan. Creating a new and comprehensive dairy industry does not simply mean expanding the breadth of the industry or filling out product lines, but rather we define it to mean creating multiple No.1 businesses in each industry area, creating synergy based on the strong links between businesses, to become a comprehensive dairy industry group that can exercise even greater strength overall. In order to achieve that, we must especially clarify a selection and concentration strategy in our businesses and redefine our core businesses so that we can concentrate our management resources on those businesses more intensively.

Through implementation of this basic strategy we aim to achieve consolidated net sales of ¥755.0 billion (6.2% higher than in fiscal 2005) and consolidated ordinary income of ¥26.0 billion (up 29.4% from fiscal 2005) by fiscal 2008.

In regard to the overall concept and concrete strategies of our 2008 plan, we will describe them more thoroughly in our Special Feature starting on p.7.

Fiscal 2006 Outlook In fiscal 2006, the first year of the current medium-term management plan, we anticipate that in addition to soaring crude oil and raw material prices there will be intensifying competition in the market for food so that our tough business environment will continue, but we are aiming for higher sales and higher profits with targets of a 0.2% increase in consolidated net sales over the prior period to ¥712.5 billion, an increase of 5.1% in consolidated ordinary income to ¥21.2 billion, an increase in non-consolidated net sales of 0.1% to ¥484.6 billion and an increase of 5.1% in non-consolidated ordinary income to ¥16.5 billion. We plan to achieve record-high profit indicators in all areas. In addition, we will continue to focus on expanding sales of highly profitable high-value-added products, and will emphasize expanded sales of our core products such as Meiji Bulgaria Yogurt, Meiji Probio Yogurt LG21 and Meiji Oishii Gyunyu by concentrating our management resources intensively.

Management Puts Priority on Stakeholders

Our Group's mission is to contribute to a healthy and happy daily life for our customers by offering new levels of value in food, being an essential part of peoples' daily lives, and we are aware that that is what we must be. Therefore, our top priority is to ensure a management base that can steadily provide products every day in any environment. On top of that we are focusing on distributing stable returns to our shareholders. Based on that fundamental policy, we have implemented an increase of one yen per share to an annual dividend of 7 yen (payout ratio of 25.7%) in fiscal 2005, in which we earned the highest profits in our history.

Meanwhile, we will naturally provide safe food products, and will proactively contribute to creating a better environment and society. With the trust and support of all of our stakeholders we will strive to maximize our corporate value.

In these endeavors we look forward to your continued understanding and support to our management.

August 2006

Shigetaro Asano
President and Chief Executive Officer

Shigetaro Asano

Special Feature:

Distinctive Technologies to Support Long-Term Growth

Summary of the Achievement Status of the 2005 Medium-Term Management Plan (from fiscal 2003 to fiscal 2005)

Medium-Term Management Plan Aimed to Strengthen the Corporate Structure Our Group set the objectives of attaining consolidated net sales of ¥760.0 billion and ordinary income of ¥23.0 billion by fiscal 2005 in our 2005 Medium-term Management Plan, which started in fiscal 2003 based on the concepts of becoming an enterprise of advanced innovation, establishing our corporate brand and a highly profitable corporate structure. However, as our environment was more severe than we had expected, our results for fiscal 2005 were consolidated net sales of ¥710.9 billion (93.5% of our target) and ordinary income of ¥20.1 billion (87.4% of our target).

Meanwhile, we were able to reduce consolidated interest-bearing debt to ¥116.5 billion (112.4% of our target) by the end of fiscal 2005, and in addition, improved the weight of high-value-added products in our product mix. In doing so, we achieved certain goals in the Medium-term Management Plan, namely to strengthen our corporate structure.

Major Tasks and Achievements of the 2005 Medium-Term Management Plan

(1) Concentrate Management Resources on Our Core Businesses The ratio of core products*, high-value-added products which have the potential for future growth, to total sales improved greatly, from 61% in fiscal 2002 to 69% in fiscal 2005.

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

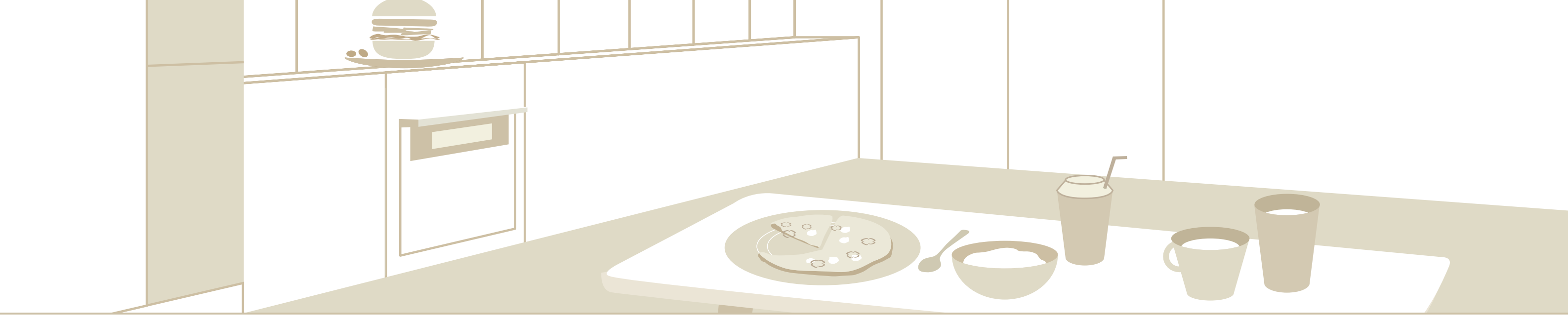
(2) Thoroughly Strengthen Our Technological and Product Development Capabilities We concentrated on improving our technological and product development capabilities, the source of our differentiation, taking such steps as reorganizing the R&D organization into one department and three R&D facilities to build an efficient R&D system. As a result we were able to create new technologies that were applicable to our businesses, such as disinfection technology and deoxidization processes (Meiji Oishii Gyunyu, Meiji Bulgaria Yogurt LB81 Domashuno), membrane separation and filtration and enrichment technologies (Tialence, Meiji Hokkaido Zeitaku Shibori Milk), and low-temperature and rapid extraction technology (Meiji Milk & Coffee brand series).

(3) Improve the Value of Our Corporate Brands We did a number of things to further improve the Meiji brand, including producing an independently sponsored short-TV program, corporate commercials, and enhancing the corporate web site. In addition our long-standing efforts to understand the consumers' point of view was recognized when we received the Excellent Corporation Caring for Consumers award from the Minister of Economy, Trade and Industry for fiscal 2005.

(4) Implement Structural Reforms Across the Business We have completed reorganization for the present of our city milk plants with the startup of operations at the Kansai Plant in October last year. We also promoted to improve productivity with the installation of a manufacturing execution system (MES) and other new systems, and achieved a superior system with fewer personnel. Based on the results of these kinds of efforts we improved our non-consolidated marginal income from 30.2% in fiscal 2002 to 34.1% in fiscal 2005, and improved our non-consolidated break-even ratio from 92.1% in fiscal 2002 to 90.8% in fiscal 2005.

(5) Strengthen Our Product Safety Management System and Implement Thorough Compliance Management In addition to establishing the Risk & Compliance Committee and the Food Safety Committee, we set up the Meiji Dairies Corporation Code of Ethics to establish food safety and thorough compliance management.

(6) Improve the Balance Sheet Structure Our consolidated interest-bearing debt was down from ¥150.3 billion at the end of fiscal 2002 to ¥116.5 billion at the end of fiscal 2005, a total reduction of ¥33.8 billion. We also lowered our D/E ratio (consolidated) from 1.8 times in fiscal 2002 to 1.03 times in fiscal 2005.



(7) Promote Our Group Management We strove to make business operations more efficient and reduce costs by introducing new systems for sales and distribution businesses. We also steadily improved Group business results by shrinking unprofitable businesses, especially our livestock business.

Achievement Status of FY05 Mid-Term Plan		Initial Targets of FY05 Mid-Term Plan	**Fiscal 2005 Results**	Target Achievement Ratio	Fiscal 2002 Results
Consolidated:	Net Sales	760 billion	**710.9 billion**	93.5 %	732.3 billion
	Ordinary Income	23 billion	**20.1 billion**	87.4 %	14.6 billion
	Interest-bearing Debt	Reduction Target of 20 % *1	**116.5 billion**	112.4 %	150.3 billion
Non-Consolidated:	Net Sales	550 billion	**484.2 billion**	88.0 %	518.8 billion
	Ordinary Income	20 billion	**15.7 billion**	78.5 %	11.4 billion

*1 We raised the reduction target of interest-bearing debt by ¥10 billion under the Mid-term plan, as the reduction target of ¥20 billion had been already achieved in fiscal 2004.

The Overall Concept for Our 2008 Medium-Term Management Plan (fiscal 2006 to fiscal 2008)

The Medium-Term Management Plan to Strengthen Mechanisms for Growth Our Group has created a new medium-term management plan for the period from fiscal 2006 to fiscal 2008, and we have determined that the basic concept will be the creation of a new and comprehensive dairy business, to take up the challenge of becoming a highly profitable world-class corporation by providing customers with highly unique value. Our objective is to attain consolidated net sales of ¥755.0 billion and ordinary income of ¥26.0 billion, and an ordinary income ratio to sales of 3.4% by fiscal 2008.

Management Targets of FY08 Mid-Term Plan		Fiscal 2008 Targets
Consolidated:	Net Sales	755 billion *2
	Ordinary Income	26 billion *2
	Ordinary Income to Sales Ratio	3.4 %
Non-Consolidated:	Net Sales	525 billion
	Ordinary Income	21 billion
	Ordinary Income to Sales Ratio	4.0 %
Group Companies:	Net Sales	230 billion *3
	Ordinary Income	5 billion *3
	Ordinary Income to Sales Ratio	2.2 %

*2 Parent and consolidated companies
*3 Amounts after exclusion of consolidated

Awareness of Environmental Factors During the Creation of the 2008 Medium-Term Management Plan Our Group kept the following five environmental factors in mind during the creation of the 2008 medium-term management plan. Furthermore, we expect that due to these factors market competition that has hitherto been confined to the dairy industry will extend beyond the current framework to become competition between food corporations, thus raising the level of intensity.

(1) Arrival of an age of declining population and an aging society
Over the next 10 years the number of people 15 years old and younger will decline by about 1.5 million people, and there will be about 7.3 million more people 65 years old and older
(2) Consumers' increased awareness of food safety and reliability
Corporations that lose the trust of consumers will be forced to leave the marketplace
(3) Environmental changes enveloping Japanese dairy farming
Promotion of various incentive plans targeting demand expansion for raw milk to be used for cheese, liquid dairy products and fermented milk products
(4) Advancing internationalization and deregulation
There are the challenges of import liberalization due to WTO agricultural negotiations and of M&A through implementation of corporate law
(5) Increasing impact and permeation of IT
Accelerating equipment of corporations with IT, rapidly permeating IT in homes

Positioning the 2008 Medium-Term Management Plan — Towards Achieving a Long-Term Vision
Based on our awareness of the environmental factors we just cited, our Group has positioned the 2008 medium-term management plan as the second stage in our effort to achieve our long-term vision, as the medium-term effort to strengthen the mechanisms for growth. Our Group's long-term vision is to become a food business corporate group that can compete equally with the top food corporations of the world utilizing our own technological and product strengths, and we aim to achieve that corporate concept through the following two viewpoints.

(1) From the point of view of providing value to customers
"Be a company that continues to provide healthy and delicious tasting food to customers through our highly unique technology development capability with milk and dairy technologies as the business base."
- Have multiple No.1 businesses in the areas of fermentation and chilled foods, nutrition, emulsification and foods
- Prosper along with Japanese dairy farming by expanding consumption of milk by thoroughly promoting the value of milk
- Apply milk-related technologies to other materials, and provide the same health benefits and flavor as milk to customers

(2) From the point of view of corporate competition
"Be a company whose profitability is recognized throughout the world"
- Achieve a corporate structure with an ordinary income to sales ratio of 5%

The Basic Concept of the 2008 Medium-Term Management Plan — Create a New and Comprehensive Dairy Business The basic concept of the 2008 medium-term management plan is to create a new and comprehensive dairy business to take up the challenge of becoming a highly profitable world-class corporation by providing customers with highly unique value.

Creation of a new and comprehensive dairy business does not just entail expanding the business scope or the product lineup. Rather it means creating multiple No.1 businesses in each business area, while planning business operations and development, being highly conscious of overlapping businesses and business boundaries, thereby creating synergies based on the strong links between businesses in order to become a comprehensive dairy industry group that can exercise even greater strength overall.

In order to achieve these goals, we have redefined core and non-core businesses and clarified where we must select and concentrate in our Group's three business areas—the fermentation and chilled food business (yogurt, probiotics, brand milks, home deliveries, etc.), emulsification and food business (cheese, cream, ice cream, etc.), and nutrition business (infant formula, nutraceuticals, liquid foods, etc.)—from the perspectives of market growth, our own company's advantages, profit and loss, and business synergy.

Important Strategies for the 2008 Medium-Term Management Plan — Business Strategy and Corporate Strategy

<Business Strategy> Our Group has made strengthening selection of core businesses and further concentration of management resources the key point in our business strategy. Core businesses are broadly divided between excellent existing businesses and growth businesses, for which the following strategies will be implemented.

(1) Ensure business growth by establishing absolute competitive superiority in excellent existing businesses (yogurt business, home delivery business, etc.).
- Yogurt (Probio) business sales target: ¥110.0 billion
- Meiji Oishii Gyunyu sales target: ¥48.0 billion
- Ensure business growth in the home delivery business by further strengthening it

(2) Establish a foundation for growth in growth businesses (cheese business, liquid foods business, etc.) by proactively allocating management resources.
- Strengthen and foster the cheese business
- Expand the liquid foods business
- Create new businesses where businesses overlap and at boundaries between businesses

<Corporate Strategy> Our Group will continue its efforts to improve the evaluation of our corporate brand in the 2008 medium-term management plan, to increase the value of the Meiji brand and our product brands.

(1) We will thoroughly raise our marketing strength, emphasizing communications with our customers.
- Create the ideal products that correspond to changes in lifestyles, and pursue communications measures
- Develop a strong sales capability to achieve product development in all sorts of markets

(2) Thoroughly strengthen our unique technological and product development capabilities to further improve the Meiji brand.
- Thoroughly strengthen the Meiji brand (corporate brand) and strengthen and foster the company-wide strategic brands*
- Thoroughly strengthen technology development systems in growing businesses

*Company-wide strategic brands are Meiji Oishii Gyunyu, Meiji Bulgaria Yogurt, Meiji Probio Yogurt LG21, Meiji Hokkaido Tokachi, Meiji Essel, and VAAM

(3) Strive for further promotion of efforts related to food safety and reliability.
- Further enhancement of traceability systems using IT
- Strengthen mutual understanding with customers by supporting food education activities

(4) Pursue efficient Group management and implement comprehensive management system innovations.
- Drastically review cost structure and business structure to reduce fixed costs and logistics cost
- Promote business operations based on compliance

Overall Business Situation

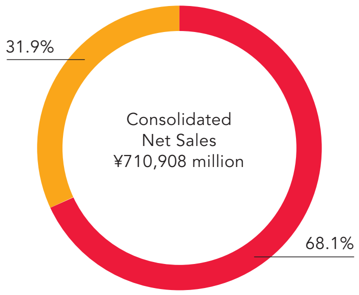
(non-consolidated)

At a Glance

This section goes deeper into the strategies and non-consolidated results for Meiji Dairies Corporation, which account for about 70% of Meiji Dairies Group results (in fiscal 2005: 68.1% of sales and 76.2% of operating income) by segment, with the objective of helping stakeholders to gain an even deeper understanding of the Meiji Dairies Group.

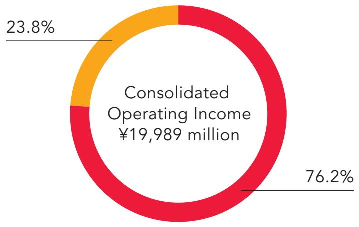
Meiji Dairies Corporation Non-Consolidated Results

Non-Consolidated Net Sales as a Share of Consolidated Net Sales (fiscal 2005)



Non-consolidated net sales for Meiji Dairies Corporation in fiscal 2005 were 484.2 billion yen (1.9% down from the previous fiscal year).
This was mainly due to lower sales of processed milk products and ice cream than last fiscal year, and to changes in accounting procedures for butter, cheese and margarine products.
Meanwhile, despite the tough business environment, results for our company's core products, Meiji Oishii Gyunyu, Meiji Bulgaria Yogurt and Meiji Hokkaido Tokachi Cheese were better than last fiscal year, and are continuing to grow steadily.

Non-Consolidated Operating Income as a Share of Consolidated Operating Income (fiscal 2005)



Non-consolidated operating income for Meiji Dairies Corporation in fiscal 2005 was 15.2 billion yen (a 4.9% increase over last fiscal year).
This was due to the results of an improved product mix and reduced fixed expenses such as pension benefit expenses, which helped absorb the impact of lower revenues and soaring raw material prices. Our Corporation emphasizes profitability rather than expanding volume, and we continue to increase the ratio of high-value-added products.

City Milk

Processed Milk Products

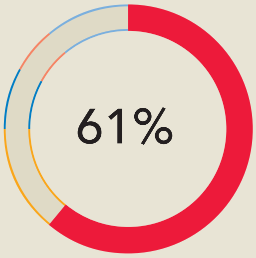
Ice Cream

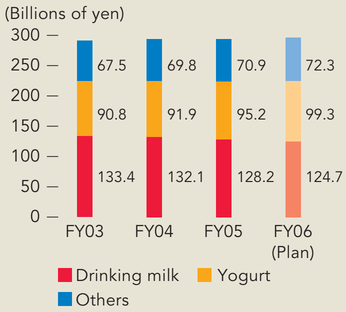
Beverages

Other Products

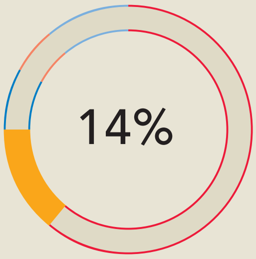
Outline of Areas | Sales Composition Ratio | Sales Transition

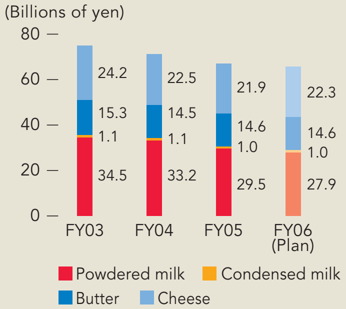
This segment includes milk, processed milk, and milk beverages; yogurt; and others.
In addition to Meiji Oishii Gyunyu with its smooth, rich flavor and aroma and a fresh aftertaste achieved by our original "Natural Taste" manufacturing method, we offer such products as Meiji Hokkaido Zeitaku Shibori 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.



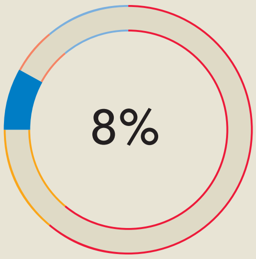


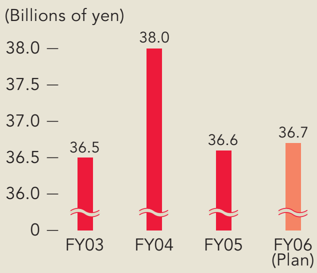
This segment includes powdered milk, condensed milk, butter and cheese.
In powdered milk we offer Meiji Hohoemi, milk for infants which is almost exactly like mother's milk in terms of ingredients and function.
In cheese, more than 60% of the raw milk used to make the products in our Meiji Hokkaido Tokachi Cheese series comes from the Tokachi region of Hokkaido, and those products are highly thought of as they appeal to the Japanese palate.



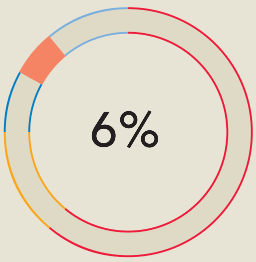


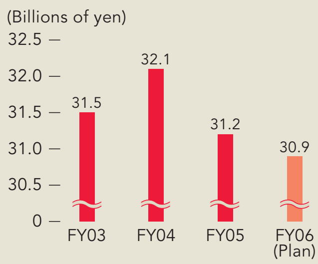
We offer the premium ice cream Aya as well as our standard cup ice cream Meiji Essel Super Cup series.



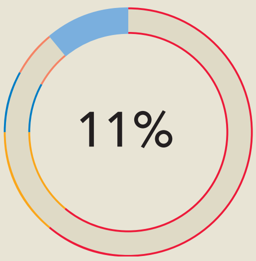


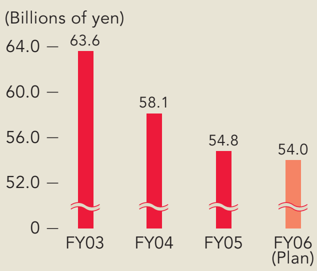
Our offerings in this segment include the Minute Maid series and the Soreike Anpanman series.





This segment includes frozen foods, nutraceuticals and margarine.
In frozen foods, we concentrate on products where we can use our strengths as a milk manufacturer such as pizza and gratin.
In nutraceuticals, we offer the sports nutrition drink VAAM and other products which are highly evaluated by many athletes. In addition, we have introduced liquid foods and foods for the aged such as the Yawaraka Cut Food series and the comprehensive nutritional liquid food Meibalance to expand our line of food products in response to an aging society.

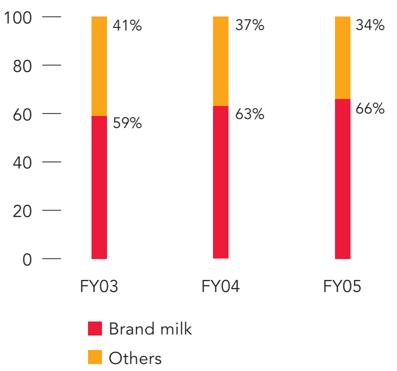




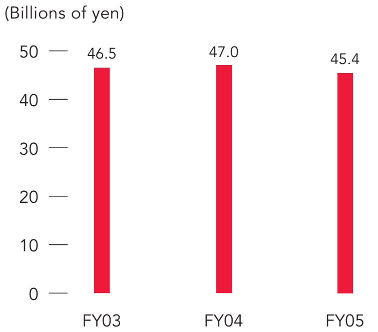
City Milk

Continuous Focus on Original Products with High Added Value and Profitability

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



Home Delivery Service Net Sales



Fiscal 2005 Results

Sales in this segment amounted to ¥294.3 billion, up 0.1% from the previous year.

Sales of milk, processed milk, and milk beverages declined 3.0% to ¥128.2 billion from the previous year, as we continued to review unprofitable products while consumption of drinking milk declined. However, sales of mainstay Meiji Oishii Gyunyu grew 9% year on year to ¥44.0 billion due to good sales for this brand in 1,000ml and 500ml paper cartons, and the contribution of sales in smaller 200ml cartons and home delivery services. Consequently, the proportion of Meiji Oishii Gyunyu and other brand milk products in all milk products sold in paper cartons (1,000ml and 500ml) rose from 63% in fiscal 2004 to 66% in fiscal 2005.

Sales of yogurt rose 3.5% over the previous year to ¥95.2 billion despite weakness in the overall market. Sales of our core Meiji Bulgaria Yogurt series grew 5% year on year to ¥64.8 billion as demand for mainstay Meiji Bulgaria Yogurt LB81 and Meiji Bulgaria Yogurt Four-pack Type stayed healthy. Meanwhile, sales of Meiji Probio Yogurt LG21 increased greatly at the end of fiscal 2005, but poor performance in the first half meant that sales declined by 4% from the previous year to ¥21.7 billion.

Sales in the “others” category increased by 1.5% over the previous year to ¥70.9 billion, with a contribution from the Meiji Milk & Coffee brand series. Sales in home delivery services declined 3% year on year to ¥45.4 billion as competition in that field intensified.

Fiscal 2006 Onward Strategies and Outlook

In fiscal 2006 we will continue our efforts to expand sales of high-value-added products. We project that sales in the city milk segment will increase 0.8% from the previous year to ¥296.8 billion.

We expect that overall sales of milk, processed milk, and milk beverages will decrease by 2.7% year on year to ¥124.7 billion in a tough environment

Achievement Status of the 2005 Medium-term Management Plan	Initial Plan	**Fiscal 2005 Results**	Fiscal 2006 Projection
Meiji Oishii Gyunyu	¥43.5 billion	**¥44.0 billion**	¥45.5 billion
Meiji Bulgaria Yogurt	¥64.5 billion	**¥64.8 billion**	¥66.5 billion
Meiji Probio Yogurt LG21	¥23.0 billion	**¥21.7 billion**	¥23.0 billion
Home Delivery Services	¥50.0 billion	**¥45.4 billion**	¥45.4 billion

characterized by declining consumption of drinking milk. However, we are planning to increase sales of Meiji Oishii Gyunyu by 3% year on year to ¥45.5 billion. Our specific strategies will be to continue promotional activities centered on TV commercials, and will increase the visibility of our products at stores through effective display and promotion efforts at store shelves for paper carton products (1,000ml). We will expand the number of stores handling small paper carton products (200ml), focusing on convenience stores. For home delivery products (200ml), we will accelerate the changeover to Meiji Oishii Gyunyu from the conventional products that we have been handling. Furthermore, we will conduct continuous taste-trial sales of Meiji Hokkaido Zeitaku Shibori Milk (1,000ml) which we launched in March 2005, to raise consumers' awareness of the product while we have people experience its flavor.

In other milk-related products we plan to cultivate new customers through highlighting the health benefits of our products, centered on Meiji Low Calorie Calcium which we launched in March 2006.

We are targeting a 4.3% increase in sales of yogurt in fiscal 2006, to ¥99.3 billion. While we conduct stable promotional activities to maintain the dominant brand strength of the Meiji Bulgaria Yogurt series, we will concentrate our efforts on the growth of the plain yogurt Domashuno, which was developed using the new Maroyaka Tannen Fermentation Method. Based on these measures we project that sales of the Meiji Bulgaria Yogurt series in fiscal 2006 will increase by 3% over the previous year to ¥66.5 billion. Meanwhile, we project that sales of Meiji Probio Yogurt LG21 will increase 6% year on year to ¥23.0 billion, due to such factors as promotion of awareness of the LG21 lactobacillus.

We project that sales of "other" products in fiscal 2006 will increase 2.0% to ¥72.3 billion, as we launched Meiji Milk & Funwari Matcha Latte in February 2006, a green tea flavored milk beverage with rich milk flavor as part of the popular Meiji Milk & Coffee series.

Market competition is intensifying for home deliveries as other industries begin to enter, but we are aiming to achieve the same level of sales in fiscal 2006 as in the previous year, ¥45.4 billion. We will develop new and upgraded products that provide an even higher level of flavor and effect to clarify the distinction and superiority of our products to those on store shelves, utilizing our unique milk-related technologies and materials. We will also engage in straightforward sales activities, including strengthening our links to sales outlets, to increase our rate of contracts concluded and prevent cancellation of contracts.

Meiji Oishii Gyunyu

We created this 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 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.

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 Bulgaria Yogurt Strawberry

Meiji Bulgaria Yogurt Strawberry is a mildly sour tasting yogurt product with finely textured fruit pieces.

Processed Milk Products

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

Fiscal 2005 Results

In fiscal 2005, sales of processed milk products declined 6.0% from the previous year to ¥67.1 billion. This was due to lower demand for infant formula because of declining birth rates and the trend to provide nutrition through mother's milk, and to changes in our accounting treatment of cheese and butter. However when the impact of the accounting changes is excluded, sales of cheese and butter increased by 1.0% and 1.5% respectively over the previous year. In particular, sales of the core Meiji Hokkaido Tokachi Cheese series increased 6.0% to ¥10.0 billion due to the success of our new products and brand integration.

Fiscal 2006 Onward Strategies and Outlook

We expect that sales of processed milk products will decline by 1.7% from the previous year to ¥66.0 billion due to the impact of continuing shrinkage of the powdered milk market.

As the severe business environment continues in the infant formula market and birth rates hit the lowest level in the postwar period, our Corporation aims to expand child-rearing information services, and to further develop our Child-rearing Information Square and Infant Consultation Room services.

Meanwhile, we consider that there are prospects for future growth in the cheese business, and are actively investing in it. In particular natural cheese has a fresh feeling and is easy to add value to, so as we approach start of operations in the spring of 2008 of a new domestic natural cheese plant, we will expand the Meiji Hokkaido Tokachi Cheese series and strengthen the Tokachi brand. We project that sales of Meiji Hokkaido Tokachi Cheese series products will increase 1% over the previous year to ¥10.1 billion through sales efforts based on these positive measures and appropriate pricing.

Meiji Hokkaido Tokachi Camembert Black Pepper

We added spicy black pepper to the creamy, mild tasting Meiji Hokkaido Tokachi Camembert. The taste of the camembert and the stimulating fragrance and rich taste of the pepper are a superb match.

Achievement Status of the 2005 Medium-Term Management Plan	Initial Plan	**Fiscal 2005 Results**	Fiscal 2006 Projection
Meiji Hokkaido Tokachi Cheese	¥9.7 billion	**¥10.0 billion**	¥10.1 billion

Ice Cream

Ongoing Focus on Profitability

Fiscal 2005 Results

While the mainstay product Meiji Essel Super Cup series did well in fiscal 2005, sales in the ice cream segment declined 3.7% from the previous year—in which they were up partly in reaction to extremely hot weather—to ¥36.6 billion .

Fiscal 2006 Onward Strategies and Outlook

We expect an increase in sales in the ice cream segment of 0.2% over the previous year to ¥36.7 billion. Based on expansion of the product lineup and accelerated sales promotions for the mainstay Meiji Essel Super Cup series we expect sales in fiscal 2006 to increase by 3% year on year to ¥12.0 billion. In addition, while we push product development of premium ice creams such as Meiji Bi Charge and Meiji Chez Daigo to respond to diversifying consumer needs and trends, we aim to develop new products that appeal to a new sense of values and that can be clearly differentiated based on our strength as a dairy products manufacturer in milk and lactobacillus technologies, to reorganize our ice cream business.

Beverages

Continuing Emphasis on Segment Earnings

Fiscal 2005 Results

Sales in the beverages segment declined 2.9% from the previous year—in which they were up partly in reaction to extremely hot weather–to ¥31.2 billion.

Fiscal 2006 Onward Strategies and Outlook

In fiscal 2006, amidst intensifying competition we will continue our strategy of focusing on ensuring profitability. We will concentrate on launching the products promoting health benefits, and on expanding sales of the Brick series in vending machines.

Other Products

Targeting Functional, Liquid, and Nursing Care Foods

Fiscal 2005 Results

While nutraceuticals did well, sales in this segment decreased 5.7% from the previous year to ¥54.8 billion as sales of frozen foods declined and there was the impact of a change in accounting procedures for margarine. Among nutraceuticals, while liquid foods performed well, sales of the core VAAM series declined 5% year on year to ¥7.1 billion.

Fiscal 2006 Onward Strategies and Outlook

We expect sales of this segment in fiscal 2006 to decrease 1.4% from the previous year to ¥54.0 billion. We will concentrate on liquid foods and products for the aged in the "others" segment to respond to the needs of an aging society and aim for new growth. Specifically, we will expand marketing of products such as high-function liquid foods including the adjusted-sugar liquid food Inslow, the comprehensive nutritional liquid food series Meibalance, and the thickening agent Toromeiku to obtain new customers.

Meanwhile, we will further strengthen and develop current product lines that contain VAAM, which incorporates a balanced blend of 17 amino acids, as well as expand brands utilizing brand assets which we developed over the past 10 years. As part of that effort we launched a new product in March 2006, VAAM after Charge Jelly / Tablet, based on the concept of taking VAAM after exercising. We expect sales of VAAM in fiscal 2006 to increase 6% over the previous year, to ¥7.5 billion.

VAAM

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

VAAM After-Charge Jelly

VAAM After-charge is a jelly containing dairy protein isolate (whey peptide) which incorporates a balanced blend of 20 amino acids to replace the BCAA (branch chain amino acids) that are lost during exercise. It allows you to get all of the amino acids your body needs after exercising.

Achievement Status of the 2005 Medium-Term Management Plan	Initial Plan	**Fiscal 2005 Results**	Fiscal 2006 Projection
VAAM	¥8.0 billion	**¥7.1 billion**	¥7.5 billion

Corporate Social Responsibility (CSR)

Corporate Governance and Compliance

Meiji Dairies Group engages in a constant effort to strengthen its corporate governance to ensure management transparency, and quick decision making and business execution. At the same time we continue to strive to improve our compliance system structure to retain the absolute trust of all of our stakeholders and to increase our corporate value sustainably.

Internal Control System

Board of Directors and Corporate Auditors as the Pivot of Internal Control System The Board of Directors is made up of 24 members and it formulates management strategies, studies and analyzes operating issues, and determines appropriate measures for addressing those issues. Important matters are discussed in advance at weekly meetings of the Managing Committee , and in these ways we are working to speed up decision making and enhance overall business efficiency.

Our Company has also introduced a corporate auditor system in which we have four corporate auditors, including two outside auditors, who oversee the performance of the Board of Directors. In addition to discussing and deciding auditing policies, our corporate auditors have regular meetings with directors and also attend and offer their opinions at meetings of the Board of Directors, Managing Committee, and Executive Committee. Besides that we have established an Internal Auditing Department to handle internal audits in order to strengthen the auditing function, which implements audits based on risk analysis and evaluation, and which not only provides advice and recommendations as needed but also prepares audit reports and informs the Managing Committee, the director of the Internal Auditing Department and the corporate auditors of its audit activities.

Reinforcing Compliance The Group's fundamental spirit is embodied in the Meiji Dairies Corporation Code of Ethics and the Meiji Dairies Corporation Behavior Charter, which are used to promote widespread compliance-related awareness among all directors and employees covering all companies of the Group. In addition, we have established the Risk & Compliance Office inside the Company and outside consultation points with external attorneys as an internal reporting system.

Furthermore we have established the Risk & Compliance Committee to create a risk management system that encompasses compliance risks, to further strengthen our crisis-management system.

Information Security We have established the Information Security Committee to maintain and strengthen information security appropriately in order to prevent unauthorized system access and information leakage. The Committee formulates the Groupwide Information Security Policy and the Privacy Policy to manage individuals' private information.

Reflecting Outside Opinions in Management Meiji Dairies Corporation reflects invaluable external opinions in its management through communications with shareholders and investors through the General Meeting of Shareholders, the semiannual financial results presentations to investors and analysts, and visits to institutional investors by top management, as well as sometimes including the candid opinions of consumers. In addition, we have established the Customer Support Center to receive opinions, suggestions and feedback from our customers, and we analyze 135,000 responses from customers each year and incorporate them into our management policies.

Food Safety Initiatives

Ensuring food safety is naturally an important responsibility for the Meiji Dairies Group, as we base our business on providing products and services which contribute to the health of our customers. To that end, we have improved our systems to guarantee constant food safety and peace of mind through the newest quality management systems and manufacturing technologies.

Seamless Quality Assurance System

Our Group aims to provide safe and attractive products and services, based on a quality assurance system that is supported by all divisions throughout the entire corporation, to ensure that we obtain the trust and satisfaction of our customers. In addition to the three representative systems and manufacturing technology described below, we implement continuous quality assurance through the seamless integration of systems, including the refrigeration system, the dispatch support system, and the traffic control system.

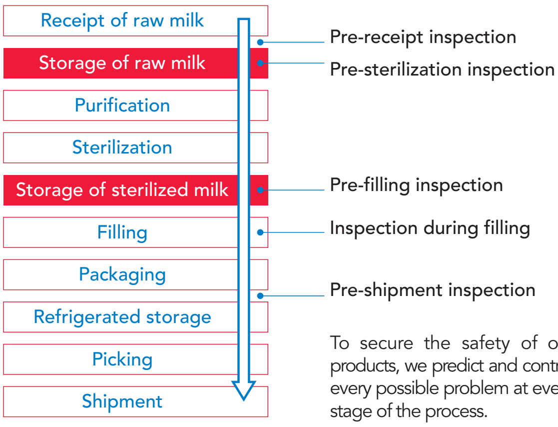
Three Representative Quality Assurance Systems and Manufacturing Technology

1. HACCP

— Assuring Quality with a Hygiene Management System Developed by NASA 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 as a part of the US space program. Unlike previous methods that mostly depended on intuition and experience, it focuses on preventing various types of risks associated with food manufacturing processes. Food safety assurance under HACCP first of all involves conducting a preemptive hazard analysis of risks of food poisoning, etc. 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 and are intensively managed.

Meiji Dairies obtained HACCP authorization from Japan's Ministry of Health, Labour and Welfare at an early stage, and has also established its own HACCP certification system. In addition, we are promoting Group-wide hygiene management initiatives, including education, training and fostering of human resources which are necessary for HACCP-related activities.

Milk Manufacturing Process



To secure the safety of our products, we predict and control every possible problem at every stage of the process.

2. ESL Technologies

— Hygiene Management Technology that Extends Shelf Life The Group is working to improve its production and quality control technologies to ensure that we deliver products in a fresh, delicious state as much as possible. One result is extended shelf life (ESL) technology. It covers the whole manufacturing process, from receiving raw milk to the packaging of the final product. ESL technology takes hygiene levels to new heights by rigorously eliminating post-sterilization microbial contamination factors. Also, this technology does not raise the temperature of the sterilization process, so that it maintains the same delicious flavor as before and radically extends the storage life of the product.

3. Manufacturing Execution System (MES)

— Improving Manufacturing Efficiency by Managing All Types of Information from the Factory Floor, and Preventing Human Error In order to achieve an even higher level of safety in our manufacturing processes it is necessary to prevent human error before it occurs and to improve manufacturing efficiency. Our Group has made extensive use of information technology, recording our extensive know-how of manufacturing lines in such areas as filling lines and raw milk storage tanks in a database. We manage all of that data in the Manufacturing Execution System (MES) to prevent human error before it can occur. MES enables us to systematically issue appropriate instructions covering all factory production lines, and to obtain a real-time understanding of each line's operating status.

Production and Distribution Systems Assuring Traceability

We centrally manage all data, covering everything from production to shipment and delivery, by organically integrating four systems: manufacturing execution system (MES), refrigeration system, dispatch support system, and traffic control system. In this way, we are creating a traceability system that pinpoints the manufacturing line, production time, and delivery destination of defective products, and also permits swift recall and causal analysis.

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

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

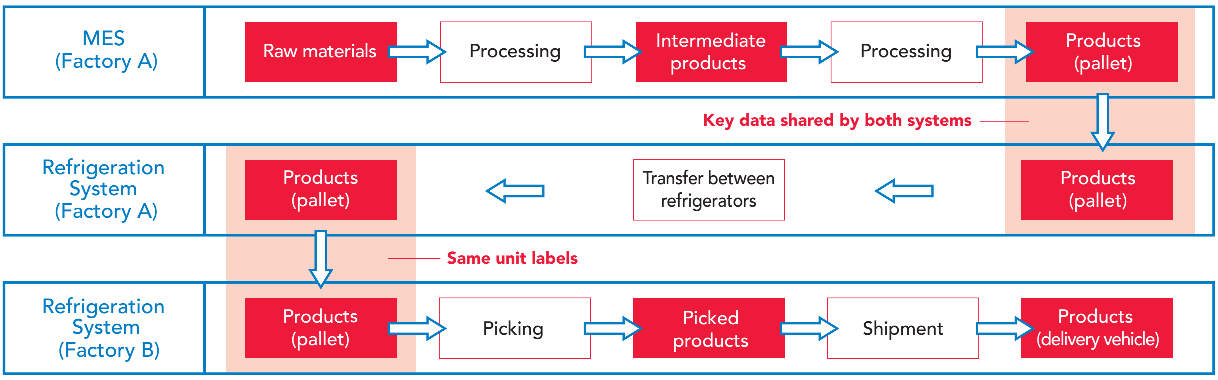
Food Safety Committee

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

- **To formulate measures for assuring the safety of newly developed products and for preventing foreseeable risks in the overall production system from arising;**
- **To establish risk standards and evaluation systems, and manage various risks related to raw materials, production, and distribution based on such standards and systems; and**
- **To collect relevant information and maximize Group-wide awareness of the information.**

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

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



Environmental and Social Commitments

All of the products of Meiji Dairies Group including milk and dairy products are made possible through the gift of nature, and our business is built on the basis of the needs and trust of society. That is why our objectives are to exist harmoniously with nature and to contribute to society through our business activities.

Environmental Initiatives

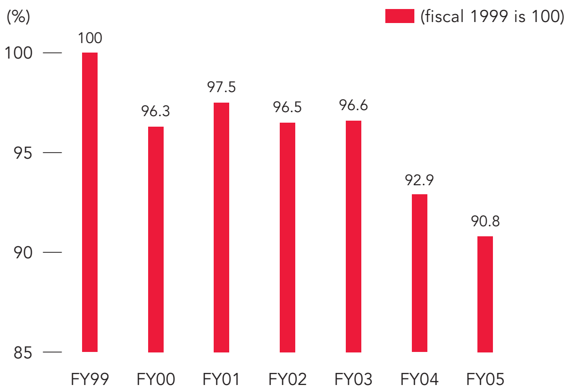
In our new medium-term management plan ending fiscal 2008, we defined the promotion of corporate management that recognizes the importance of harmony with the environment as an important issue, based on the Meiji Dairies Environment Charter which we formulated in October 2001. We are working on below three as our basic environmental policies.

* Please refer to our "2006 Environmental Report" for details.

1. By Building an Environmental Management System, We are Striving to Improve the Level of Environmental Management Across Our Entire Group, and to Stimulate Greater Awareness of the Environment. In fiscal 2005 we not only received ISO14001 certification in all of our factories, we created our own corporate environmental checklist and implemented self-inspections. In the future we will promote environmental actions in all of our business locations focusing on environmental ISOs, based on the educational and training systems we have built pertaining to the environment.

2. We are Continuing Our Efforts to Reduce CO_2 Emissions, Following the Kyoto Protocol to Stop Global Warming. We reduced our CO_2 emissions per production volume of sterilized milk by 2.1% year on year in fiscal 2005. In the future we will coordinate the environmental ISO activities of our headquarters and business locations, and promote even more efficient and effective CO_2 emission reductions. Our specific objective is to reduce CO_2 emissions from factories on a unit base below the level of 100Kg- CO_2/t (91.2% of the 2004 level of 109.6Kg- CO_2/t). In addition, we will promote reduction in CO_2 emissions in our distribution and marketing divisions as well.

Trends in CO_2 Emission Unit Indexes (per unit of sterilized milk)



* Basic unit per sterilized milk volume refers to the CO_2 emissions per unit of sterilized milk.

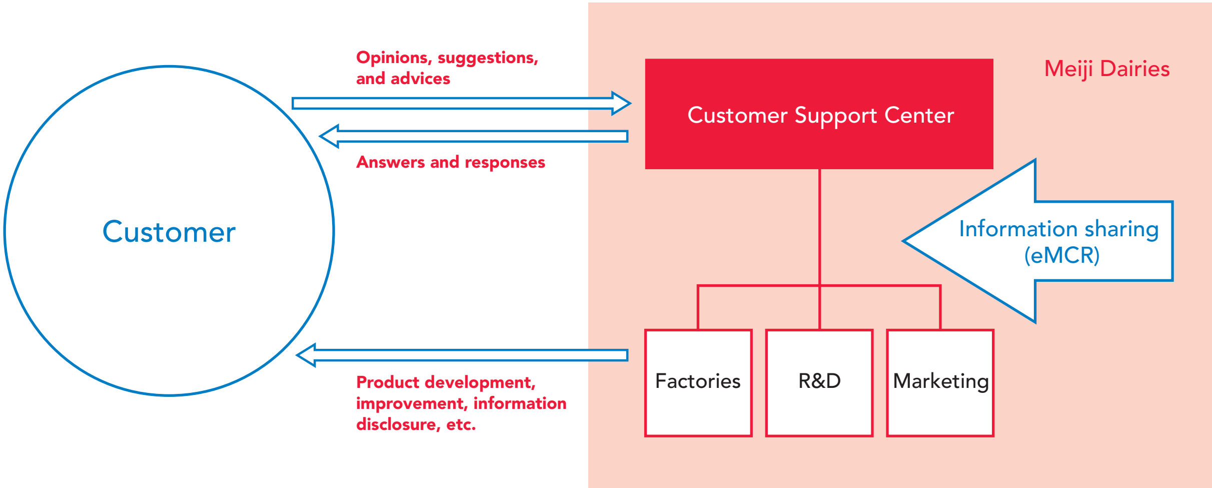
3. We are Working to Achieve Zero Waste (zero emissions). Our waste recycling ratio in fiscal 2005 was 83.7%, a record high level. In addition, we built an integrated management system of data regarding recycling and waste materials, and have begun operations. In the future as a part of our efforts towards achieving zero emissions we aim to avoid generating waste (controlling generation = reduction). Meanwhile, we will promote efforts by our factories (including Group companies), research centers and headquarters to make effective use of all waste which we cannot avoid generating. We will also improve and utilize the system to collect and analyze information pertaining to the waste material from offices and current status of recycling.

With Our Customers

We are aware that the greatest contribution a company can make to society is to conduct its core business of providing products and services in a reliable manner. We at Meiji Dairies Group, have made our contribution to society by providing people with healthy food and delicious tasting along with food safety and reliability. As a corporation that contributes to society through its core business, in order to continue to support peoples' daily health from the aspect of culinary lifestyle, we believe it is important to listen to a broad range of our customers' voices and respond to the needs of society. That is why we have established the Customer Support Center as a means to communicate with our customers, with a dedicated staff including nationally-registered dietitians and nutritionists to respond to a variety of inquires from our customers. The newly-established electronic Meiji Customer Relationship will enable us to manage vital communications from our customers in a single place, and by enabling quick feedback to manufacturing and marketing it will help us to develop and improve new products which promise food safety and reliability as well as pursue healthy and delicious highly food.

These kinds of efforts have been evaluated, as in fiscal 2005 we received the Excellent Corporation Caring for Consumers award from the Ministry of Economy, Trade and Industry. This is an award presented every year by the Minister of Economy, Trade and Industry to corporations that have achieved excellent results in building systems to care for consumers, such as grasping the diversifying and differentiating consumer requirements accurately and quickly and reflecting these requirements in corporate management.

Two-Way Communication Using the Newly-Established electronic Meiji Customer Relationship (eMCR)



Research & Development (R&D)

Our Group is concentrating on strengthening our research and development capability to bring out the maximum potential of materials, centered on milk, aiming to become a company that can continuously provide healthy food and delicious tasting to our customers with our highly unique technology development capability, on a business foundation of milk and milk technology.

R&D System and Policies

Our R&D organization comprises three research institutes; the Research & Development Center, the Food Functionality Science Institute, and the Technology Development Institute, as well as the Research Planning Department. Jointly they organically and efficiently pursue integrated basic technological research in taste, nutrition, function, product quality, safety, and food production technology, and they are constantly developing innovative food concepts.

Major R&D Results in each Research Field

We achieved the following results through research and development in fiscal 2005.

<Research into Probiotics and Prebiotics>

(1) Study of Yogurt Containing Collagen Peptides and Ceramides for Utilization to Improve Skin Functions (Announced in September 2005 at the Japanese Society of Animal Science) It was confirmed in clinical trials that by consuming yogurt that contains LB81 lactobacillus twice a day, conditions of constipation can be improved, and at the same time skin flexibility, roughness and dryness can be improved. In addition, it was confirmed that as a result of mixing collagen peptides and ceramides, known to be beauty foods materials, into the yogurt even greater skin improvements can be achieved.

(2) Yogurt Containing LG21 Lactobacillus Alleviates Stomach Membrane Inflammation in Patients Infected with Helicobacter Pylori with Upper Gastrointestinal Tract Symptoms (Article in Vol.34, No. 1, 2006 issue of the scientific journal Japanese Pharmacology & Therapeutics) It was confirmed in clinical trials in a number of hospitals that when patients who are positive for helicobacter pylori have upper gastrointestinal tract symptoms such as stomach discomfort, heartburn, belching, or abdominal fullness, consuming yogurt containing LG21 lactobacillus significantly improves stomach membrane inflammation. Meanwhile, no such improvement was confirmed in yogurts that did not contain LG21 lactobacillus.

<Research into Good Taste>

(3) The Effect on Flavor of the Concentration of Dissolved Oxygen in Milk During Heat Sterilization (Announced in August 2005 at the Japanese Society for Food Science and Technology) We have created milk with little heat odor, good texture and a fresh aftertaste through our Natural Taste Manufacturing Method in which we maintain a low concentration of dissolved oxygen in milk during heat sterilization. This is a result of our suppression of the formation of one heat odor causing material, a sulfide compound. In model experiments we confirmed that this sulfide compound was formed because of the existence of dissolved oxygen and unsaturated fatty acids.

<Research into Our Company's Original Production Methods>

(4) Development of a Continuous Low-Temperature Extraction Production Method for Coffee (Announced in November 2005 at Food Techno in Tsukuba) We overturned the conventional batch boiling extraction method, and developed a low-temperature, quick continuous extraction method that brings out the freshness and flavor of coffee. This method grinds roasted coffee beans finely in twin-screw extruders, and quickly mixes and extrudes the coffee with water so as not to allow the fragrance to escape, so the extracted liquid is rich in fragrance and with no other unnecessary flavor. This method can also be applied to black tea, green tea and other drinks.

(5) Recreating the Traditional Bulgarian Yogurt Industrially with a Low Dissolved Oxygen and Low-Temperature Fermentation Manufacturing Method (Maroyaka Tannen Fermentation Method) (Announced in August 2005 at the Japanese Society for Food Science and Technology) In Bulgaria there is a traditional type of yogurt that is fermented in unglazed clay pots at a low temperature. We studied methods to re-create this yogurt industrially and discovered that we could shorten the fermentation time by lowering the concentration of dissolved oxygen in the milk, and that it is possible to achieve production with the same fermentation time as in the past even with low-temperature fermentation. In addition, we are now able to achieve both degrees of texture smoothness and shape retention with this method that were difficult with past manufacturing methods.

<Research into Nutrition, Functions and Properties Related to Aging and Lifestyle-Related Diseases>

(6) Studies into Improvement of Blood Sugar and Body Composition in Glucose Intolerant Patients from Long-Term Consumption of Adjusted-Sugar Liquid Foods (Announced in January 2006 at the Japan Society of Metabolism and Clinical Nutrition) It had already been confirmed from clinical trials adjusted-sugar liquid foods, which were developed with the objective of supplementing nutrition and improving the condition of diabetic and borderline diabetic patients, that it was possible to adjust blood sugar, restraining steep increases in blood sugar levels, with little insulin secretion and without placing a burden on the pancreas. In this study, we discovered that by including this liquid food in the breakfast menu over a number of months, levels of neutral fats in the blood could be lowered, and the accumulation of visceral fat could be reduced.

(7) Characteristics and Anti-Inflammatory Effects of Whey Protein and Whey Peptides (Announced in August 2005 at the 2005 Dairy and Food Science Symposium) Whey protein is rich in many of the essential amino acids, and is excellent as a source of branch chain amino acids (BCAA) to promote formation of muscle protein. In addition, the structure of whey protein amino acids closely resembles the composition of mother's milk, and it is an excellent source of protein in powdered formula for infants. In this research our Corporation discovered that whey protein suppresses the production of cytokines, which cause inflammatory diseases.

<Research into Analytic Technology for Product Quality and Safety>

(8) Studies into Quick Detection of Spoilage Yeast in Yogurt (Announced in November 2005 at the Japan Society of Food Microbiology) As a result of comparing several detection instruments available in the market for methods of detecting minute quantities of yeast contamination in yogurt, the best in terms of speed was a digital microscope bacterial detection instrument, which could detect greater than 1 cfu/ml of yeast within 23 to 29 hours. Meanwhile, it was possible to detect extremely minute spoilage yeast of less than 1 cfu/ml in about 50 hours with direct microscopic examination after shaking cultivation, applicable to containers other that PET bottles, such as plastic, paper and glass bottles.

Organization

(As of September 1, 2006)

Board of Directors

Chairman of the Board of Directors

Technology Development Committee

Food Safety Committee

Risk & Compliance Committee

Executive Committee

President and CEO

Senior Managing Directors

Managing Directors

- Corporate Planning Department
- Internal Auditing Department
- Environmental Relation Department
- Public Relation Department
- Customer Service Center
- International Division
  - Infant Foods Marketing Department
  - International Business Development Department
- Administration Department
- Accounting Department
- Information Systems Department
- Personnel Department
- General Affairs Department
- Quality Assurance Department
- Production Department
- Production Technology Department
- Engineering Technology Department
- Raw Milk Department
- Purchasing Department
- Affiliated Companies Administration Department
- R&D Planning Division
  - R&D Planning Department
  - Research & Development Center
  - Food Functionality Science Institution
  - Technology Development Institute
- Production Development Department
- Retail Marketing Department
- City Milk Consolidated Marketing Division
- Nutritionals Consolidated Marketing Division
- Processed Foods & Foodservice Consolidated Marketing Division
- Pharmaceuticals Department
- Corporate Communication Department
- Distributions Management Department
  - 3 Main Branches
  - 14 Branches
- 23 Plants

Board of Directors and Auditors

(As of July 1, 2006)

From the front left :

President & CEO
Shigetaro Asano

Chairman
Hisashi Nakayama

Senior Managing Directors
Tsuyoshi Nagata
Takehiko Tsurumaru
Kaname Tanaka

Chairman

Hisashi Nakayama

President & CEO

Shigetaro Asano

Senior Managing Directors

Takehiko Tsurumaru
Kaname Tanaka
Tsuyoshi Nagata

Managing Directors

Shigeo Saito	General Manager, International Division
Tamotsu Kuwata	General Manager, R&D Planning Division
Koichi Yoshioka	
Shouichi Ihara	General Manager, City Milk Consolidated Marketing Division
Hiromi Tsukanishi	General Manager, Tokyo Main Branch

Directors

Tetsuo Hayashi	General Manager, Tokai Main Branch
Tadashi Matsuzawa	General Manager, Processed Foods & Foodservice Consolidated Marketing Division
Kazuhiro Minemoto	General Manager, Kyushu Branch
Norio Shigenari	General Manager, Raw Milk Department
Yoshio Baba	General Manager, Production Technology Department
Naoki Kato	General Manager, Production Department
Kouichirou Kawashima	President & Chief Executive Officer, Fresh Network Systems Co., Ltd.
Jyunji Yamamoto	General Manager, Affiliated Companies Administration Department
Masami Eguro	General Manager, Administration Department
Kenichi Nonaka	General Manager, Kansai Main Branch
Hidesada Kaneko	General Manager, Personnel Department
Toshiaki Yoshida	General Manager, Nutritionals Consolidated Marketing Division
Kaoru Koide	General Manager, Quality Assurance Department
Shouzou Nawata	Vice General Manager, City Milk Consolidated Marketing Division

Standing Auditors

Hajime Yoshioka
Nobukuni Hoshino

Auditors

Shouji Akahane
Yoshiaki Fujii

Facts & Figures

1. Industry Statistics

	FY2001	FY2002	FY2003	FY2004
Production, Consumption, and Sales of Major Dairy Products				
Raw milk production (kl) *1	8,311,848	8,379,969	8,404,999	8,284,746
Drinking milk production (kl) *1	4,402,203	4,430,271	4,478,913	4,404,370
Milk production (kl) *1	3,840,122	3,976,636	4,020,871	3,926,680
Processed milk production (kl) *1	562,081	453,635	458,042	477,690
Yogurt produced by dairy companies (kl) *1	698,142	798,915	793,335	782,036
Yogurt produced by non-dairy companies (kl) *2	129,466	127,171	123,254	124,872
Cheese consumption (tons) *1	256,423	248,472	255,043	265,729
Natural cheese consumption for direct consumption (tons) *1	147,286	135,943	141,185	150,742
Processed cheese consumption (tons) *3	109,137	112,529	113,858	114,987
Ice cream sales (thousand kl) *4	78.6	77.1	75.2	81.8

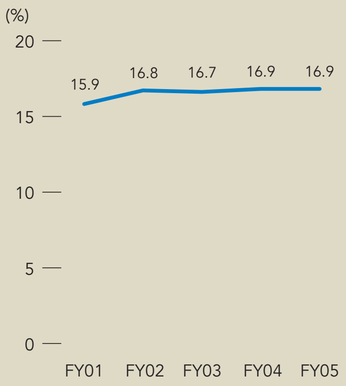
Sources: *1 Statistics on Milk and Dairy Products, Ministry of Agriculture, Forestry and Fisheries (MAFF)
*2 Food Market Research and Information Center (calendar-year base)
*3 MAFF Livestock Industry Department, Milk and Dairy Products Division
*4 Japan Ice Cream Association

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

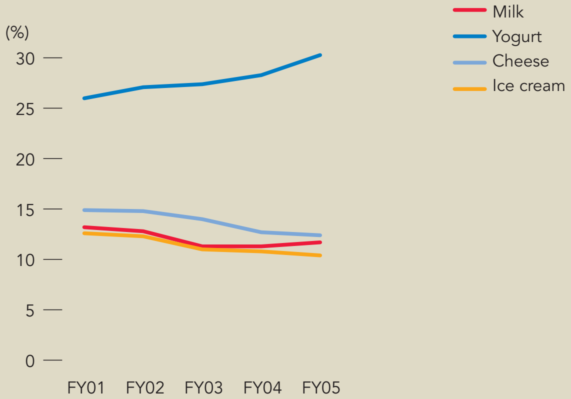
	FY2005	Change (%)
	8,291,534	0.08%
	4,261,231	-3.25%
	3,793,862	-3.38%
	467,369	-2.16%
	801,630	2.51%
	113,794	-8.87%
	261,822	-1.47%
	143,582	-4.75%
	118,240	2.83%
	78.0	-4.65%

	FY2005	Change (pt)
	16.9%	0pt
	11.7%	+0.4pt
	30.3%	+2pt
	12.4%	-0.3pt
	10.4%	-0.4pt

Meiji Dairies' Share in Milk Collection



Meiji Dairies' Market Share by Product (Estimated)



2. Consolidated Financial Summary

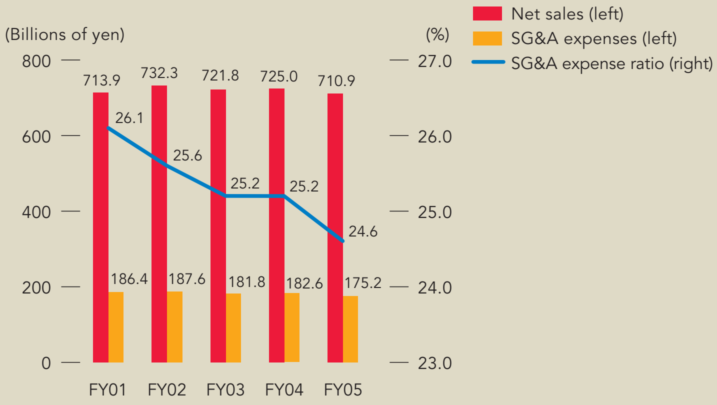
Millions of yen
(Unless otherwise noted)
(Note 1)

	FY2001	FY2002	FY2003	FY2004
Operating Results (For the Fiscal Year):				
Net sales	¥ 713,980	¥ 732,369	¥ 721,833	¥ 725,024
Cost of sales	519,587	528,997	524,253	522,970
Selling, general and administrative (SG&A) expenses	186,452	187,603	181,899	182,637
Operating income	7,941	15,769	15,681	19,415
Ordinary income (Note 3)	8,007	14,602	15,747	19,081
Net income	2,093	4,051	7,950	9,722
Capital expenditure (Cash base)	38,946	22,336	24,546	20,527
Depreciation expenses (Tangible Fixed Assets)	20,208	20,942	20,324	19,734
Research and development (R&D) expenses	7,113	6,909	7,422	7,558
Financial Position (At Fiscal Year-End):				
Total assets	¥ 381,980	¥ 363,354	¥ 364,958	¥ 357,592
Shareholders' equity	80,436	82,241	91,892	100,026
Interest-bearing debt (Note 4)	153,040	150,317	142,352	128,093
Per Share Data (Yen, U.S. dollars):				
Net income (Note 5)	¥ 7.06	¥ 13.56	¥ 26.74	¥ 32.73
Shareholders' equity	271.18	277.55	310.23	337.86
Cash dividends	6.00	6.00	6.00	6.00
Ratios:				
Return on equity (ROE)(%) (Note 6)	2.6	5.0	9.1	10.1
Return on assets (ROA)(%) (Note 7)	0.5	1.1	2.2	2.7
Equity ratio (%)	21.1	22.6	25.2	28.0
Debt-equity ratio (times) (Note 8)	1.9	1.8	1.5	1.3
Other Information:				
Number of employees	8,083	7,754	7,482	7,370

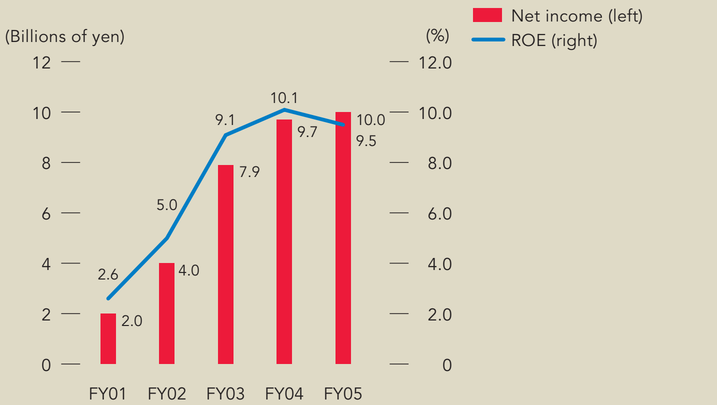
Notes: 1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 117.46, the exchange rate prevailing on March 31, 2006.
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Interest-bearing debt = Short-term loans payable + Long-term debt
5. Net income per share for the year ended March 2003 and onwards is calculated in accordance with a new accounting standard that came into effect from April 1, 2002.
6. ROE = Net income/Simple average of shareholders' equity at the beginning and end of the fiscal year
7. ROA = Net income/Simple average of total assets at the beginning and end of the fiscal year
8. Debt-equity ratio = Interest-bearing debt/Shareholders' equity

	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
FY2005	FY2005
¥ 710,908	$ 6,052,342
515,712	4,390,540
175,205	1,491,617
19,989	170,184
20,179	171,800
10,055	85,603
20,147	171,526
19,664	167,416
7,398	62,989
¥ 361,134	$ 3,074,527
112,695	959,440
116,475	991,618
¥ 33.86	$ 0.288
380.85	3.242
7.00	0.059
9.5	—
2.8	—
31.2	—
1.0	—
7,185	—

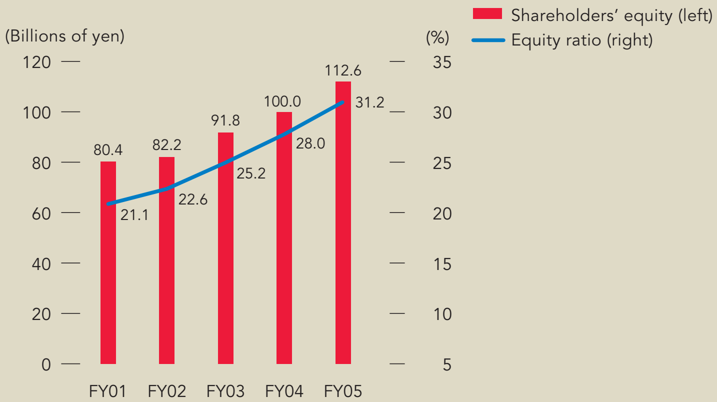
Net Sales, SG&A Expenses and SG&A Expense Ratio



Net Income and ROE



Shareholders' Equity and Equity Ratio



3. Non-Consolidated Financial Summary

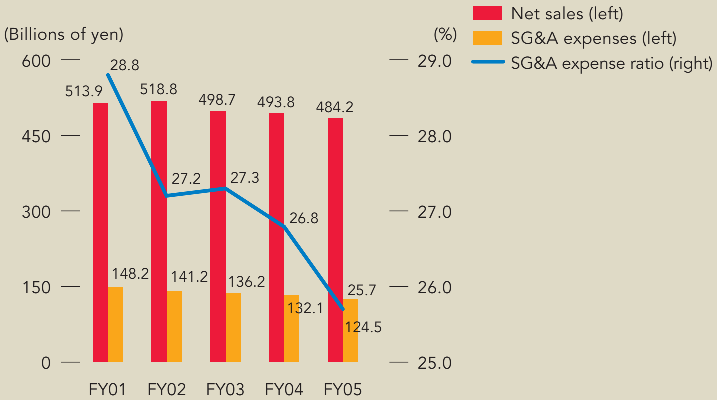
Millions of yen
(Unless otherwise noted)
(Note 1)

	FY2001	FY2002	FY2003	FY2004
Operating Results (For the Fiscal Year):				
Net sales	¥ 513,935	¥ 518,843	¥ 498,748	¥ 493,868
Cost of sales	359,468	365,266	351,008	347,158
Selling, general and administrative (SG&A) expenses	148,230	141,237	136,278	132,179
Operating income	6,237	12,340	11,462	14,530
Ordinary income (Note 3)	6,508	11,482	11,401	14,144
Net income	1,858	4,009	5,596	6,290
Capital expenditure (Cash base)	¥ 31,068	¥ 20,590	¥ 13,286	¥ 15,864
Depreciation expenses (Tangible Fixed Assets)	13,747	14,298	14,141	14,123
Research and development (R&D) expenses	6,690	6,562	7,049	7,164
Cash dividends per share (yen, U.S. dollar)	6.00	6.00	6.00	6.00
Financial Position (At Fiscal Year-End):				
Total assets	¥ 290,115	¥ 275,686	¥ 274,561	¥ 275,013
Shareholders' equity	75,629	77,130	84,539	89,382
Interest-bearing debt	102,168	99,884	92,743	89,763
Other Information:				
Number of employees (Note 4)	4,844	4,698	4,512	4,457
	(5,106)	(4,949)	(4,734)	(4,673)

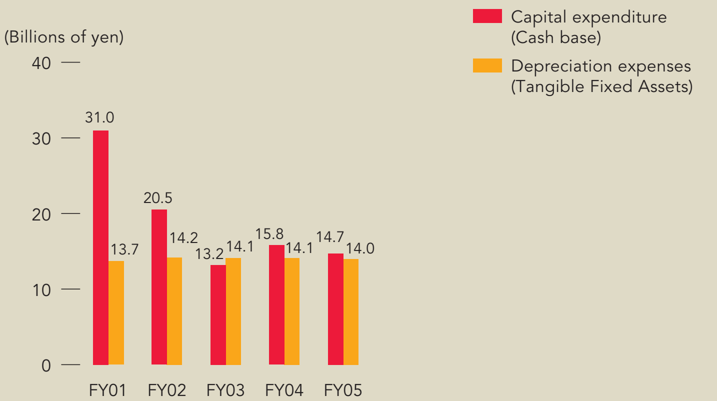
Notes: 1. The yen amounts for the period up to and including FY2003 are rounded to the nearest million yen. From FY2004 figures are shown with amounts under one million yen and under one thousand US dollars rounded off.
2. U.S. dollar amounts are calculated, solely for the reader's convenience, at the rate of US$1 = 117.46, the exchange rate prevailing on March 31, 2006
3. Ordinary income = Operating income + Net financial expenses + Amortization of goodwill arising from consolidation + Equity in income of affiliates + Other non-operating income and expenses
4. Number of employees in parentheses includes employees seconded from Meiji Dairies Corporation to other companies, and excludes employees seconded to Meiji Dairies Corporation.

	Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
FY2005	FY2005
¥ 484,285	$ 4,122,984
344,458	2,932,556
124,588	1,060,685
15,239	129,741
15,702	133,680
8,096	68,926
¥ 14,707	$ 125,215
14,005	119,236
6,969	59,336
7.00	0.059
¥ 282,554	$ 2,405,536
99,847	850,058
85,713	729,721
4,352	—
(4,547)	—

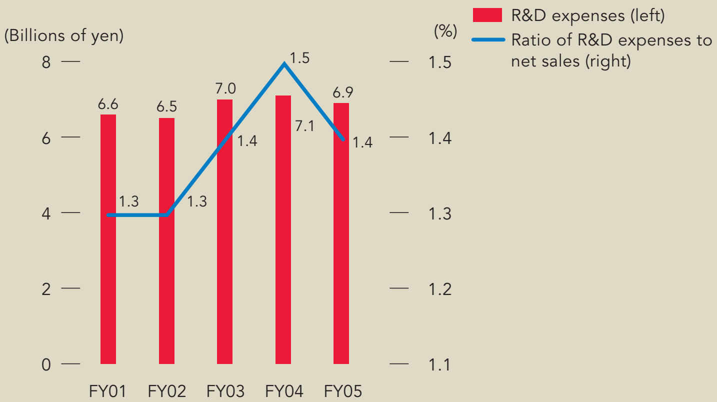
Net Sales, SG&A Expenses and SG&A Expense Ratio



Capital Expenditure and Depreciation Expenses



R&D Expenses and Its Ratio to Net Sales



4. Segment Information

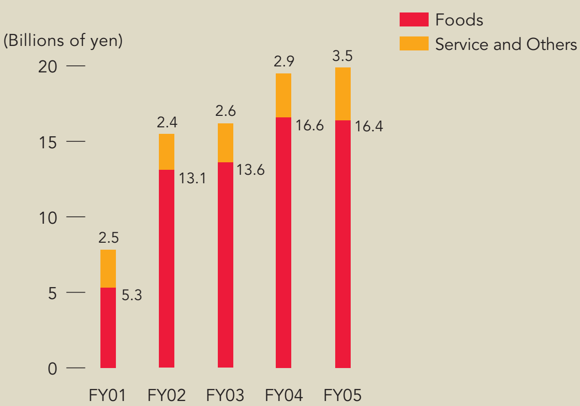
	Millions of yen (Unless otherwise noted) (Note 1)					Thousands of U.S. dollars (Unless otherwise noted) (Note 2)
	FY2001	FY2002	FY2003	FY2004	**FY2005**	**FY2005**
Consolidated Performance by Segment						
Net sales						
Foods	¥ 623,838	¥ 640,377	¥ 623,077	¥ 621,978	**¥ 605,813**	**$ 5,157,612**
Service and Others (Note 3)	127,795	132,895	144,529	148,370	**149,243**	**1,270,585**
Operating income						
Foods	5,334	13,151	13,662	16,633	**16,469**	**140,214**
Service and Others (Note 3)	2,536	2,421	2,659	2,923	**3,517**	**29,945**
Operating income margin						
Foods	0.9%	2.1%	2.2%	2.7%	**2.7%**	**—**
Service and Others (Note 3)	2.0%	1.8%	1.8%	2.0%	**2.4%**	**—**

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

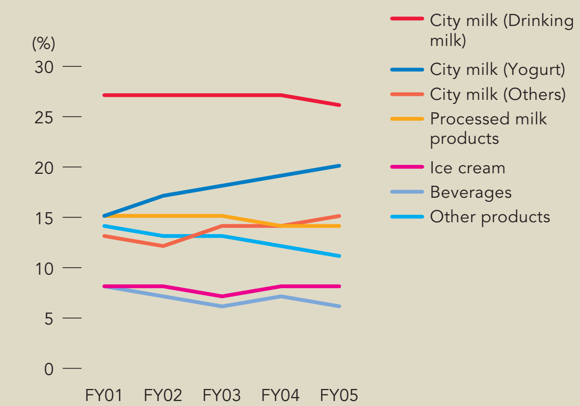
Non-consolidated Net Sales by Division and Product						
City milk	¥ 281,372	¥ 293,911	¥ 291,807	¥ 294,010	**¥ 294,365**	**$ 2,506,089**
Drinking milk	137,809	139,574	133,410	132,182	**128,244**	**1,091,818**
Yogurt	74,977	90,516	90,801	91,947	**95,209**	**810,573**
Others	68,585	63,821	67,596	69,880	**70,910**	**603,697**
Processed milk products	78,307	80,182	75,269	71,485	**67,187**	**572,007**
Powdered milk	38,142	37,789	34,540	33,236	**29,552**	**251,593**
Condensed milk	1,245	1,209	1,147	1,103	**1,035**	**8,815**
Butter	14,577	15,388	15,329	14,588	**14,625**	**124,514**
Cheese	24,342	25,794	24,252	22,557	**21,974**	**187,084**
Ice cream	43,128	41,228	36,506	38,045	**36,636**	**311,904**
Beverages	39,282	34,408	31,534	32,175	**31,256**	**266,104**
Other products	71,843	69,112	63,629	58,151	**54,839**	**466,878**
Total	¥ 513,935	¥ 518,843	¥ 498,748	¥ 493,868	**¥ 484,285**	**$ 4,122,984**

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 = 117.46, the exchange rate prevailing on March 31, 2006.
3. "Service and Others" segment covers the distribution business (including transportation and storage), the feed business, and other businesses, such as finance and leasing.

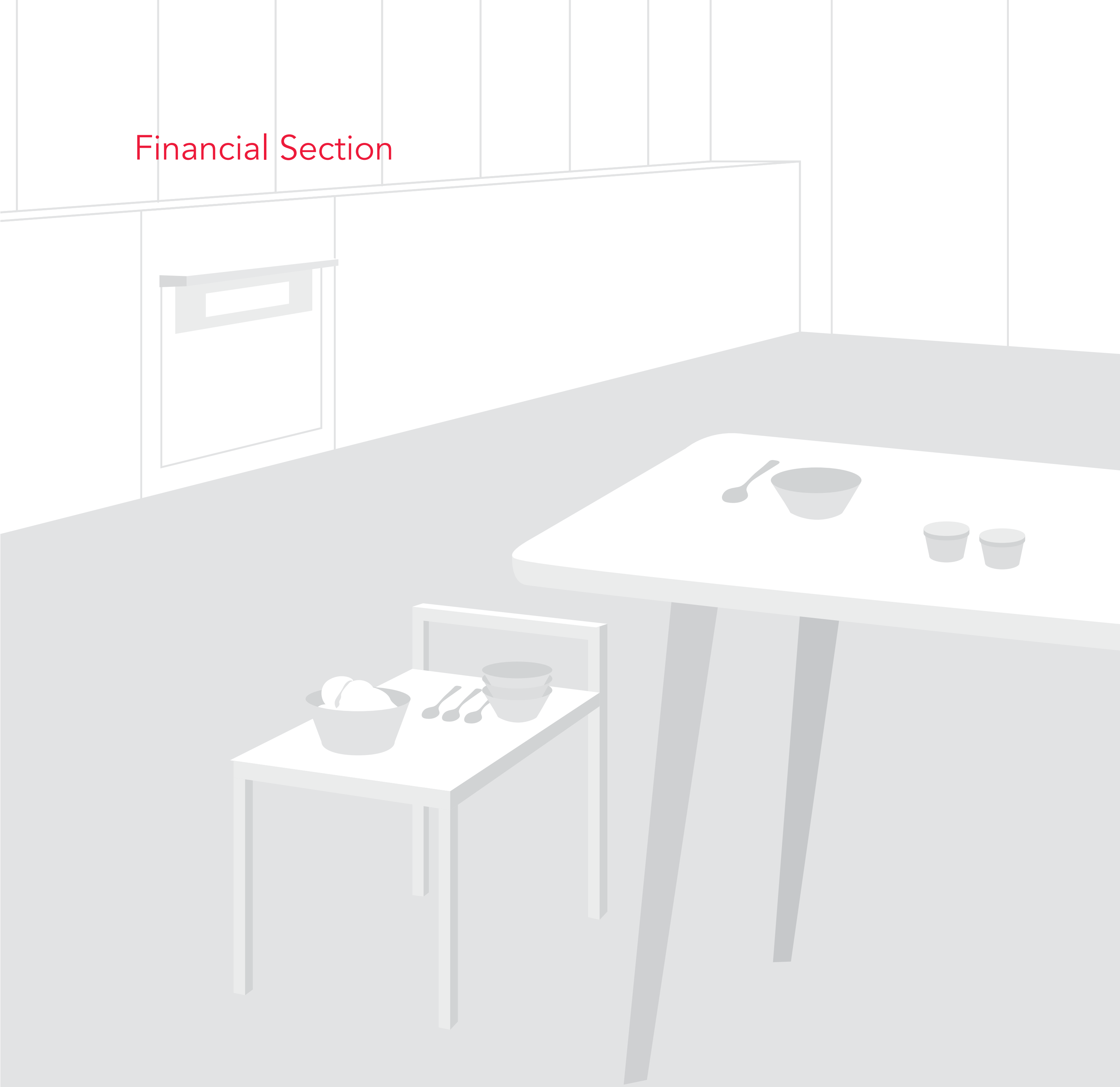
Consolidated Operating Income by Segment



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



Financial Section



Review and Analysis of Fiscal 2005 Results

Macroeconomic and Market Environment

In fiscal 2005 the Japanese economy recovered moderately. However, despite improvements in employment, feelings of uncertainty regarding the future continued due to revisions to the taxation system and increased social insurance premiums, and recovery in personal income was limited.

With the arrival of an age of fewer births, an aging society and declining population the trend for the food market to mature strengthens year by year, and while the entire dairy products industry was engaged in the effort to reduce excess inventories of nonfat dry milk, consumption of drinking milk continued to decline and inventory levels continued to remain high as before. In addition, competition with other companies has gone beyond the confines of the dairy products industry so that now competition between food companies has intensified.

Revenue and Earnings

Consolidated net sales declined 1.9% from the previous period to ¥710,908 million. This was mainly due to lower sales than the last period in the processed milk products and ice cream segments, and to changes in accounting treatment of butter, cheese and margarine. Meanwhile, cost of sales declined by 1.4% year on year due to the effects of improvements in the product mix, despite soaring raw material costs. Furthermore, the accounting changes mean that amounts effectively discounted from the prices of our company's butter, cheese and margarine are no longer included in selling, general and administrative (SG&A) expenses but now reported as a direct deduction from net sales.

Operating income rose by 3% from the previous fiscal year to ¥19,989 million. This was due to a reduction in SG&A expenses of 4.1% from the previous period, due to such factors as a reduction in retirement benefit costs with the return of the substitutional portion of the employees' welfare pension plan, despite lower sales and soaring raw material costs.

Other income declined 2.6% from the previous year as increases in dividend income and income from sales of inventories were outweighed by a decline in miscellaneous income. Meanwhile, other expenses fell by 18.9% from the previous fiscal year. This was due to a reduction in interest expense of 27.6% that accompanied the reduction of interest bearing debt, and furthermore the losses on redemption of bonds that were reported in the previous fiscal year did not occur this year.

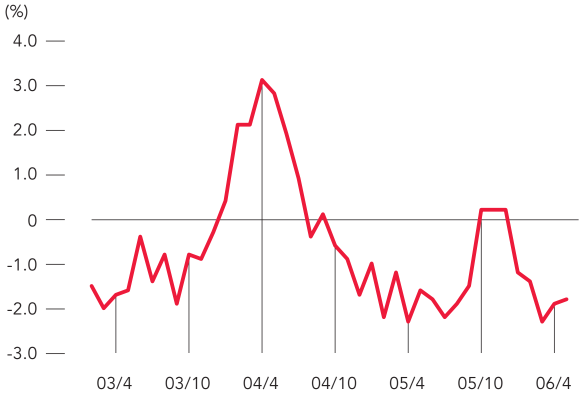
Consequently, ordinary income increased 5.8% year on year to ¥20,179 million.

Total extraordinary income jumped 353.5% from the previous fiscal year to ¥5,598 million, with ¥1,971 million posted to income from sales of fixed assets and ¥2,854 million posted to income from the return of the substitutional portion of the employees' welfare pension plan.

Based on the above factors, net income for the year rose 3.4% year on year to ¥10,055 million.

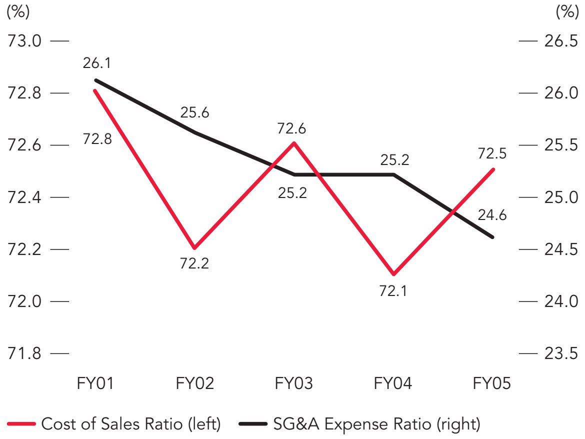
Furthermore, net income per share grew from ¥32.7 of the previous year to ¥33.8. However, as

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



Souce: Ministry of Internal Affairs and Communications

Cost of Sales Ratio and SG&A Expense Ratio



shareholders' equity increased along with the increased income, return on equity fell down from 10.1% to 9.5%.

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.

Sales in the food segment fell 2.6% from the previous fiscal year to ¥605,813 million. This was due to lower sales in the processed milk products and ice cream segments than in the previous year, and to the previously mentioned accounting changes.

Operating income also fell by 1.0% year on year to ¥16,469 million due to the severe effect of lower sales and soaring raw material costs.

Service and Others This segment includes the distribution business comprising transportation and storage, the feed business, and other businesses such as finance and leasing.

Sales in this segment increased 0.6% from the previous fiscal year to ¥149,243 million. This was due to higher sales in the distribution business than that of the previous year.

Operating income climbed 20.3% from the previous fiscal year to ¥3,517 million due to such factors as higher profits because of improved management efficiency in the feed business.

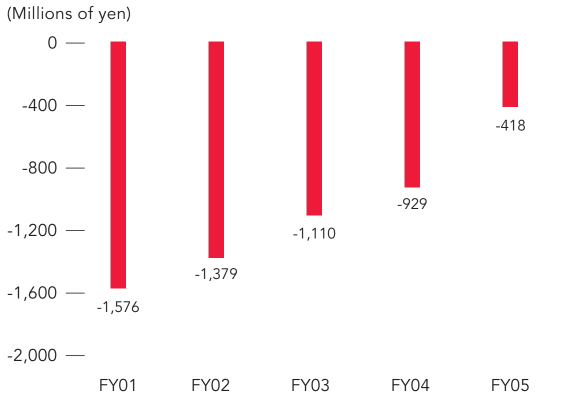
Performances of Major Subsidiaries Our sales subsidiaries experienced lower sales and profits due to a rebound from the extremely hot summer of the previous fiscal year. The distribution subsidiaries showed higher sales and profits due to the acquisition of new customers and improved management efficiency. In the feed business Meiji Feed Co., Ltd. achieved much higher profits by strengthening product development including feed development utilizing lactobacillus technology and by improving management efficiency. On the other hand the livestock business subsidiaries experienced worsening results due to factors such as soaring raw material costs.

Financial Position

As of March 31, 2006, consolidated total assets were ¥361,134 million, up ¥3,541 million from a year earlier. Current assets declined by ¥5,901 million year on year to ¥136,458 million due mainly to a decrease in inventories from the reduction in nonfat dry milk inventories. Fixed assets increased by ¥9,442 million year on year to ¥224,675 million due to such factors as increases in the value of investment securities and increased prepaid pension benefit expenses. (Current assets comprise 37.8% of total assets and fixed assets are 62.2% of total assets.)

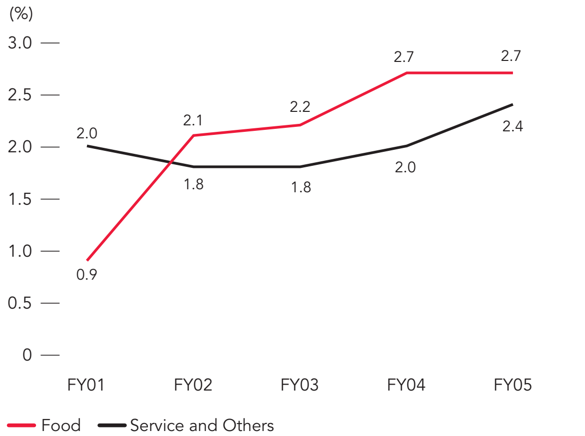
Total liabilities declined ¥9,104 million from the previous year to ¥246,164 million. Current liabilities increased ¥3,373 million year on year to ¥167,346 million, due to such factors as posting ¥600 million in bonds to debt to be paid within one year, and an increase in commercial paper of ¥4,000 million over the year before. Long-term liabilities fell by ¥12,478

Net Financial Expense



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

Operating Income Ratio, by Segment



* Figures are before exclusion of intersegment transactions.

million from a year earlier to ¥78,817 million, due mainly to a reduction in long-term debt of ¥15,612 million and a ¥2,584 million decline in the retirement benefit allowance as a result of returning the substitutional portion of the employees' welfare pension plan, despite an increase of ¥6,382 million in deferred tax liabilities.

Minority interests declined ¥22 million year on year to ¥2,273 million

Total shareholders' equity increased ¥12,668 million from a year earlier to ¥112,695 million due mainly to higher retained earnings that accompanied the increase in net income.

At the fiscal year-end, the equity ratio climbed 3.2 points to 31.2%, and shareholders' equity per share increased ¥42.99 to ¥380.85.

Cash Flows

Net cash provided by operating activities was ¥31,256 million. Cash outlays decreased by ¥3,262 million from the previous fiscal year as the retirement benefits allowance was reduced, despite increased net income and reduced inventories.

Net cash used in investing activities totaled ¥17,919 million, down ¥818 million from the previous year due to such factors as decreased income from sales of tangible and intangible fixed assets.

As a result, free cash flow declined ¥2,443 million year-on-year, to ¥13,337 million.

Net cash used in financing activities was ¥13,490 million, down ¥2,646 million from the previous fiscal year, due to such factors as declines in repayment figure of debt.

Consequently, cash and cash equivalents totaled ¥3,621 million at the fiscal year-end, down ¥153 million from a year earlier

* Free cash flow = cash flow from operating income + cash flow from investing income

Capital Investments

Capital investments in fiscal 2005 totaled ¥19,158 million, down 10.5% from the previous fiscal year. In the food segment the Group made capital investments of ¥15,541 million, primarily for construction of the Kansai Plant. The capital investment in the service and others segment was ¥3,617 million to promote a low cost operating structure, especially in the distribution business of consolidated subsidiaries.

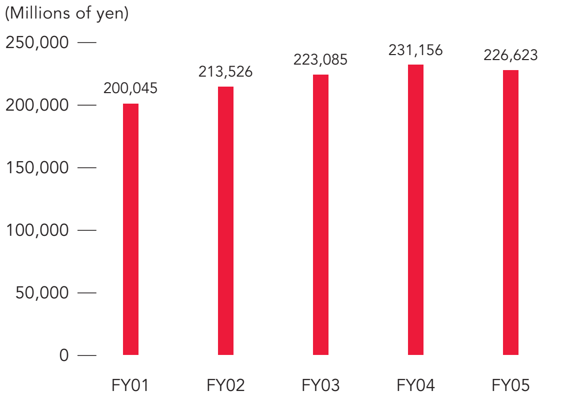
Research and Development

Total research and development expenses in fiscal 2005 amounted to ¥7,398 million. Of this total, ¥4,701 million was allocated to the food segment for new products development based on comprehensive basic technological research for taste, nutrition, function, product quality, safety, and production technologies. Meanwhile, ¥2,697 million was spent on research and development in the service and others segment, primarily in the pharmaceuticals field.

Business and Other Risks

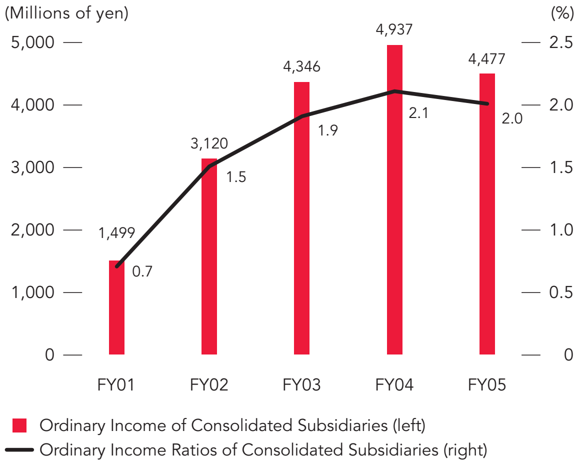
Among the major risks which might have an effect on our Group's business results and financial position, here we will discuss the major factors which may have

Net Sales of Consolidated Subsidiaries



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

Ordinary Income and Ordinary Income Ratios of Consolidated Subsidiaries



a significant impact on investors' decisions. The risks described here which relate to the future are those that our Group has determined to be important at the time of the presentation of this securities report.

(1) The Weather It is possible that our Corporation's ice cream, city milk and beverages segments may be affected by the weather. In particular, in a cold summer sales in these segments will decline, and our Group's business results and financial position may be negatively impacted.

(2) The Dairy Products and Farming Industries Excessive product inventories of nonfat dry milk due to lower demand for drinking milk and processed milk, WTO negotiations to liberalize imports of milk products, and changes in the market environment due to the effects of an aging society with fewer birthrates all may have an effect on our business results. Transaction prices for raw milk, a source material of the processed milk products we produce such as cheese and nonfat dry milk, are under the influence of the Provisional Law on the Subsidies for Worked Milk Material Producers. Dramatic revision or abolishment of this law may have an impact on our procurement costs for raw materials.

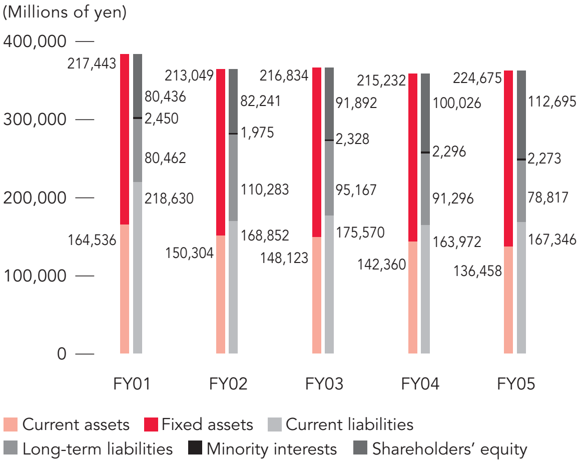
(3) Prices of Overseas Raw Materials and Packaging Materials Increases in prices of overseas raw materials for cheese due to high demand and the depreciation of the yen, price increases in overseas sugar, coffee or juices due to poor weather, and increases in the prices of packaging materials due to such factors as higher crude oil prices may have an effect on our business results.

(4) Food Safety Food safety and product quality management are strongly required in the food industry. Our Group has established the Food Safety Committee to take all possible measures to ensure the safety of the products our Corporation develops and to create preventive measures against any foreseeable risks that may occur 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 raise funds in the event of emergencies due to acts of food terrorism or product incidents.

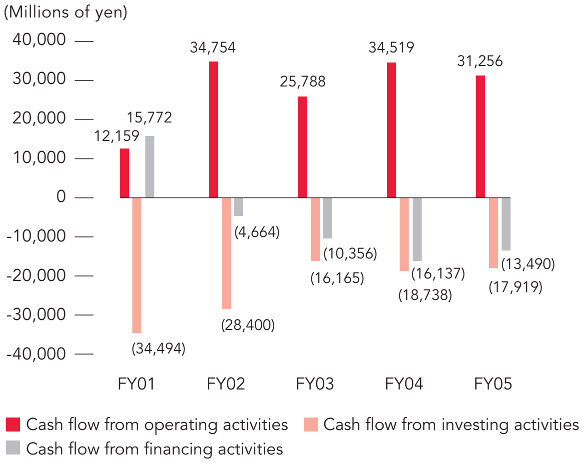
If there are society-wide product quality problems that exceed the scope of the efforts described above they may have an impact on our business results.

(5) Information Security In recent years there have occurred information security problems in Japan where there have been leaks of private individual information or unauthorized system access to information systems. Our Group recognizes this to be an important problem in terms of our social responsibility as a corporation, and from the perspective of the defense of our Corporation, we have established the Information Security Committee, and have initiated a company-wide information security policy. However, if unforeseeable incidents occur in the future, they may have an impact on our business results.

Breakdown of Total Assets, Total Liabilities and Shareholders' Equity



Cash Flow



Consolidated Balance Sheets

Meiji Dairies Corporation and Consolidated Subsidiaries
As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
Assets	**2006**	2005	**2006**
Current assets:			
Cash	**¥ 3,638**	¥ 3,793	**$ 30,978**
Notes and accounts receivable:			
Trade	**81,210**	82,367	**691,391**
Unconsolidated subsidiaries and affiliates	**1,552**	1,548	**13,214**
Others	**3,760**	3,752	**32,014**
Allowance for doubtful accounts	**(666)**	(835)	**(5,677)**
Inventories (Note 3)	**36,967**	39,628	**314,726**
Deferred tax assets (Note 7)	**6,886**	6,267	**58,624**
Other current assets	**3,110**	5,838	**26,474**
Total current assets	**136,458**	142,360	**1,161,748**
Property, plant and equipment (Notes 4,6)	**401,092**	403,967	**3,414,713**
Less-accumulated depreciation	**(228,490)**	(227,017)	**(1,945,258)**
Net property, plant and equipment	**172,602**	176,949	**1,469,454**
Investments and other noncurrent assets:			
Investments in securities:			
Unconsolidated subsidiaries and affiliates	**5,664**	5,177	**48,223**
Others (Note 6)	**29,153**	21,055	**248,200**
Long-term loans	**1,429**	1,264	**12,166**
Intangible assets	**3,573**	2,799	**30,422**
Deferred tax assets (Note 7)	**369**	577	**3,149**
Others	**12,853**	8,682	**109,425**
Allowance for doubtful accounts	**(970)**	(1,273)	**(8,265)**
Total investments and other noncurrent assets	**52,072**	38,282	**443,324**
Total assets	**¥ 361,134**	¥ 357,592	**$ 3,074,527**

See accompanying notes to consolidated financial statements.

Liabilities And Shareholders' Equity	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Current liabilities:			
Short-term loans payable (including current portion of long-term debt)(Notes 5,6)	**¥ 52,785**	¥ 48,190	**$ 449,389**
Notes and accounts payable:			
Trade	**61,063**	62,484	**519,865**
Unconsolidated subsidiaries and affiliates	**2,683**	2,211	**22,848**
Income taxes payable	**3,273**	4,014	**27,869**
Accrued liabilities	**29,769**	29,251	**253,440**
Other current liabilities	**17,771**	17,819	**151,298**
Total current liabilities	**167,346**	163,972	**1,424,711**
Long-term liabilities:			
Long-term debt, less current portion (Notes 5,6)	**63,690**	79,903	**542,228**
Deferred tax liabilities (Note 7)	**9,253**	2,871	**78,780**
Employees' retirement benefits (Note 9)	**4,602**	7,186	**39,182**
Other long-term liabilities	**1,271**	1,334	**10,825**
Total long-term liabilities	**78,817**	91,296	**671,016**
Minority interests	**2,273**	2,296	**19,359**
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock			
Authorized—560,000,000 shares			
Issued 2006 and 2005—296,648,786 shares	**23,090**	23,090	**196,578**
Additional paid-in capital	**21,434**	21,432	**182,487**
Retained earnings	**58,505**	50,260	**498,087**
Net unrealized gains on investments in securities	**10,059**	5,546	**85,641**
Treasury stock, at cost— 2006-834,195 shares, 2005-691,653 shares	**(394)**	(303)	**(3,355)**
Total shareholders' equity	**112,695**	100,026	**959,440**
Total liabilities,minority interests and shareholders' equity	**¥ 361,134**	¥ 357,592	**$ 3,074,527**

Consolidated Statements of Income

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net sales	¥ 710,908	¥ 725,024	$ 6,052,342
Cost of sales (Note 12)	515,712	522,970	4,390,540
Gross profit	195,195	202,053	1,661,801
Selling, general and administrative expenses			
(Notes 10,12)	175,205	182,637	1,491,617
Operating income	19,989	19,415	170,184
Other income (expenses):			
Interest and dividend income	639	532	5,448
Amortization of goodwill arising from consolidation	179	176	1,530
Equity in income of affiliates	30	122	259
Interest expenses	(1,057)	(1,461)	(9,001)
Other, net	(649)	(1,601)	(5,530)
Income before income taxes	19,133	17,184	162,890
Income taxes			
Current	6,081	7,480	51,779
Deferred	2,901	(29)	24,698
Minority interests	95	10	809
Net income	¥ 10,055	¥ 9,722	$ 85,603

	Yen		U.S. dollars
	2006	2005	2006
Amounts per share of common stock:			
Net income	¥ 33.86	¥ 32.73	$ 0.288
Cash dividends	7.00	6.00	0.059

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Numbers of shares of common stock (thousands)	Millions of yen				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investments in securities	Treasury stock
Balance at March 31, 2004	296,648	¥ 23,090	¥ 21,421	¥ 42,604	¥ 4,978	¥ (202)
Net income	—	—	—	9,722	—	—
Net unrealized gains on investments in securities	—	—	—	—	568	—
Excess arising from retirement of treasury stock	—	—	11	—	—	—
Increase in retained earnings resulting from a change in equity stake due to the change of shares of a consolidated subsidiary	—	—	—	2	—	—
Cash dividends (¥6.0 per share)	—	—	—	(1,776)	—	—
Directors' and statutory auditors' bonuses	—	—	—	(35)	—	—
Decrease in retained earnings for liquidation of consolidated subsidiary	—	—	—	(44)	—	—
Decrease in retained earnings for elimination of affiliate	—	—	—	(213)	—	—
Treasury stock	—	—	—	—	—	(101)
Balance at March 31, 2005	296,648	23,090	21,432	50,260	5,546	(303)
Net income	**—**	**—**	**—**	**10,055**	**—**	**—**
Net unrealized gains on investments in securities	**—**	**—**	**—**	**—**	**4,512**	**—**
Excess arising from retirement of treasury stock	**—**	**—**	**2**	**—**	**—**	**—**
Cash dividends (¥6.0 per share)	**—**	**—**	**—**	**(1,775)**	**—**	**—**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(35)**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(90)**
Balance at March 31, 2006	**296,648**	**¥23,090**	**¥21,434**	**¥58,505**	**¥ 10,059**	**¥(394)**

	Numbers of shares of common stock (thousands)	Thousands of U.S. dollars				
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on investments in securities	Treasury stock
Balance at March 31, 2005	296,648	$ 196,578	$ 182,467	$ 427,898	$ 47,222	$ (2,584)
Net income	**—**	**—**	**—**	**85,603**	**—**	**—**
Net unrealized gains on investments in securities	**—**	**—**	**—**	**—**	**38,418**	**—**
Excess arising from retirement of treasury stock	**—**	**—**	**19**	**—**	**—**	**—**
Cash dividends ($0.051 per share)	**—**	**—**	**—**	**(15,115)**	**—**	**—**
Directors' and statutory auditors' bonuses	**—**	**—**	**—**	**(297)**	**—**	**—**
Treasury stock	**—**	**—**	**—**	**—**	**—**	**(770)**
Balance at March 31, 2006	**296,648**	**$ 196,578**	**$ 182,487**	**$ 498,087**	**$ 85,641**	**$ (3,355)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Meiji Dairies Corporation and Consolidated Subsidiaries
Years ended March 31,2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income tax and minority interests	**¥ 19,133**	¥ 17,184	**$162,890**
Depreciation	**20,481**	20,538	**174,374**
Amortization of goodwill arising from consolidation	**(179)**	(176)	**(1,530)**
Increase (decrease) in provision for retirement benefits	**(7,221)**	(1,066)	**(61,479)**
Interest and dividend income	**(639)**	(532)	**(5,448)**
Interest expenses	**1,057**	1,461	**9,001**
(Gain) loss on sale and disposal of property	**1,675**	1,045	**14,267**
(Gain) loss on sale and revaluation of securities	**(129)**	370	**(1,100)**
(Increase) decrease in notes and accounts receivable	**1,044**	732	**8,895**
(Increase) decrease in inventories	**2,660**	4,399	**22,652**
Increase (decrease) in notes and accounts payable	**(948)**	(647)	**(8,073)**
Increase (decrease) in accrued expense	**517**	641	**4,402**
Others	**1,065**	(80)	**9,071**
Cash received for interest and dividend	**643**	541	**5,476**
Cash paid for interest	**(1,080)**	(1,466)	**(9,202)**
Cash paid for income tax	**(6,823)**	(8,427)	**(58,090)**
Net cash provided by operating activities	**31,256**	34,519	**266,105**
Cash flows from investing activities:			
Purchases of property,net of proceeds	**(17,513)**	(18,346)	**(149,098)**
Proceeds from sale (payments for purchases) of investment securities	**(2,345)**	110	**(19,970)**
Others	**1,939**	(502)	**16,510**
Net cash used in investing activities	**(17,919)**	(18,738)	**(152,557)**
Cash flows from financing activities:			
Proceeds from long-term debt	**3,680**	10,100	**31,329**
Repayment of long-term debt	**(17,807)**	(20,237)	**(151,601)**
Proceeds from issuance of bonds	**—**	15,000	**—**
Payment for redemption of bonds	**—**	(15,000)	**—**
Cash dividends paid	**(1,775)**	(1,776)	**(15,115)**
Net increase (decrease) in short-terms loans payable	**2,508**	(4,120)	**21,359**
Others	**(96)**	(102)	**(824)**
Net cash provided by (used in) financing activities	**(13,490)**	(16,137)	**(114,852)**
Net increase (decrease) in cash and cash equivalents	**(153)**	(356)	**(1,304)**
Cash and cash equivalents at beginning of year	**3,774**	4,130	**32,133**
Cash and cash equivalents at end of year	**¥ 3,621**	¥ 3,774	**$ 30,829**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Meiji Dairies Corporation (the "Company") and subsidiary companies have been prepared from the consolidated financial statements in Japanese filed with the Kanto Finance Bureau as required by the Securities and Exchange Law of Japan, which are in conformity with accounting principles and practices generally accepted in Japan. These are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the accompanying consolidated financial statements, certain reclassifications have been made to present them in a form which is familiar to readers outside Japan. The accounts and the financial statements of the Company and its subsidiaries are maintained in Japanese yen. For the convenience of the reader, the accompanying consolidated financial statements are also presented in U.S. dollars by arithmetically translating all Japanese yen amounts at the exchange rate of ¥117.46 to $1 prevailing on March 31, 2006. Amounts less than one million yen have been omitted. So, the total amounts in Japanese yen and translated U.S. dollars shown in the financial statements and notes do not necessarily agree with the sum of the individuals 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-five in 2005) significant subsidiaries. All significant intercompany transactions and accounts have been eliminated. Accounts of subsidiaries whose business year-ends differ by three months from March 31 have been included using financial information with appropriate adjustment. Investments in two (two in 2005)affiliates are accounted for on the equity method. The difference between the cost and underlying net equity at acquisition of investments in consolidated subsidiaries and affiliates accounted for by the equity method is amortized over 5 years on a straight-line basis.

b) Translation of Foreign Currency Accounts All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date.

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

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

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

Building and structure	*2-60 years*
Machinery, equipment and vehicles	*2-30 years*
Tools and furniture	*2-22 years*

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

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

h) Retirement Benefit The reserve for retirement benefits represents the estimated present value of projected benefit in excess of the fair values of the plan assets except that as permitted under the standard. On April 1, 2005, the Company received approval for transfer of the remaining substitutional portion (that is, the benefit obligation related to past services) from the minister of Health, Labor and Welfare, based on the Law Concerning Defined-Benefit Corporate Pension Plans. The remaining benefit obligation of the substitutional portion (that amount earned for past services) as well as the related government-specified portion of the plan assets of the Employees' Pension Fund plan was transferred to the government on June 28, 2005. With respect to these transactions, "Subsidy from government on the transfer of the substitutional portion of the Employees' Pension Fund" of ¥2,854million was recognized in the year ended March 31, 2006.
The unrecognized transition amount arising from adopting the standard of ¥17,320 million is amortized on a straight-line basis over the period of 15 years.
The unrecognized actuarial loss is amortized on a straight-line basis over the fixed years (principally 14 years) that are within the estimated average remaining service years of employees.
The unrecognized prior service cost is amortized on a straight-line basis over the fixed years (principally 7 years) that are within the estimated average remaining service years of employees.

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

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

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

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

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

n) Net Income Per Share Net income per share is computed on the average number of shares of common stock outstanding during each year.

o) Accounting Standard for Impairment of Fixed Assets The Company has adopted the "Accounting Standard for Impairment of Fixed Assets" ("Statement concerning establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 9, 2002) and "Application Guidance for Accounting Standard for Impairment of Fixed Assets" (Application Guidance for Accounting Standard No. 6, October 31, 2003) from this consolidated interim period. Due to this adoption, income before income taxes decreased by ¥340 million.

p) Accounting of Sales Promotion Expenses

From the fiscal year ended March 31,2006,the sales promotion expenses with sales of butter and cheese etc. were reclassified from selling, general and administrative expenses to reduction from net sales. As a result, net sales, gross profit and selling, general and administrative expenses were decreased by ¥2,157 million, but this change did not have an effect on operating income and income before income taxes. Also this change make influence for segment information. Sales and operating expenses on Food's section are decreased by ¥2,157 million.

3. Inventories

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished goods and merchandise	**¥ 26,176**	¥ 29,130	**$ 222,854**
Raw materials and supplies,others	**10,791**	10,498	**91,872**
Total	**¥ 36,967**	¥ 39,628	**$ 314,726**

4. Property, Plant and Equipment

Fixed assets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Land	**¥ 43,415**	¥ 43,565	**$ 369,616**
Buildings and structures	**66,203**	66,152	**563,629**
Machinery,equipment and vehicles	**52,888**	54,505	**450,268**
Tools and furniture	**9,112**	9,463	**77,577**
Construction in progress	**982**	3,262	**8,363**
Total	**¥ 172,602**	¥ 176,949	**$ 1,469,454**

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 0.55% and 0.54% for the year ended March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Short-term loans	**¥ 36,185**	¥ 36,190	**$ 308,065**
1.1% yen bonds due March 12,2007	**600**	—	**5,108**
Commercial paper	**16,000**	12,000	**136,216**
Total	**¥ 52,785**	¥ 48,190	**$ 449,389**

2) Long-Term Debt

Long-term debt at March 31, 2006 and 2005 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
1.1% yen bonds due March 12,2007	**¥ —**	¥ 600	**$ —**
1.1% yen bonds due May 10,2007	**20,000**	20,000	**170,270**
0.8% yen bonds due June 10,2009	**15,000**	15,000	**127,703**
Loans from domestic banks,insurance companies, government agencies and others	**47,608**	61,735	**405,313**
Less portion due within one year	**(18,917)**	(17,432)	**(161,059)**
Total	**¥ 63,690**	¥ 79,903	**$ 542,228**

The aggregate annual maturities of long-term debt excluding bonds at March 31, 2006 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	**¥ 7,664**	**$ 65,247**
2008	**6,208**	**52,854**
2009	**5,379**	**45,801**
2010 and after	**9,438**	**80,351**
Total	**¥ 28,690**	**$ 244,254**

6. Collateral and Secured Liability

Assets pledged as collateral for liability at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Buildings and structures	**¥ 11,658**	¥ 13,056	**$ 99,254**
Machinery,equipment and vehicles	**9,289**	11,033	**79,089**
Tools and furniture	**89**	139	**759**
Land	**14,339**	16,113	**122,077**
Investment securities	**4,009**	4,010	**34,138**
Total	**¥ 39,386**	¥ 44,353	**$ 335,320**

Liability secured by the above assets at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Short-term loans	**¥ 4,976**	¥ 2,637	**$ 42,369**
Long-term loans(current portion)	**2,153**	1,894	**18,331**
Long-term loans	**13,459**	19,186	**114,589**
Employees' saving deposit	**2,560**	2,619	**21,802**
Postage	**—**	—	**—**
Total	**¥ 23,150**	¥ 26,338	**$ 197,092**

7. Deferred Tax Assets and Liabilities

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets			
Retirement benefit	**¥ 1,013**	¥ 3,685	**$ 8,624**
Accrued bonus	**2,689**	2,769	**22,894**
Unrealized gain	**1,147**	1,158	**9,767**
Accrued expense	**987**	1,100	**8,409**
Depreciation	**1,028**	999	**8,759**
Accrued enterprise taxes	**343**	384	**2,924**
Loss carryforward	**2,160**	1,178	**18,393**
Other	**1,533**	1,818	**13,051**
Subtotal deferred tax assets	**10,903**	13,093	**92,823**
Valuation allowance	**(2,398)**	(1,544)	**(20,420)**
Total deferred tax assets	**8,504**	11,549	**72,403**
Deferred tax liabilities			
Tax deductible reserve	**(3,429)**	(3,581)	**(29,197)**
Net unrealized gains on investments in securities	**(6,846)**	(3,780)	**(58,284)**
Other	**(226)**	(213)	**(1,927)**
Total deferred tax liabilities	**(10,502)**	(7,575)	**(89,409)**
Net deferred tax assets	**¥ (1,997)**	¥ 3,973	**$ (17,005)**

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, 2006 and 2005 concerning the finance lease assets which do not transfer ownership to lessees were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Acquisition costs	**¥ 22,502**	¥ 26,020	**$ 191,578**
Accumulated depreciation	**13,644**	15,613	**116,166**
Net book value	**¥ 8,857**	¥ 10,406	**$ 75,411**

The amounts of outstanding future lease payments at March 31, 2006 and 2005, excluding interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Within one year	**¥ 3,780**	¥ 4,816	**$ 32,186**
Over one year	**5,492**	6,020	**46,759**
Total	**¥ 9,273**	¥ 10,836	**$ 78,946**

Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during the year 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Lease expenses paid	**¥ 5,500**	¥ 6,497	**$ 46,829**
Depreciation expenses	**5,090**	6,109	**43,339**
Interest expenses	**219**	279	**1,872**

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. There are no impaired losses for lease transaction in 2006.

9. Retirement Benefits

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ (78,410)**	¥ (133,743)	**$ (667,546)**
Fair value of plan assets	**63,455**	77,146	**540,233**
Unrecognized transitional obligation	**6,477**	11,441	**55,143**
Unrecognized actuarial loss	**14,244**	51,421	**121,271**
Unrecognized prior service cost	**(5,732)**	(13,219)	**(48,807)**
Net liability	**34**	(6,954)	**294**
Prepaid pension cost	**4,637**	232	**39,477**
Employees' retirement benefits	**¥ (4,602)**	¥ (7,186)	**$ (39,182)**

The components of net periodic benefit costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service cost	**¥ 1,463**	¥ 2,331	**$ 12,460**
Interest cost	**2,129**	3,735	**18,133**
Expected return on plan assets	**(1,667)**	(2,386)	**(14,199)**
Amortization of transitional obligation	**711**	1,136	**6,059**
Recognition of actuarial gain/loss	**2,665**	3,923	**22,689**
Additional retirement payments and others	**(1,005)**	(2,027)	**(8,564)**
Net periodic benefit costs	**¥ 4,296**	¥ 6,713	**$ 36,578**

Assumption used for the year ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Periodic recognition of projected benefit obligation	**Straight-line method**	Straight-line method
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**Principally 3.5%**	Principally 3.5%
Recognition period of actuarial gain/loss	**Principally 14 years**	Principally 14 years
Amortization period of transitional obligation	**15 years**	15 years
Amortization period of prior service cost	**Principally 7 years**	Principally 7 years

10. Selling, General and Administrative Expenses

Principal Selling, general and administrative expenses for the fiscal years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Carriage and storage charges	**¥28,927**	¥ 28,029	**$ 246,278**
Sales promotion expenses	**49,942**	55,454	**425,187**
Labor cost	**38,199**	38,556	**325,212**
Employees retirement benefits cost	**2,763**	4,397	**23,523**

11. Contingent Liabilities

Contingent liabilities at March 31,2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Guaranteed financial obligations			
PT.INDOMEIJI Dairy Food	**¥ 28**	¥ 27	**$ 240**
Hitachi Dairy Pty.,Ltd	**—**	40	**—**
Sendai Feed Co.,Ltd	**160**	—	**1,362**
Meiji Beverage Co.,Ltd	**115**	196	**982**
Letter of awareness	**84**	82	**715**
Debt assumption agreement	**—**	10,000	**—**
Notes receivable endorsed	**30**	30	**257**
Total	**¥417**	¥ 10,377	**$ 3,557**

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, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Research and development cost	**¥7,398**	¥ 7,558	**$ 62,989**

13. Segment Information

Information about industry segments for the fiscal years ended March 31, 2006 and 2005 was as follows:

	Millions of yen Consolidated Accounting for Current Fiscal Year April 1,2005 to March 31,2006				
	Foods	Service / Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
Sales to customers	**¥ 604,012**	**¥ 106,895**	**¥ 710,908**	**¥ —**	**¥ 710,908**
Intersegment sales	**1,800**	**42,347**	**44,148**	**(44,148)**	**—**
Total	**¥ 605,813**	**¥ 149,243**	**¥ 755,056**	**¥ (44,148)**	**¥ 710,908**
Operating expenses	**589,343**	**145,725**	**735,069**	**(44,151)**	**690,918**
Operating income	**16,469**	**3,517**	**19,986**	**2**	**19,989**
Assets,depreciation, and capital expenditures:					
Assets	**271,230**	**89,730**	**360,960**	**173**	**361,134**
Depreciation	**16,050**	**4,431**	**20,481**	**—**	**20,481**
Impairment loss	**244**	**96**	**340**	**—**	**340**
Capital expenditures	**15,676**	**5,268**	**20,945**	**—**	**20,945**

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

	Thousands of U.S. dollars Consolidated Accounting for Current Fiscal Year April 1,2005 to March 31,2006				
	Foods	Service / Other	Total	Elimination or Corporate	Consolidated
Sales and Operating Profit and Loss					
Sales					
Sales to customers	**$ 5,142,280**	**$ 910,061**	**$ 6,052,342**	**$ —**	**$ 6,052,342**
Intersegment sales	**15,332**	**360,524**	**375,856**	**(375,856)**	**—**
Total	**$ 5,157,612**	**$ 1,270,585**	**$ 6,428,198**	**$ (375,856)**	**$ 6,052,342**
Operating expenses	**5,017,398**	**1,240,640**	**6,258,038**	**(375,881)**	**5,882,157**
Operating income	**140,214**	**29,945**	**170,159**	**24**	**170,184**
Assets,depreciation, and capital expenditures:					
Assets	**2,309,126**	**763,926**	**3,073,053**	**1,474**	**3,074,527**
Depreciation	**136,644**	**37,729**	**174,374**	**—**	**174,374**
Impairment loss	**2,077**	**817**	**2,894**	**—**	**2,894**
Capital expenditures	**133,466**	**44,851**	**178,317**	**—**	**178,317**

Report of Independent Auditors

THE FUJI
ACCOUNTING OFFICE

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

Report of Independent Auditors

To the Board of Directors and Shareholders
Meiji Dairies Corporation

We have audited the accompanying consolidated balance sheets of Meiji Dairies Corporation and its subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Meiji Dairies Corporation and its subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in Japan.

As described on note 2 o, the Company and its subsidiaries adopted new accounting standard for impairment of fixed assets and as described on note 2 p, the Company changed method of accounting for sales promotion expenses, from April 1, 2005 respectively.

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

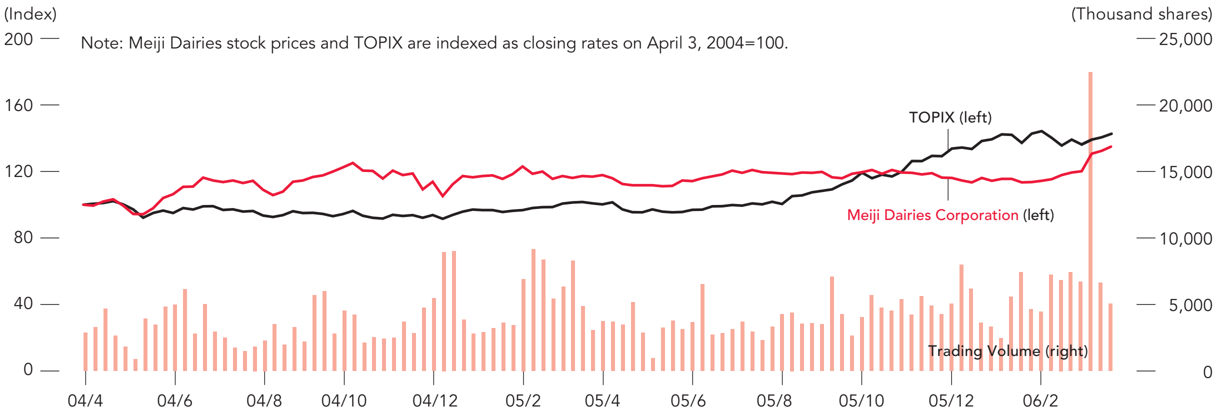
The Fuji Accounting Office

The Fuji Accounting Office

Tokyo, Japan
June 29, 2006

Stock Information

Share Performance and Trading Volume

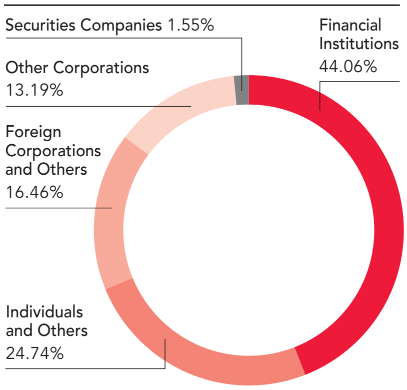


Major Shareholders (As of March 31, 2006)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares in Issue (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,145	6.45
Mizuho bank, Ltd.	14,581	4.92
Resona bank, Ltd.	11,000	3.71
Meiji Seika Kaisha, Ltd.	10,882	3.67
Japan Trustee Sercvices Bank, Ltd. (Trust Account)	10,681	3.60
Nippon Life Insurance Company	10,013	3.38
The Norinchukin bank	8,085	2.73
The Sumitomo Trust&Banking Co.,Ltd.	6,985	2.35
Meijinyugyou Kyoueikai	5,458	1.84
Employees Stock Ownership Plan	5,334	1.80
Total	102,168	34.44

Breakdown of Shareholders

(As of March 31, 2006)



Group Companies

(As of March 31,2006)

Manufacturing and Sales of Milk, Dairy Products, Ice Cream and Other Foods

	Shareholding (%)	Capital (Millions of yen)
Meiji oils and Fats Co., Ltd.	100.00	38
Nihon Kanzume, Co., Ltd.	67.89	314
Osaka Hosho Milk Products Co., Ltd.	100.00	473
Shikoku Meiji Dairy Products Co., Ltd.	100.00	480
Tokai Meiji Co., Ltd.	99.17	74
Okinawa Meiji Milk Products Co., Ltd.*	50.00	91
Pampy Foods Incorporation*	30.30	99

*Equity-method affiliate

Sales of Milk, Dairy Products, Ice Cream, etc.

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

Livestock Business

	Shareholding (%)	Capital (Millions of yen)
Asahi Broiler Co., Ltd.	70.00	150
Meiji Agris Co., Ltd.	100.00	250
Meiji Kenko Ham Co., Ltd.	88.07	100

Feed Business

Meiji Feed Co., Ltd.	100.00	480

Distribution Service

Tokyo Milk transportation Co., Ltd.	94.67	98
Kantora Logistics Co., Ltd.	94.67	396
K.C.S. Co., Ltd.	100.00	480

Others

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

Corporate Data

(As of March 31,2006)

Head Office:	1-2-10, Shinsuna, Koto-ku, Tokyo 136-8908, Japan
IR Contact:	Phone: 81 (3) 5653-0300 Fax: 81 (3) 5653-0400
Incorporated:	December 21, 1917
Paid-in Capital:	¥23,090 million
Common Stock:	Authorized: 560,000,000 Issued: 296,648,786
Number of Shareholders:	34,246
Stock Listings:	Tokyo, Nagoya
General Meeting of Shareholders:	June 29, 2006
Transfer Agent of Common Stock:	The Mitsubishi Trust and Banking Corporation
URL:	http://www.meinyu.co.jp/
Number of Employees: (Non-consolidated)	4,352