

# **Fiscal 2004 1<sup>st</sup> Half Earnings Presentation**

**November 25, 2004**

**MORINAGA MILK INDUSTRY CO., LTD.**



- 
1. Sales trends by product category
  2. Current business topics
  3. Outlook for the Fiscal Year 2004



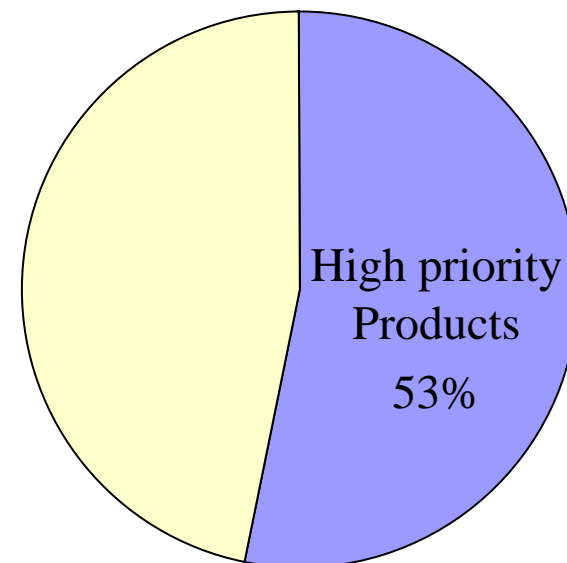
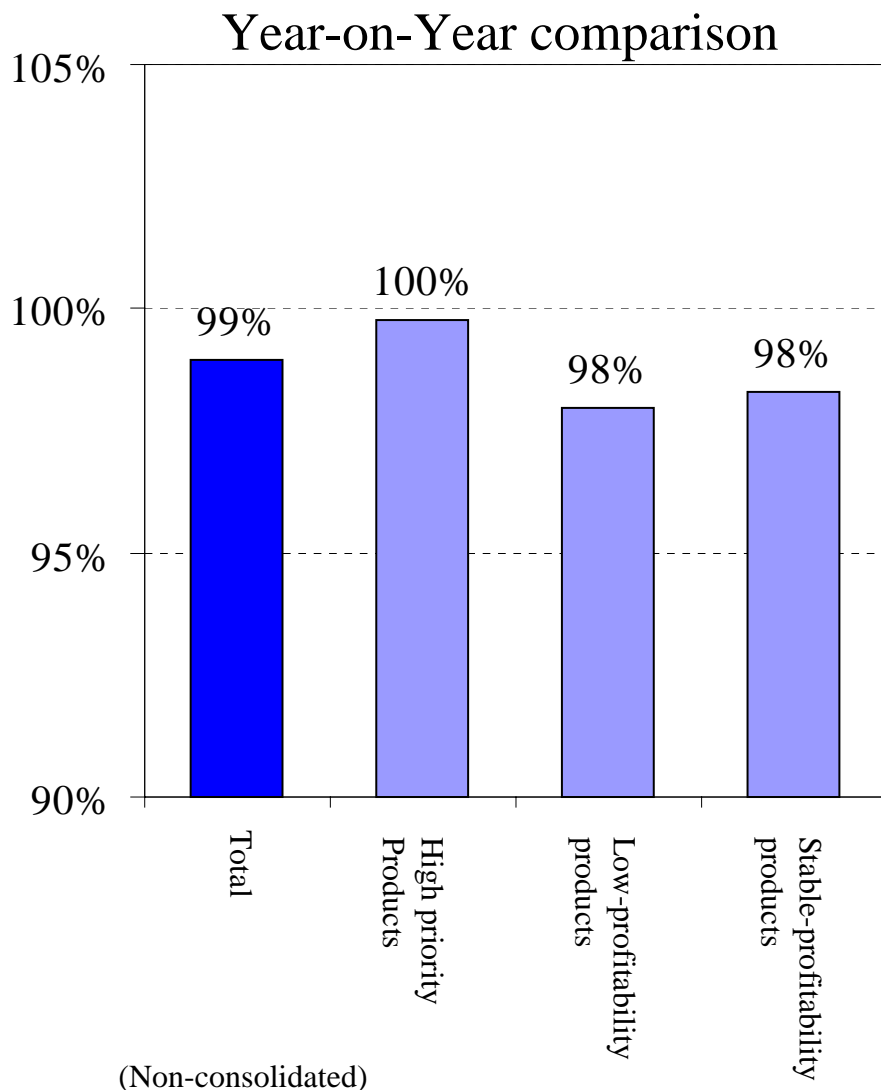
---

# 1. Sales trends by product category

## (Fiscal 2004 1<sup>st</sup> Half)

- \* To facilitate year-on-year comparison, the figures in this document are presented in accordance with the former accounting method.
- \* In FY2004, accounting method was changed.
- \* In FY 2004 sales discount value is directly deducted from the sales amount, while in former fiscal years the equivalent value was accounted as a part of sales expenses.
- \* The accounting changes result in a reduction of the reported sales value, but reported operating profits and ordinary profits are unaffected.

# Sales (for Fiscal 2004 1<sup>st</sup> Half)



(For Fiscal 2004 1<sup>st</sup> Half)

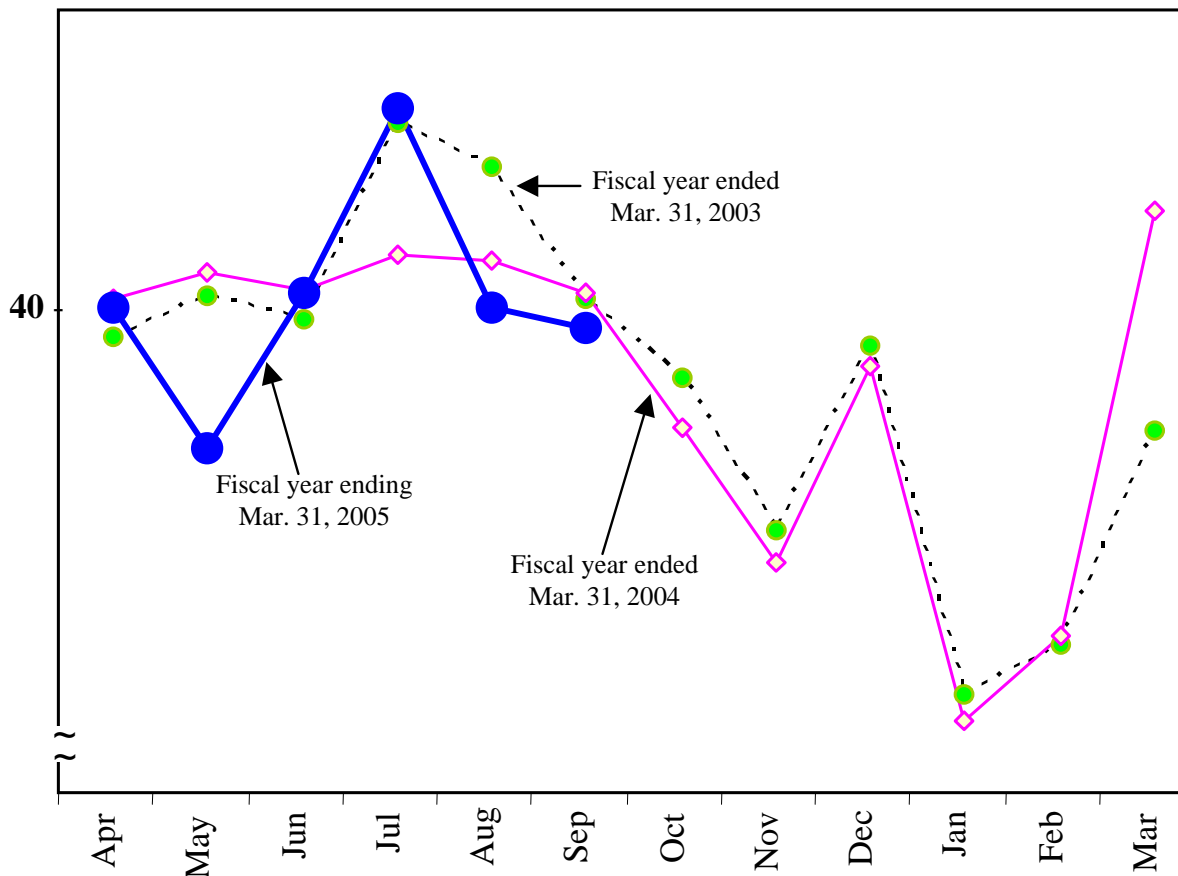
Change in the sales ratio

52% (FY 2003 1<sup>st</sup> Half) → 53% (FY 2004 1<sup>st</sup> Half)

# Non-consolidated monthly sales trend

- Sales decline due to bad weather in May was offset by sales growth due to increased demand in the heat wave in July. However, the overall sales remained on par with the previous year owing to the streamlining of product portfolios and the succession of typhoons.

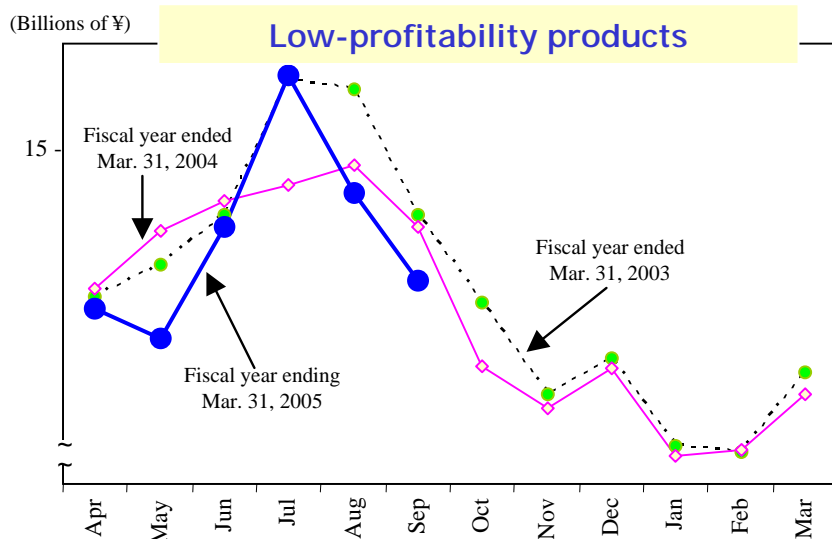
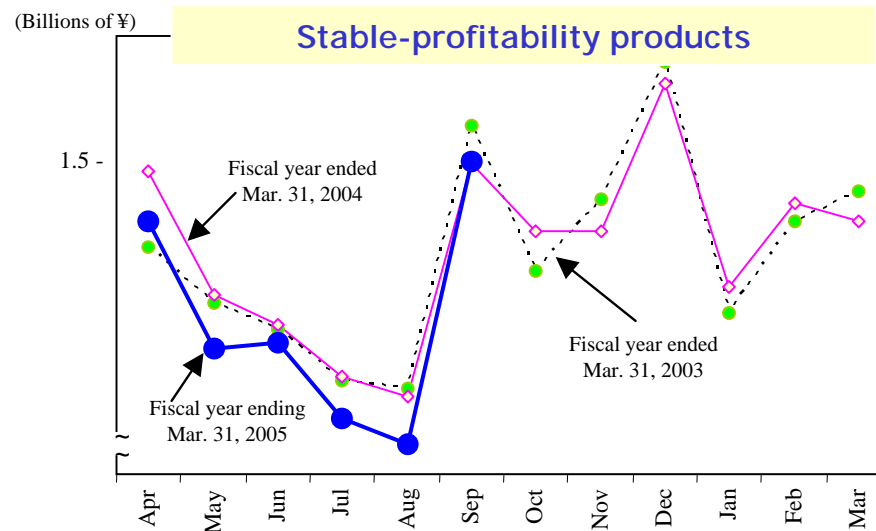
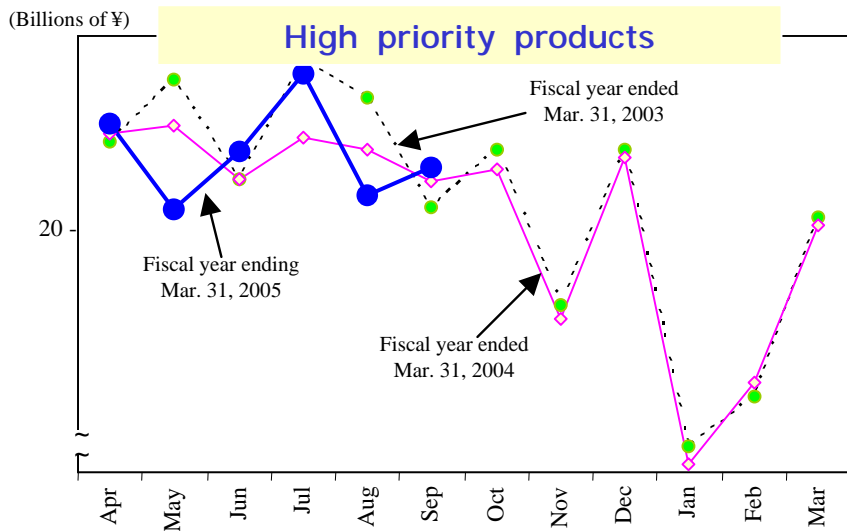
(Billions of ¥)



## Quarterly Sales

	Sales (Billions of ¥)	Change
1 <sup>st</sup> Qtr. (Apr.-Jun.)	117.5	-3%
2 <sup>nd</sup> Qtr. (July-Sept.)	123.7	1%
1 <sup>st</sup> Half (Apr.-Sept.)	241.2	-1%

# Monthly sales by product category



#### - High priority products

(Flavored milk & tea, Yogurt, Chilled dessert, Cheese, Nutrition food products, Food service & institutional food products, Industrial food materials)

=> Good growth potential and high profitability. Identified as highest priority areas.

#### - Low-profitability products

(Milk & other products, Ice cream and Juice)

=> Improve profitability, which is currently low, through enhanced marketing capabilities and streamlined operations.

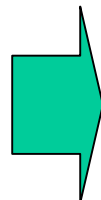
#### - Stable-profitability products

(Powdered cream, Fermented milk)

=> Mature market. Contributing to stable earnings.

# Sales of high priority products

	Sales(Billions of ¥)	Change(%)
Flavored milk & Tea	34.6	7%
Yogurt	28.9	-12%
Chilled dessert	13.5	12%
Cheese	15.5	0%
Nutrition food products	10.9	0%
Food service & institutional food products	21.2	-2%
Industrial food materials	2.1	10%
<b>Total</b>	<b>126.7</b>	<b>0%</b>

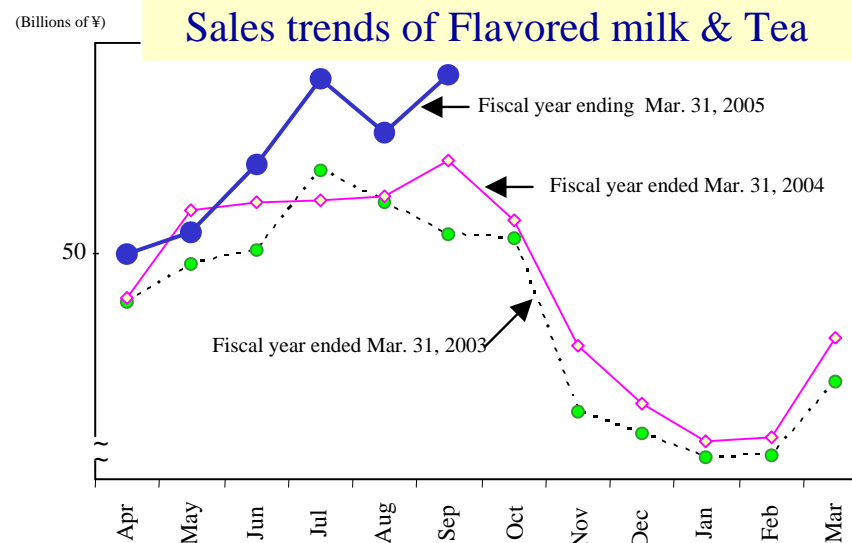


## Highlights

- Flavored milk & Tea  
*Mt. Rainier* and *Lipton* sales have remained strong.
- Yogurt  
*Aloe* has seen slowdown in sales.
- Chilled dessert  
Popular products have contributed to the sales growth.
- Cheese  
Sluggish sales in retail cheese products was offset by increased sales of cheese for food service use.
- Nutrition food products  
Powdered follow-up formulas sold well.
- Industrial food materials  
Peptides enjoyed excellent sales.

# Flavored milk & Tea

- *Mt. Rainier series* enjoyed robust sales.
  - Chilled-Milk coffee market has grown steadily. (In Fiscal 2003: up 7% from the previous year)
  - In particular, sales have grown in cup-type products, which account for 35% of the market. Morinaga, a pioneer in this market, holds a 60% market share.
  - We will continue to pursue excellence in taste and quality, while striving to gain more consumer support through reinforced product lines.
- Sales of *Lipton* also remained favorable.
  - Chilled-Tea market has shown a year-on-year growth of 8%.
  - *Lipton* has become the top-selling brand with over 70% share, as the taste and seasonal flavors gained popularity among consumers.



	Sales (billions of ¥)	Change
<i>Mt. Rainier</i>	13.4	14%
<i>Lipton</i>	9.3	18%



# Yogurt

## Year-on-Year decline in FY2004 1<sup>st</sup> Half

- Though the sales of *Bifidus* remained on par with last year, *Aloe* and *Lactoferrin* saw double-digit decline in sales.
- *Aloe* faced slowdown in sales due to increased competition with rival products. In FY2004 2<sup>nd</sup> Half, we will strive to regain the lost share through improved products and the 10<sup>th</sup> anniversary sales campaign.
- Continuous promotional activities are planned to increase recognition that products contain *Lactoferrin*.
- Continuous release of new products is under way.

Improved



mid-July

New !

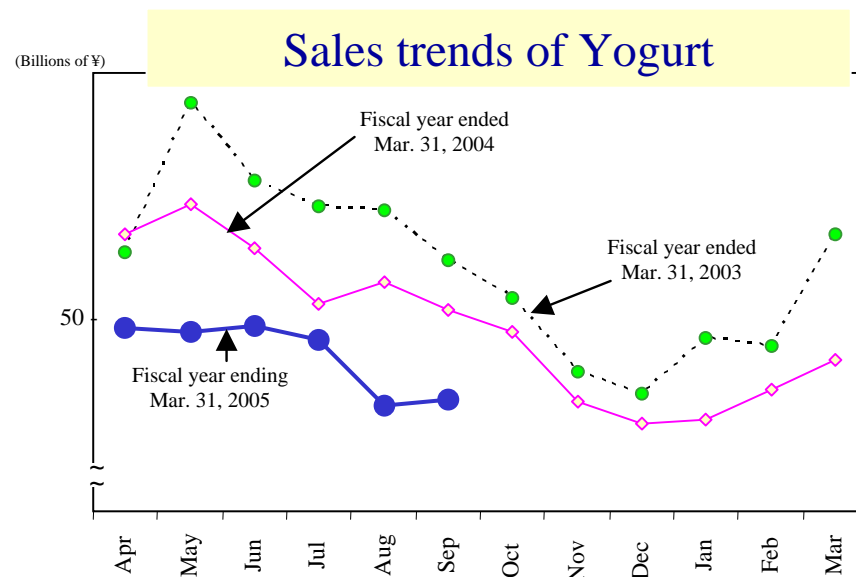


End-Sept.

Improved



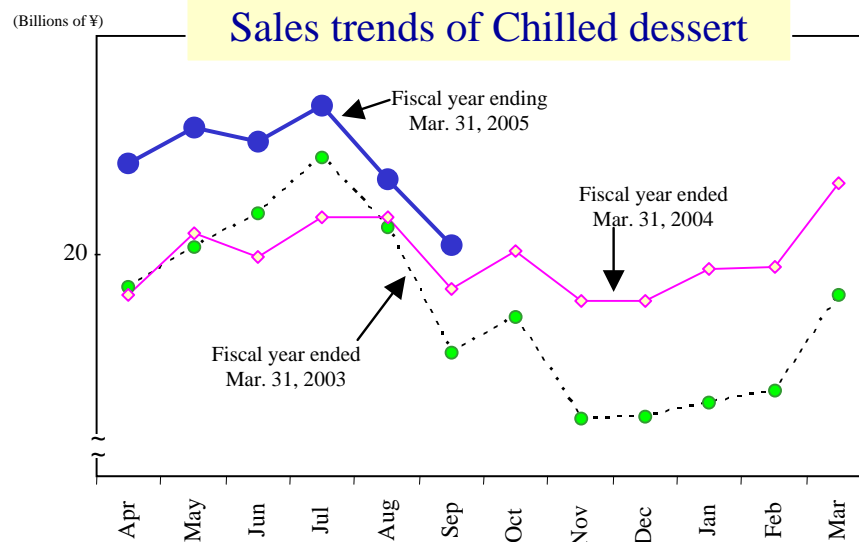
mid-Dec.



	Sales (Billions of ¥)	Change
<i>Aloe</i>	11.6	-17%
<i>Bifidus</i>	7.9	0%
<i>Lactoferrin</i>	2.3	-21%

# Chilled dessert

- Sales remain strong since previous fiscal year.
  - A series of new products were released. Pudding products in large cups and *Tetsujin/Meiten series* won popularity, greatly contributing to the double-digit sales growth.
  - Further sales growth is also anticipated in FY 2004 2<sup>nd</sup> half with planned release of new and improved products.



New and improved products introduced to boost the sales:



# Milk, Ice cream

## • Milk:

### National brand(NB) ratio steadily rising

- Continuing efforts to promote *Morinaga no Oishii Gyunyu* to retailers and consumers and raise the NB ratio.
- Sales of *Morinaga no Oishii Gyunyu* started in Tohoku area in August. (sales of ¥ 3.6 billion in FY 2004 1<sup>st</sup> Half; ¥7 billion projected for FY 2004.)
- Streamlining of product portfolio: 10% reduction in the number of product items
- Home delivery business: 1.95 million households, ¥15.5 billion.

### Sales breakdown by brand type

Types	FY 2003	FY 2004 1 <sup>st</sup> Half
NB	18%	27%
PB	66%	58%
FB	16%	15%

Note: based on value of 1,000ml packaged milk  
 NB:National Brand  
 PB:Private Brand, Store Brand  
 FB:Fighting Brand, lower priced items



## • Ice cream: Promote business efforts focusing on the good selling products

- *Pino, MOW, Crispina, Cheerio*
- Improve profitability through improved trade terms and streamlined product portfolio
  - 30% reduction in the number of product items

Sales in the low-profitability products category failed to reach the previous fiscal year level, but profitability improved due to the change in product mix.

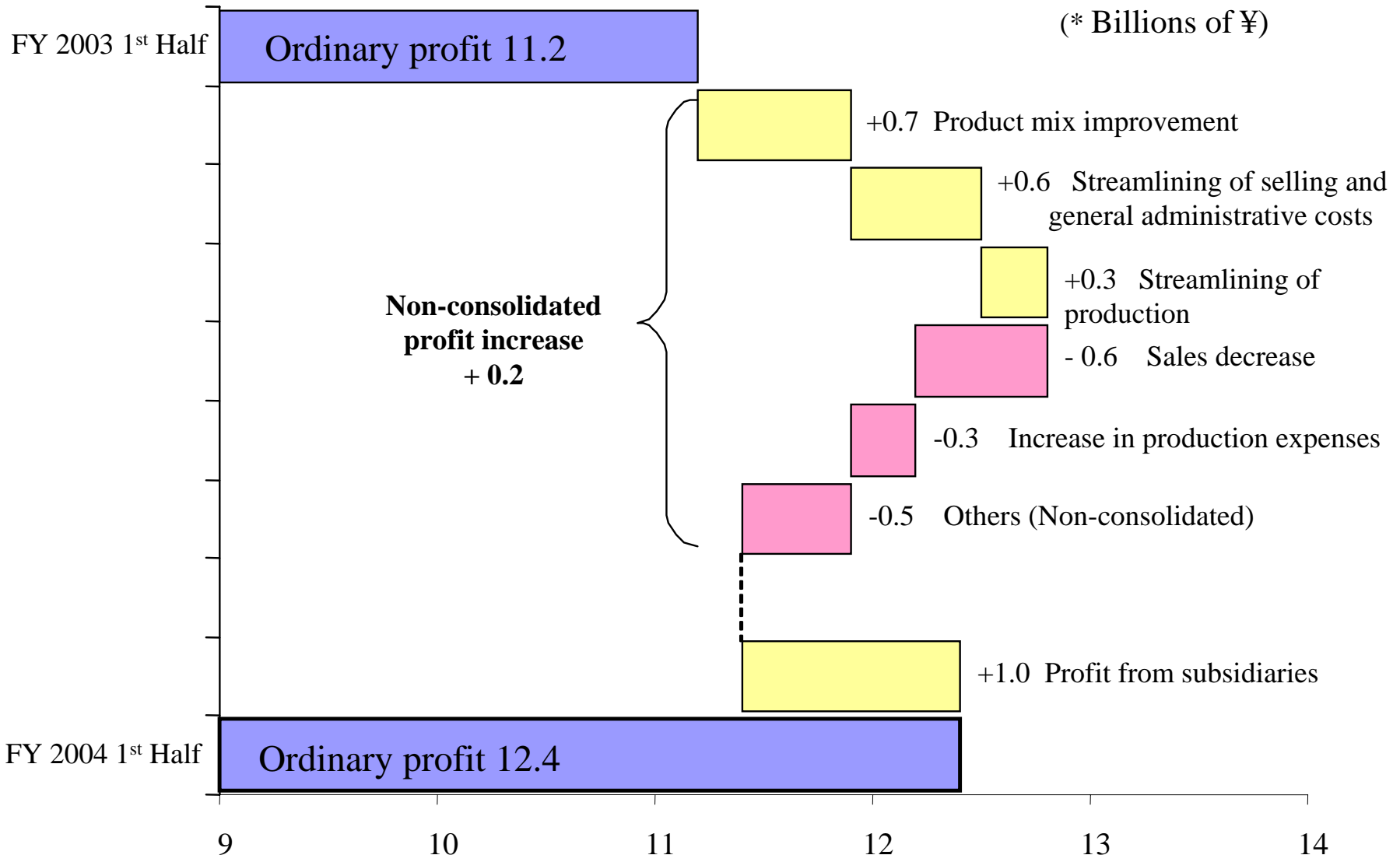
---

## 2. Current business topics



# Change in ordinary profit (FY 2004 1<sup>st</sup> Half)

(\* Billions of ¥)



# Performance of subsidiaries

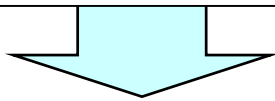
- Subsidiaries performing well
  - As with Morinaga Milk, sales at production and production & sales subsidiaries are stagnant.
  - Sales subsidiaries show increased sales due to ongoing new business development.
  - Among other subsidiaries, Clinico Co., Ltd. sustained strong performance, with 21% year-on-year increase.
  - Sales and profit contributions from sales and other subsidiaries increased in this 1<sup>st</sup> Half.

Type of subsidiaries	Sales (Billions of ¥)	Change (%)	Number of subsidiaries	Major subsidiaries
Production and production & sales	64.3	0	17	Yokohama Milk, MK Cheese
Sales	78.6	12	11	Daily Foods
Others	41.9	14	9	Clinico, Morinaga Engineering
Total	184.8	8	37	

Note: Figures in Total represent a simple aggregate value.

# Business integration of Daily Foods group

- Kyushu Daily Foods
- Shikoku Daily Foods
- Chugoku Daily Foods
- Nishinon Daily Foods
- Hokuriku Daily Foods
- Tokai Daily Foods
- **Daily Foods**
- Niigata Daily Foods
- Tohoku Daily Foods
- Hokkaido Daily Foods



April  
2005

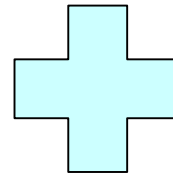
**Daily Foods Co., Ltd.**  
-to be established in April 2005-  
Projected sales: ¥110 billion

- Integrate existing 10 locally managed units of the Daily Foods group
- Respond more rapidly to changes in food distribution channels
- Play role in strengthening Morinaga Milk group

## Features of the future Daily Foods Co., Ltd

(Current advantages of existing group)

- Close attention to needs of local market
- Low cost operation of small scale business structure



benefits of integration

- Enhance negotiation power
- Aggressive expansion of major product lines
- Improved distribution and information systems
- More rapid, efficient administration services; cost reduction through central purchasing
- Prepare for IPO in the future

# Overview of New Plants

---

- Fuji Milk's New Plant

- Plant building was completed in September, and installation of production equipment began in October. Production is slated to start in March 2005.
- Start with four production lines.
- Cutting-edge plant. High quality and high productivity.
- With new equipment and technologies, produce high-quality tasty products.
- Core production base for ice cream products (concentrate on core products.)

- New Plant in Kobe

- Construction work starting in December 2004. Production is slated to start in spring 2006.
- Start with four production lines :Flavored milk & Tea in cups, Yogurt, Clinical Nutrition products and new products for the elderly.
- Logistics center for chilled products in west Japan will be established on the premises.



---

### 3. Outlook for the Fiscal Year 2004



# Financial forecast for the FY 2004 (consolidated)

	<b>FY 2004</b> (Billions of ¥)	<b>FY 2003</b> (Billions of ¥)	<b>Change</b> (%)	(For reference) Forecast made in May, 2004
<b>Sales</b>	<b>579.0</b> <b>(572.0)</b>	<b>565.6</b>	<b>2</b> <b>(1)</b>	<b>579.0</b>
<b>Operating profit</b>	<b>15.5</b>	<b>13.2</b>	<b>17</b>	<b>15.7</b>
<b>Ordinary profit</b>	<b>17.0</b>	<b>15.1</b>	<b>12</b>	<b>17.0</b>
<b>Net profit</b>	<b>7.8</b>	<b>6.5</b>	<b>21</b>	<b>7.8</b>

Note: The figures in parenthesis represent those in accordance with the new accounting method for recognizing sales.

## Financial forecast for the FY2004 (Non-consolidated)

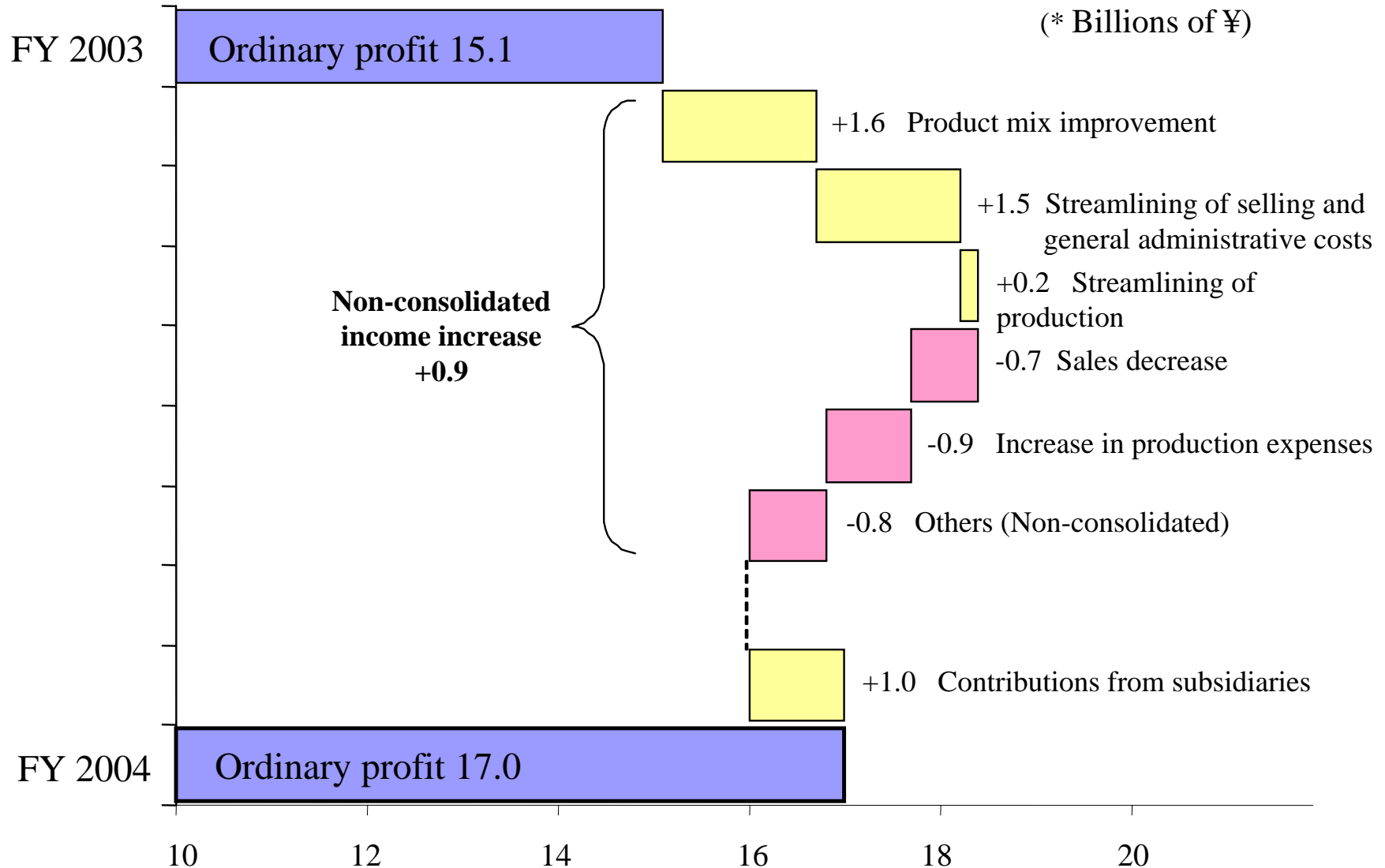
	<b>FY 2004</b> (Billions of ¥)	<b>FY 2003</b> (Billions of ¥)	<b>Change</b>	(For reference) Forecast made in May, 2004
<b>Sales</b>	<b>454.9</b> <b>(447.0)</b>	<b>456.8</b>	<b>0</b> <b>(-2)</b>	<b>467.0</b>
<b>Operating profit</b>	<b>9.2</b>	<b>7.8</b>	<b>19</b>	<b>10.1</b>
<b>Ordinary profit</b>	<b>11.0</b>	<b>10.0</b>	<b>10</b>	<b>12.0</b>
<b>Net profit</b>	<b>4.8</b>	<b>3.8</b>	<b>26</b>	<b>5.2</b>

(Note: The figures in parenthesis represent those in accordance with the new accounting method for recognizing sales.)

# Change in ordinary profit (Forecast for the FY 2004)

Outlook for the FY 2004

(Full year)



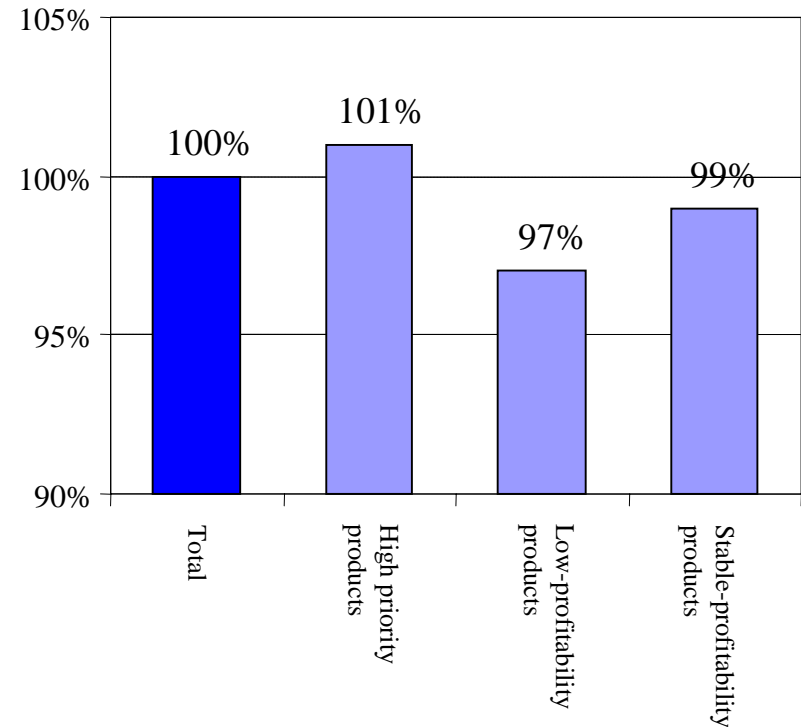
# Sales outlook for FY 2004

## High priority product category

(Full year)

	(Billions of ¥)	Change (%)
Flavored milk & Tea	62	7
Yogurt	56	-7
Chilled dessert	27	11
Cheese	32	0
Nutrition food products	22	1
Food service & institutional food products	43	-1
Industrial food materials	4	8
<b>Total</b>	<b>246</b>	<b>1</b>

### Year-on-Year Comparison



Change in the sales ratio of High priority products  
 53% (FY 2003) → 54% (FY 2004)

## Important Notice

Aside from historical facts cited in this document, statements and numerical data regarding the future performance of Morinaga Milk and its subsidiaries are based on information available at the time this material was prepared. Risks and uncertainties have been taken into account when formulating projections of business operations, however actual business performance may differ from those projections due to a variety of factors including, but not limited to, changes in economic conditions in major markets, product demand, foreign currency exchange rates, domestic and international laws and regulations, and accounting rules and practices.



MORINAGA MILK INDUSTRY CO., LTD.