

# **Fiscal 2005 1<sup>st</sup> Half Earnings Presentation**

**November 25, 2005**

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



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# Business Results (FY 2005 1<sup>st</sup> half)

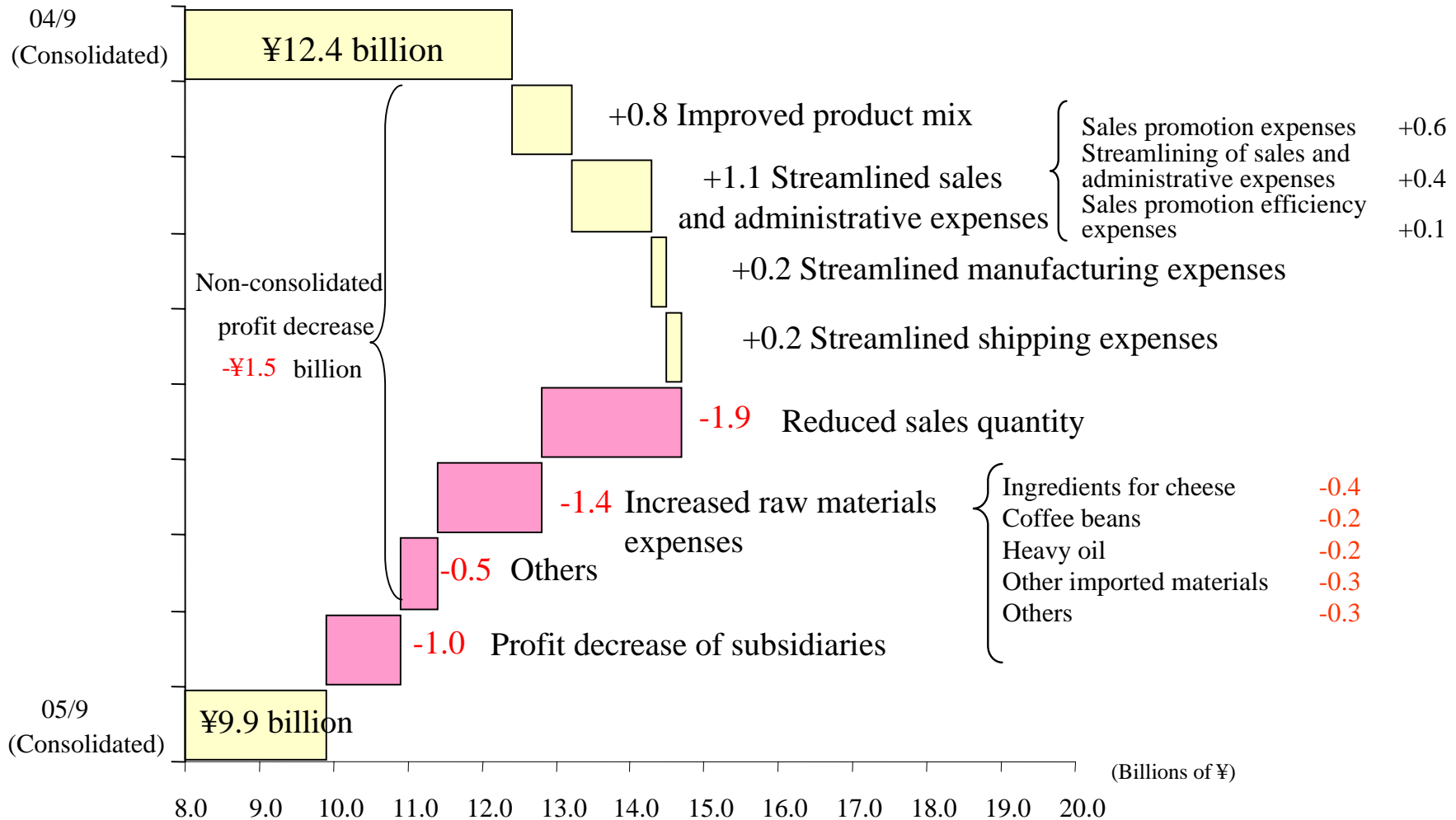
- The sales fell 4% from the previous term.
- The operating and ordinary profits show double-digit decline due to increased raw material costs and other factors.

<Consolidated>	FY2004 1 <sup>st</sup> half Result	As of August, 2005 Forecast	FY2005 1 <sup>st</sup> half Result	Change	Difference from forecasted amount
Sales	307.9	292.0	296.1	96.2%	4.1
Operating profit	11.4	10.0	8.6	75.7%	-1.4
Ordinary profit	12.4	10.8	9.9	80.1%	-0.9
1st half net profit	6.2	4.8	4.6	75.3%	-0.2
Ratio of ordinary profit to sales	4.0%	3.7%	3.3%		

<Non-consolidated>	FY2004 1 <sup>st</sup> half Result	As of August, 2005 Forecast	FY2005 1 <sup>st</sup> half Result	Change	Difference from forecasted amount
Sales	237.0	228.0	227.5	96.0%	-0.5
Operating profit	7.0	6.4	5.1	72.6%	-1.3
Ordinary profit	8.1	7.5	6.6	81.1%	-0.9
1st half net profit	4.1	3.3	3.5	84.2%	0.2
Ratio of ordinary profit to sales	3.4%	3.3%	2.9%		

# Change in ordinary profit (FY 2005 1<sup>st</sup> half)



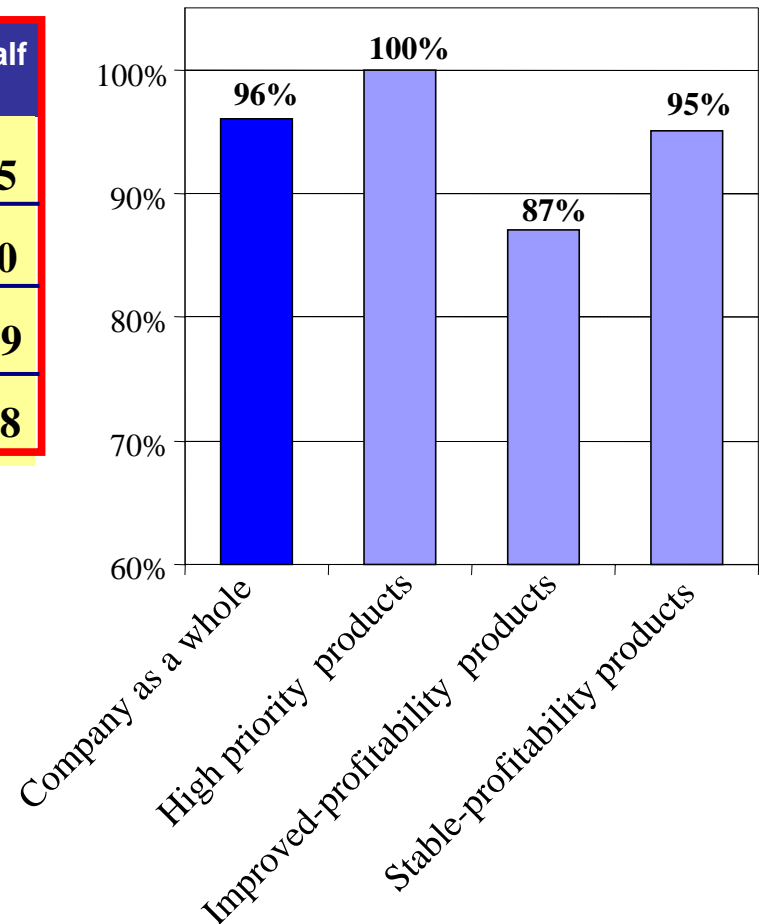
# Sales Results by Product Category

## Results in FY2005 1<sup>st</sup> half

(Billions of ¥)	FY2004 1 <sup>st</sup> half Result	As of August, 2005 Forecast	FY2005 1 <sup>st</sup> half Result
Company as a whole	237.0	228.0	227.5
High priority products	123.6	123.6	123.0
Improved-profitability products	81.1	71.0	70.9
Stable-profitability products	6.1	5.5	5.8

- High priority products attained sales comparable with that in the same term of the last year.
- Improved-profitability products(milk) sales fell.
  - Eliminating non-profitable products completed nearly as planned.
  - National Brand(NB) products that should have increased struggled for profitability.

## Year-on-year comparison



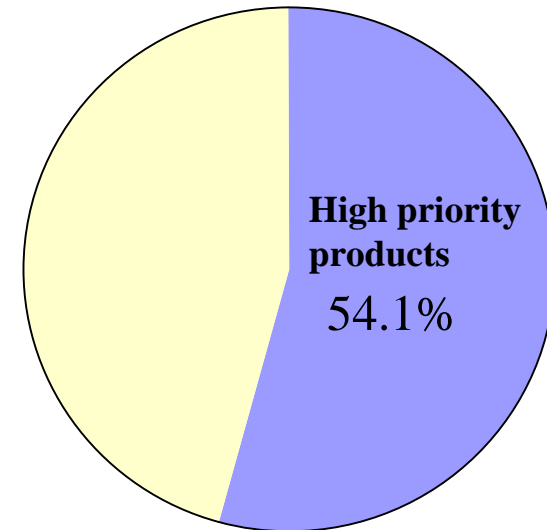
# Sales of High Priority Products

## <High priority products>

	Sales (Billions of ¥)	Change (%)
Flavored milk/Tea	34.1	102%
Yogurt	28.3	103%
Dessert	11.3	87%
Cheese	15.1	98%
Nutritional food products	10.0	92%
Food service and institutional food products	21.8	103%
Industrial products	2.4	116%

<b>Total</b>	<b>123.0</b>	<b>100%</b>
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## Sales ratio



(For FY 2005 1<sup>st</sup> half)

Change in the sales ratio

52.2% → 54.1%  
(04/9)                      (05/9)

# Flavored Milk and Tea

## ➤ Mt. Rainier still bullish

- In the market of chilled coffee in cups, our products remain bullish. Mt. Rainier is the pioneer and top brand in this type of product and attained 56% of the market share.

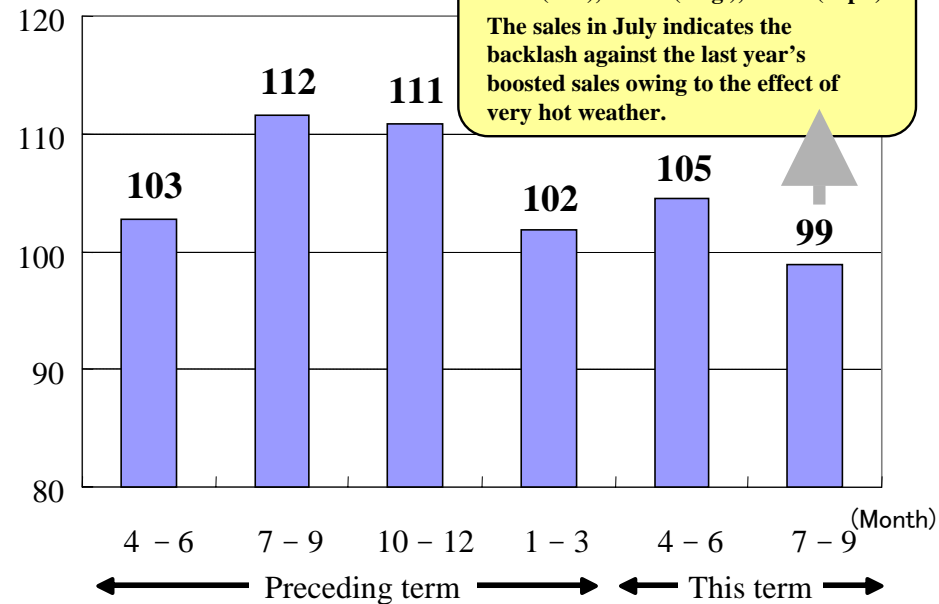
## ➤ Lipton Tea market grew more than 10%

- Lipton Tea met the needs of customers in their teens and twenties and attained 66% of the market share (top brand).

## Sales by brand

	Sales (billions of ¥)	Change
Mt. Rainier	13.4	108%
Lipton	10.2	114%

Quarterly year-on-year comparison (%) of flavored milk and tea sales



# Yogurt

## ➤ Effect of introduction of new products

- Sales of Aloe products increased due to introduction of handy-type and four-pot variations.

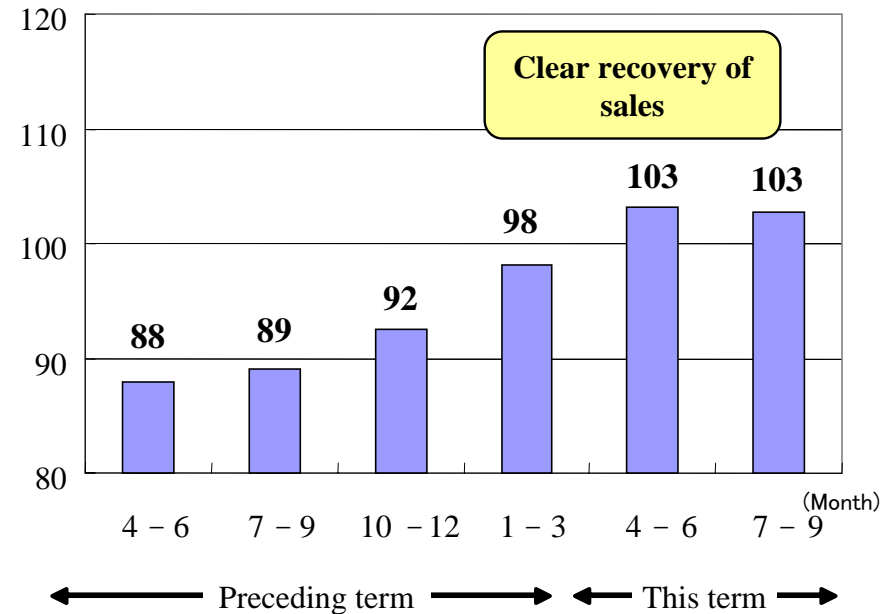
## ➤ Plain yogurt doing fine

- Beneficial effect of skim milk for weight control drew attention and increased sales.

## Sales by brand

	Sales (billions of ¥)	Change
Aloe	11.6	106%
Bifidus	8.0	108%
Lactoferrin	2.0	85%

Yogurt – Quarterly year-on-year comparison (%) of sales





# Dessert

## ➤ Cause of falling sales

- Reduced appeal of last year's new products.
- Insufficient number of new products marketed in the first half.

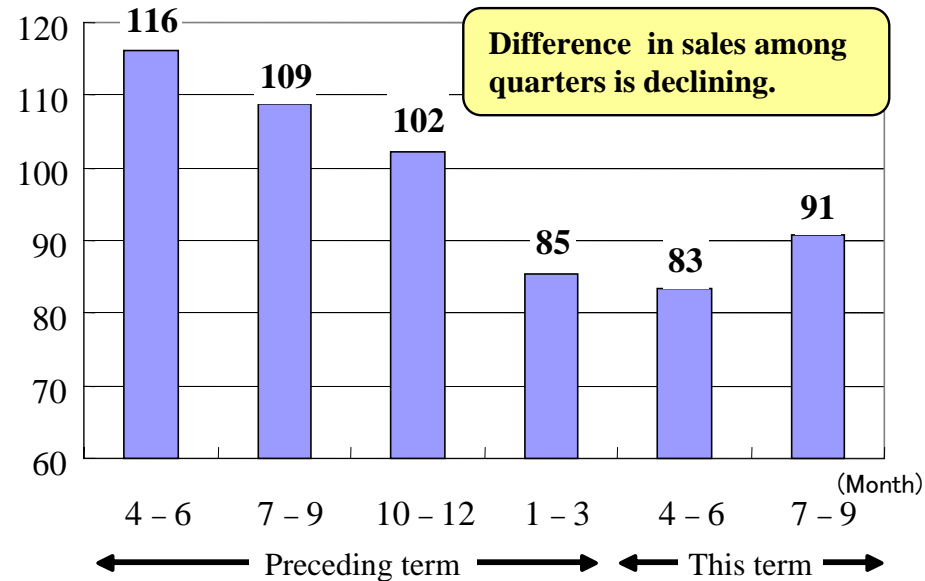
## ➤ Promotion of new products

- Japanese-style pudding (black sesame, pumpkin)
- “Petit Toro-fuwa pudding”  
(Custard, green powdered tea, caramel)
- A new category of desserts called “Sora sweets” will be introduced in December.

“Sora sweets” are new, much-talked-about products developed in cooperation with All Nippon Airways cabin attendants.



Dessert – Quarterly year-on-year comparison (%) of sales

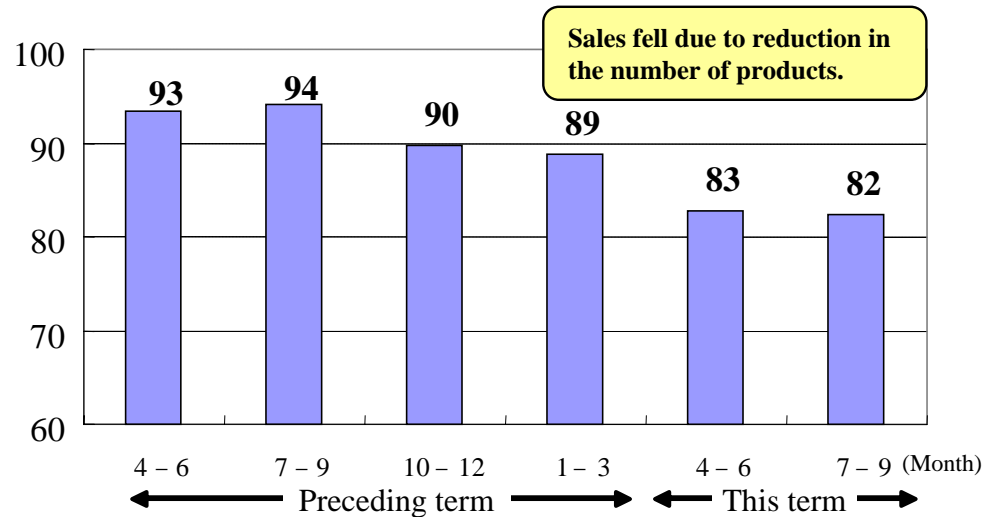


# Milk

## ➤ Cause of falling sales

- **Streamlined product portfolio**  
The product items reduction plan to be carried out by the end of FY2005 has nearly been completed in this 1<sup>st</sup> half (sales reduced by 5.0 billion yen).
- **NB products, such as Morinaga-no-Oishii-Gyunu, have not attained expected sales.**
- **Decreased demand in milk market**  
Production of milk beverages in the first half of FY2005 fell 4% from the first half of FY2004.

Milk – Quarterly year-on-year comparison (%) of sales



Reduction in product lines	End of FY2003		End of FY2004		FY2005 1 <sup>st</sup> half		End of FY2005
	Number of items	Cutback ratio	Number of items	Cutback ratio	Number of items	Cutback ratio	Initial plan
Milk products	187 items	—	146 items	22%	124 items	34%	129 items
Use of NB for milk	FY2003		FY2004		FY2005 1 <sup>st</sup> half		Plan for FY2005
	NB	18%	28%	29%	35%		
	PB	66%	57%	56%	52%		
	FB	16%	15%	15%	13%		

(Note 1) The reduction ratios of “milk products” are calculated in relation to those calculated at the end of FY2003.

(Note 2) The ratios of NB implementation of milk apply to milk in 1000 ml containers (in value terms).

(Note 3) FB: Fighting brand (strategic items for regional markets)

# Boosting of Sales of Morinaga-no-Oishii-Gyunyu and Promotion of Home Delivery Business

## ➤ Morinaga-no-Oishii-Gyunyu

The sales in the 1<sup>st</sup> half is 3.3 billion yen which is 0.2 billion less than that in the same term of the last year.

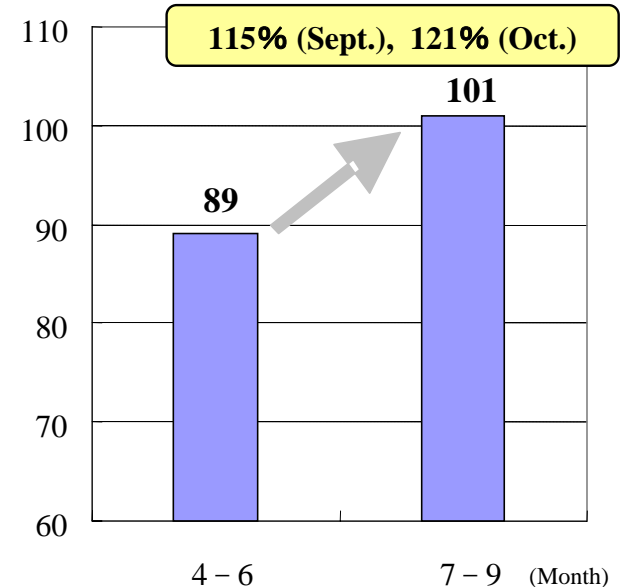
The yearly sales will amount to 7 billion yen.

### [Redevelopment of Marketing Strategy]

- Longer product shelf life (Starting September)
- In-store sampling
- New commercial message (with popular Korean actor)



Morinaga no Oishii Gyunyu -- Quarterly year-on-year comparison (%) of sales



## ➤ Home Delivery Business

- The sales in the 1<sup>st</sup> half fell slightly. (15.2 billion yen. 2% less than that in the same term of the last year)

### [Measures for Expansion of Business]

- New products exclusively for home delivery were released in September. (Q10 Bijin, Rakuraku Support)
- Expansion of distribution of light-weight bottles. (47% lighter than standard bottle)

Q10 Bijin Rakuraku Support



Received "Ministry of Economy, Trade, and Industry award" in Japan Packaging Competition 2005.



# Performance of Subsidiaries

## ➤ Earnings of subsidiaries fell 6% compared with that in the same term of the last year.

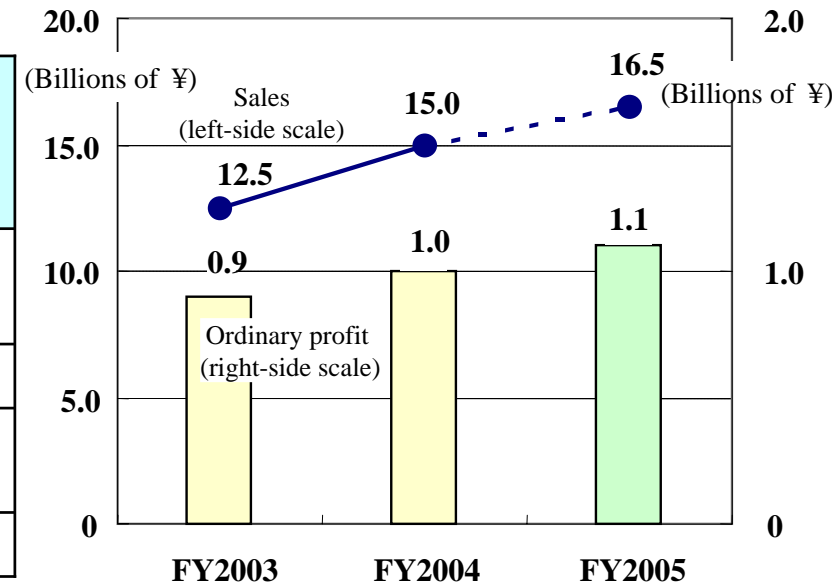
- The primary reason for falling sales is that earnings of sales subsidiaries dropped due to cutback in number of products.
- However, the yearly sales target (123.0 billion yen) of the consolidated Daily Foods was nearly been attained as planned.
- The major reason for profit decline of 1.0 billion yen is that earnings of sales subsidiaries fell and the efficiency of production and production& sales subsidiaries decreased.

## ➤ Clinico doing well

- The sales and ordinary profit in the 1<sup>st</sup> half increased by 14% and 9% respectively as compared with the same term of the last year.
- The yearly sales and ordinary profit are expected to be greater than the targets.

### Business Trend of Clinico Co., Ltd.

(Direct-sales company distributing clinical foods, nutrition supplements and related products)



Type of subsidiaries	Result in 1 <sup>st</sup> half (Billions of ¥)	Change (%)	Number of subsidiaries	Major subsidiaries
Production and production & sales subsidiaries	63.3	98%	18	Yokohama Milk, MK Cheese
Sales subsidiaries	68.8	88%	2	Daily Foods
Other subsidiaries	41.8	100%	8	Clinico, Morinaga Engineering
Total	173.9	94%	28	

Note: The total is a simple combined value

# Financial forecast for the FY 2005 (Consolidated)

<b>(Unit: Billions of ¥)</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>Change</b>	<b>(For reference) Forecast made in August, 2005</b>
<b>Sales</b>	<b>549.0</b>	<b>564.7</b>	<b>97.2%</b>	<b>552.0</b>
<b>Operating profit</b>	<b>10.2</b>	<b>13.9</b>	<b>73.6%</b>	<b>13.0</b>
<b>Ordinary profit</b>	<b>12.3</b>	<b>15.7</b>	<b>78.5%</b>	<b>14.5</b>
<b>Net profit</b>	<b>5.3</b>	<b>7.2</b>	<b>73.8%</b>	<b>6.6</b>

# Financial forecast for the FY 2005 (Non-consolidated)

<b>(Unit: Billions of ¥)</b>	<b>FY 2005</b>	<b>FY 2004</b>	<b>Change</b>	<b>(For reference) Forecast made in August, 2005</b>
<b>Sales</b>	<b>428.0</b>	<b>440.2</b>	<b>97.2%</b>	<b>434.0</b>
<b>Operating profit</b>	<b>6.1</b>	<b>8.7</b>	<b>69.9%</b>	<b>8.7</b>
<b>Ordinary profit</b>	<b>8.5</b>	<b>10.7</b>	<b>79.6%</b>	<b>10.5</b>
<b>Net profit</b>	<b>3.5</b>	<b>4.1</b>	<b>85.1%</b>	<b>4.1</b>

# Sales outlook for FY 2005

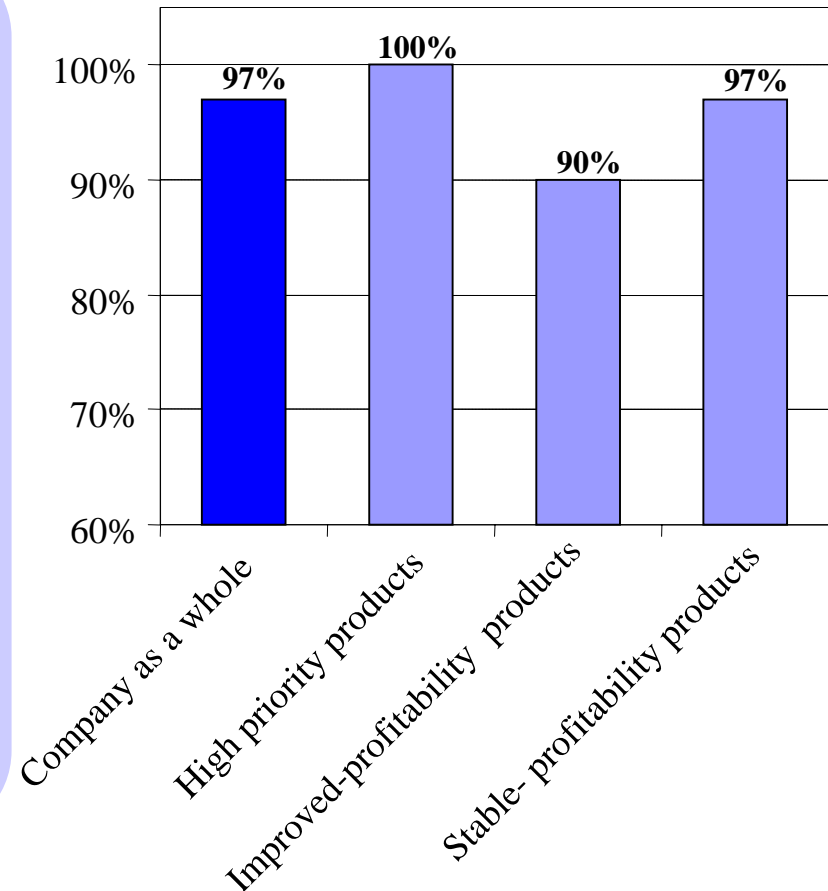
## High priority product category

### < High priority products >

	Sales (Billions of ¥)	Change
Flavored milk/Tea	61.3	102%
Yogurt	54.4	104%
Dessert	21.3	90%
Cheese	31.0	98%
Nutritional food products	19.5	92%
Food service and institutional food products	44.3	102%
Industrial products	4.9	115%

<b>Total</b>	<b>236.7</b>	<b>100%</b>
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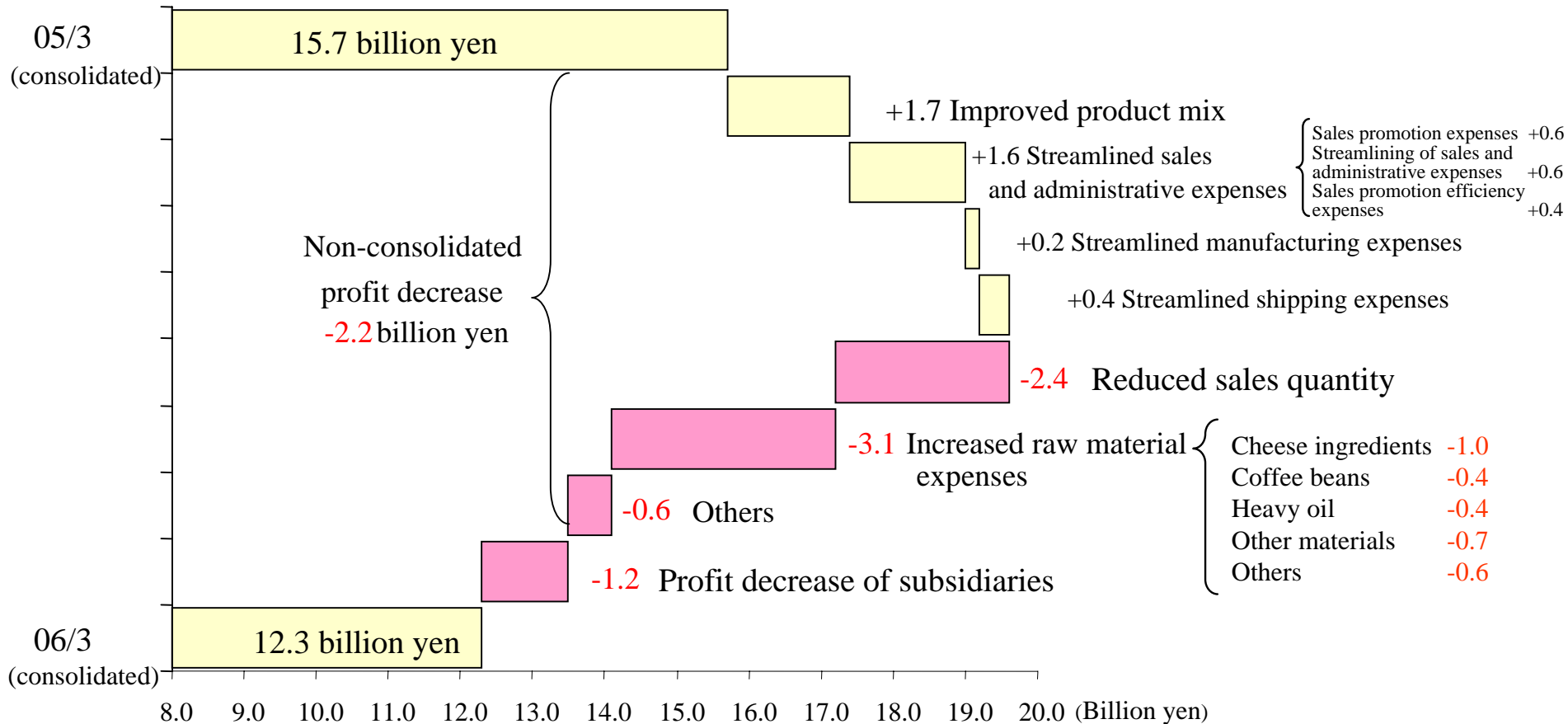
### Year-on-Year Comparison



Change in the sales ratio of high priority products

53.8% (05/3) → 55.3% (06/3)

# Change in Ordinary Profit (Forecast for the FY 2005)





# Middle Term Business Plan and Its Progress

## Main Subjects of Middle Term Business Plan

### 1.Enhanced Marketability

- Strengthen of high priority products
- Promotion of NB milk

### 2.Enhanced Productivity

- Opening of Kobe plant
- Consolidation of city milk production sites

### 3.Boosted Profitability of Group Member Firms

- Improvement of sales and profit of Clinico
- Improvement of productivity of production and production & sales subsidiaries

### 4.Strengthened R&D and marketing power

- Interaction between basic and applied research
- Systemization of strategic product development

## Middle Term Business Plan and Its Progress

### ■ Time lag between the execution of profit improvement measures and the result

- Delay in realizing benefit from profitability improvement measures occurred due to the time lag between the reduction of number of products and the progress of consolidation plan of production sites.

⇒ Rationalization through consolidation of production sites

### ■ Runaway growth of raw material costs

- Costs of raw materials, such as cheese and coffee beans, have increased greatly since the middle term business plan was made.

⇒ Suppression of raw material cost increase through low-cost operation

# Goals for Middle Term Business Plan

## Business plan for FY 2005 2<sup>nd</sup> half and the next term

- The FY 2005 2<sup>nd</sup> half business plan will be executed continuously focusing on strengthening high priority products.
- Increase in sales and profit is planned for the middle term business plan.  
(The target values for the FY2006 business plan is scheduled to be changed.)
- Some city milk production sites are scheduled to be consolidated by the end of FY2006.  
City milk production sites will be continuously consolidated in FY2007 and later.

## FY2006 sales goal of seven high priority products

	FY2006 (next term) (Billions of ¥)	Growth rate from FY2005 (%)
Flavored milk/tea	64.3	105%
Yogurt	58.2	107%
Dessert	22.1	104%
Cheese	31.0	100%
Nutritional food products	19.0	97%
Food service and institutional food products	46.0	104%
Industrial products	5.4	110%
<b>Total</b>	<b>246.0</b>	<b>104%</b>

# Steps toward Profitability Improvement

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- **Early recovery and boosting of sales**
- **Reduction in fixed costs through streamlining of product portfolio**
- **Cost management across organizational structures**
- **Increase in profitability of subsidiaries and affiliate companies**

### 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.



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