morinaga

INTEGRATED REPORT 2019

Year ended March 31, 2019



Everything We Do Is For Ever Brighter Smiles

Established in 1917, Morinaga Milk Industry Co., Ltd. has always been involved primarily in business activities relating to the production and sale of dairy products. As of March 31, 2019, the Morinaga Milk Group employs 6,157 workers in its 32 consolidated subsidiaries and two equity method companies (one subsidiary, one affiliate) in Japan and overseas. In addition to our 29 business sites in Japan, including our headquarters, research facilities, branch offices, factories, and other facilities, we also have overseas business sites in Europe, the U.S., and Asia. Under our 100th anniversary corporate slogan, "For Ever Brighter Smiles," we are determined to achieve continuing growth and success as one of Japan's leading dairy manufacturers.



Corporate Slogan

“For Ever Brighter Smiles”

The word “smiles” symbolizes the value that the Morinaga Milk Group brings to society by providing consumers with the values of health and happiness. Our goal is to inspire the kind of smiles that arise spontaneously from within when people enjoy happy moments in their daily lives, or in the good company of family and friends. We chose the word “smiles” to express that commitment.

Corporate Philosophy

Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology.

We will continue to bring brighter smiles to our customers by using the skills and knowledge accumulated since our founding to supply not only milk, but also a wide variety of other unique products. Through this, we will support the physical and emotional health of our customers, and contribute to happiness in their daily lives, thereby furthering the creation of an enriched social environment that inspires smiles everywhere.



Our Eight Questions

1. Do we share our passion with our customers?
2. Do we feel and express gratitude to all stakeholders?
3. Do we have confidence in our quality?
4. Do we always pursue safety and reliability?
5. Do we continue to challenge ourselves?
6. Do we contribute to building “Team Morinaga”?
7. Do we engage in and enjoy what we do?
8. Do we exchange our visions and progress toward them?

The above questions are part of our guidelines for action that define what each Morinaga Milk Group employee should care about to ensure we achieve our corporate slogan and corporate philosophy.

The Morinaga Milk Group will continue to be a comprehensive milk group that brings smiles to society by manufacturing a range of products that are both delicious and functional.



Smiles for Our Consumers

We aim to be a company that journeys with everyone from infancy to old age by supplying products to a range of ages as part of our ongoing quest to provide the value of delicious tastes combined with health benefits and functionality. In addition to supporting the health and nutrition of children, who are important future stakeholders, we are supporting initiatives for physical and mental development, job-related education, and childcare.

Smiles for Our Employees

We have developed a corporate culture focused on quality throughout our more than 100-year history. To fulfill our goal of contributing to bright smiles, it is vital that we utilize the strengths of our employees. To continue protecting our corporate culture where our employees can work with enthusiasm and all come together to overcome challenges, we prioritize human resource development and have made ensuring the safety and health of workers our highest management priority.

Smiles for Our Business Partners and Suppliers

To supply high-quality, delicious, safe, and reliable products, we need to collaborate with many business partners and suppliers from the procurement of raw materials to the distribution of our products. We conduct fair and transparent business relationships with our business partners and suppliers by informing them of our procurement policies and, while complying with laws and social norms, we carry out procurement activities with consideration for social responsibilities such as human rights and the sustainable treatment of the environment.

Smiles for Our Communities

As members of society conducting our business activities, we value and have been carefully nurturing over many years our connections with local communities. To ensure that we are an indispensable member of our local communities for another hundred years, we are proactively holding community engagement events at our plants and businesses, and plant tours so members of our communities can experience firsthand our production stance focused on safety and reliability.





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Editorial Policy

To further strengthen communication with all stakeholders, Morinaga Milk Industry has evolved the Annual Report it has published until now into the Integrated Report 2019. This report is designed to inform readers about the business activities and philosophy of the Morinaga Milk Group for the creation of greater corporate value and sustainable growth. Moreover, the report has a primary content focus on our growth strategy—Medium-term Business Plan (fiscal year ending March 31, 2020–fiscal year ending March 31, 2022)—established to achieve the Morinaga Milk Group 10-year Vision, which was launched in May 2019. In addition, in editing this report we aimed for a simple and easily understandable structure by focusing only on matters of importance. Further environmental, social and governance (ESG) information can be found in our Sustainability Report 2019 published on our corporate website.

Information Disclosure Tools



Integrated Report 2019 (Print and website)

Introduces the business activities and philosophy of the Morinaga Milk Group for the creation of greater corporate value and sustainable growth based on the content of our Medium-term Business Plan



Sustainability Report 2019 (Website)

Introduces our ESG activities, key performance indicators (KPIs), and related information



Corporate Website

Contains a variety of information: integrated reports, sustainability reports, and further details on investor relations, corporate information, and Morinaga Milk Industry products

https://www.morinagamilk.co.jp/english

Forward-looking Statements in this Report

Forecasts and plans concerning the Company's business activities in the fiscal year ending March 31, 2020 and beyond are based on assumptions and economic forecasts as of May 20, 2019 and are not intended as a guarantee of the Company's future financial performance.

Using Advanced Milk Technology to Deliver Delicious Taste and Nutrition for Over 100 Years

Since its founding in 1917, Morinaga Milk Industry has steadily expanded its business and production base from its beginnings in condensed milk products into a comprehensive milk group. With our focus on the next hundred years and ever brighter smiles, we will keep providing value through our advanced milk technology and maintain our sustainable group growth.

1917–1949

Beginnings in Condensed Milk

Morinaga Milk Industry began as Nippon Rennyu Co., Ltd. manufacturing condensed milk, an ingredient of caramel. On its way to expanding its production base throughout Japan, Morinaga Milk Industry went through two mergers due to changing operating environments. As the first company in Japan to sell bottled milk and install evaporating equipment for powdered milk, Morinaga Milk Industry grew through three areas of business: condensed milk, powdered milk, and commercial milk. While overcoming many challenges during the Second World War, in 1947 we started sales of Morinaga ice cream, with milk and starch as its main ingredients, which became the origin of our current ice cream business. This early period paved the foundations of our present status as a comprehensive milk group.



First dried milk in Japan mass-produced by machine

1949–1967

Expansion in Step with Japan's Post-war Economic Growth

In 1949, as wartime restrictions were being loosened, the second iteration of Morinaga Milk Industry Co., Ltd. was established with the Meguro production facility as its core. From the 1950s, Morinaga Milk Industry aggressively introduced the latest technology, expanded its facilities by building advanced manufacturing plants, and developed innovative products in various fields, such as the industry's first homogenized milk and Japan's first coffee creaming powder, *Creap*. With strong market demand for milk and dairy products in Japan, Morinaga Milk Industry was listed on the Tokyo Stock Exchange in 1954.





Japan's first homogenized milk and creaming powder for coffee

1988–

Global Expansion

Morinaga Milk Industry accelerated its global expansion starting in the mid-1970s, establishing subsidiaries and alliances with local companies, first in Europe (Belgium, France, and Germany), and then in the U.S. and Asia (Taiwan and China). The recognition that global expansion is vital to the growth of the Morinaga Milk Group remains evident in various aspects of our business. It is one of the themes of the Medium-term Business Plan, "developing overseas business;" it inspires the expansion of production capacity at one of our bases for overseas business expansion, MILEI GmbH in Germany; and it drives the focus on increasing sales of infant formula, primarily in Asian countries with rapid economic growth.

Angel 110 hotline for childcare advice



Long-life *TOFU* launched in the U.S.



Powdered milk products for adults to support adult health maintenance





Yogurt containing a multifunctional protein called lactoferrin



Japan's first infant follow-up formula

1967–1988

Expansion of Operations as "Innovative Morinaga"

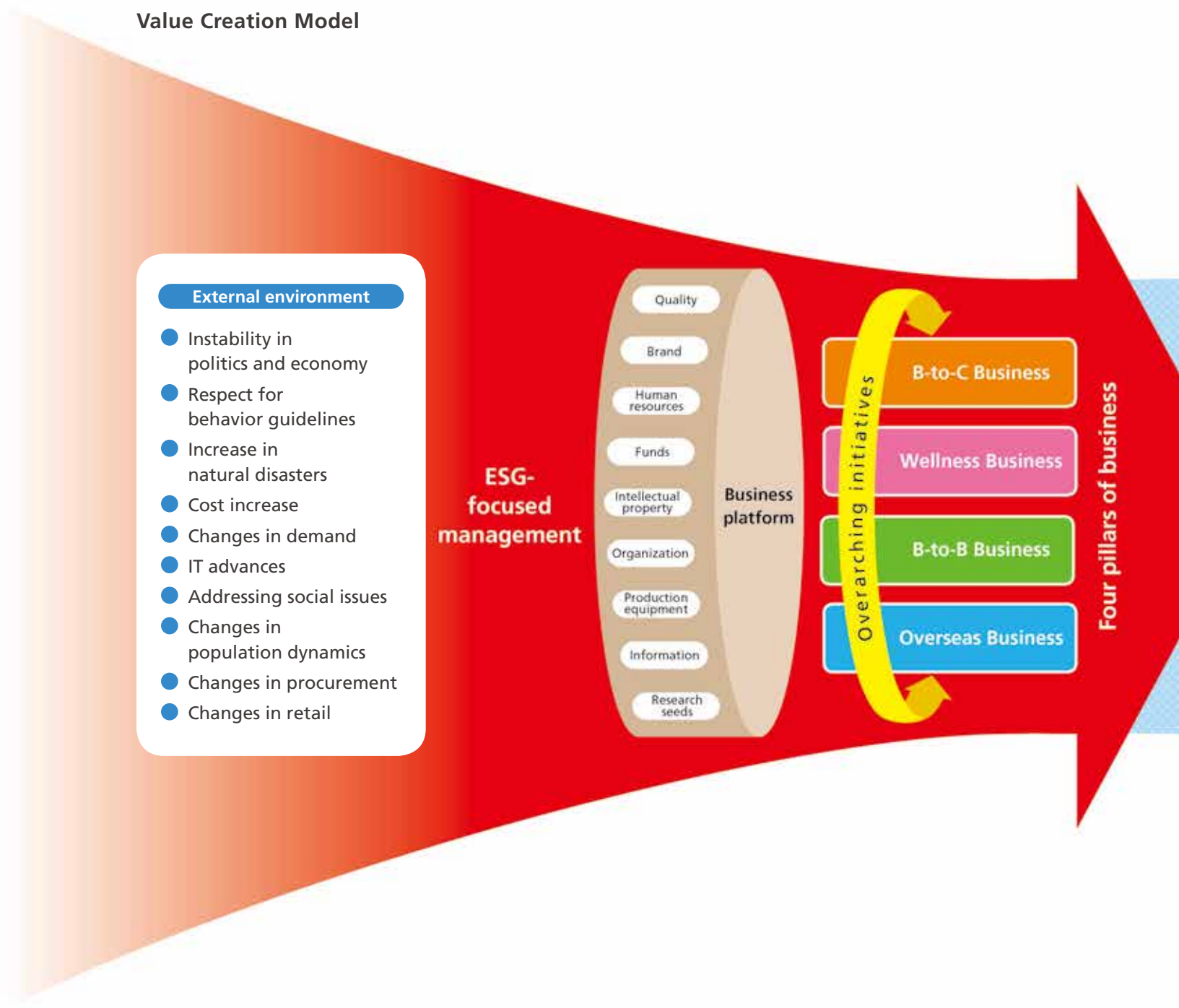
As Japan's economy shifted from its period of high growth to stable growth, Morinaga Milk Industry—coming to be known as "Innovative Morinaga"—kept developing new and innovative products to meet increasingly diverse consumer tastes, such as Japan's first infant follow-up formula, Japan's first chilled cup pudding using long-life technology, and beverages containing bifidobacteria. We also diversified our business by expanding into new fields such as liquid foods. This is also when we opened our free counseling service on childcare, the Angel 110 hotline, to communicate with customers, to build a socially transparent company, and to collect and disseminate information.

2001–

Developing New Focus on Food and Health

Against a backdrop of increasing health consciousness, since 2001 we have focused on the relationship between food and health and proactively expanded into foods with function claims, such as *Lactoferrin Yogurt* that contains a multifunctional protein, the *TBC Drink* series of "easy-to-drink supplement drinks," powdered milk for adults, and a supplement series with proprietary ingredients. Moreover, we have been focusing Group resources to our B-to-B Business by finding other companies that can utilize in their products the multitude of functional ingredients that Morinaga Milk Industry has developed in over 50 years of research and development.

Value Creation Model



Moving to the Next Stage to Achieve Sustainable Growth and Increase Corporate Value

The business environment surrounding our company is undergoing major change. In order to respond flexibly to these changes and make further progress, we have established the Morinaga Milk Group 10-year Vision to clarify our vision from now to 10 years in the future. The new Medium-term Business Plan is designed to achieve this vision, and by both realizing this 10-year Vision and continuing to grow, we aim to achieve sustainable growth and increase corporate value.

Corporate philosophy

Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology

Corporate slogan

"For Ever Brighter Smiles"

Morinaga Milk Group 10-year Vision

VISION 1

A company that balances "delicious and pleasurable food" with "health and nutrition"

VISION 2

A global company that exerts a unique presence worldwide

VISION 3

A company that persistently helps make social sustainability a reality

By achieving our 10-year Vision and continuing to grow, the Morinaga Milk Group will contribute to the UN Sustainable Development Goals (SDGs).

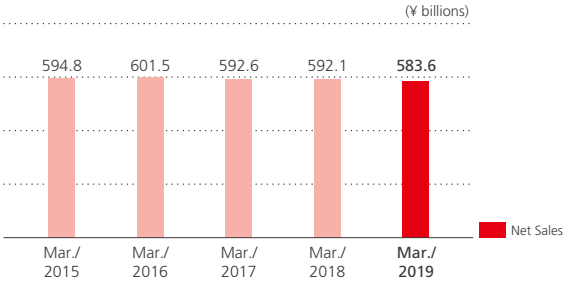
In 2017, when we celebrated our hundredth anniversary, we set the SDGs as indicators to focus our attention on our next hundred years and on global society, and to help us better understand our situation and our responsibilities as a company. First, we held training for employees from various departments and positions to deepen understanding of the SDGs. Then in 2018, we built on the 2017 SDG training and held workshops where we established seven priority issues for Morinaga Milk Group initiatives. We intend to continue to make a strong contribution to achieving the SDGs through our corporate activities.

SUSTAINABLE DEVELOPMENT GOALS

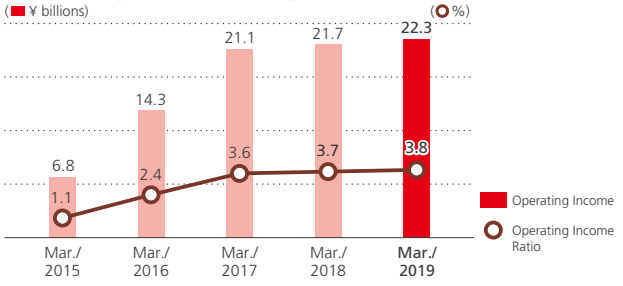
Consolidated Financial and Non-financial Highlights

Financial Highlights

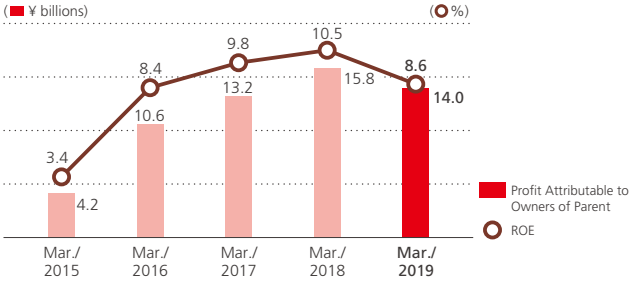
Net Sales



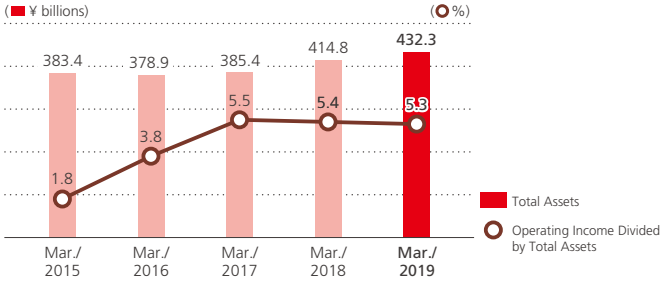
Operating Income/Operating Income Ratio



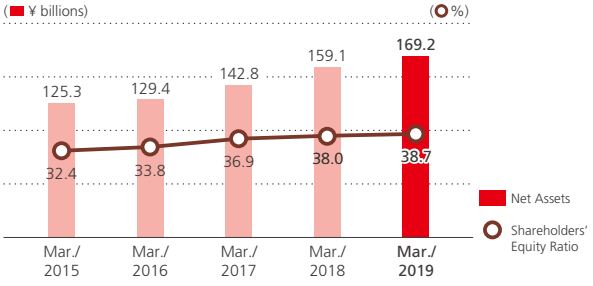
Profit Attributable to Owners of Parent/ROE



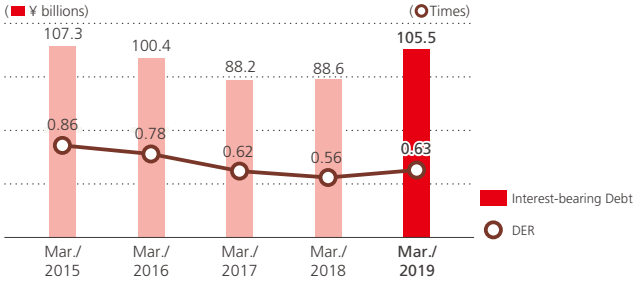
Total Assets/Operating Income Divided by Total Assets



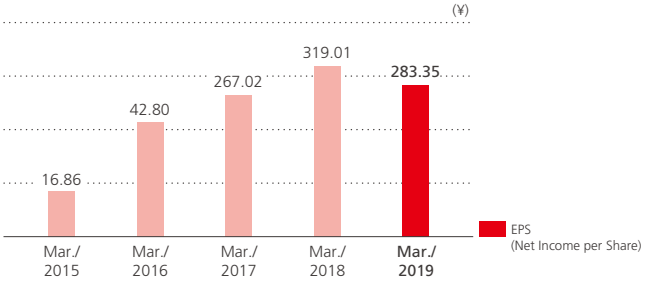
Net Assets/Shareholders' Equity Ratio



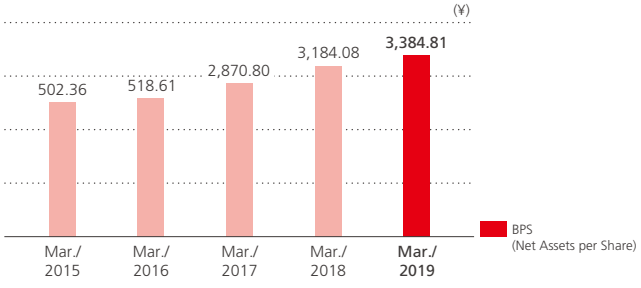
Interest-bearing Debt/DER



EPS (Net Income per Share)

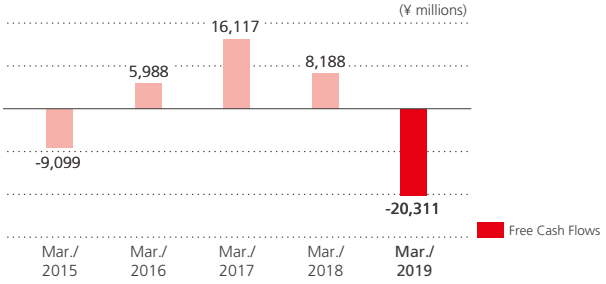


BPS (Net Assets per Share)

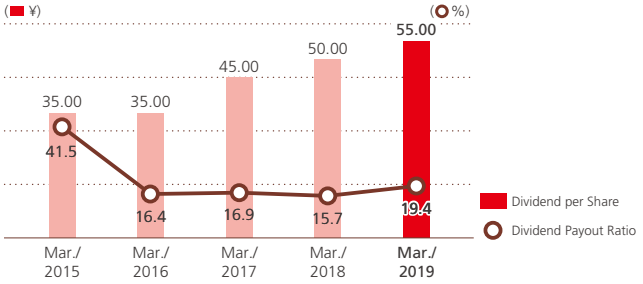


Note: 1. We carried out a reverse stock split at a rate of one share for every five shares of common stock with an effective date of October 1, 2017. EPS and BPS are calculated on the assumption that this reverse stock split was carried out at the start of fiscal year ended March 31, 2017. Also, dividend per share values in this report are calculated based on conditions after the reverse stock split.

Free Cash Flows



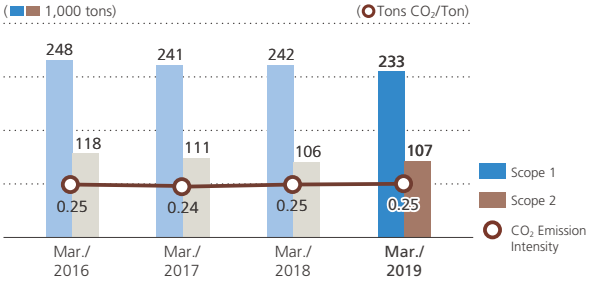
Dividend per Share/Dividend Payout Ratio



Note: 2. The partially revised "Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) is applied from the start of the fiscal year ended March 31, 2019. The main financial data for the fiscal year ended March 31, 2018 is calculated using this accounting standard applied retroactively.

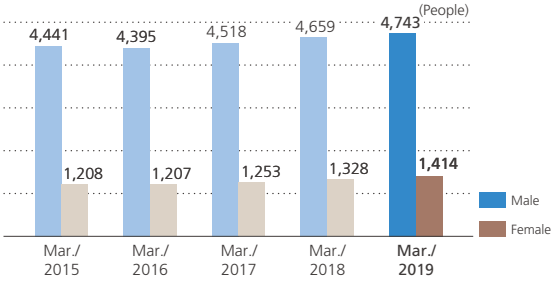
Non-financial Highlights

CO_2 Emissions and Intensity

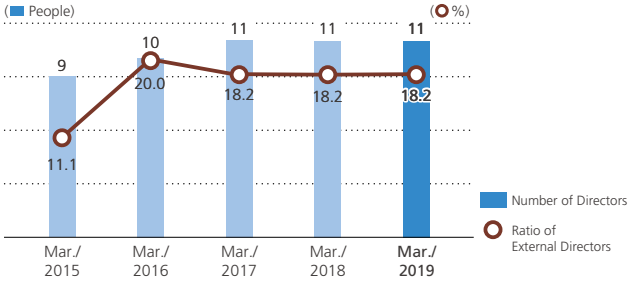


The scope of CO_2 data aggregation is as follows:
Morinaga Milk Industry Co., Ltd. Production sites,
Hokkaido Hosho Milk Plant Co., Ltd., Tokachi Urahoro Milk Industry Co., Ltd.,
Nihon Seinyu, Yokohama Morinaga Milk Industry Co., Ltd.,
Fuji Morinaga Milk Industry Co., Ltd.,
Morinaga-Hokuriku Milk Industry Co., Ltd. (Fukui Plant, Toyama Plant),
Hiroshima Morinaga Milk Industry Co., Ltd.,
Kumamoto Morinaga Milk Industry Co., Ltd.,
Okinawa Morinaga Milk Industry Co., Ltd., MK Cheese Co., Ltd.,
Chez Forêt Co., Ltd., Furijiport Co., Ltd. (Kumamoto Plant),
Tohoku Morinaga Milk Industry Co., Ltd. (Sendai Plant, Akita Plant),
Toyo Fermented Milk Co., Ltd.

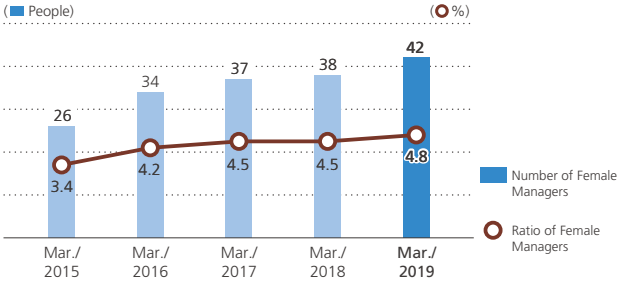
Employees (Male/Female)



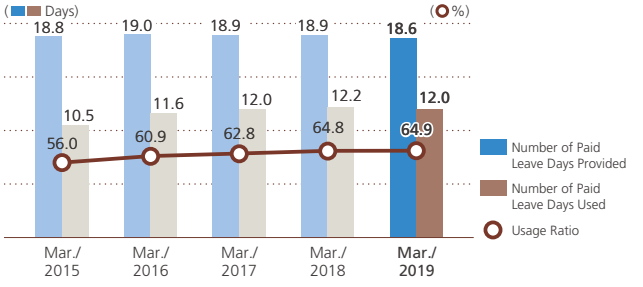
Number of Directors/Ratio of External Directors



Number of Female Managers/ Ratio of Female Managers (Non-consolidated)



Number of Paid Leave Days Used/ Usage Ratio (Non-consolidated)



Business Domain Highlights

Business Domain	Overview of Business Activities		
B-to-C Business		The B-to-C Business is the core domain of Morinaga Milk Industry, making up over half of net sales. We handle beverage brands, such as *Mt. RAINIER CAFFÈ LATTE* and Lipton, and a range of well-known everyday products including ice cream, yogurt, cheese, and milk.	Percentage of Net Sales 53%
Wellness Business (previously Health and Nutritional Food Business)		The Wellness Business handles nutritional foods, with a focus on infant formula; mail-order sales of supplements and related products; and liquid foods by our subsidiary CLINICO.	Percentage of Net Sales 8%
B-to-B Business		The B-to-B Business provides various dairy product ingredients, such as cream, and functional dairy ingredients, such as bifidobacteria and lactoferrin, to a wide range of businesses.	Percentage of Net Sales 17%
Overseas Business (previously International Business)		The Overseas Business includes MILEI GmbH in Germany, which manufactures and sells dairy product ingredients; the infant formula export business; and a business manufacturing and selling long-life tofu products in the U.S.	Percentage of Net Sales 5%

Notes: 1. The former Health and Nutritional Food Business was renamed the Wellness Business from the start of the fiscal year ending March 31, 2020, and some products such as *Creap* were transferred from the B-to-C Business to the Wellness Business. The results for fiscal year ended March 31, 2019 listed in this section are based on the former Health and Nutritional Food Business (that is, prior to the abovementioned changes).
2. In addition to these four business domains, there is also an "Other" segment.

Results for the Fiscal Year Ended March 31, 2019

Net Sales
¥310.7 billion
(4% year-on-year decrease)
Operating Income
¥10.5 billion
(¥1 billion year-on-year decrease)

In the B-to-C Business, we launched new products and continued developing our strongest brands, while continuing to review our position on unprofitable products. In terms of business categories, yogurt and chilled teas had increased revenue, while revenue decreased for chilled cup drinks and ice cream—the latter of which was impacted by changes in the transaction system. As a result, net sales decreased by 4% year on year to ¥310.7 billion and operating income decreased by ¥1 billion to ¥10.5 billion.

Net Sales by Product Category (Non-consolidated; the Fiscal Year Ended March 31, 2019)

(¥ billions)

	Chilled cup drinks	Chilled tea	Ice cream*	Yogurt	Cheese	Milk	Desserts	Commercial milk (home delivery, etc.)
Net sales	39.8	15.6	45.2	51.0	33.3	52.9	11.0	21.4
Year on year	-4%	+5%	-7%	+2%	+1%	-8%	-18%	-2%

*The transaction system for ice cream (on actual-delivery-price basis) has changed since the fiscal year ended March 31, 2019

Net Sales
¥49.1 billion
(1% year-on-year increase)
Operating Income
¥3.1 billion
(¥0.6 billion year-on-year increase)

In the Wellness Business, our subsidiary CLINICO, which supplies products such as liquid foods, had strong sales. The *Uru Jure* and *Yasai Jure* jelly drinks in the infant foods category and the *Milk Life* series, powdered milk products for adults, in the healthcare and health foods category also performed well. As a result, net sales increased by 1% year on year to ¥49.1 billion, while operating income increased by ¥0.6 billion to ¥3.1 billion.

Net Sales
¥96.9 billion
(2% year-on-year increase)
Operating Income
¥5.8 billion
(¥0.2 billion year-on-year decrease)

In the B-to-B Business, the supply-and-demand situation for raw milk remains difficult, while in commercial foods, sales were down for cream and other mainstay products. By contrast, sales of functional ingredients such as probiotics, bifidobacteria, and LAC-Shield™ lactobacillus increased, which contributed to operating income. As a result, net sales increased by 2% year on year to ¥96.9 billion, while operating income decreased by ¥0.2 billion year on year to ¥5.8 billion.

Net Sales
¥28.9 billion
(10% year-on-year increase)
Operating Income
¥1.6 billion
(¥2.4 billion year-on-year increase)

In the Overseas Business, MILEI GmbH, which manufactures and sells dairy product ingredients, recovered well from delays in completing its new plant in the previous fiscal year. In addition, exports to overseas markets of infant formula performed well. These results led the Overseas Business to an overall profit, with net sales increased by 10% year on year to ¥28.9 billion, and operating income increased by ¥2.4 billion to ¥1.6 billion.



“For Ever Brighter Smiles”

The mission of the Morinaga Milk Group is to bring smiles and happiness to its customers through the enjoyment of food. What products and services do we need in order to achieve this goal? How should we build our business operations to ensure that we can continue to develop and supply those products and services? The entire Morinaga Milk Group will remain focused on these questions as we continue to work toward sustainable growth.

Michio Miyahara

President and Representative Director

Adapting to Accelerating Change in the Business Environment

A number of trade agreements have gone into effect in recent years, including the Trans-Pacific Partnership (TPP 11) Agreement, and the Japan-EU Economic Partnership Agreement (EPA). There is concern about the impact of this accelerating trend toward trade liberalization on domestic industries. In this changing environment, the Morinaga Milk Group needs to strengthen its competitiveness in Japan and overseas by developing and supplying safe, dependable, high-quality products that offer high added value.

Within Japan, we face a range of challenges, including an exodus of farmers from the dairy industry, the lack of successors for dairy farms, and a decline in raw milk production. The Livestock Stabilization Act was revised in April 2018, and government initiatives to improve the situation are also in progress. However, raw milk production in 2018 was impacted by a series of natural disasters, and we believe that urgent action is needed to strengthen the foundations of raw milk production in Japan.

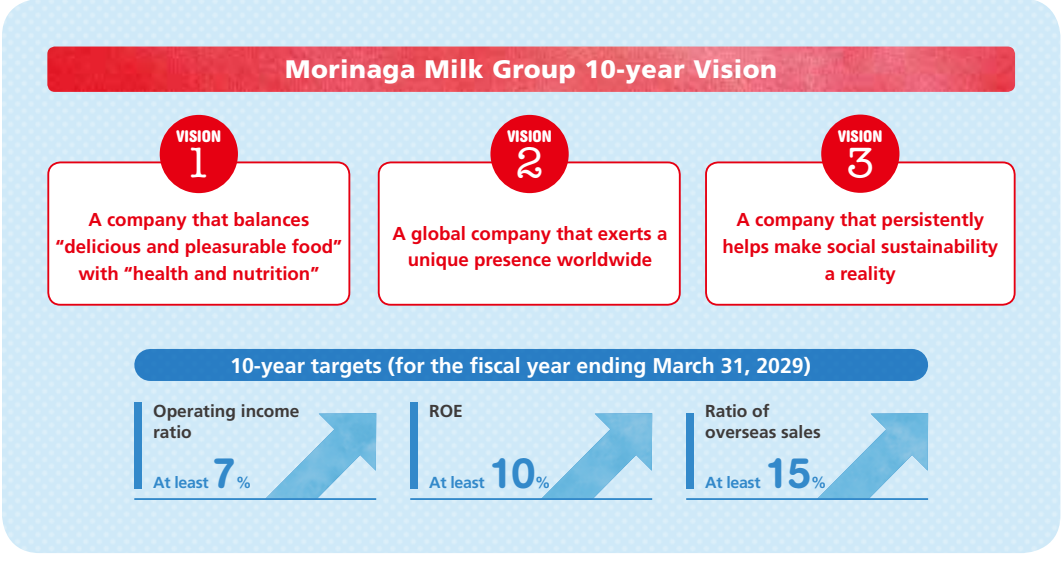
Issues linked to labor shortages, logistics problems, the transformation into a super-aging society, and other changes suddenly seem to be having serious impact in Japan. First, the Morinaga Milk Group will need to step up its efforts to create an attractive corporate environment in which employees will feel their work is fulfilling. Then we will address these business challenges in a number of ways, including initiatives for ensuring low-cost operations and pursuing increased productivity.

Our 10-year Vision

Even in this challenging business environment, we must continue to earn the trust of our stakeholders as a company with future growth potential. This commitment is encapsulated in the "Morinaga Milk Group 10-year Vision."

Our corporate slogan, "For Ever Brighter Smiles," expresses our dedication to helping create enjoyable lifestyles through food. We want to contribute to society by enhancing the functionality of our food products in relation to health and nutrition, but we also aim to appeal to people's emotional experience of the fun and delicious flavors of food.

Our previous Medium-term Business Plan included measures designed to move the Morinaga Milk Group toward a future as a global company, and we are now beginning to see the areas in which we can



demonstrate our unique potential in overseas markets. Going forward, we aim to achieve substantial expansion in these areas.

The Morinaga Milk Group celebrated its centennial in 2017. To achieve sustainable growth over the next hundred years, we believe that we will need to contribute more than ever on a global scale. This is why we restated our commitment to work toward the creation of a sustainable society in the Morinaga Milk Group 10-year Vision.

Reevaluating the Strengths of the Morinaga Milk Group

In addition to the Morinaga Milk Group 10-year Vision, we also formulated a new three-year business plan with its final year in the fiscal year ending March 31, 2022.

As part of the process of formulating this new business plan, we carefully reviewed the strengths, unique features, and growth drivers of the Morinaga Milk Group. This led us to conclude that our milk-related research will be an important growth driver, since over many decades it has led to the development of unique functional ingredients, such as bifidobacteria and lactoferrin. As knowledge of intestinal flora continues to expand, we expect to see further growth in sales of our functional ingredients in not only Japan, but also overseas. A key trend in our overseas business operations is the steady expansion of our infant formula sales in Southeast Asia. We are also starting to make significant progress with a business based on lactoferrin, which is a functional ingredient being manufactured by the German company MILEI GmbH. We will continue to develop this business steadily as a future growth driver.

Strengthening Collaboration across Business Domains

Under our previous Medium-term Business Plan, we identified four business domains, which we now define as the B-to-C Business, the Wellness Business, the B-to-B Business, and the Overseas Business. We are working to establish and strengthen our structures in these areas, and we also plan to accelerate initiatives spanning multiple domains with the aim of driving further growth.

One of our priorities is to create an organizational structure that will facilitate collaboration across our various business areas. We took a step toward this goal by making changes to our organizational structures in the areas of product development and marketing in June 2018. As a result, we are now able to use a variety of materials more effectively in our marketing activities. By shifting from a marketing organization based on traditional product-centered business divisions to one based on sales channels, we enhanced our ability to respond to increasingly diverse needs in each channel. We will continue to work toward the creation of an organic structure optimized for the achievement of business growth and the medium-term plan.



The bifidobacteria product series spans multiple business categories

Our Challenge: Net Sales of ¥630 Billion and Operating Income of ¥30 Billion

Our numerical targets for the fiscal year ending March 31, 2022, which will be the final year of the Medium-term Business Plan, are consolidated net sales of ¥630 billion and consolidated operating income of ¥30 billion. These goals may seem challenging since they will require substantial increases from our results for the fiscal year ended March 31, 2019, when consolidated net sales reached ¥583.6 billion and consolidated operating income was ¥22.3 billion. However, our efforts to overcome negative factors, such as cost increases, through the normalization of product selling prices, efficiency optimization, and other strategies helped to lift consolidated operating income from around ¥14 billion in the fiscal year ended March 31, 2016 to over ¥20 billion for three consecutive years starting from the fiscal year ended March 31, 2017. To achieve further growth, we need to set higher targets. We should never be satisfied with the status quo, and we will continue to take up new challenges.

Contributing to the Creation of a Sustainable Society

One of the goals defined in our 10-year Vision is to become "A company that persistently helps make social sustainability a reality." In addition, our new Medium-term Business Plan specifically calls for a focus on environmental, social, and governance (ESG) considerations in our management policies. In 2018, we defined seven priority issues with the aim of achieving sustainable growth in partnership with society by contributing to the solution of social issues through our products, services, and activities. We have also set new key performance indicators (KPIs) for our ongoing efforts in relation to these seven priorities.

We received the highest rating under the DBJ Environmental Rating program in recognition of our efforts to reduce environmental impact at our manufacturing sites and cut logistics-related CO_2 emissions. In the areas of human rights and human resource development, Morinaga Milk Industry is engaged in various initiatives as a signatory to the United Nations Global Compact, including human resource education, work-style reforms, and diversity-related measures. In addition, we run a variety of nutrition education programs designed to teach children about the importance of food.

Action is needed to solve many social issues, including climate change and the problems of excess plastic containers, food waste, and child malnutrition in developing countries. We aim to enhance our corporate value by continually exploring approaches that allow us to contribute as effectively as possible to the solutions of these problems.

To Our Stakeholders

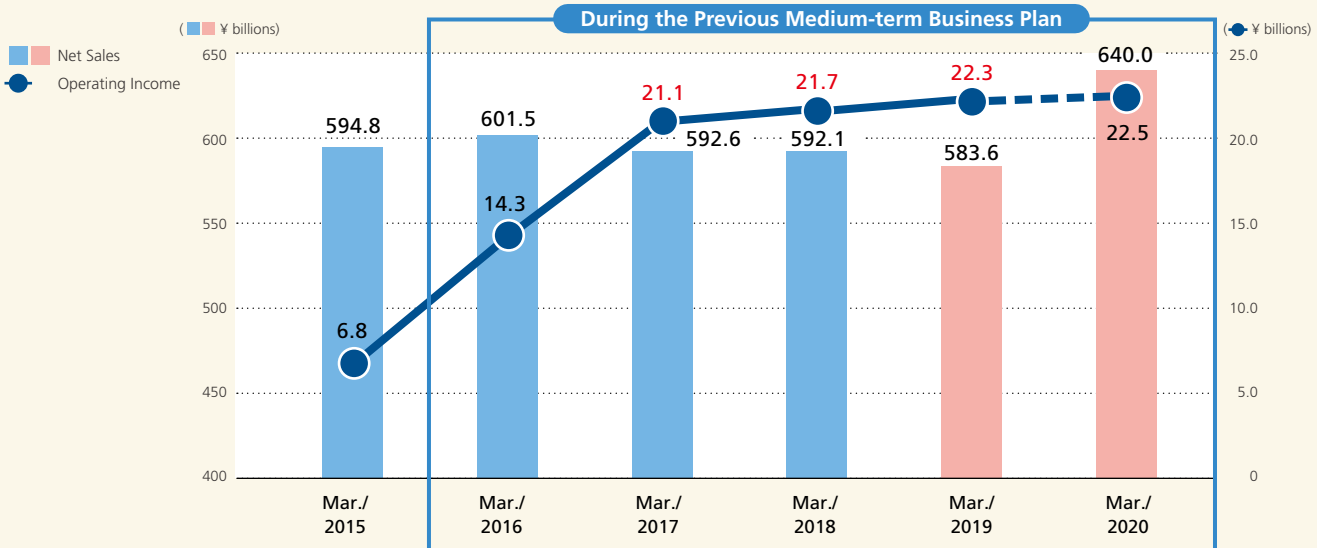
In the past, we have released annual reports consisting mainly of information about our financial situation and business activities. Starting from the fiscal year ended March 31, 2019, however, we have expanded and enhanced the content of our report, which from now on will be called the "Integrated Report." We will continue our efforts to enhance the quality and quantity of the information that we share. We will also actively work to increase opportunities to obtain valuable input from our stakeholders through the expansion of two-way communication.

During the process of formulating the Medium-term Business Plan, we gained a new awareness of how customer input has helped to sustain the growth of the Morinaga Milk Group, and that it is a vital and irreplaceable asset. For over a century, this asset has been the foundation on which we have built the Morinaga Milk Industry brand, and we are determined to continue this process of co-creation with our customers in the future.

Our corporate slogan, "For Ever Brighter Smiles," will continue to guide the efforts of the Morinaga Milk Group to achieve sustainable growth by taking up the challenge of maximizing corporate value and contributing to the solutions of social issues. We look forward to the continuing support of all of our stakeholders.

Review of the Previous Medium-term Business Plan

During the previous Medium-term Business Plan that started in 2015, business domains were restructured in response to issues of the low level of income, and highest priority was given to moving away from a high-cost, low-revenue structure. As a result, the Morinaga Milk Group has achieved a profitable structure with an operating income of ¥20 billion or above and a stable ROE of 8%.

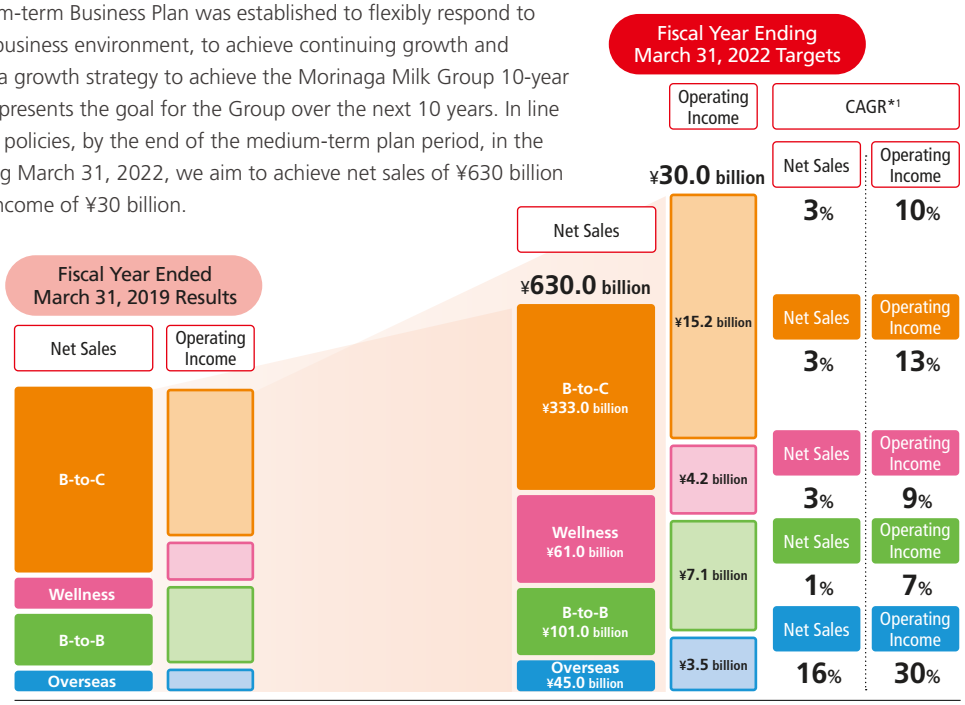


	Mar./ 2015	Mar./ 2016	Mar./ 2017	Mar./ 2018	Mar./ 2019	Mar./ 2020 (initial targets)
Net Sales/ Operating Income	1.1%	2.4%	3.6%	3.7%	3.8%	3.5%
ROE (Net Income/Equity Capital)	3.4%	8.4%	9.8%	10.5%	8.6%	8.0%
Free Cash Flows (Operating CF + Investing CF)	-¥9.1 billion	¥6.0 billion	¥16.1 billion	¥8.2 billion	-¥20.3 billion	Over ¥30.0 billion over the five years of the plan

Four Basic Policies	Achievements
1 Rebuilding our business domains for growth	● Structural reform with respect to the profit structure and gained consistent earnings ● New capital investment, which will form a foothold for future growth ● Made appropriate pricing decisions and reduced unprofitable stock keeping units (SKUs)
2 Improving asset efficiency and promoting rationalization	● Improved financial standing largely by selling off idle assets ● Rationalized operations by suspending production at two key plants
3 Strengthening the business base	● Carried out reorganization to optimize operations throughout the company, which was in line with our management strategies ● Established a governance framework and improved effectiveness of the Board of Directors ● Developed systems for utilizing human resources, including diversity support programs
4 Making a difference in society	● Augmented CSR system ● Established new corporate slogan and corporate philosophy

Summary of the New Medium-term Business Plan

The new Medium-term Business Plan was established to flexibly respond to changes in the business environment, to achieve continuing growth and success, and as a growth strategy to achieve the Morinaga Milk Group 10-year Vision, which represents the goal for the Group over the next 10 years. In line with three basic policies, by the end of the medium-term plan period, in the fiscal year ending March 31, 2022, we aim to achieve net sales of ¥630 billion and operating income of ¥30 billion.



*1 Compound Average Growth Rate

	Mar./ 2019	Mar./ 2020 (forecast)	Mar./ 2022 (plan)	Difference from Mar./ 2019: increase/decrease	Difference from Mar./ 2019: rate of increase/ decrease
Net sales	¥583.6 billion	¥593.0 billion	¥630.0 billion	+¥46.4 billion	+8.0%
Operating income	¥22.3 billion	¥23.0 billion	¥30.0 billion	+¥7.7 billion	+34.3%
Profit attributable to owners of parent	¥14.0 billion	¥19.5 billion*2	¥19.2 billion	+¥5.2 billion	+37.0%
Operating income ratio	3.8%	3.9%	4.8%		
ROE (net income/equity capital)	8.6%	11.1%	9.3%		
Ratio of overseas sales	5.0%	5.8%	7.1%		
Dividend	¥55	¥60	Target payout ratio of 20%		

*2 This includes ¥7.0 billion (estimated) in extraordinary income from the transfer of fixed assets (beneficial interest in trust). (Fiscal year ending March 31, 2020)

Basic Policy 1 for Value Creation

Achieving sustainable growth by enhancing initiatives laterally across our four pillars of business

P.21

We will strengthen collaboration between departments based on health and nutritional functionality, and aim for sustainable growth by establishing four key themes.

Basic Policy 2 for Value Creation

Performing business with an ESG focus aligned with our corporate philosophy

P.29

We established key performance indicators (KPIs) for the seven priority issues that were selected to cover the entire supply chain and we are working to achieve them.

Basic Policy 3 for Value Creation

Further strengthening our business base in a manner that supports the foundations of our corporate activities

P.35

We are strengthening the management foundation and furthering initiatives that link the 10-year Vision with Basic Policy 1 and Basic Policy 2.

Basic Policy for Value Creation 1

Achieving Sustainable Growth by Enhancing Initiatives Laterally across Our Four Pillars of Business

THEME 1

Further Enhancing Our Main Brands

The Morinaga Milk Group has, over many years, created many products that maintain top market share in their categories. In our Medium-term Business Plan, we decided to optimize the value of the eight main brands that support our business foundation and that are most loved by our customers. Thus, we plan to increase net sales of these eight brands by 18%* during the three-year period of the medium-term plan.

*Compared to fiscal 2019



1. *Mt. RAINIER CAFFÈ LATTE*

As the pioneer of Japan's chilled cup coffees, this brand has maintained its lead in this market for over 25 years since its launch in 1993. We have optimized brand exposure by strengthening the product lineup.

2. *Bifidus Yogurt*

This yogurt contains Bifidobacterium longum BB536, which can reach the large intestine alive. This yogurt brand has been popular among members of all generations since its debut in 1978. We are capitalizing on bifidobacteria to differentiate our products from those of competitors.

3. *Morinaga Aloe Yogurt*

This yogurt, which contains aloe, combines delicious flavor with beauty and health benefits. This long-selling brand has been loved by our customers since its launch in 1994. We aim to ensure *Morinaga Aloe Yogurt* has absolute dominance in the fruit yogurt market.

4. *Greek Yogurt PARTHENO*

Launched in 2011, this product is the first Greek yogurt made in Japan. Our unique production technique achieves a triple-thick concentration for a rich, creamy, and delicious yogurt that is the number one brand in its market category. We will work to strengthen marketing around its health value.

5. *PARM*

This brand of ice cream bars, launched in 2005, is known for its smooth, rich, and melt-in-your-mouth deliciousness. We will propose a new price structure and further develop this ice cream brand into a national favorite.

6. *Pino*

This chocolate-coated, bite-sized ice cream has been a favorite among members of many generations since its launch in 1976. We aim to cultivate a wider range of customers, including seniors, and expand our sales channels.

7. *MOW*

This cup-type ice cream launched in 2003 does not use stabilizing agents or emulsifiers and is made with a focus on enhancing the unique deliciousness of its ingredients. We will continue to improve our unique ingredients and production methods.

8. *KRAFT Fresh Mozzarella Cheese*

This is a natural cheese that uses 100% Hokkaido-sourced raw milk. We will continue striving to expand the mozzarella cheese market by proposing new recipes using our 100-gram type and bite-sized products.



Toward Achieving the Medium-term Business Plan

Strengthening Our Main Brands and Increasing Net Sales by 18% in Three Years



Kenichi Ohara
Director
Executive Managing Officer
General Manager of Sales and Marketing Division

Further Enhancing Our Strongest Brands

All of our eight main brands are the result of the Morinaga Milk Industry's respected research and development (R&D) and marketing strengths. These brands feature strengths unmatched by other companies' products, as well as superior qualities that allow them to steadily bring in profit. Under our Medium-term Business Plan, we will carefully maintain the brand value we have built thus far, while further enhancing brand strength by creating various collaborations through initiatives that reach laterally across multiple departments.

Strengthening Our Lineup, Differentiation, and Proposals for New Functional Value

We plan, for example, to maximize the brand exposure of Japan's leading seller in the chilled cup coffee market, the *Mt. RAINIER CAFFÈ LATTE* brand, by strengthening its lineup beyond the current standard four main products in accordance with changes in the era, market environment, and social environment to develop products that meet the preferences and lifestyle needs of a wide range of consumers.

Moreover, 2019 marks the 50th year since Morinaga Milk Industry discovered Bifidobacterium longum BB536. This bifidobacteria is found naturally in the human gut and is beneficial for human health. It is vitally important to the large intestine, so we will work to expand its market share. Starting with the mainstay *Bifidus Plain Yogurt*, we will keep expanding our product lineup by combining bifidobacteria with other functional ingredients. By further extending the possibilities of bifidobacteria, we will also further expand the *Bifidus* brand.

Further Entrenching Existing Channels While Developing New Channels

We plan to expand the net sales of our eight main brands by 18% in three years by focusing on two initiatives to achieve this target. The first initiative is strengthening group-wide initiatives that aim to reciprocally utilize our products in ways that break down current channel barriers. In existing channels, we plan to further entrench existing products, while also proactively introducing new products with added value to gain new customers. Additionally, for both new and existing products, we will expand sales channels by developing new partnerships in places that have not yet sold our products, such as food service providers for elderly care facilities, pharmacies, e-commerce websites, and others.

The second initiative is optimizing the assignments and development of the employees who interact with our business partners. We aim to improve the productivity of our sales department by restructuring it from a business-based structure to sales units focused on specific sales channels, and by nurturing and assigning sales representatives capable of selling products from any department. Also, we will continue to strengthen the development of new sales channels and the expansion of existing sales channels.

Since its founding, Morinaga Milk Industry has built extremely strong brands by maximizing the power of milk and providing customers with healthy products that only it could develop. We will continue to focus our efforts on customer-centric initiatives to provide products that support the physical and mental health of our customers.

Achieving Sustainable Growth by Enhancing Initiatives Laterally across Our Four Pillars of Business

THEME 2

Accelerating Development of Bifidobacteria and Original Product Seeds

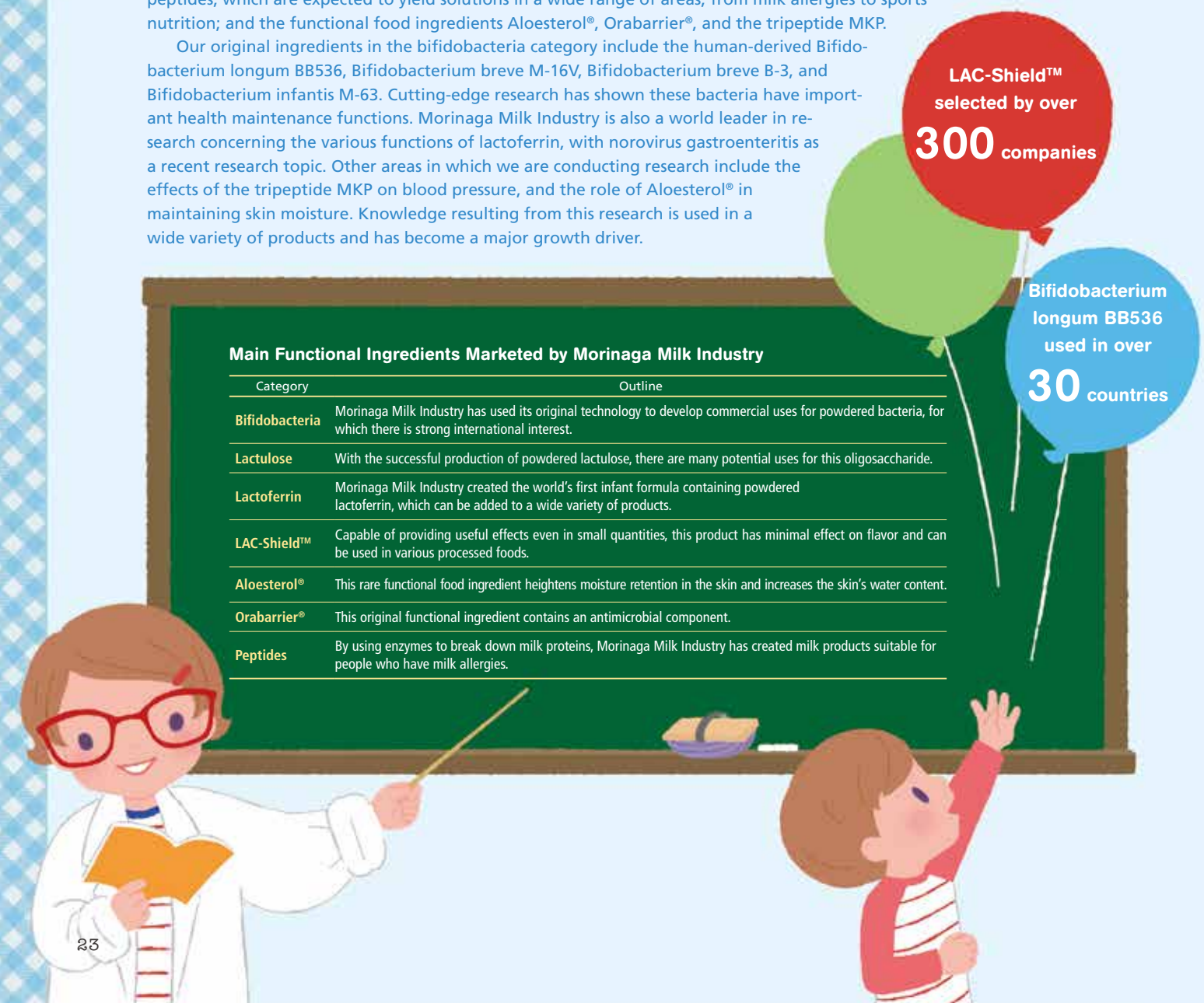
We will step up efforts to introduce functional ingredients, and will focus, in particular, on a differentiation strategy designed to establish a profile for Morinaga Milk Industry both in Japan and internationally as the company equated with bifidobacteria. We aim to increase income 1.5 times* over the next three years. To achieve that, we will invest aggressively in the expansion of bacteria production facilities, ultimately increasing our total Group capacity by a factor of four*.

*Compared to fiscal 2019

Competitive Advantage Based on the Strong Potential of Product Seeds

Morinaga Milk Industry's portfolio of functional ingredients includes: bifidobacteria, one of the main types of probiotic microbiota inhabiting the human large intestine; LAC-Shield™ human-derived lactobacteria; peptides, which are expected to yield solutions in a wide range of areas, from milk allergies to sports nutrition; and the functional food ingredients Aloesterol®, Orabarrier®, and the tripeptide MKP.

Our original ingredients in the bifidobacteria category include the human-derived Bifidobacterium longum BB536, Bifidobacterium breve M-16V, Bifidobacterium breve B-3, and Bifidobacterium infantis M-63. Cutting-edge research has shown these bacteria have important health maintenance functions. Morinaga Milk Industry is also a world leader in research concerning the various functions of lactoferrin, with norovirus gastroenteritis as a recent research topic. Other areas in which we are conducting research include the effects of the tripeptide MKP on blood pressure, and the role of Aloesterol® in maintaining skin moisture. Knowledge resulting from this research is used in a wide variety of products and has become a major growth driver.



Main Functional Ingredients Marketed by Morinaga Milk Industry

Category	Outline
Bifidobacteria	Morinaga Milk Industry has used its original technology to develop commercial uses for powdered bacteria, for which there is strong international interest.
Lactulose	With the successful production of powdered lactulose, there are many potential uses for this oligosaccharide.
Lactoferrin	Morinaga Milk Industry created the world's first infant formula containing powdered lactoferrin, which can be added to a wide variety of products.
LAC-Shield™	Capable of providing useful effects even in small quantities, this product has minimal effect on flavor and can be used in various processed foods.
Aloesterol®	This rare functional food ingredient heightens moisture retention in the skin and increases the skin's water content.
Orabarrier®	This original functional ingredient contains an antimicrobial component.
Peptides	By using enzymes to break down milk proteins, Morinaga Milk Industry has created milk products suitable for people who have milk allergies.

Toward Achieving the Medium-term Business Plan

Increasing Income by 50% by Combining Product Differentiation from Bifidobacteria with the Accelerated Introduction of Original Ingredients

Teiichiro Okawa
Senior Managing Director,
General Manager, R&D Division



Health Focus Driving Rapid Growth in Demand for Functional Ingredients

Society as a whole has become increasingly focused on health, while demographic aging has created an urgent need for measures to extend healthy longevity. These trends are expected to result in expanding demand for health-oriented foods, including foods with functional claims. Morinaga Milk Industry will observe this market environment, expanding the range of uses for its original functional ingredients, and introducing more new products in order to attain further business growth.

We plan to support these growth strategies by actively investing in our plants and equipment to strengthen our supply capacity. We have initiated a project to construct a new building and additional production lines at the Fukui Plant of Morinaga-Hokuriku Milk Industry Co., Ltd. The new facilities will become operational around the fall of 2020.

B-to-C Business Expansion Centering on Yogurt

Yogurt is a major market in the B-to-C Business. We will continue our efforts to achieve further expansion in this area with products that include the *Bifidus Yogurt* series, *Karada Tsuyoku-suru Yogurt* and *Lactoferrin Yogurt*—which both contain lactoferrin—and *Triple Yogurt* with the tripeptide MKP. Our policy also calls for the active utilization of functional ingredients in products other than yogurt, and in supplements.

Raw Material Sales a Key Focus in the B-to-B Business

In the B-to-B Business, we will accelerate the expansion of sales of raw materials, especially powdered bifidobacteria and LAC-Shield™. In recent years, people have become increasingly aware of the importance of a healthy intestinal environment and intestinal flora. We anticipate further growth in the use of these ingredients, especially in supplements. World demand for lactoferrin is also increasing and we see this situation as an excellent opportunity to add further value to our functional ingredients by stepping up our R&D commitment and our efforts to develop products across multiple business segments.

In the Overseas Business, we are developing overseas markets, especially in Southeast Asia, for infant formula with added bifidobacteria and lactoferrin. We aim to expand sales of these products, and to expand the presence of our bifidobacteria products in global markets. Bifidobacterium longum BB536 and Bifidobacterium breve M-16V in particular have been widely used in Europe, North America, Asia, and Oceania in infant formula, supplements, and for other purposes, since they were granted GRAS* certification. We will continue our efforts to expand this business.

*A Generally Recognized as Safe (GRAS) notice is a safety certificate granted to food ingredients by the U.S. Food and Drug Administration (FDA)

Creating Value and Solving Health Problems with Original Product Seeds

For over a century, Morinaga Milk Industry has been pursuing ways to increase human health value through R&D relating to infant formula. These efforts have resulted in the creation of a wide range of unique product seeds. The value of our technology and the data on which it is based is today recognized worldwide, and our products are sold not only to consumers, but also to numerous B-to-B Business customers. We will continue to pursue value through research leading to the creation of seeds for products with the potential to make a real contribution to human health.

Basic Policy for Value Creation 1

Achieving Sustainable Growth by Enhancing Initiatives Laterally across Our Four Pillars of Business

THEME 3

Developing the Overseas Business

We will strengthen our focus on our rapidly expanding Overseas Business by giving priority to business expansion and organizational reinforcement. Our goal is to triple the Group's overseas sales ratio* to 15% over the next 10 years, primarily by expanding our B-to-B Business in the European Union, North America, China, and Southeast Asia, by increasing sales of bifidobacteria and lactoferrin, and by working toward increased growth for our German subsidiary, MILEI GmbH.

*Compared to fiscal 2019



Progress in Key Regions

Target market	Progress
Germany	We are investing over ¥20 billion to expand the production capacity of MILEI GmbH, which manufactures and sells raw milk products.
Indonesia	Our efforts to strengthen production and marketing are yielding sustained growth in local production and sales of infant formula.
Singapore	We are strengthening sales and marketing activities for bifidobacteria and other raw material products in emerging markets in Southeast Asia.
Pakistan	We have the leading brand of imported infant formula. We have established a joint venture company to manufacture and sell infant formula in anticipation of further growth.
Vietnam	Increased local marketing efforts have resulted in strong sales of infant formula and brand recognition is also improving.
The U.S.	We have moved into the yogurt market in anticipation of future growth with the sales of *alove*, a yogurt product containing aloe vera.



Toward Achieving the Medium-term Business Plan

Completing a Solid Business Foundation and Working toward Tripling the Overseas Sales Ratio



Kiyoshi Nomura
Executive Managing Officer
General Manager, Overseas Business

Increased Focus on the Export of Infant Formula and the Powdered Bacteria Business

The core elements in the Overseas Business operations of Morinaga Milk Industry are the export of infant formula, the powdered bacteria business, and the dairy product ingredient manufacturing and sales business of MILEI GmbH. Our Medium-term Business Plan calls for a continuing focus on these business operations, which we see as essential foundations for the achievement of our goals.

Our efforts to expand our export business for infant formula will focus primarily on Asia. We aim to expand our shares of markets in which we are already present, and to open up new markets. Demand for powdered bacteria is growing in many countries in step with a global rise in health awareness. We will expand sales by leveraging the potential of our unique product seeds, such as bifidobacteria and LAC-Shield™, while also developing supply structures to support sales growth.

MILEI GmbH, a Key Driver for Overseas Business Growth in the Medium- to Long-term Future

We will work to maximize the benefits of investment in the expansion of MILEI GmbH's production capacity by improving operating rates, ensuring stable quality, and increasing added value. We also aim to achieve further sales growth through the expansion of production capacity for lactoferrin to meet projected demand growth.

A key advantage for MILEI GmbH is the high standard of its technology, including manufacturing, quality management, and applied research technology provided by Morinaga Milk Industry. MILEI GmbH's business performance is driven primarily by its large share of the global market for high purity lactoferrin, which it produces using manufacturing technology based primarily on membrane filtration technology. We will continue to enhance MILEI GmbH's strengths so that it can achieve its real potential as a source of future business.

New Business Initiatives

We are moving forward with plans for the development of new business operations, including a B-to-C Business, in Southeast Asia. We will begin by launching a B-to-C Business targeting a limited range of countries and regions. Our strategy is first to put local production and sales on track, and then to expand into the markets of neighboring countries.

In the past, our main approach to overseas business development has been to avoid risk by taking minority stakes in joint ventures and selling our products through agencies. Going forward, we will shift to a basic strategy of taking majority shareholdings, and maintaining control of local business development by assigning our own employees overseas.

Strong Commitment to Evolution as a Global Enterprise

The contraction of the Japanese market is inevitable as Japan's population shrinks, so our pursuit of future growth will naturally take us into overseas markets. Our target of tripling the overseas sales ratio over the next 10 years is ambitious. However, we have made a management commitment to focus all of our resources toward the achievement of this target, and we believe that company-wide efforts can transform Morinaga Milk Industry from a company focused mainly on domestic markets into an innovative global enterprise within 10 years.

We are determined to evolve into a global company that exerts a unique presence worldwide, and achieve our goal of bringing "Ever Brighter Smiles" to people throughout the world, by actively investing management resources accumulated through our business in Japan and in our Overseas Business operations.

Achieving Sustainable Growth by Enhancing Initiatives Laterally across Our Four Pillars of Business

THEME 4

Building the Foundations of a Next-generation Healthcare Business

The Morinaga Milk Group has used technology developed through its milk-related activities to create numerous health-enhancing products. Going forward, we will take this process a step further by developing and supplying products to meet food and health expectations from a more long-term perspective. We will also expand our efforts to develop new marketing channels, including digital marketing and e-commerce.

POINT 01
Develop products that address health issues and create a business structure that can provide them appropriately

POINT 02
Create a foundation for a next-generation healthcare business that helps extend healthy lifespans and improve well-being

POINT 03
Develop nutritional supplements for all generations and build up digital and e-commerce channels

Roadmap for a Next-generation Healthcare Business

Fiscal year 2020	Fiscal year 2021	Fiscal year 2022	Fiscal year 2023–Fiscal year 2025
Test sales Test sales in sales channel and review	**Strategies to encourage multi-purpose use** Sales of new products in appropriate channels	**Build business model** Build model for new health business from testing	**Expand new businesses** Cultivate products, build up brand, and increase customers



CLINICO Nutritional Foods and Liquid Foods Business

Ensuring Lifelong Enjoyment of Food

Demographic aging in Japan has been accompanied by steady increases in the numbers of people who need nursing care, who are recovering from illness, or who hope to prevent illness. The Morinaga Milk Group helps the elderly and those who are sick to enjoy food and maintain their quality of life by developing foods for medical and elderly care situations, with the emphasis on taste, nutritional value, safety, and ease of swallowing.



CLINICO—Contributing to Clinical Nutrition for over 40 Years

Established in 1978 as a wholly owned subsidiary of Morinaga Milk Industry, CLINICO is the hub of the Morinaga Milk Group's Wellness Business. CLINICO and Morinaga Milk Industry's Wellness & Nutritional Science Institute collaboratively develop new products using feedback collected from frontline medical care facilities by CLINICO's nutritional information advisors.

CLINICO's corporate philosophy emphasizes contribution to the improvement of quality of life. CLINICO and Morinaga Milk Industry work together to create easy-to-use products that combine basic food product requirements, such as safety, ease of swallowing, and delicious taste, with the product's health functionality.

CLINICO Initiatives

CLINICO has built an extensive lineup of products to meet specific needs based on the medical status of individuals, including liquid foods, foods for medical care, nutritional supplement foods, and pureed foods formulated for people with swallowing difficulties.

Liquid food products are formulated not only to provide nutritional balance, but also in a range of consistencies, such as liquid, pureed, and semi-solid, to facilitate use in various situations.

In 2001, CLINICO introduced the *CZ-Hi* range of highly nutritious liquid foods. After screening by the Consumer Affairs Agency, these products were approved for labeling as Category 1 Foods for Special Dietary Uses (FOSDU). *CZ-Hi* products have consistently been among the top-selling products in the market for liquid foods.

Enjoy Climeal general nutritional supplement drinks were developed in response to input from medical care professionals. They are available in eight flavors and are supplied in single-serving portions suitable for use as dietary supplements.

New Possibilities Created by the Morinaga Milk Group

Oral nutrition is becoming an increasingly important consideration in medical and aged care situations. There has also been an increase in the number of people dealing with malnutrition and nutritional imbalance.

Through decades of research, the Morinaga Milk Group holds a variety of health-enhancing ingredients. We have also accumulated extensive knowledge and expertise concerning clinical nutrition through CLINICO. As health needs become more diverse, the Morinaga Milk Group will have an important advantage thanks to its ability to offer completely new types of healthcare products that combine multiple ingredients with delicious taste. Our priorities going forward are to use our wide-ranging capabilities, including the resources of the CLINICO business, to expand the initiatives that span our businesses, and to build the foundations of a next-generation healthcare business.

Basic Policy for Value Creation 2

Performing Business with an ESG Focus Aligned with Our Corporate Philosophy

Our long-term vision is to build Morinaga Milk Industry into a company that can make a continuing contribution to creating a sustainable society. We are working to put our management philosophy into effect through management policies that emphasize the environment, society, and governance (ESG). Under our Medium-term Business Plan, we aim to achieve targets based on key performance indicators (KPIs) for seven priority issues selected in 2018.

Priority Issues	Direction of Thoughts and Activities
 Health and Nutrition	Contribute to the extension of healthy lifespans
	Contribute to the healthy growth of babies and infants
 The Environment	Expand environmental activities, which had been centered on production divisions, to all consolidated companies and all divisions
	Promote use of environment-friendly packaging
 Human Rights	Identify ingredients and suppliers that affect Company management
	Respond to the Group's foreign employees (including those working for cooperating companies)
 Supply Chains	Efficient supplier management corresponding to material risk
	Create a system for providing safe and high-quality products
 Nurturing the Next Generation	Provide a place to learn about food culture and nutrition in order to acquire the basic skills to live healthy and enjoyable lifestyles, and provide a place to learn about the gifts of nature and the techniques and research that utilize them
	Establish an environment in which the next generation can be raised
 Human Resource Development	Develop employees who can perform in a global business environment
	Encourage the independent growth of each individual employee by pursuing diversity
 Corporate Governance	Transparent, equitable, prompt and bold decision-making based on diverse values in Board of Directors' meetings
	Strengthen the management system

Main KPIs	Related SDGs
Bring products incorporating nutritious functional ingredients onto the market	
Provide Bifidobacterium breve M-16V; continue to provide in over 120 facilities in Japan and overseas	
Offices with ISO 14001 certification: ensure that all offices of consolidated companies have earned this certification by 2030	
Weight of plastic packaging covered by the Containers and Packaging Recycling Law: down 10% compared to fiscal 2013	
Create a list of important suppliers	
Set up a working environment for the Group's foreign employees	
Strengthen mechanism for evaluating supplier management level depending on each material's risk	
Acquire FSSC 22000 certification at all of the Group's 29 plants by fiscal 2020	
Total participants over three-year period starting in 2019: 300,000	
Provide ongoing consultation on infants with the Angel 110 hotline; handle calls from a total of 1 million people by fiscal 2020	
Pursue a program for training global human resources	
Provide ongoing training for female leaders, training to encourage balance between work and childcare, and pre-management training; HR department will carry out interviews of young employees	
Evaluation scores and comments in evaluation of Board of Directors (diversity of Board of Directors and substance of discussions)	
Augment regular committees (Personnel Remuneration Committee, Internal Control Committee, CSR Committee)	

Basic Policy for Value Creation 2

Performing Business with an ESG Focus Aligned with Our Corporate Philosophy



Priority Issue

The Environment

Most of the raw materials for milk and other Morinaga Milk Group products are created from the bounty of nature in the form of agricultural products. Protecting the natural environment that nurtures these products is therefore vital to business continuity. We are helping to build a sustainable society by manufacturing safe, dependable products while pursuing a range of environmental initiatives, including energy conservation, measures to address climate change, the reduction of waste and food loss, and measures concerning plastic containers.

01 Resource Recycling and Container and Packaging Initiatives

In the six years between the fiscal years ended March 31, 2014 and March 31, 2019, we reduced the amount of food waste by approximately 6,000 tons. Examples of food recycling initiatives include reusing 100% of the soybean husks left after tofu production as feed for the dairy cattle from which we obtain raw milk used to produce dairy products. We have defined design requirements for environment-friendly packaging in our Eco-package Guide, and in the fiscal year ended March 31, 2019 we established a Plastic Measures Subcommittee under the CSR Committee to consider packaging-related countermeasures, such as the reduction of plastic container use, and the introduction of biomass plastics. In order to help cut down on food loss, another of our priorities is the development of long-life products*1 that retain a long shelf life without any deterioration in flavor, even without the use of preservatives.

*1 Products packaged and sealed under sterile conditions to ensure a long shelf life while maintaining the original flavors

02 Climate Change Initiatives

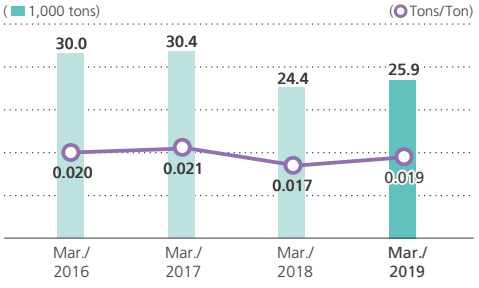
We are reducing emissions of the greenhouse gas CO_2 through energy-saving measures in all of our plants. For example, we are upgrading to high-efficiency refrigerating machines and using inverter technology in air conditioning systems, wastewater treatment pumps, and other systems. We are also switching from fuel oil to natural gas. There has also been steady progress on the reduction of logistics-related emissions through measures that include a modal shift from trucks to rail and sea transport, the use of joint transportation, and the introduction of low-emission vehicles. We aim to achieve further reductions in CO_2 emissions by accelerating these initiatives.

03 Effective Utilization of Water Resources

We have installed wastewater treatment facilities at all of our plants to ensure that water can be returned to the natural environment in a clean state after use. We are also continually developing and enhancing our technology to improve the performance of these systems. In addition, the efficiency of water resource utilization in our plants is being raised through the recycling of water for cleaning purposes.

Please refer to page 12 for information about the scope of data collection.

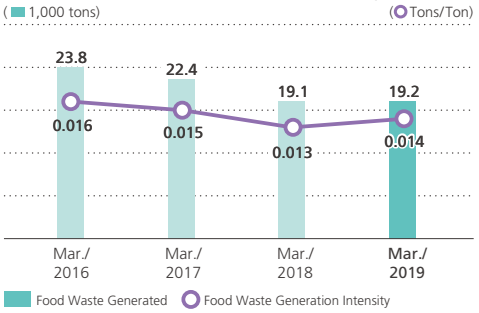
Industrial Waste Emissions*2 and Intensity



*2 The amount for which waste manifests were issued

Notes: 1. Industrial waste emissions intensity: The weight of industrial waste (tons) discharged over one year divided by annual production (tons).
2. Past values have been recalculated and revised for consistency with the calculation method used for fiscal year ended March 31, 2019.

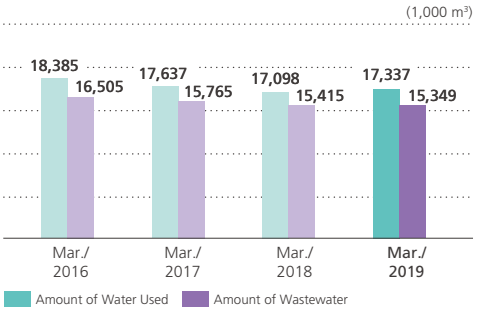
Food Waste Generated*3 and Intensity



*3 The amount of industrial waste, valuable resources, and animal and vegetable residues processed onsite

Notes: 1. Food waste generation intensity: The weight of food waste (tons) discharged over one year divided by annual production (tons).
2. Past values have been recalculated and revised for consistency with the calculation method used for fiscal year ended March 31, 2019.

Amount of Water Used/Amount of Wastewater





Priority Issue

Supply Chains

The key to our business is milk and, because of the challenges facing the Japanese dairy farming industry, ensuring a reliable supply of milk has become an urgent priority. We are constantly thinking about ways to enhance our ability to supply safe, dependable, high-quality products to our customers, and we have implemented various initiatives across all of our supply chains to ensure reliable supplies of milk and sustainable procurement in Japan and overseas.

01 Initiatives to Promote Dairy Farming and Increase Raw Milk Production in Japan

After peaking out at 8.66 million tons in the fiscal year ended March 31, 1997, milk production in Japan has remained on a downward trend ever since. Today, the Japanese dairy industry is operating in an extremely difficult environment. Morinaga Dairy Service Co., Ltd., a member of the Morinaga Milk Group, has worked for many years with the Morinaga Dairy Farming Promotion Association, which was established to support the development of the Japanese dairy industry, and the Dairy Farm Services Department of Morinaga Milk Industry to support dairy farming, which is the foundation of our business.

As part of its livestock feed sales business, Morinaga Dairy Service provides support to dairy farmers on various levels—including nutritional management for dairy cows, breeding management, and environmental management—through its dairy cow husbandry consultation services. As one of Japan's leading dairy product manufacturers, Morinaga Milk Industry will continue to work toward the sustainable development of dairy farming and the expansion of raw milk production in Japan.

02 Ensuring Reliable Access to Overseas Dairy Raw Materials

To improve the reliability of access to raw materials, Morinaga Milk Industry also procures dairy raw materials from overseas, including Oceania, the U.S., and Europe. Because overseas procurement is vulnerable to risk factors relating to climate change and political developments, we use multiple procurement channels wherever possible. This approach ensures that we are always able to purchase dairy raw materials at appropriate prices and with reliable quality.

We will continue to monitor trends in milk production in Japan, while also enhancing our structures to achieve increased stability in our procurement operations. In preparation for future shortages of dairy raw materials, our research facilities and plants are also engaged in collaborative research into the design of compounds that can be used as new dairy raw ingredients.

COLUMN

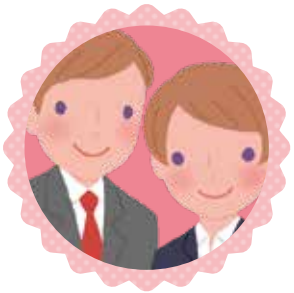
Triple-check System to Ensure Product Safety and Quality

The Morinaga Milk Group believes that excellent products can only be made with safe, high-quality ingredients. To achieve this, we have established the "prior lot inspection" system to ensure product quality and safety from the raw material procurement stage. Under this system, the Quality Assurance Department inspects each lot of raw materials in advance before delivery to our plants. During these inspections, raw materials are evaluated according to specific standards, and the results are recorded in a database accessible by the plants that use the raw materials. Only raw materials that pass this inspection are delivered to our plants, but even after delivery they undergo a further "triple-check" process on acceptance, during warehouse storage, and before use in production.



Basic Policy for Value Creation 2

Performing Business with an ESG Focus Aligned with Our Corporate Philosophy



Priority Issue

Human Resource Development

Over the next hundred years, we will strengthen the development of employees who are self-motivated, and can decide on issues to address, take action, and attain results in order to nurture a corporate culture of pursuing challenges. At the same time, we will foster a culture that allows growth in various workplaces, and through a continuous development cycle, achieve "Ever Brighter Smiles" and support the sustainable growth of the Group.

01 | Supporting Diversity

As stated in the Morinaga Milk Diversity and Inclusion Declaration, our business activities are guided by our belief that we should not just accept diversity, but also create an environment in which employees can fully realize their own individuality and abilities, while mutually accepting differences. We will continue to respect the diversity of our employees and provide workplaces in which all employees can work to their full potential through specific initiatives that include career development for women, the enhancement of childcare support systems, the introduction of a support system for employees caring for elderly relatives, and the provision of employment opportunities for people with disabilities.

02 | Global Human Resource Development Programs

Morinaga Milk Industry defines global human resources not as employees who can speak English, but as people who can establish relationships with non-Japanese people from different backgrounds and with different values, express their own wishes precisely, reach agreements, and engage in business. We will continue to train employees with this global mindset to support the future growth of our Overseas Business operations through various initiatives, such as the Global Business Skills Enhancement Program, and the Overseas Trainee Program, which gives young employees opportunities to work and gain life experience overseas.

03 | Health Management

The Morinaga Milk Group's corporate philosophy encourages employees to "Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology." As a first step toward the realization of this philosophy, we announced the Morinaga Milk Health Declaration* in 2015, with the aim of ensuring that every employee is in good health. In line with this declaration, we are implementing employee health promotion initiatives, including preventive and medical care, and relapse prevention activities from the perspectives of both physical and mental care.

*Partially revised in August 2017

Morinaga Milk Health Declaration

The Morinaga Milk Group's corporate philosophy is "Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology." This philosophy is made possible only through the daily efforts of every employee, who must be in good health in order to contribute to the health of others.

Morinaga Milk declares that, as a company that aims to contribute to the public's health, we consider the health of our employees an important asset and therefore affirm our intention to actively enhance health promotion efforts to maintain and advance the health of our employees.

Specifically, we have implemented the Morinaga Milk Health Management Program which takes on initiatives of disease prevention, treatment and relapse prevention in terms of both physical and mental health care.

Program participants are the entire body of employees including executives. Each person should take charge of their own health management, as it is fundamentally one's own responsibility to ensure their own health. The company is actively providing its support in this regard.

Health is a priceless treasure that cannot be replaced. Staying healthy allows us to enrich our lives and perform work with enthusiasm and energy.

We ask our employees to take advantage of the resources available at the company while taking it upon themselves to maintain and improve their own health. I hope that everyone will make a proactive effort to stay healthy and therefore work with enthusiasm and energy.

August 1, 2017

Michio Miyahara
President and Representative Director

Toward Achieving the Medium-term Business Plan

Using Our Business and Activities to Address Social Issues and Work toward Sustainable Growth with Society



Mitsumasa Saito
Director
General Manager of Corporate Communication Division

ESG Initiatives Vital to the Improvement of Medium- to Long-term Corporate Value

We, as individuals, help to create the societies in which we live. Since companies are obviously members of society, Morinaga Milk Industry must help to address the challenges confronting society, including climate change and associated resource-related problems, environmental problems, and human rights issues. Furthermore, there is now general acceptance in the market of the fact that ESG initiatives enhance a company's corporate value, and specifically that it can influence that value from a medium- to long-term perspective.

For these reasons, ESG measures are an indispensable part of our efforts to achieve the goals in our Medium-term Business Plan and achieve further sustainable growth afterward. We are confident that our achievements in this area will ensure that Morinaga Milk Industry continues to be a company needed by society.

Focus on Health and Nutrition, the Environment, and Nurturing the Next Generation

We have identified seven ESG priority issues, with a particular focus on Health and Nutrition, the Environment, and Nurturing the Next Generation. We see these as three areas in which we can best utilize the strengths of the Morinaga Milk Group.

For example, the extension of healthy longevity has become an important priority in recent years. We offer a range of products that contribute to health and nutrition, including products containing functional ingredients, such as bifidobacteria, peptides, and lactoferrin, as well as infant formula that promotes healthy growth in young children.

For many years the Morinaga Milk Group has been an industry leader in the areas of biomass heat utilization and wastewater treatment. We believe that our accumulated technology and know-how in these fields have the potential for future uses in environmental measures. Morinaga Milk Industry was also an early developer of long-life products, which have also attracted renewed interest in recent years because of the potential of this technology to contribute to reduction of food loss.

Our initiatives that address the issue of Nurturing the Next Generation include the Morinaga Little Angels Program: Expedition Team Exploring Forest and Food, and the Angel 110 hotline, a free counseling service on childcare. We will continue to implement measures to support the healthy development of children.

Strengthening Information Dissemination and Company-wide Evolution toward the Next Stage

As a company dedicated to health and happiness, the Morinaga Milk Group has implemented a wide range of sustainability-related initiatives. However, we have not done enough to disseminate information about these initiatives. Going forward, we will enhance our information disclosure through our websites, integrated reports, and other channels. We will also take immediate steps to establish systems to ensure timely sharing of information, including stakeholder assessments and opinions and social trends, within the company.

Stakeholder input helps to motivate employees by encouraging them to think about their own roles, and about the Morinaga Milk Group's relationship with society. We believe that the role of management is to maintain this feedback cycle and turn it into a driving force for growth.

We will continue to strengthen our ESG initiatives and work toward further growth, starting with areas in which we can make improvements now, through the implementation of the Medium-term Business Plan.

Basic Policy for Value Creation 3

Further Strengthening Our Business Base in a Manner that Supports the Foundations of Our Corporate Activities

We will work from the following six perspectives to enhance our management infrastructure through initiatives linked to our 10-year Vision and management policies. Our approach to the challenge of creating value based on the unique strengths of Morinaga Milk Industry will focus not only on the improvement of business efficiency and financial strategies, but also on enhancing the corporate brand, further development of our human resources, and contribution to society through R&D.

Corporate Brand

Shift from a multi-brand strategy to a strategy aimed at strengthening the corporate brand.

Our corporate communication theme will be "Partnering Together for Life for a Healthy Body and Mind." Under this theme, we will implement initiatives that reflect the unique capabilities of Morinaga Milk Industry, while also working to improve our corporate brand value through the optimization of resource allocations to each function.

Human Resource Development

Secure human resources as well as optimal employee assignment and retention in the Group overall.

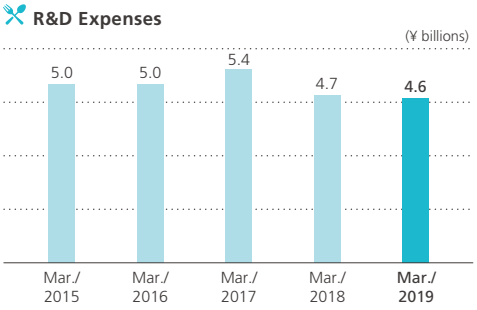
We will adapt to the accelerating shrinkage of Japan's working population through wide-ranging recruitment activities, including mid-career hiring, and the acceptance of foreign workers. We will also improve efficiency by utilizing technologies such as AI, the IoT, and robotics, while also working to optimize recruitment and assignments in step with rationalization measures.

Research and Development

The Morinaga Milk Group will work toward our vision of "Ever Brighter Smiles" through R&D, by focusing our R&D activities on priority areas and optimizing our allocation of resources.

We will continue to respond to today's health priorities through health and nutrition research that addresses the needs of all age groups. We will also continue our efforts to create new products that are useful to society by focusing not only on health functionality, but also on basic aspects of the food experience, such as delicious tastes and a sense of enjoyment.

R&D Expenses

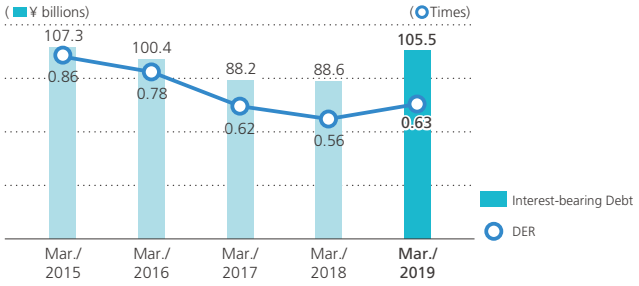


Capital and Interest-bearing Debt

Improve asset efficiency by maximizing the asset value of our head office building and promoting the sale of idle assets as well as repay interest-bearing debt and secure funding capacity.

We will maximize asset value and work toward harmonious coexistence with the local community by selling about one-half of trust beneficiary rights in our head office building, from which we anticipate extraordinary income of ¥7 billion in the fiscal year ending March 31, 2020. To achieve further improvements in asset efficiency, we will work to build up our financial resources to provide for major investment projects, such as investment in plant and facilities, and mergers and acquisitions.

Interest-bearing Debt/DER





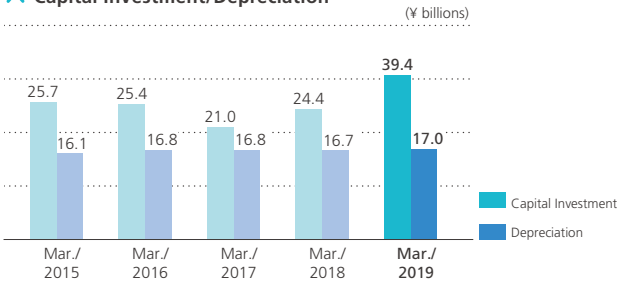
Capital Investment

Actively invest in growth areas and continue to review our domestic production system.

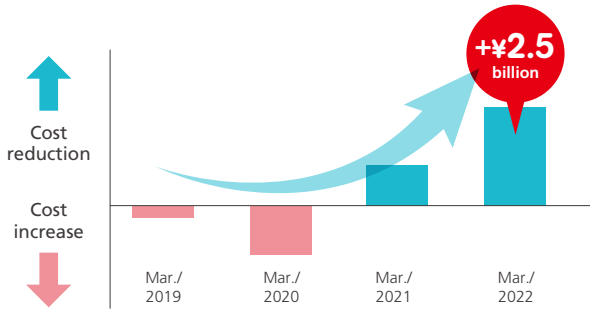
Our expanding bacterial products business is a priority focus for investment projects, such as the expansion of production lines for bacterial products at the Fukui Plant of Morinaga-Hokuriku Milk Industry. We plan to quadruple* production capacity in the future. In addition, as part of our rationalization measures, we will discontinue production at the Kinki Plant in March 2020 and the Tokyo Plant in March 2021.

*Compared to fiscal 2019

Capital Investment/Depreciation



Cumulative Effect of Production Structure Optimization on Operating Income* (Compared with the Fiscal Year Ended March 31, 2018)



*Mainly allocations resulting from the discontinuation of production at the Kinki and Tokyo plants

Capital Policy

Aim to achieve a dividend payout ratio of 20% and maintain a balance between growth investments and financial stability.

We estimate that cash flows from operating activities will reach ¥100 billion over a three-year period starting in April 2019. This will be allocated mainly to growth investment and the repayment of interest-bearing debt. We believe that the most important priority of our capital policy is shareholder returns. We aim to achieve a dividend payout ratio of 20%, while maintaining a balance between growth investments and financial stability.

Operating cash flows: ¥100 billion

Growth Investment	● Growth investment: about ¥50 billion ● Ordinary capital investment: about ¥13 billion/fiscal year
Financial Stability	● DER: to be maintained at 0.5 or lower ● Interest-bearing debt: ¥90 billion or lower
Shareholder Returns	● Provision of resources for growth investment and financial stability ● Target payout ratio: 20% Increased dividends in both fiscal year ended March 31, 2019 and fiscal year ending March 31, 2020

Directors and Audit & Supervisory Board Members (As of June 27, 2019)

Director

Kenichi Ohara
(Sales, Marketing)

Managing Director

Tsuyoshi Minato
(General Management, Special Affairs)



Director

Mitsumasa Saito
(Corporate Communications, CSR, Auditing)

Full-time Audit & Supervisory Board Member

Keiki Hirota

Senior Managing Director

Teiichiro Okawa
(R&D, Overseas Business)

President and Representative Director

Michio Miyahara

Senior Managing Director
Yoichi Onuki
(Planning, Finances, Information System)

Managing Director
Shigemi Kusano
(Quality Management, Production, Dairy Farms, Logistics)

External Director
Shoji Kawakami

Full-time Audit & Supervisory Board Member
Koji Kimura

External Audit & Supervisory Board Member
Masahiko Ikaga



Executive Vice President and Representative Director
Junichi Noguchi

External Audit & Supervisory Board Member
Mayumi Yamamoto

External Director
Takatomo Yoneda

Building a More Effective Governance System and Achieving the Targets in the Medium-term Business Plan



Shoji Kawakami
External Director

Michio Miyahara
President and Representative Director

Takatomo Yoneda
External Director

Improving Corporate Value through Continuing Governance Reforms

— How do you view the changes in the Morinaga Milk Group's initiatives relating to corporate governance, and the resulting changes in the Board of Directors?

Miyahara: The Morinaga Milk Group has continually worked to develop and enhance its corporate governance systems with the aim of achieving sustainable growth and improving corporate value. In 2015, we adopted the Morinaga Milk Group Corporate Governance Guidelines, which define our basic thinking on corporate governance. I believe that we have succeeded in enhancing our effectiveness by creating systems designed to strengthen independence, transparency, and supervisory functions. I'm sure that these changes are very apparent to Mr. Kawakami and Mr. Yoneda, who have been involved in management since 2015 as external members of the Board of Directors and the Audit & Supervisory Board, respectively.

Kawakami: There has been a significant change in the tone of Board meetings. When I first became an external director in 2015, it seemed that once the direction of the agenda had been established to some extent, the process was one of confirmation rather than debate. Now all conclusions are reached through thorough discussion involving all Board members. Meetings are very lively, and I believe that they are also more effective.

Yoneda: When I first became an Audit & Supervisory Board member, my impression was that Morinaga Milk Industry had a very coherent corporate culture but, because of perfectionistic tendencies, it lacked management dynamism. I actively sought to provide advice not only from my perspective as an auditor, but also on the basis of my own management experience. My advice focused in particular on the need to revitalize the Board of Directors, and I didn't hesitate to offer input about approaches to budgeting and medium-term planning, as well as ways to speed up decision-making and execution of operations. I also proposed ways to turn meetings from information-sharing forums into decision-making opportunities, and to improve the quality of debate focusing on core management issues.

Based on my observations over the past four years, Morinaga Milk Industry is definitely heading in the right direction. This year I have joined the Board as an external director. In that capacity, I will draw on my experience as an auditor to ensure appropriate governance and contribute to further improvement in corporate value.

Miyahara: The formulation of the previous Medium-term Business Plan in 2015 was a turning point for the Morinaga Milk Group. Our efforts to raise awareness and reform our corporate culture have benefited from wide-ranging input from these two highly experienced people who became external officers in that year. Analyses and assessments of the effectiveness of the Board of Directors since 2016 have shown improvements in successive years in a number of areas, including the administration of Board meetings, the quality of deliberations, and collaboration with external officers. I believe that there has been a sustained improvement in the effectiveness of the Board of Directors. Of course, we still have more work to do.

10-year Vision and New Medium-term Business Plan Formulated through Free and Open Discussion

— What discussions took place in Board meetings during the formulation of the Morinaga Milk Group 10-year Vision and the Medium-term Business Plan?

Kawakami: I participated in the formulation of the 10-year Vision and the new Medium-term Business Plan and provided frank input. In order to achieve sustainable growth, a company needs to inform its stakeholders, especially its employees, about the goals that make up its future vision. When individuals have a future vision, they start to think positively about working toward that target, and that becomes a vital driver for the company's growth. That's why we needed to provide a 10-year Vision for the

Morinaga Milk Group, and to calculate back from that vision to determine what we need to do in the first three years, and in the three years after that. We cannot create long-term growth strategies simply by formulating business plans on a three-year cycle. I put particular stress on this point in my comments.

Yoneda: The idea was to approach the formulation of medium-term plans as opportunities to strengthen the company's structure by viewing the three-year periods in the context of a 10-year Vision. Initially this approach caused confusion at the executive level, and they were unsure how to align with this perspective. However, eventually the organization was able to come together in solidarity.

Miyahara: The Morinaga Milk Group has not yet developed a culture of visualization in the long term when it comes to management, and the suggestion that we should formulate strategies by calculating back from goals became an opportunity to change perceptions within the company. This in turn led to a deepening of the debate, which resulted in the formulation of a long-term vision.

Yoneda: On the other hand, we said very little about detailed figures. The most important aspect of our role as external officers is to orient the direction of management toward achieving the best possible outcome for the company. I believe that the setting of individual numerical targets should be left to the executive level.

Kawakami: Mr. Yoneda and I are currently interviewing other directors about medium- to long-term action plans, including the three-year plan. We want to check that the Group does not simply have numerical targets for sustainable growth and the improvement of corporate value, but also has growth strategies accompanied by action plans.

The Next-stage Priority –Acceleration

— What do you see as the future priorities for the governance structure?

Kawakami: Above all, the emphasis needs to be on speed. I feel that we still are not moving fast enough in all aspects of management. Changes in the business environment over the past few years have created a number of problems. To improve our effectiveness, we need to prioritize these problems and take action as quickly as possible.

Yoneda: Another factor is the company's deep-rooted culture based on individual divisions. People tend to take great care over the areas in which they work, but not pay much attention to what happens in other areas, which can slow down decision-making and other processes. We need to cultivate awareness so that people can look at their work from a higher vantage point. To achieve this, I believe that we also need to implement comprehensive reforms and reviews of our systems, including personnel evaluation.

Miyahara: I am keenly aware that we are not moving fast enough. As you say, people in this organization are strongly focused on their own areas of activity, and our structure tends to inhibit cross-organizational collaboration and communication. There was a time when we could operate successfully under this structure, but that will not be an option in the future. I believe that we need reforms to shift our focus from localized to general optimization. Morinaga Milk Industry also needs to evolve into a company capable of flexible collaboration, both within the organization and externally. The body that must play a vital role in all of these reforms is the Board of Directors. I believe that we can enhance the functions of the Board of Directors and increase our speed by looking at things from a more elevated perspective and leading a process of selection and concentration based on careful analyses of situations and appropriate decision-making. I also believe that by repeating this process, we can build a new corporate culture.

Kawakami: The environment for the food industry is always changing. While numerical targets are obviously important for companies in this industry, it is also necessary to monitor the situation from short-, medium-, and long-term perspectives, and to formulate and implement action plans for sustainable growth. We also need to prepare a Plan B and a Plan C based on scenarios in which our initiatives do not yield the anticipated results. The role of the Board of Directors is to check these processes through a Plan-Do-Check-Act (PDCA) cycle. As external directors, I think we have a particularly important responsibility in that context.

Yoneda: Projects in new areas, new business initiatives, and M&A are all likely to increase as the Morinaga Milk Group works toward becoming a global enterprise. We need to discard thinking that is based on an extension of past approaches, and evolve into an organization capable of taking up new challenges. From that perspective, too, I believe the role of the Board of Directors will be even more vital than in the past. The Board of Directors should aim to provide leadership for the development of an organization that can focus all of its assets toward the struggle for success.

— What changes are needed in employee attitudes?

Miyahara: It will not be easy to change both a corporate structure and culture that have been evolving for over 100 years. However, we are working with a strong sense of urgency to make fundamental changes to our corporate culture and reform attitudes, so that we can become a truly strong company.
Yoneda: Changing employee attitudes will be a key factor. Organizational reforms will be ineffective unless people also change. The strongest companies are those in which the majority of people look at the world from a high vantage point, who make decisions quickly, and who have a strong sense of responsibility. A company ultimately consists of people. Employees who approach their work with a strong sense of challenge and a powerful commitment to achieving targets, and a company structure to proactively recognize their achievements—as directors, our role is to support both of these. I would like to further strengthen that type of connection.
Kawakami: The Morinaga Milk Group has excellent people with a lot of talent and technology development skills, and the key to success is the way in which we utilize this. I think that we can move to a new growth phase provided that we create systems that do not erode motivation and the spirit of challenge. For example, we must ensure that achievements are properly recognized, and that we provide opportunities for people to take up challenges.

Toward Further Growth and Improved Corporate Value

— What are your aspirations for the years ahead?

Yoneda: The next 10 years will be a crucial time in which our ability to ensure the future survival of the Morinaga Milk Group will be put to the test. Fortunately, current trends are favorable for us. I want to ensure that we maintain this momentum by thoroughly supporting management reforms and encouraging people to prepare themselves for initiatives in completely new fields. While working to maintain and improve appropriate governance systems, we also need to shift the focus toward management participation, and to provide strong support for management by raising awareness of the fact that governance consists not just of directing, but also of hands-on leadership.
Kawakami: The real test lies ahead of us. We must make every effort to encourage strong management and quick decision-making, so that we can build a robust business base in the three years of our medium-term plan for the 10 years ahead. Risk is inevitable in business, and it is important that those involved take personal responsibility for minimizing and assessing risk. I believe that the decision-making cycle can be accelerated when every individual sees himself or herself as a manager.
Miyahara: We will move toward the realization of our 10-year Vision. I believe that we are on the threshold of a reform process that will create a truly strong corporate structure as the basis for sustainable growth. For the first three years, we will work to create a new corporate culture for the Morinaga Milk Group by putting in place reforms without exempting any aspect of our organization, while also comprehensively implementing reforms designed to strengthen our management structure. Our total corporate resources will be focused toward the achievement of sustainable growth and the improvement of corporate value.

Corporate Governance

Basic Approach

The Morinaga Milk Group contributes to society through its business activities, based on its Corporate Mission, and continually works to develop and enhance a highly effective corporate governance system to achieve sustainable growth and increase corporate value, under the basic policies on the right.

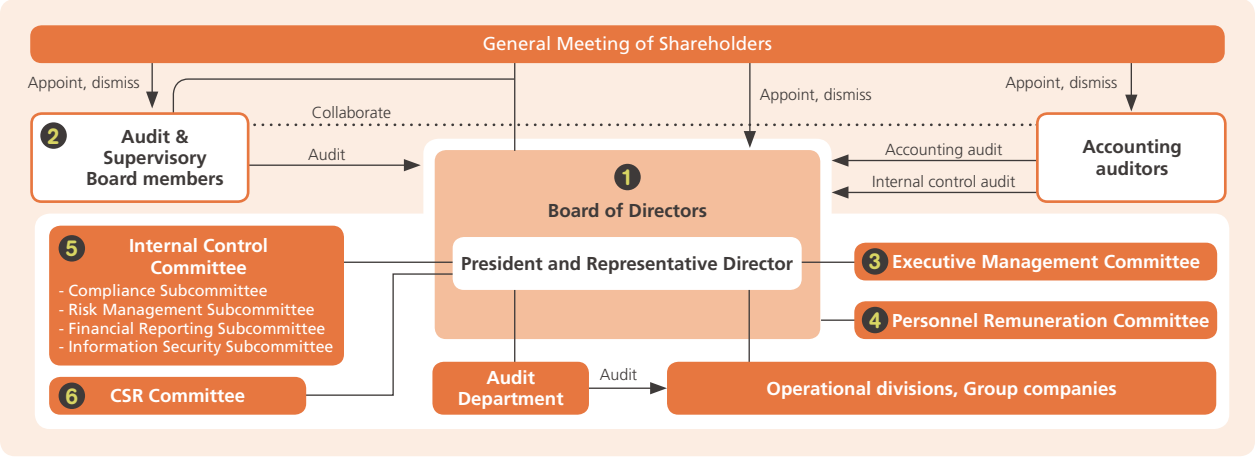
In accordance with the Companies Act of Japan, the Company selected the framework of a company with an Audit & Supervisory Board to set up a double-checking structure, with the Board of Directors providing supervision and the Audit & Supervisory Board members performing audits of legality and appropriateness. The Board of Directors functions as the highest decision-making body for management and, through organic collaboration with all components of the corporate governance framework, strives to maintain and improve management transparency, fairness, and speed to ensure its effectiveness.

Basic Philosophy

The Group shall work to develop and enhance its corporate governance system in accordance with the following basic policies.

1) Respect shareholders' rights, and ensure equal treatment.
2) Respect the perspectives and rights of various stakeholders including our shareholders, customers, business partners, local communities, employees, and build proper relationships with them.
3) Disclose corporate information appropriately, and ensure transparency.
4) Build a structure in which each of the bodies comprising the corporate governance system organically collaborates, and ensure the effectiveness of functions supervising the execution of operations by the Board of Directors.
5) Aim to achieve sustainable growth and improve corporate value, and have constructive dialogue with shareholders who expect these aims and medium- to long-term profits to be realized.

Corporate Governance Organization



1 Board of Directors

Number of meetings held in fiscal year ended March 31, 2019
14

External directors to total directors
2/10
(as of June 27, 2019)

Female directors to total directors
0/10
(as of June 27, 2019)

Approach to the Composition of the Board of Directors

In accordance with the Articles of Incorporation, the Board of Directors comprises a maximum of 12 directors and four Audit & Supervisory Board members. The Company selects officer candidates of excellent character and insight with the professional expertise and extensive business and management experience necessary to maintain sustainable growth, irrespective of gender or nationality. Also, regarding independent external directors and independent external corporate auditors, the Company invites the number necessary for sustainable growth, with a minimum of two independent external directors and a number of independent external corporate auditors that is greater than or equal to half of the total number of corporate auditors. All external officers shall meet the Independence Standards for independence.

The Company also maintains a balance between incumbent and new appointments and between executive and non-executive officers, to ensure business continuity and development, and from the viewpoint of training successors.

Effectiveness Evaluation of the Board of Directors

The Company conducts effectiveness analyses and evaluations of the Board of Directors in order to improve its function.

Specifically, a survey is done by the directors and Audit & Supervisory Board members regarding general matters relating

to the Board of Directors, such as its composition and operating method, deliberations, and collaborations with external officers, and an evaluation is conducted by the Board based on the results. In order to obtain unbiased opinions from those taking the survey, it is performed through an anonymous questionnaire, and the collection, summary, and analysis of the survey results is contracted to an external body.

In the results of the evaluation for the fiscal year ended March 31, 2019, the Board of Directors' effectiveness was judged to be largely in place. The evaluation identified issues for the future, including improvement in the functions of the Board by further strengthening independence and diversity of its structure and pushing forward with the separation of management oversight and execution, as well as with efforts to ensure that the Personnel Remuneration Committee (recently reshuffled to have external officers comprise the majority of its members) can engage in productive deliberation with a higher degree of transparency and objectivity.

The Company will continue its efforts to address the issues identified in the evaluation to enhance corporate governance and further promote management that seeks to sustainably raise corporate value.

❷ Audit & Supervisory Board Members

Number of meetings held in fiscal year ended March 31, 2019
14

External members to total members
2/4
(as of June 27, 2019)

Female members to total members
1/4
(as of June 27, 2019)

The Audit & Supervisory Board comprises no more than four members, with at least one required to have appropriate knowledge of financial management and accounting. An additional deputy member is appointed to the Audit & Supervisory Board if the number of members falls below the statutory requirement.

One way the Company ensures the effectiveness of Audit & Supervisory Board audits is by maintaining and strengthening the group-wide internal reporting system, providing protection for people who report issues, and ensuring effective information management. Audit & Supervisory Board members attend important meetings and can receive briefings from various stakeholders. In addition to the development of these systems, the Company has assigned employees to assist Audit & Supervisory Board members in their duties.

The Company has established the Audit Department (with eight members) to conduct systematic internal audits concerning the legality, appropriateness, and effectiveness of the business operations of the Company's divisions and affiliates.

Roles, Responsibilities, and Composition of Committees under the Board of Directors

Committee name	Roles and responsibilities	Composition
❸ **Executive Management Committee** Meetings held in fiscal year ended March 31, 2019: 12	Ensures smooth execution of important management issues through decisions, discussions, and verification of business execution based on its delegated authority	Representative director (chairperson), executive directors, general managers, full-time Audit & Supervisory Board members, and others
❹ **Personnel Remuneration Committee** Meetings held in fiscal year ended March 31, 2019: 4	Enhances transparency and objectivity when determining the following measures, which are then reported to the Board of Directors ▶ Proposals for appointment, reappointment, and dismissal of directors and Audit & Supervisory Board members ▶ Revision of the Independence Standards for external officers ▶ Proposals for appointment and removal of representative directors and directors with operational responsibilities ▶ Devising and implementing a plan for a successor to the president and representative director ▶ Proposals relating to executive directors' areas of responsibility ▶ Policies relating to the remuneration of directors and Audit & Supervisory Board members ▶ Proposals relating to the treatment of directors and Audit & Supervisory Board members after their retirement	Representative director (chairperson), independent external directors, and one external Audit & Supervisory Board member
❺ **Internal Control Committee** Meetings held in fiscal year ended March 31, 2019: 3	Establishing the Group's internal control system and maintaining and enhancing its effectiveness	Representative director (chairperson); directors in charge of compliance, risk management, financial reporting, and information security; general managers; and full-time Audit & Supervisory Board members; and others
❻ **CSR Committee** Meetings held in fiscal year ended March 31, 2019: 2	Establishing the basic policy for the Group's CSR activities and maintaining various initiatives, as well as creating subcommittees to address specific issues	Representative director (chairperson), directors in charge of CSR, managers of relevant departments, and others

Appointment of External Executive Officers

The Company has taken steps to enhance the fairness of its management structures, including the appointment of two external members to the Board of Directors, which currently has 10 members, and the allocation of half of the seats on the four-member Audit & Supervisory Board to external members.

The two external directors meet the definition of an "outside director" in Article 2 Item 15 of the Companies Act of Japan. There are no special conflicts of interest with the Company.

The two external members of the Audit & Supervisory Board meet the definition of an "outside company auditor" in Article 2 Item 16 of the Companies Act of Japan. There are no special conflicts of interest with the Company.

Reasons for Appointment and Attendance Record

	Name	Independent officer	Reasons for appointment	Attendance record for the fiscal year ended March 31, 2019
External directors	Shoji Kawakami	○	Mr. Shoji Kawakami possesses a wealth of experience, having served as General Manager of an Affiliated Business Department in the Accounting Division of Toyota Motor Corporation. He has had a managerial role at AISAN INDUSTRY CO., LTD. He was also involved in an overseas business at Kuozui Motors, Ltd., and has contributed to the management of the Company from an independent position as an external director of the Company from June 2015. To continue receiving advice and recommendations toward management from his extensive insight, he was reappointed as an external director in June 2019.	Board of Directors' meetings 14/14
	Takatomo Yoneda	○	Mr. Takatomo Yoneda has served at the Industrial Bank of Japan, Limited for many years and has extensive expertise in finance, accounting, and international operations. Within the Nidec Group, he served as the chief executive of Nidec Copal Corporation, over a long period, through which he has acquired high level insight into corporate management and broad experience both in Japan and overseas. From June 2015, Mr. Yoneda has served as an external member of the Audit & Supervisory Board of the Company, and has been providing effective advice on the Company's management from an objective perspective. The Company expects that he will take an active role in the management of the Company from an independent position as an external director and offer advice and recommendations based on his extensive insight, and so appointed him as an external director in June 2019.	Board of Directors' meetings 14/14* Audit & Supervisory Board meetings 14/14*
External Audit & Supervisory Board members	Masahiko Ikaga	○	Mr. Masahiko Ikaga has financial and accounting knowledge as a certified public accountant, in addition to a wealth of experience and wide-ranging knowledge as a corporate manager. The Company expects these to be reflected in the Company's audits, and so appointed him as an external Audit & Supervisory Board member in June 2016.	Board of Directors' meetings 13/14 Audit & Supervisory Board meetings 14/14
	Mayumi Yamamoto	○	Although Ms. Mayumi Yamamoto has no experience of direct involvement in corporate management, she possesses a high level of expertise as an attorney at law and has extensive experience in commercial matters. The Company expects that she will perform audits of the Company's management from an objective and expert viewpoint, and so appointed her as an external Audit & Supervisory Board member in June 2019.	— (Appointed in June 2019)

*Mr. Takatomo Yoneda has served as an external member of the Audit & Supervisory Board since June 2015. He was appointed as an external director in June 2019 and was therefore still listed as an Audit & Supervisory Board member for the fiscal year ended March 31, 2019.

Policies and Procedures for the Appointment and Dismissal of Management Executives and the Nomination of Candidate Directors and Audit & Supervisory Board Members

Candidates for director positions are determined by the Board of Directors after an examination and report by the Personnel Remuneration Committee.

Candidates to become Audit & Supervisory Board members (including deputy Audit & Supervisory Board members) are determined by the Board of Directors after an examination and report by the Personnel Remuneration Committee and the approval of the Audit & Supervisory Board.

If there is suspicion of negligence, improper conduct, or serious breach of the law or the Articles of Incorporation in relation to the fulfillment of the duties of officers, or if it becomes difficult for an officer to continue to fulfill duties for health reasons, the content of proposals concerning dismissal of the relevant officer for submission to the General Meeting of Shareholders and whether or not to dismiss the relevant officer from their position as a representative director or executive director shall be determined by the Board of Directors, having received fair, transparent, and careful consideration and recommendations from the Personnel Remuneration Committee.

Executive Officer Remuneration

The remuneration paid to directors* is linked to business results, such as the achievement of medium- to long-term profit targets. Corporate policy calls for further efforts to strengthen directors'

motivation toward the improvement of corporate value, and the Personnel Remuneration Committee will continue to explore approaches to this goal. Remuneration for external directors and external Audit & Supervisory Board members does not include stock-based compensation or other performance-related items.

*Excluding external directors

Total Amounts of Remuneration for Each Officer Category, and the Total Amount by Type of Remuneration and the Number of Eligible Officers

Category	Number of officers	Basic remuneration		Restricted stock-based compensation	Total remuneration amount
		Fixed remuneration	Performance-linked remuneration		
Directors (excluding external directors)	9	¥238 million	¥115 million	¥54 million	¥408 million
External directors	2	¥20 million	—	—	¥20 million
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	2	¥42 million	—	—	¥42 million
External Audit & Supervisory Board members	2	¥19 million	—	—	¥19 million
Total	15	¥319 million	¥115 million	¥54 million	¥490 million

Notes:
1. Basic remuneration of ¥6 million was paid to one Audit & Supervisory Board member who retired on June 28, 2018. This is not included in the table above.
2. The targets and results used as indicators for the performance-linked portion of basic remuneration are as follows:
   Targets for performance-linked remuneration: consolidated net sales of ¥600 billion, consolidated operating income of ¥21.5 billion (targets for the fiscal year ended March 31, 2018)
   Results used as the basis for performance-linked compensation: consolidated net sales of ¥592.1 billion, consolidated operating income of ¥21.7 billion (results for the fiscal year ended March 31, 2018)
3. Pursuant to a resolution of the Board of Directors at its meeting on July 11, 2018, 14,600 shares of common stock of the Company were allocated to nine directors as restricted stock compensation.
4. There are no amounts representing compensation payable to important employees.

Cross-shareholdings

The Company holds cross-shareholdings only in cases where this is deemed likely to contribute to the improvement of medium- to long-term corporate value, based on comprehensive assessments of the economic rationale and the necessity of such shareholdings in relation to business operations. Each year, the Board of Directors shall examine the significance of having individual cross-shareholdings, and the Company sells shares that are of little significance in terms of the effect they have on the market.

This verification process includes assessments of investment gains and losses for each stock based on specific criteria relating to various indicators, such as trading profits, dividend yields, the risk of market price fluctuations, and capital costs. Decisions on whether to hold or sell stocks also take the economic merits and necessity of holdings into account.

The Company appropriately exercises its voting rights for cross-shareholdings after carefully examining whether each proposal could impair the Company's corporate value, and whether it would contribute to the sound management of the issuing company and increase its corporate value.

Development of Systems to Ensure Appropriateness of the Group's Business Operations

To ensure the appropriateness and efficiency of its business operations, the Group has formulated the Basic Policy on the Development of Internal Control Systems and established the Internal Control Committee and its various subcommittees to review policies and issue instructions as required.

Compliance with laws, regulations, the Articles of Incorporation, company rules, social ethics, and the Code of Conduct is a basic requirement for the Company's business activities. All possible steps are taken to ensure that directors and employees will work toward the realization of the Company's corporate philosophy through the performance of their duties. The Company has established the Compliance Subcommittee to expand, disseminate, and consolidate compliance awareness throughout the Group. It has also established an internal reporting system under which people wishing to report information can seek advice from an internal consultation help desk or directly contact an external attorney via the "Morinaga Milk Helpline."

To ensure the accuracy of financial reporting, the Company has established the Financial Reporting Subcommittee with the task of collecting and appropriately managing financial accounting documents and other information and preparing reports. The Company is also developing an integrated financial accounting system for the Group. In addition, Group companies provide monthly management reports.

In the area of risk management, the Company established the Risk Management Subcommittee to create systems designed to identify individual risk factors and prevent their eventuation. In the event of an unforeseen incident occurring, timely action is taken under the crisis management rules to prevent the expansion of damage and minimize the impact.

The Company's information security structure centers on the Information Security Subcommittee, which was established to strengthen information security capabilities. The units in charge appropriately store and manage documents concerning the performance of duties by directors and related information, in accordance with the Information Security Policy and internal rules. In addition, the Company has issued standards and established a system requiring subsidiaries to provide regular reports containing important information about the performance of duties by their directors and other officers.

Policy on Constructive Dialogue with Shareholders

The Company makes the building of trustworthy relationships with shareholders through constructive dialogue a priority for management. The Company actively monitors its shareholder structure and works to expand dialogue through the Annual General Meeting of Shareholders, financial results briefings, individual visits and meetings, and other such occasions.

Matters concerning constructive dialogue with shareholders are supervised by the directors in charge of general affairs, public relations, and investor relations. The contact points for shareholders are the General Affairs Department and the Investor & Public Relations Department, which are working together to improve communications with shareholders, including the implementation of information-sharing initiatives as required. The Company configures its approach to interviews and other forms of dialogue appropriately according to the purpose and content of the event and nature of the other party. When significant opinions and other information are obtained through dialogue, these are reported to and shared with senior management and the Board of Directors.

The Company takes particular care to ensure fairness in its dialogue with shareholders, including the establishment of a silent period for financial results and other measures to maintain thorough control of insider information.

Status of IR Activities

Category	Supplementary explanation
Creation and publication of disclosure policy	Details are stated in "Morinaga Milk Group Corporate Governance Guidelines Chapter 4 Article 15 (Information Disclosure Standards)," which is published on our corporate website. In addition, an IR Disclosure Policy has been separately created and published on our corporate website.
Holding of regular briefings for analysts and institutional investors	A second-quarter results briefing is held mid-November each year, and a results briefing is held in mid-May each year.
Publication of IR materials on the website	Financial results briefs, presentation slides, annual reports, securities reports, an IR calendar, and other documents are all posted on the website. In addition, IR information is posted on the English website, and English translations have been made and posted for the financial results briefs, presentation slides, annual reports, and other documents.
Establishment of department (and manager) for IR	Investor Relations Group, Investor & Public Relations Department

The Company implements all of the principles of the Corporate Governance Code. Please refer to the Corporate Governance Report for details on the application of basic principles.

Corporate Governance Report
https://www.morinagamilk.co.jp/english/ir/management/governance.php

Morinaga Milk Group Corporate Governance Guidelines
https://www.morinagamilk.co.jp/english/ir/management/pdf_governance/guideline_e.pdf

Chapter 4

Financial and Corporate Information

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11-year Financial Summary

(Years ended)		March 2009	March 2010	March 2011	March 2012
Net sales	(¥ millions)	583,910	585,116	583,019	578,299
Operating income	(¥ millions)	11,524	17,102	18,917	13,184
Ordinary income	(¥ millions)	11,235	17,018	18,746	13,187
Profit attributable to owners of parent	(¥ millions)	4,254	8,017	6,164	4,608
Comprehensive income	(¥ millions)	—	8,210	8,908	5,635
Net assets	(¥ millions)	97,497	103,635	110,310	113,935
Total assets	(¥ millions)	348,111	357,880	348,394	366,190
BPS (Net assets per share)	(¥)	378.61	405.26	434.37	449.35
EPS (Net income per share)	(¥)	16.83	31.78	24.57	18.39
EPS (Net income per share)—diluted	(¥)	16.81	31.72	24.52	18.34
Shareholders' equity ratio	(%)	27.5	28.4	31.3	30.8
ROE	(%)	4.4	8.1	5.9	4.2
PER	(Times)	17.5	11.6	12.1	17.7
Cash flows from operating activities	(¥ millions)	31,333	29,497	30,913	23,342
Cash flows from investing activities	(¥ millions)	(26,023)	(15,587)	(17,388)	(14,221)
Cash flows from financing activities	(¥ millions)	(5,987)	(4,762)	(15,959)	(2,889)
Cash and cash equivalents at end of period	(¥ millions)	3,411	12,555	10,101	16,336
Employees		5,739	5,653	5,627	5,639
[Temporary employees—average]		[1,971]	[2,087]	[2,844]	[2,751]

Notes: 1. We carried out a reverse stock split at a ratio of one share for every five shares of common stock, with an effective date of October 1, 2017. Net assets per share, net income per share, and diluted net income per share are calculated on the assumption that this reverse stock split was carried out at the start of the previous consolidated fiscal year.
2. The partially revised "Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) is applied from the start of the fiscal year ended March 31, 2019. The main financial data for the fiscal year ended March 31, 2018 is calculated using this accounting standard applied retroactively.

March 2013	March 2014	March 2015	March 2016	March 2017	March 2018	**March 2019**
591,197	599,273	594,834	601,499	592,617	592,087	**583,582**
10,166	11,982	6,805	14,317	21,099	21,684	**22,331**
10,551	12,395	8,232	14,959	21,960	22,355	**23,174**
5,016	4,839	4,164	10,576	13,202	15,781	**14,017**
6,133	6,899	7,416	5,794	15,240	17,788	**12,600**
116,750	120,959	125,286	129,370	142,846	159,102	**169,167**
368,498	360,578	383,357	378,852	385,366	414,823	**432,256**
469.07	486.84	502.36	518.61	2,870.80	3,184.08	**3,384.81**
20.04	19.60	16.86	42.80	267.02	319.01	**283.35**
19.98	19.54	16.81	42.67	266.27	318.27	**282.70**
31.4	33.3	32.4	33.8	36.9	38.0	**38.7**
4.4	4.1	3.4	8.4	9.8	10.5	**8.6**
14.3	16.9	27.0	14.1	15.5	13.6	**13.3**
21,055	21,946	8,543	28,223	37,350	25,110	**18,506**
(13,312)	(15,930)	(17,642)	(22,234)	(21,233)	(16,921)	**(38,817)**
(6,859)	(18,211)	12,887	(10,449)	(15,243)	(5,774)	**14,112**
17,305	7,080	11,105	6,203	7,077	9,838	**3,384**
5,712	5,664	5,649	5,602	5,771	5,987	**6,157**
[2,617]	[2,435]	[2,244]	[2,266]	[2,285]	[2,364]	**[2,339]**

Note: Unless otherwise stated, all comparisons are with the previous fiscal year ended March 31, 2018. Consolidated financial disclosures by Morinaga Milk Industry Co., Ltd. ("the Company") are in accordance with the accounting principles generally accepted in Japan. As of March 31, 2019, the Company had 32 consolidated subsidiaries, and one subsidiary and one affiliated company both of which were accounted for by the equity method (together "the Group").

Operating Performance

Business Environment Overview

In the consolidated fiscal year under review, the Japanese economy made a modest recovery as the employment and income environments continued to improve, but the outlook was still not clear given uncertainties regarding foreign economies as well as the impact of trade issues, and volatility in financial and capital markets.

In the food industry, the need for functional foods sparked by the heightened interest in health continued to be strong, but the competitive environment remained tough due to diversifying tastes, a shorter product lifecycle, and higher costs for raw materials and others. In the dairy and milk industry, the consumption of cheese, ice cream, and other dairy products remained steady, despite the major issue of a decline in domestic raw milk production. The industry environment has also changed significantly, including the implementation of a revised Livestock Stabilization Act from April 2018.

Consolidated Net Sales and Gross Profit

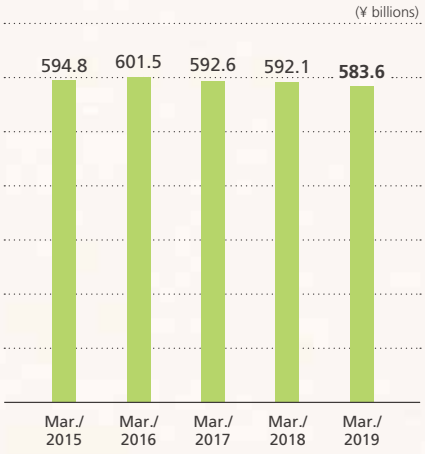
In this business climate, the Group continued to address the management issues raised in the Medium-term Business Plan, which reaches its fourth year this consolidated fiscal year, and to strengthen its management base. The Group has been providing and promoting the value of products that meet the needs of customers, while also actively promoting sales of functional ingredients that contribute to people's health, and expanding its overseas business. Meanwhile, the Group has been working to streamline and improve efficiency by reviewing low-margin products to enhance the product mix, and facilitating low-cost operations. In addition, the internal structure has been reorganized aiming at prompt response to the changes in the environment. As a result of these activities, consolidated net sales for the fiscal year under review were ¥583,582 million, down by 1.4% from the previous fiscal year.

In terms of cost of sales, in spite of its decrease in amount due to the decrease in sales volume, it was largely affected by the price hikes in raw materials, as well as the increase in manufacturing fixed costs such as depreciation expenses. As a result, cost of sales decreased by 0.9% to ¥398,337 million, leading to a 2.5% year-on-year decline in gross profit to ¥185,245 million. Gross profit margin as well dropped by 0.4 percentage points to 31.7%.

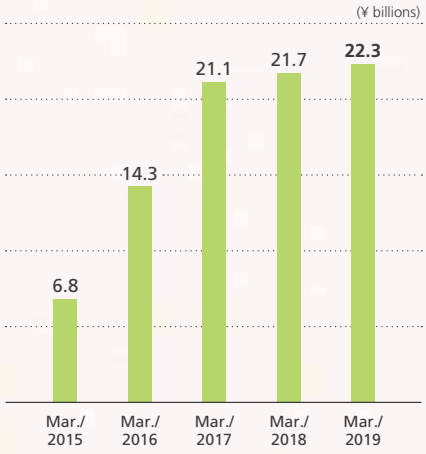
Selling, General and Administrative Expenses and Operating Income

As for the selling, general and administrative ("SG&A") expenses, initiatives have been taken for their thorough rationalization. In the effort to streamline sales promotion expenses, the Group tackled the maximization of advertisement effects and efficiency improvement in the area of advertising expenses. As a result, total

Net Sales



Operating Income



SG&A expenses decreased by 3.2% year on year to ¥162,913 million. The ratio of SG&A expenses to net sales dropped by 0.5 percentage points to 27.9%.

Consolidated research and development ("R&D") expenses amounted to ¥4,648 million, down by 2.1% from the previous fiscal year, accounting for 0.8% of consolidated net sales.

As a result of the above, consolidated operating income increased by 3.0% compared with the previous fiscal year to ¥22,331 million. The ratio of operating income to net sales also rose by 0.1 percentage points to 3.8%.

Non-operating Income and Expenses

Overall non-operating income and expenses resulted in net income of ¥843 million, increasing from ¥671 million recorded in the previous fiscal year. Although there were certain expense and loss factors including ¥318 million in foreign exchange losses, the effect of income factors surpassed them. Such income factors included decreases of interest expenses and share of loss of entities accounted for using equity method to ¥750 million and ¥88 million, respectively. As a result of recording net non-operating income in addition to an increase in operating income, consolidated ordinary income (the sum of operating income and net non-operating income or expenses) rose by 3.7% year on year to ¥23,174 million.

Extraordinary Income and Loss

Overall extraordinary income and loss resulted in a net loss of ¥2,943 million, reversing the previous fiscal year's net income of ¥1,115 million. While loss on disposal of non-current assets decreased to ¥748 million, gain on sales of non-current assets also decreased significantly to ¥36 million. In addition, the absence of gain on step acquisitions which was ¥612 million in the previous fiscal year, as well as a ¥286 million impairment loss posted, contributed to the net extraordinary loss recorded.

Profit before Income Taxes and Profit Attributable to Owners of Parent

In spite of the increase in operating income and the net non-operating income recorded, net extraordinary loss was recorded in contrast to the previous fiscal year's net extraordinary income, leading to a 13.8% year-on-year decrease in profit before income taxes to ¥20,230 million. Total income taxes decreased by 21.0% to ¥6,044 million accordingly, resulting in a 2.7 percentage point drop in the effective tax rate to 29.9%. Profit attributable to non-controlling interests jumped by 406.6% year on year to ¥168 million.

As a result of the above, profit attributable to owners of parent amounted to ¥14,017 million, an 11.2% decrease compared with the previous fiscal year.

Performance by Business Segment

Performance by business segment (before the elimination of intersegment transactions) is described as follows:

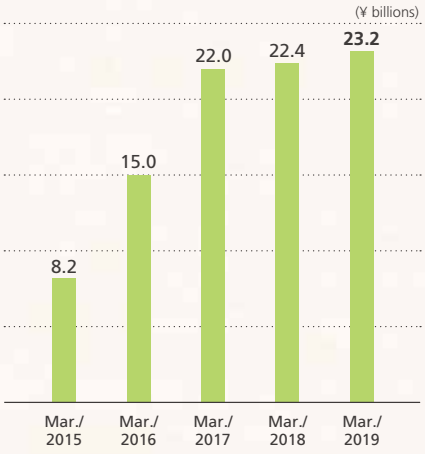
Food Industry Segment

This segment engages mainly in production and sales of commercial milk, dairy products, ice cream, and beverages. Net sales of the food industry segment decreased by 1.3% year on year to ¥563,918 million. Operating income, on the other hand, rose by 4.0% to ¥30,486 million.

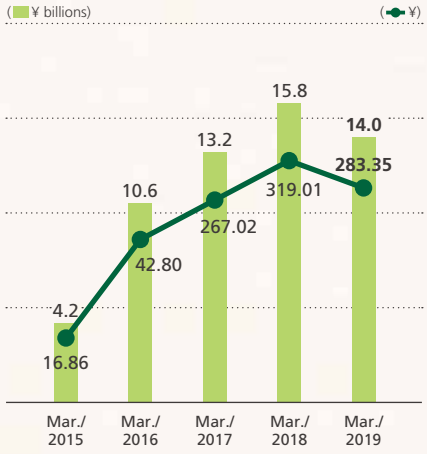
Other Business Segment

This segment engages mainly in sales of feed, and the design and construction of plant equipment. Net sales of the other business segment rose by 1.5% year on year to ¥30,254 million. Operating income on the contrary declined by 1.6% to ¥2,675 million.

Ordinary Income



Profit Attributable to Owners of Parent/EPS (Net Income per Share)



Note: We carried out a reverse stock split at a ratio of one share for every five shares of common stock, with an effective date of October 1, 2017. Net income per share is calculated on the assumption that this reverse stock split was carried out at the start of the previous consolidated fiscal year.

Overview of Non-consolidated Results of Morinaga Milk Industry Co., Ltd.

The non-consolidated net sales of the Company for the fiscal year ended March 31, 2019 resulted in a 2.3% year-on-year decrease to ¥430,363 million. The Company posted operating income of ¥13,298 million, down by 7.3% from the previous fiscal year, and net income of ¥9,943 million, down by 26.8%. Sales by products are described as follows:

Commercial Milk

- In fluid milk products, sales of the *Morinaga Oishii Gyunyu Milk* series, which are mainstay brand products, remained steady. However, overall sales declined year on year, affected mainly by the reduction in the number of products intended to improve profitability.
- In milk-based drinks, sales of certain products such as *Lipton Milk Tea* surpassed that of the previous fiscal year. However, affected by the fall in sales of the *Mt. RAINIER CAFFÈ LATTE* series, the overall sales dropped year on year.
- In yogurt products, sales of *Bifidus Yogurt* and other yogurt products increased year on year, raising the overall sales from the previous fiscal year.

As a result of the above, aggregate net sales of commercial milk products declined to ¥189,842 million, down by 3.2% compared with the previous fiscal year.

Dairy Products

- In powdered milk, *Milk Life*, a powdered milk product for adults, expanded its sales year on year. However, sales of *Morinaga Hagukumi* and *Morinaga Chil-mil* fell from the previous fiscal year, resulting in a year-on-year decrease in overall sales.
- In butter products, sales of both household-use butter and food service and institutional-use butter increased from the previous fiscal year.
- In cheese products, although *KRAFT 100% Parmesan Cheese* and *KRAFT Fresh Mozzarella Cheese* increased their sales year on year, sales of *KRAFT Slice Cheese* fell, pushing down the overall sales from the previous fiscal year.

As a result of the above, aggregate net sales of dairy products slightly declined to ¥96,883 million, down by 0.2% compared with the previous fiscal year.

Ice Cream

- In ice cream products, the major brand products such as *PARM*, *Pino* and *MOW* decreased their sales, affected mainly by the change in the trading system, leading to the overall sales decline from the previous fiscal year.

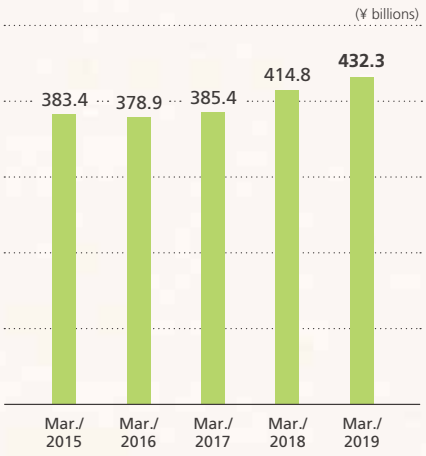
As a result, aggregate net sales of ice cream products decreased to ¥51,979 million, down by 6.7% compared with the previous fiscal year.

Other

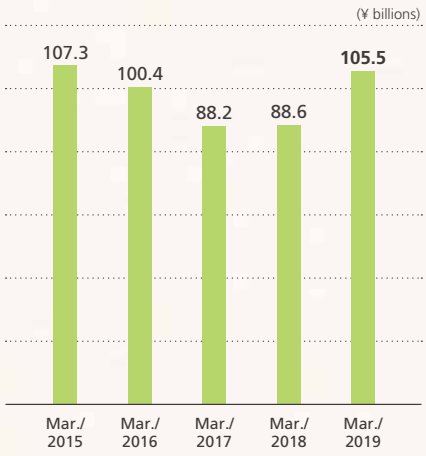
- The sales expansion of functional ingredients such as bifidobacterium and LAC-Shield™, as well as the steady growth of infant formula and baby foods, contributed to the increase in the overall sales from the previous fiscal year.

As a result, aggregate net sales of other products increased to ¥91,657 million, up by 0.1% compared with the previous fiscal year.

Total Assets



Interest-bearing Debt



Financial Position

Assets

Total assets as of March 31, 2019 amounted to ¥432,256 million, an increase of ¥17,433 million, or 4.2%, compared with that of the previous fiscal year-end. Current assets decreased by ¥1,873 million, or 1.3%, to ¥140,077 million mainly due to the decrease in cash and deposits that exceeded the increases in trade notes and accounts receivable and in merchandise and finished goods. Non-current assets, on the other hand, increased by ¥19,306 million, or 7.1%, to ¥292,178 million reflecting the increase in property, plant and equipment as a result of capital expenditure.

Liabilities

Total liabilities as of March 31, 2019 stood at ¥263,088 million, an increase of ¥7,368 million, or 2.9%, compared with that of the previous fiscal year-end. Current liabilities rose by ¥4,355 million, or 2.8%, to ¥162,510 million mainly due to commercial papers and current portion of bonds recorded that surpassed the decreases in trade notes and accounts payable and in deposits received. Non-current liabilities by contrast rose by ¥3,012 million, or 3.1%, to ¥100,578 million, reflecting the increase in bonds payable.

Net Assets

Net assets as of March 31, 2019 amounted to ¥169,167 million, an increase of ¥10,064 million, or 6.3%, compared with the previous fiscal year-end. This increase was mainly attributable to the increase in retained earnings.

As a result, the shareholders' equity ratio rose from 38.0% at the previous fiscal year-end to 38.7%, and net assets per share also increased from ¥3,184.08 to ¥3,384.81.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2019 amounted to ¥3,384 million, down by ¥6,454 million, or 65.6%, compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review declined by ¥6,604 million, or 26.3%, to ¥18,506 million. This decline was mainly attributable to trade notes and accounts payable and to deposits received, which recorded increases in the previous fiscal year but reversed to record decreases in the fiscal year under review.

Cash Flows from Investing Activities

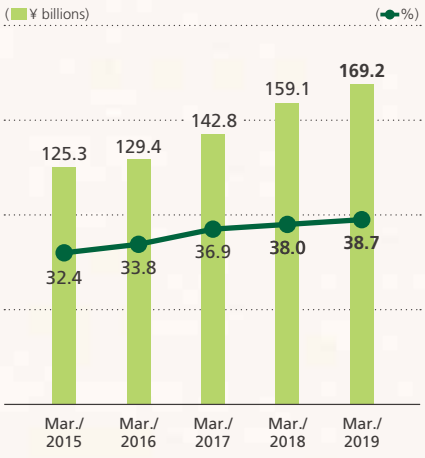
Net cash used in investing activities soared by ¥21,895 million, or 129.4%, from the previous fiscal year to ¥38,817 million. This significant increase was attributable mainly to the increase in purchase of non-current assets, and the decrease in proceeds from sales of non-current assets.

As a result of the above, the free cash flow (a total of cash flows from operating activities and investing activities) was a ¥20,311 million cash outflow, reversing a ¥8,188 million cash inflow recorded in the previous fiscal year.

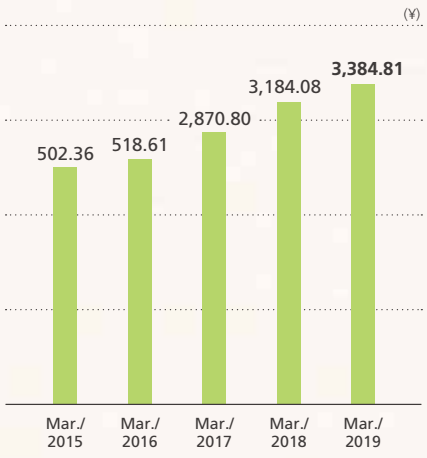
Cash Flows from Financing Activities

Financing activities during the fiscal year under review generated a ¥14,112 million cash inflow, while a ¥5,774 million cash outflow was recorded in the previous fiscal year. This turn was attributable mainly to the increase in commercial papers, the decrease in repayments of long-term loans payable, and the decrease in redemption of bonds.

Net Assets/Shareholders' Equity Ratio



BPS (Net Assets per Share)



Note: We carried out a reverse stock split at a ratio of one share for every five shares of common stock, with an effective date of October 1, 2017. Net assets per share is calculated on the assumption that this reverse stock split was carried out at the start of the previous consolidated fiscal year.

Capital Expenditure

The Group's capital expenditure for property, plant and equipment during the fiscal year ended March 31, 2019 totaled ¥39,373 million. The major purposes of the capital expenditure were installment, renewal and rationalization of manufacturing facilities, as well as reinforcement of the sales structure. Out of the total capital expenditure, that in the food industry segment accounted for ¥38,584 million.

Profit Distribution

The Company recognizes the profit distribution to its shareholders as one of the most essential management issues. In distributing its profits, the Company will earmark retained earnings for maintaining and enhancing its corporate structure, and will continue its basic policy of providing stable dividends over the long term, aiming at the consolidated dividend payout ratio of 20%, while also placing due consideration on the Company's operating performance. The Company's other basic policy is to distribute its profit once a year at the fiscal year-end, upon approval at the General Meeting of Shareholders. In exceptional cases when it is deemed to be difficult to hold a General Meeting of Shareholders due to unforeseen situations such as a natural disaster, profit can be distributed upon approval of the Board of Directors.

The dividend to shareholders for the fiscal year ended March 31, 2019 was resolved as ¥55.0 per share, in accordance with the Company's policies described above. As a result, the consolidated and non-consolidated dividend payout ratios for the fiscal year under review were 19.4% and 27.4%, respectively. The dividend for the fiscal year ending March 31, 2020 is planned to be ¥60.0 per share.

Research and Development

The main theme of the Group's R&D is to explore the great power of milk and make maximum use of its advantages. The Group pursues value in terms of "taste," "nutrition," "health," and "safety and reliability," and applies that value in various products that contribute to the health and joyful living of people. Setting the creation of new products with dreams and technological innovation for the future as its mission, the Group promotes its R&D activities.

The following are major new products developed and released during the fiscal year ended March 31, 2019.

- *Triple Yogurt* (one-portion cup type and beverage type)
  Food with functional claims. The first yogurt product in the industry that lists functions effective in three areas, namely blood pressure, blood glucose level, and neutral fat.
- *Mitsu to Yuki* (shaved ice in a cup)
  A shaved ice dessert with a rich taste and a new sensation, created by the exquisite harmony of finely shaved ice for an excellent texture and the sauce uniquely produced to realize a rising scent and a soft mouthfeel.
- *KRAFT Hitokuchi Fresh Mozzarella* (cheese)
  A bite-size fresh mozzarella with no need for cutting, and best suited for salad.

The aggregate R&D expenses for the fiscal year under review amounted to ¥4,648 million.

The R&D organization of the Group is as follows:

R&D Division

- R&D Management Department: Integration of research plans of the institutes, and other managerial coordination
- Food Research & Development Institute: Research and development of milk beverages, chilled desserts, yogurt, ice cream, and cheese
- Wellness & Nutritional Science Institute: Research and development of nutritional foods for consumers of all ages from babies and expectant mothers to the elderly
- Food Ingredients & Technology Institute: Research and development of functional ingredients and dairy ingredients
- Next Generation Science Institute: Basic research of intestinal flora, new materials, and other research topics
- Food Solution Institute: Evaluation of products, development of new uses, and recipes

Manufacturing Division Engineering Department

- Engineering Development Center: Development and improvement of manufacturing processes, equipment, and devices

The Group's Medium- and Long-term Management Strategy, Environment, and Issues

The Group continued to address the management issues raised in the previous Medium-term Business Plan, which was announced in 2015, and to strengthen its management base. While we strived to provide and promote the value of products that meet the needs of customers, the Group also worked to streamline and improve efficiency by reviewing low-margin products to improve the product mix and facilitating low-cost operations. As a result, we have attained a measure of success with respect to achieving our targets and carrying out initiatives. Meanwhile, during this period we have also encountered drastic changes with respect to the external environment surrounding the food industry and the dairy and milk industry. Having accordingly reviewed the plan initially drawn up to cover five years, the Group has reconsidered its growth strategy geared to achieving further sustainable growth, and has decided to embark on the new three-year Medium-term Business Plan beginning from the fiscal year ending March 31, 2020.

Prior to drafting the new three-year Medium-term Business

Plan, we established the Morinaga Milk Group 10-year Vision looking one decade ahead. Under the Vision, we have established targets for the fiscal year ending March 31, 2029, aiming to achieve an "operating income ratio of at least 7%," an "ROE of at least 10%," and a "ratio of overseas sales of at least 15%," underpinned by a vision of where the Morinaga Milk Group sees itself one decade ahead in terms of becoming "a company that balances 'delicious and pleasurable food' with 'health and nutrition'," "a global company that exerts a unique presence worldwide," and "a company that persistently helps make social sustainability a reality."

Based on this Vision, we have set the next three years, extending through the fiscal year ending March 31, 2022, as a period during which we will establish a solid business platform. To that end, we have accordingly established the three basic policies of 1) achieving sustainable growth by enhancing initiatives laterally across our four pillars of business, 2) performing business with an ESG focus aligned with our corporate philosophy, and 3) further strengthening our business base in a manner that supports the foundations of our corporate activities. We will also work to achieve our targets for consolidated net sales and operating income of ¥630,000 million and ¥30,000 million, respectively.

Furthermore, we will continue with our efforts to further strengthen our quality assurance system in order to provide customers with safety and reliability.

The Group is aiming to generate record-level earnings on the basis of the aforementioned Vision and policies, and has accordingly positioned the fiscal year ending March 31, 2020 as an important year with respect to embarking on a new phase of business. The Company forecasts its consolidated results for the fiscal year ending March 31, 2020 as net sales of ¥593,000 million (up by 1.6% year on year), operating income of ¥23,000 million (up by 3.0% year on year), ordinary income of ¥23,700 million (up by 2.3% year on year), and profit attributable to owners of parent of ¥19,500 million (up by 39.1% year on year).

The Group remains committed to realizing a prosperous and joyful society by enhancing the unique value of our products and delivering this value to customers, so we can make an even greater difference in their lives and society overall.

Business and Other Risk Factors

Risks that could have a possible impact on the operating results and financial position of the Group are as follows. Forward-looking statements are current as of the date of the release of this Integrated Report.

Dairy and Milk Industry

The raw milk and dairy products produced by the Group are under a tariff system set in place to protect the domestic agricultural industry. However, in the event that there are significant changes to the tariff system due to the outcomes of WTO, TPP, EPA, and FTA agricultural negotiations, there is the possibility of such changes having a substantial impact on the operating results and financial position of the Group.

The producers of raw milk, which is the raw material in dairy products produced by the Group, had been paid a subsidy based on the Act on Temporary Measures concerning Compensation Price for Producers of Milk for Manufacturing Use. Starting in 2018, a new subsidy system for manufacturing-use milk producers was implemented based on the revised Livestock Stabilization Act. In the event that this Act is substantially modified or abolished in the future and the level of subsidies changes, there is the possibility of such changes having an impact on the purchase price of raw materials for the Group.

Safety of Food Products

The Group applies its own stringent quality control standards, which go beyond those required by law, in the manufacture of its food products. The Group also takes every measure to ensure the safety and quality of these products. However, in the event that an unforeseen situation occurs that is linked to product liability compensation or a large-scale product recall, there is the possibility of such an event having a substantial impact on the operating results and financial position of the Group.

Market Price and Exchange Rate Effects

The Group procures part of its raw materials and products from overseas, and thus the purchase price of these items is subject to the effect of market price and exchange rate fluctuations. A sharp rise in the market price and the progression of a weaker yen are factors leading to a rise in costs, and there is the possibility of such factors having an impact on the operating results and financial position of the Group.

Unseasonable Weather

Net sales of the ice cream division and commercial milk division of the Group may be affected by the weather. In particular, in the event of a cool summer, net sales of these divisions usually decline, and there is the possibility of such an event having an impact on the operating results and financial position of the Group.

Natural Disasters

The effect of a large-scale natural disaster, such as an earthquake, may cause damage to production and distribution facilities, and subsequently halt production and result in the incurrence of costs to restore operations. As such, there is the possibility of such an event having an impact on the operating results and financial position of the Group.

Information Security

Each company in the Group has formulated information security countermeasures for preventing unauthorized access to information systems and for protecting and managing personal information stored and held by each company, and carries out these measures accordingly. However, in the event that an unforeseen situation occurs resulting in the leakage of information or other damage, there is the possibility of such an event having an impact on the operating results and financial position of the Group due to a fall in social credibility.

Consolidated Balance Sheets

(¥ millions)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	10,139	**3,685**
Notes and accounts receivable—trade	61,799	**65,844**
Merchandise and finished goods	42,256	**45,497**
Work in process	1,622	**2,339**
Raw materials and supplies	15,571	**16,432**
Other	11,104	**6,809**
Allowance for doubtful accounts	(542)	**(530)**
Total current assets	141,951	**140,077**
Non-current assets		
Property, plant and equipment		
Buildings and structures	173,997	**177,111**
Accumulated depreciation	(98,228)	**(100,600)**
Buildings and structures, net	75,768	**76,511**
Machinery, equipment and vehicles	280,334	**282,134**
Accumulated depreciation	(208,677)	**(207,007)**
Machinery, equipment and vehicles, net	71,656	**75,126**
Land	68,347	**68,231**
Leased assets	6,276	**6,166**
Accumulated depreciation	(3,676)	**(3,524)**
Leased assets, net	2,600	**2,642**
Construction in progress	10,623	**25,656**
Other	14,421	**14,946**
Accumulated depreciation	(10,746)	**(10,985)**
Other, net	3,674	**3,961**
Total property, plant and equipment	232,671	**252,130**
Intangible assets		
Other	6,333	**6,525**
Total intangible assets	6,333	**6,525**
Investments and other assets		
Investment securities	22,420	**21,238**
Investments in capital	97	**97**
Long-term loans receivable	326	**285**
Net defined benefit asset	2,006	**1,877**
Deferred tax assets	3,947	**4,793**
Other	5,210	**5,372**
Allowance for doubtful accounts	(142)	**(142)**
Total investments and other assets	33,867	**33,523**
Total non-current assets	272,872	**292,178**
Total assets	414,823	**432,256**

(¥ millions)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable—trade	57,701	**54,346**
Electronically recorded obligations—operating	3,762	**5,194**
Short-term loans payable	8,077	**10,695**
Current portion of long-term loans payable	7,692	**9,486**
Commercial papers	—	**5,000**
Current portion of bonds	—	**5,000**
Lease obligations	1,335	**1,215**
Income taxes payable	5,105	**2,830**
Accrued expenses	34,289	**32,366**
Deposits received	24,811	**20,442**
Other	15,378	**15,932**
Total current liabilities	158,154	**162,510**
Non-current liabilities		
Bonds payable	35,000	**40,000**
Long-term loans payable	37,864	**35,275**
Lease obligations	2,100	**2,016**
Net defined benefit liability	19,521	**20,218**
Asset retirement obligations	287	**289**
Other	2,790	**2,778**
Total non-current liabilities	97,565	**100,578**
Total liabilities	255,720	**263,088**
Net assets		
Shareholders' equity		
Capital stock	21,704	**21,731**
Capital surplus	19,858	**19,886**
Retained earnings	110,291	**121,831**
Treasury shares	(596)	**(702)**
Total shareholders' equity	151,257	**162,745**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,457	**7,820**
Deferred gains or losses on hedges	(61)	**(9)**
Foreign currency translation adjustment	159	**(678)**
Remeasurements of defined benefit plans	(2,305)	**(2,470)**
Total accumulated other comprehensive income	6,250	**4,661**
Subscription rights to shares	247	**229**
Non-controlling interests	1,347	**1,531**
Total net assets	159,102	**169,167**
Total liabilities and net assets	414,823	**432,256**

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated statements of income

(¥ millions)

	For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	**For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)**
Net sales	592,087	**583,582**
Cost of sales	402,139	**398,337**
Gross profit	189,948	**185,245**
Selling, general and administrative expenses	168,263	**162,913**
Operating income	21,684	**22,331**
Non-operating income		
Interest income	39	**41**
Dividends income	854	**929**
House rent income	397	**346**
Subsidy income	164	**270**
Other	923	**975**
Total non-operating income	2,379	**2,563**
Non-operating expenses		
Interest expenses	861	**750**
Share of loss of entities accounted for using equity method	370	**88**
Foreign exchange losses	—	**318**
Other	476	**563**
Total non-operating expenses	1,708	**1,720**
Ordinary income	22,355	**23,174**
Extraordinary income		
Gain on sales of non-current assets	3,739	**36**
Gain on sales of investment securities	97	**266**
Insurance income	251	**118**
Gain on step acquisitions	612	**—**
Other	2	**0**
Total extraordinary income	4,704	**421**
Extraordinary loss		
Loss on disposal of non-current assets	1,646	**748**
Contributions to the public interest incorporated foundation Hikari Kyokai	1,674	**1,710**
Impairment loss	—	**286**
Loss on disaster	212	**328**
Other	56	**290**
Total extraordinary losses	3,589	**3,364**
Profit before income taxes	23,470	**20,230**
Income taxes—current	8,023	**6,551**
Income taxes—deferred	(368)	**(506)**
Total income taxes	7,655	**6,044**
Profit	15,814	**14,186**
Profit attributable to non-controlling interests	33	**168**
Profit attributable to owners of parent	15,781	**14,017**

Consolidated statements of comprehensive income

(¥ millions)

	For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	**For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)**
Profit	15,814	**14,186**
Other comprehensive income		
Valuation difference on available-for-sale securities	1,150	**(646)**
Deferred gains or losses on hedges	(135)	**65**
Foreign currency translation adjustment	1,058	**(754)**
Remeasurements of defined benefit plans, net of tax	(100)	**(165)**
Share of other comprehensive income of associates accounted for using equity method	0	**(84)**
Total other comprehensive income	1,973	**(1,585)**
Comprehensive income	17,788	**12,600**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,770	**12,428**
Comprehensive income attributable to non-controlling interests	18	**171**

Consolidated Statement of Changes in Shareholders' Equity

For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(¥ millions)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	21,704	19,877	96,736	(543)	137,774
Changes of items during period					
Issuance of new shares					—
Dividends of surplus			(2,226)		(2,226)
Profit attributable to owners of parent			15,781		15,781
Purchase of treasury shares				(60)	(60)
Disposal of treasury shares		(0)		8	7
Transfer to capital surplus from retained earnings		0	(0)		—
Change in scope of consolidation		(18)			(18)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(18)	13,554	(52)	13,483
Balance at end of current period	21,704	19,858	110,291	(596)	151,257

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	7,326	39	(898)	(2,205)	4,261	200	610	142,846
Changes of items during period								
Issuance of new shares								—
Dividends of surplus								(2,226)
Profit attributable to owners of parent								15,781
Purchase of treasury shares								(60)
Disposal of treasury shares								7
Transfer to capital surplus from retained earnings								—
Change in scope of consolidation								(18)
Net changes of items other than shareholders' equity	1,131	(101)	1,058	(100)	1,988	47	736	2,773
Total changes of items during period	1,131	(101)	1,058	(100)	1,988	47	736	16,256
Balance at end of current period	8,457	(61)	159	(2,305)	6,250	247	1,347	159,102

For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(¥ millions)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	**21,704**	**19,858**	**110,291**	**(596)**	**151,257**
Changes of items during period					
Issuance of new shares	**27**	**27**			**54**
Dividends of surplus			**(2,473)**		**(2,473)**
Profit attributable to owners of parent			**14,017**		**14,017**
Purchase of treasury shares				**(129)**	**(129)**
Disposal of treasury shares		**(4)**		**22**	**18**
Transfer to capital surplus from retained earnings		**4**	**(4)**		**—**
Change in scope of consolidation					**—**
Net changes of items other than shareholders' equity					
Total changes of items during period	**27**	**27**	**11,539**	**(106)**	**11,488**
Balance at end of current period	**21,731**	**19,886**	**121,831**	**(702)**	**162,745**

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of current period	**8,457**	**(61)**	**159**	**(2,305)**	**6,250**	**247**	**1,347**	**159,102**
Changes of items during period								
Issuance of new shares								**54**
Dividends of surplus								**(2,473)**
Profit attributable to owners of parent								**14,017**
Purchase of treasury shares								**(129)**
Disposal of treasury shares								**18**
Transfer to capital surplus from retained earnings								**—**
Change in scope of consolidation								**—**
Net changes of items other than shareholders' equity	**(637)**	**52**	**(838)**	**(165)**	**(1,588)**	**(18)**	**183**	**(1,423)**
Total changes of items during period	**(637)**	**52**	**(838)**	**(165)**	**(1,588)**	**(18)**	**183**	**10,064**
Balance at end of current period	**7,820**	**(9)**	**(678)**	**(2,470)**	**4,661**	**229**	**1,531**	**169,167**

Consolidated Statement of Cash Flows

(¥ millions)

	For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	**For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)**
Cash flows from operating activities		
Profit before income taxes	23,470	**20,230**
Depreciation	17,519	**17,892**
Impairment loss	—	**286**
Amortization of goodwill	133	**133**
Amortization of negative goodwill	(141)	**(141)**
Increase (decrease) in net defined benefit liability	1,032	**707**
Increase (decrease) in allowance for doubtful accounts	108	**(11)**
Loss (gain) on valuation of investment securities	46	**0**
Interest and dividend income	(893)	**(971)**
Interest expenses	861	**750**
Foreign exchange losses (gains)	(48)	**266**
Share of (profit) loss of entities accounted for using equity method	370	**88**
Loss (gain) on sales of non-current assets	(3,739)	**(36)**
Loss (gain) on disposal of non-current assets	1,646	**748**
Loss (gain) on sales of investment securities	(94)	**(266)**
Decrease (increase) in notes and accounts receivable—trade	(4,821)	**(4,074)**
Decrease (increase) in inventories	(7,383)	**(5,075)**
Increase (decrease) in notes and accounts payable—trade	1,393	**(1,857)**
Increase (decrease) in accrued expenses	(944)	**(1,917)**
Increase (decrease) in deposits received	6,153	**(4,368)**
Loss (gain) on step acquisitions	(612)	**—**
Other, net	(1,671)	**4,724**
Subtotal	32,382	**27,110**
Interest and dividend income received	887	**972**
Interest expenses paid	(834)	**(754)**
Income taxes paid	(7,324)	**(8,822)**
Cash flows from operating activities	25,110	**18,506**
Cash flows from investing activities		
Purchase of non-current assets	(19,779)	**(39,247)**
Proceeds from sales of non-current assets	5,088	**51**
Purchase of investment securities	(2,723)	**(37)**
Proceeds from sales of investment securities	345	**381**
Payments of loans receivable	(5,438)	**(5,067)**
Collection of loans receivable	5,582	**5,101**
Other, net	2	**0**
Cash flows from investing activities	(16,921)	**(38,817)**

(¥ millions)

	For the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)	**For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,191	**3,022**
Increase (decrease) in commercial papers	—	**5,000**
Proceeds from long-term loans payable	7,284	**7,661**
Repayments of long-term loans payable	(12,141)	**(7,633)**
Proceeds from issuance of bonds	9,932	**9,941**
Redemption of bonds	(10,000)	**—**
Proceeds from sales of treasury shares	2	**0**
Purchase of treasury shares	(37)	**(11)**
Cash dividends paid	(2,226)	**(2,473)**
Cash dividends paid to minority shareholders	(5)	**(16)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(41)	**—**
Repayments of finance lease obligations	(1,732)	**(1,378)**
Net cash provided by (used in) financing activities	(5,774)	**14,112**
Effect of exchange rate change on cash and cash equivalents	165	**(254)**
Net increase (decrease) in cash and cash equivalents	2,580	**(6,454)**
Cash and cash equivalents at beginning of period	7,077	**9,838**
Increase in cash and cash equivalents from newly consolidated subsidiary	180	**—**
Cash and cash equivalents at end of period	9,838	**3,384**

Subsidiary Companies (As of March 31, 2019)

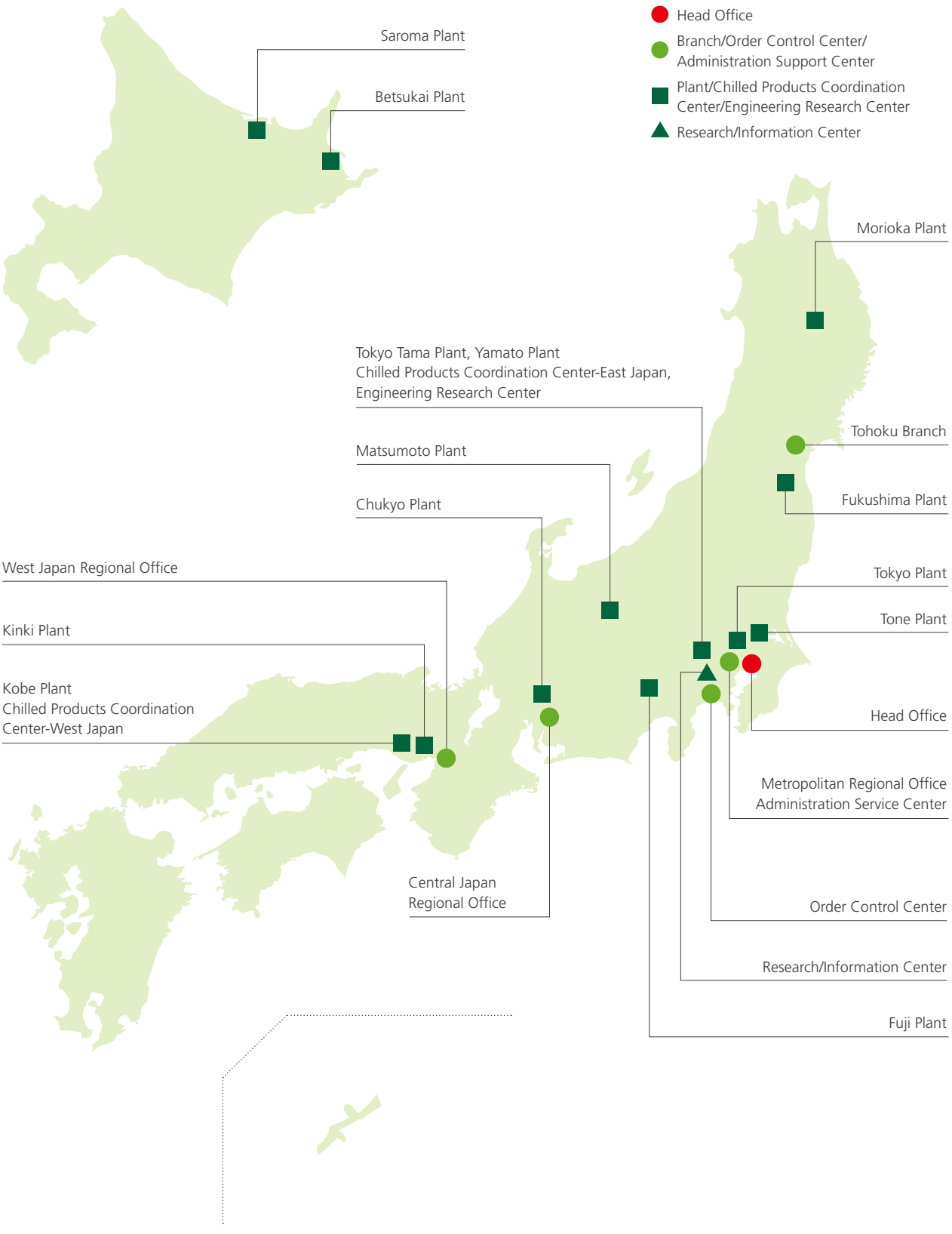
Name	Capital or equity (¥ millions)	Main business area	Voting rights held (%) (Note 7)	Activities
Consolidated subsidiaries				
Daily Foods Co., Ltd. (Notes 2, 5)	497	Food	100.0	Seller of commercial milk, dairy products, etc.
TOHOKU MORINAGA MILK INDUSTRY CO., LTD.	470	Food	100.0 (12.0)	Manufacturer of products supplied to Morinaga
FURIJIPORT CO., LTD. (Note 6)	310	Food	100.0	Seller of dairy products, etc.
HIROSHIMA MORINAGA MILK INDUSTRY CO., LTD.	215	Food	100.0	Manufacturer of products supplied to Morinaga
MK CHEESE CO., LTD.	200	Food	100.0	Manufacturer of products supplied to Morinaga
CLINICO Co., Ltd.	200	Food	100.0	Seller of nutritional products, pharmaceuticals, etc.
TOKYO DAIRY CO., LTD.	121	Food	100.0	Seller of cheese, etc.
RIZAN CORPORATION	100	Other activities	100.0	Leasing of real estate and commercial vehicles, etc.
Morinaga-Hokuriku Milk Industry Co., Ltd.	90	Food	100.0	Manufacturer of products supplied to Morinaga
TOWA TECHNO CO., LTD.	90	Other activities	100.0	Manufacturing and sales of food-related machinery
MORINYU SUNWORLD CO., LTD.	61	Other activities	100.0	Seller of feed, etc.
Chez Forêt Co., Ltd.	60	Food	100.0	Manufacturer of handmade desserts
Morinaga Dairy Service Co., Ltd.	42	Other activities	100.0	Seller of feed, etc.
TOYO FERMENTED MILK CO., LTD.	30	Food	100.0	Manufacturer of products supplied to Morinaga
Morinaga Milk Industry Hokkaido Co., Ltd.	30	Food	100.0 (49.0)	Seller of commercial milk, dairy products, etc.
Morinaga Milk Industry Kyushu Co., Ltd.	30	Food	100.0 (20.0)	Seller of commercial milk, dairy products, etc.
Napoli Ice Cream Co., Ltd.	20	Food	100.0	Manufacturer and seller of ice cream
TOKACHI URAHORO MORINAGA MILK INDUSTRY CO., LTD.	20	Food	100.0	Manufacturer of products supplied to Morinaga
MILEI GmbH (Note 2)	€90 million	Food	100.0	Raw milk product sales company that holds shares in MILEI Plus GmbH and MILEI Protein GmbH & Co. KG
MILEI Plus GmbH (Note 2)	€0 million	Food	100.0 (100.0)	Holding company of MILEI Protein GmbH & Co. KG
MILEI Protein GmbH & Co. KG (Note 2)	€0 million	Food	100.0 (100.0)	Manufacturer of raw milk products
Morinaga Nutritional Foods, Inc. (Note 2)	US$31 million	Food	100.0	Seller of tofu and other processed soybean products
Pacific Nutritional Foods, Inc. (Note 2)	US$21 million	Food	100.0 (100.0)	Manufacturer of tofu and other processed soybean products
NIHON SEINYU	140	Food	99.2	Manufacturer of products supplied to Morinaga
FUJI MORINAGA MILK INDUSTRY CO., LTD.	50	Food	98.9	Manufacturer of products supplied to Morinaga
OKINAWA MORINAGA MILK INDUSTRY CO., LTD.	305	Food	97.3	Manufacturing and sales of commercial milk products, etc.
KUMAMOTO MORINAGA MILK INDUSTRY CO., LTD.	50	Food	97.1	Manufacturer of products supplied to Morinaga
YOKOHAMA MILK INDUSTRY CO., LTD.	60	Food	96.5 (11.7)	Manufacturer of products supplied to Morinaga
MORINAGA ENGINEERING CO., LTD.	200	Other activities	90.0	Plant design, engineering, and equipment sales
HOKKAIDO HOSHO MILK PLANT Co., Ltd.	97	Food	87.2	Manufacturer of products supplied to Morinaga
SUNFCO LTD. (Note 3)	50	Food	45.0	Seller of dairy products, etc.
MM Property Funding Corp. (Note 3)	10	Other activities	—	A filing company investing in silent partnerships under its agreement with this company
Equity method affiliated company				
Nanjing Sen-Want Dairy Co., Ltd.	CNY400 million	Food	20.0	Manufacturing and sales of yogurt and pudding

Notes: 1. Segment names are shown in the "main business area" column.
2. This company is classed as a specified subsidiary.
3. Although the shareholding is less than 50%, it is effectively controlled by Morinaga Milk Industry Co., Ltd. and is therefore treated as a subsidiary.
4. None of the companies listed above file securities registration statements or financial statements.
5. The net sales of Daily Foods Co., Ltd. (excluding internal sales) account for over 10% of consolidated net sales.*1
6. The net sales of FURIJIPORT CO., LTD. (excluding internal sales) account for over 10% of consolidated net sales.*2
7. Figures in parentheses in the "voting rights held" column represent indirect holdings.

*1 Main income indicators
(1) Net sales ¥75,700 million
(2) Ordinary income ¥83 million
(3) Net income ¥65 million
(4) Net assets ¥9,571 million
(5) Total assets ¥23,483 million

*2 Main income indicators
(1) Net sales ¥59,089 million
(2) Ordinary income ¥1,506 million
(3) Net income ¥1,035 million
(4) Net assets ¥6,657 million
(5) Total assets ¥12,628 million

Business Sites (Non-consolidated) (As of March 31, 2019)



Corporate Data (As of March 31, 2019)

Corporate Profile

Company name	Morinaga Milk Industry Co., Ltd.
Head office	33-1, Shiba 5-chome, Minato-ku, Tokyo
Founded	September 1, 1917
Established	April 13, 1949
Capital	¥21,731 million
Employees (Non-consolidated)	3,247
URL	https://www.morinagamilk.co.jp/english/

Overseas Subsidiaries and Joint Ventures

Morinaga Nutritional Foods, Inc.	Established in Los Angeles in 1985, this company supplies long-life *TOFU* made possible by Morinaga technology throughout the United States. http://www.morinu.com/
MILEI GmbH	Established as a Japanese-German joint venture in 1972. It is now a wholly owned subsidiary of Morinaga Milk Industry. It manufactures products such as whey protein, lactose, and lactoferrin. http://www.milei.de/
Morinaga Milk Industry (Shanghai) Co., Ltd.	This wholly owned subsidiary was established in Shanghai in 2011.
Morinaga Nutritional Foods (Asia Pacific) Pte.Ltd.	Established in Singapore in 2015, this company markets dairy raw materials, such as whey protein concentrate and lactose, and bifidobacteria, to infant formula manufacturers and other users in Southeast Asia and the Pacific region.
PT. Kalbe Morinaga Indonesia	This infant formula manufacturing company is a joint venture with Kalbe, Indonesia's biggest pharmaceutical manufacturer.

Partner Brands

KRAFT	Kraft Foods is the biggest food company in North America. Morinaga and Kraft have been technology partners since 1970 in the area of cheese and cheese-related products. Note: "KRAFT" is a trademark of Kraft Foods.
Lipton	Lipton is the main tea brand of Unilever, which is one of the world's biggest food and grocery manufacturers. With a history of over a century, it is a favorite of tea lovers worldwide. Note: "Lipton" is a trademark of Unilever.
Sunkist	Sunkist is a leading fruit brand in the United States. In Japan, Morinaga sells products such as Sunkist fruit juices. https://www.sunkist.com Note: "Sunkist" is a registered trademark of Sunkist Growers Inc., U.S.A.

Stock Information

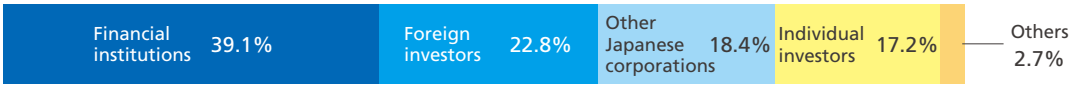
Securities code	2264
Business year	From April 1 to March 31 in the following year
Annual General Meeting of Shareholders	June
Date of record for shareholders eligible to receive dividends	March 31 (The Company does not pay an interim dividend.)
Listed stock exchange	Tokyo
Authorized shares	144,000,000 shares
Shares issued and outstanding	49,458,374 shares (excluding 351,669 shares of treasury stock)
Shareholders	26,718
Shareholders' registry manager, management institution for special accounts	Mitsubishi UFJ Trust and Banking Corporation

Major Shareholders

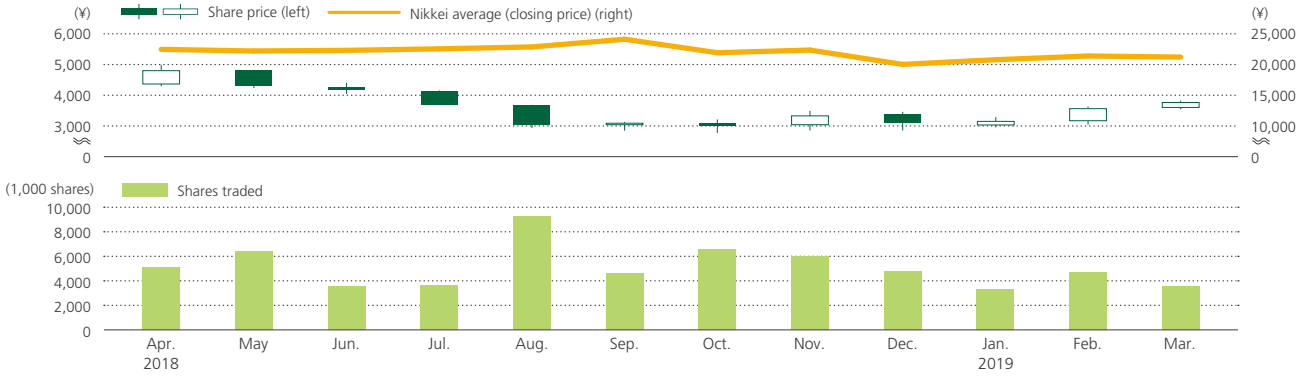
Shareholder	Shareholding (1,000 shares)	Percentage of shares held* (%)
Morinaga & Co., Ltd.	5,249	10.61
Mizuho Bank, Ltd.	2,445	4.94
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,016	4.08
GOLDMAN SACHS INTERNATIONAL	1,854	3.75
Japan Trustee Services Bank, Ltd. (Trust Account)	1,746	3.53
MUFG Bank, Ltd.	1,388	2.81
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,341	2.71
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	1,328	2.69
Morinaga Milk Employees' Shareholding Association	969	1.96
Mitsubishi UFJ Trust and Banking Corporation	923	1.87

*Percentages of shares held are calculated based on the number of shares issued and outstanding after the subtraction of shares of treasury stock

Distribution of Shares



Share Price/Turnover





“For Ever Brighter Smiles”

MORINAGA MILK INDUSTRY CO., LTD.

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