

SUSTAINABILITY REPORT 2019

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Approach to Disclosure of Information on Sustainability

Basic Approach

Morinaga Milk promotes business activities aimed at achieving a sustainable society based on the belief that "fulfillment of CSR is the very essence of our business activities." Morinaga Milk believes that communication with customers, suppliers, local communities, shareholders and investors, employees and other stakeholders is critical as a guide to what kind of value Morinaga Milk can provide to society with an awareness of the changes going on in the world around us.

Morinaga Milk discloses financial and non-financial information through the Integrated Report, the Sustainability Report, and the company website as methods of communication. Based on the disclosure of information, Morinaga Milk engages in continuous dialogue and evaluation with stakeholders to utilize such communication in business activities.

Forms of Disclosure

Integrated Report

Starting in fiscal 2019, Morinaga Milk will publish the Integrated Report for shareholders and investors.

The report tells the story of how financial information such as business performance and management strategy correlates with non-financial information such as the environment, society, and governance and how collaborative value creation for society is possible.



WEB ▶ https://www.morinagamilk.co.jp/english/ir/library/annual.php

Sustainability Report (this report)

Since fiscal 2018, Morinaga Milk has made the content of the Sustainability Report in line with GRI Standards for research organizations.

The report mainly discloses information on environmental, social, and governance initiatives and Key Performance Indicators (KPIs).



Website

Morinaga Milk publishes financial information on the Investor Relations (IR) page and non-financial information (environment, society, governance) on the CSR page. Morinaga Milk takes advantage of the distinctive features of the internet to update the pages with latest information as needed, and strives to provide information that is necessary and satisfying for stakeholders.



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

Guidelines Referenced

Morinaga Milk implements integrated information disclosure, including sustainability initiatives, referencing the following guidelines.

- International Integrated Reporting Framework
- Guidance for Collaborative Value Creation
- SASB Standards
- GRI Standards
- UN Global Compact
- ISO 26000

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Editorial Policy

Morinaga Milk commenced publication of the Environment Report in 2000 and the CSR Report in 2008. These reports have been published as the Sustainability Report since 2017 with the aim of realizing a sustainable society.

In 2019, Morinaga Milk switched to online release of the report and decided to disclose the requisite information from a global perspective, referencing GRI Standards.

Scope of Reporting

The scope of reporting includes the entire Morinaga Milk Group composed of Morinaga Milk Industry Co., Ltd. and 32 consolidated subsidiaries in Japan and overseas.

"Morinaga Milk Group" refers mainly to the Morinaga Milk Group in Japan, while "Morinaga Milk" refers specifically to Morinaga Milk Industry Co., Ltd. alone.

Reporting Period

The report focuses on activities during fiscal 2018 (April 1, 2018 to March 31, 2019) as well as describing some background information about past activities implemented up to the time of publication, the outlook for the future, and plans, etc.

Guidelines Referenced

This report has been prepared referencing GRI Standards. Please see the "GRI Content Index" section (p. 83) for details.

Date of Publication

November 2019
Date of next scheduled publication: November 2020. Published once a year.

Responsible Department and Contact Details

CSR Promotion Department
Corporate Communication Division
Morinaga Milk Industry Co., Ltd.
33-1 Shiba 5-Chome, Minato-ku, Tokyo, 108-8384
Japan
Tel: +81-(0)3-3798-0129
Fax: +81-(0)3-5442-3691

Third Party Assurance

Third party assurance has been received for fiscal 2018 energy consumption and CO_2 emissions.

Please see the "Third Party Assurance" section (p. 82) for details.

Disclaimer

This report not only includes past and current facts, but also forward-looking statements based on plans, forecasts, and management policies and strategies as of the date of publication. Results and events related to future business activities, including business performance, may differ from forecasts due to changes in conditions.

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About Us

Corporate Profile

Corporate name:	MORINAGA MILK INDUSTRY CO., LTD.
Head office address:	33-1, Shiba 5-Chome, Minato-ku, Tokyo 108-8384 Japan
Representative:	President and Representative Director : Michio Miyahara Executive Vice President and Representative Director : Junichi Noguchi
Founded:	September 1, 1917
Established:	April 13, 1949
Capital:	21,731 million yen (as of March 31, 2019)
Number of employees	
(non-consolidated):	3,247 (as of March 31, 2019)
(consolidated):	6,157 (as of March 31, 2019)
Business:	Production and sale of milk, dairy products, ice cream, beverages, and other foods
URL:	https://www.morinagamilk.co.jp/english/

Business sites (as of March 31, 2019):
15 plants and chilled products coordination centers
(Saroma Plant, Betsukai Plant, Morioka Plant, Fukushima Plant, Tone Plant, Tokyo Plant, Tokyo Tama Plant, Yamato Plant, Chilled Products Coordination Center – East Japan, Matsumoto Plant, Fuji Plant, Chukyo Plant, Kinki Plant, Kobe Plant, Chilled Products Coordination Center – West Japan)
Six regional offices, order control centers and administration support centers
(Tohoku Branch, Metropolitan Regional Office, Administration Support Center, Order Control Center, Central Japan Regional Office, West Japan Regional Office)
One Research/Information Center (in Zama-shi)

Domestic Consolidated Subsidiaries

Morinaga Milk Industry Sales Co., Ltd.
Napoli Ice Cream Co., Ltd.
Morinaga Milk Industry Hokkaido Co., Ltd.
MK Cheese Co., Ltd.
Furijiport Co., Ltd.
Morinaga Rakunou Co., Ltd.
Towa Techno Co., Ltd.
Rizan Corporation
MM Property Funding Corp.
Tokachi Urahoro Morinaga Milk Industry Co., Ltd.
Tohoku Morinaga Milk Industry Co., Ltd.
Yokohama Morinaga Milk Industry Co., Ltd.
Morinaga-Hokuriku Milk Industry Co., Ltd.
Kumamoto Morinaga Milk Industry Co., Ltd.
Clinico Co., Ltd.
Tokyo Dairy Co., Ltd.
Morinaga Milk Industry Kyushu Co., Ltd.
Chez Forêt Co., Ltd.
Morinyu Sunworld Co., Ltd.
Morinaga Engineering Co., Ltd.
Sunfco Ltd.
Hokkaido Hosho Milk Plant Co., Ltd.
Nihon Seinyu
Fuji Morinaga Milk Industry Co., Ltd.
Toyo Fermented Milk Co., ltd.
Hiroshima Morinaga Milk Industry Co., Ltd.
Okinawa Morinaga Milk Industry Co., Ltd.

Main Overseas Subsidiaries and Joint Ventures

Morinaga Nutritional Foods, Inc.
MILEI GmbH
Morinaga Milk Industry (Shanghai) Co., Ltd.
Morinaga Nutritional Foods (Asia Pacific) Pte. Ltd.
PT. Kalbe Morinaga Indonesia

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Product Categories

Morinaga Milk has developed a variety of products and services based on our Corporate Philosophy: **"Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology."**

Since the founding as Nippon Rennyu Co., Ltd. in 1917, Morinaga Milk has created many products using milk technology.

Morinaga Milk has researched many nutritious and functional ingredients based on milk, including the 1969 discovery of the Bifidobacterium longum BB536, which has promise as an effective regulator of intestinal function by improving intestinal flora, and lactoferrin, an important component that provides protective benefits in infants, which Morinaga Milk has researched since the 1960s.

Morinaga Bifidus Yogurt was launched in 1978 as a yogurt containing the Bifidobacterium longum BB563. This product continues to protect the health of consumers to this day.

Later *Morinaga BF-L Dry Milk* was launched to become the world's first infant and toddler milk to contain lactoferrin, which provides protective benefits in infants.

Morinaga Milk is also distinguished by its many pioneering products, leveraging the company's outstanding development capabilities and technology.

In 1961, the sale of *Creap*, Japan's first creaming powder for coffee, began. Once instant coffee took root and a coffee culture spread in Japan, *Creap* became such a popular product that its advertising slogan became "Coffee is no good without *Creap*." This product was supported by Morinaga Milk's proprietary manufacturing technology. The product's feature is being "derived from 100% milk ingredients" that other companies cannot emulate. *Creap* is still the leading creaming powder for the coffee market that Morinaga Milk created.

Moreover, Morinaga Milk launched Japan's first chilled cup-type drinks in plastic cups using long-life production methods in 1985. The stylish and easy-to-carry containers that hold just the right amount to drink were popular. In 1993, *Mt. Rainier Caffé Latte* was launched in the chilled cup-type drink market which Morinaga Milk created. While drinking coffee away from home was strongly associated with canned coffee and coffee shops, this product pursued the best balance between expresso and milk. *Mt. Rainier Caffé Latte* is still a long-standing favorite among chilled cup-type drinks.

Going forward, Morinaga Milk will continue aiming to develop products that pursue "health" and "deliciousness."



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Product Categories

Milk
Morinaga Oishii Gyunyu Milk, *Makiba no Sora Milk*, etc.



Beverages
Chilled cup-type coffee *Mt. Rainier Caffé Latte*, and chilled cup-type tea *Lipton Tea*, etc.



Yogurt
Bifidus Plain Yogurt, *Lactoferrin Yogurt*, *Triple Attack Yogurt*, etc.



Chilled Desserts
Morinaga Yaki Pudding, *Morinaga Milk Pudding*, etc.



Food Service & Institutional Food Products
Products for the restaurant industry, etc.



Ice Cream
Pino, *MOW*, *PARM*, etc.



Creap, Condensed Milk, and Other Products
Creap, *Morinaga Condensed Milk*, *Morinaga Silken Tofu* (Long-Life-TOFU), etc.



Cheese and Butter
KRAFT Slice Cheese, *Morinaga Hokkaido Butter*, etc.



Infant Formula and Baby Foods
Infant formula *Morinaga E-Akachan*, *Morinaga Chil-mil*, specialized formula *New MA-1*, and baby food *Vegetable Jelly*, etc.



Products for Overseas Markets
We supply a variety of products worldwide.





Health Food
Powdered Milk for adults *Milk Life*, supplements using bifidus, etc.



Liquid Diet and Nursing Care Food
Liquid diet, easily-swallowed foods, and nutrition supplements, etc. (Clinico Co., Ltd.)



Home Delivery Products
Morinaga Caldus Milk, *Chokatsu Milk*, etc.



Slightly Acidic Electrolyzed Water Generator
Equipment for maintaining a high level of hygiene in places that handle food, such as plants and shops.



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Brand License Agreement

Kraft

Technical alliance for cheese and cheese-related products in 1970.

KRAFT is the trademark of Kraft Foods.

Lipton

Business alliance in 1984.

Sale of products such as chilled tea beverages.

Lipton is a trademark of Unilever.

Sunkist

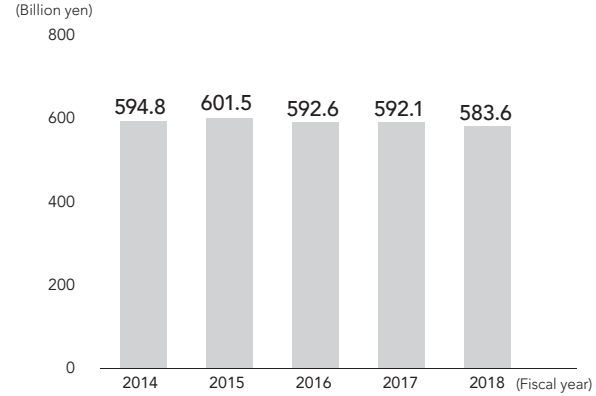
Conclusion of trademark licensing agreement in 1971.

Sale of products such as fruit beverages.

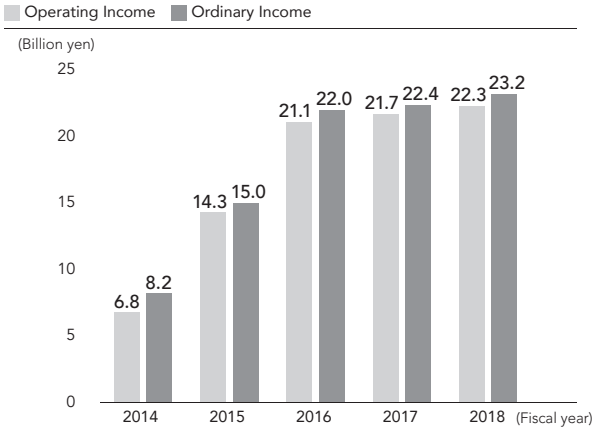
Sunkist is the registered trademark of Sunkist Growers, Inc., U.S.A.

Financial Highlights

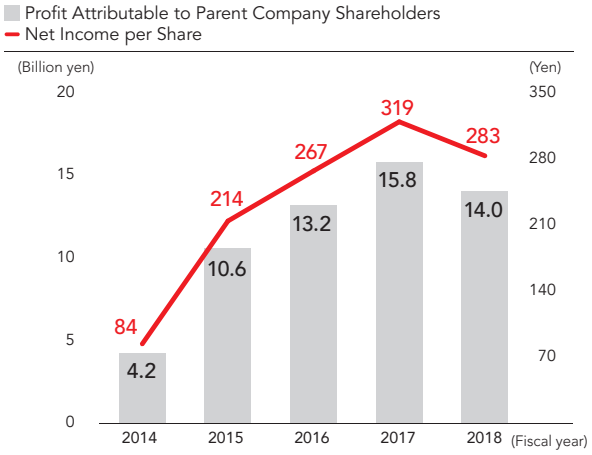
Net Sales



Operating Income / Ordinary Income



Profit Attributable to Parent Company Shareholders / Net Income per Share



By Business Segment (Fiscal 2018)

	Net Sales	Operating Income
Functional and food ingredients business (B-to-B business)	¥96.9 billion	¥5.8 billion
International business	¥28.9 billion	¥1.6 billion
Health and nutritional food business	¥49.1 billion	¥3.1 billion
B-to-C business	¥310.7 billion	¥10.5 billion

* Segment names are those used in the previous Medium-term Business Plan. There are discrepancies with the segment names used in the current Medium-term Business Plan.

WEB Detailed information on performance is posted on the Investor Relations (IR) site.
▶ https://www.morinagamilk.co.jp/english/ir/

Shares (as of March 31, 2019)

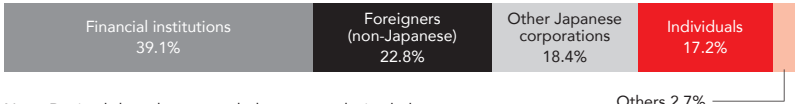
Number of authorized shares: 144,000,000 shares
Number of issued and outstanding shares: 49,458,374 shares
(excludes 351,669 shares of treasury stock)
Number of shareholders: 26,718

Major shareholders (as of March 31, 2019)

Shareholder	Number of shares held (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%
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account)	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 (as of March 31, 2019)



Note: Decimals have been rounded up to one decimal place.

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Corporate Mission

Corporate Slogan

For Ever Brighter Smiles

Concept Contained in the Morinaga Milk Group's Corporate Slogan

The word "smiles" is used to express the desire of the Morinaga Milk Group to provide "health and enjoyment" to its consumers.

Those smiles should flow naturally from within our daily lives through harmony with family and friends.

This is the concept contained in the words "For Ever Brighter Smiles."

Corporate Philosophy

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

Concept Contained in the Morinaga Milk Group's Corporate Philosophy

In order to achieve For Ever Brighter Smiles for consumers, the Morinaga Milk Group uses its capabilities cultivated since its founding to deliver not only standard milk, but also a diverse range of unique products and services.

By doing so, the Morinaga Milk Group can contribute to the physical and social well-being of not only its consumers, but also of the community as a whole.

Guiding Principles

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 share with each other our visions and progress toward them?**

Role of the Morinaga Milk Group's Guiding Principles

The Guiding Principles were created to provide inspiration for each and every member of the Morinaga Milk Group as they work toward realizing the Corporate Slogan and the Corporate Philosophy.

Policies of the Morinaga Milk Group

REPORT Human Rights Policy (▶ p. 41) / Basic Policy on Health and Safety (▶ p. 43) / Environmental Policy (▶ p. 31) / Procurement Policy (▶ p. 51) / Quality Policy (▶ p. 51)

WEB ▶ https://www.morinagamilk.co.jp/english/about/vision/

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Commitment of the President



President and Representative Director
Morinaga Milk Industry Co., Ltd.

Michio Miyahara

Morinaga Milk indicated the corporate vision for the next ten years under the Morinaga Milk Group 10-year Vision in our Medium-term Business Plan announced in April 2019. As part of our vision, we expressed our aim to be a company that persistently helps make social sustainability a reality.

In addition, in 2019, we established the direction of activities and Key Performance Indicators (KPIs) for each of our seven priority issues set out based on our corporate slogan For Ever Brighter Smiles, which was formulated to mark the 100th anniversary of our founding. Going forward, we will draw up a concrete roadmap and implement activities with the aim of achieving our targets.

In the area of health and nutrition, which is one of our seven priority issues, our unique ingredients, particularly bifidobacteria, lactoferrin, and peptides, have received global attention. In addition to providing society with products that utilize these nutritious and functional ingredients, which are our strength, we will contribute to the health of customers by focusing on communication that makes customers aware of their functions.

In the area of the environment, the key themes at present are climate change, reducing food loss, and addressing plastic containers. We are working to establish concrete target values for these issues and to tackle them from the perspective of the entire supply chain.

In April 2018, we signed the United Nations Global Compact, which advances the principles of protecting human rights, eliminating unjust labor, taking action on the environment, and preventing corruption. In view of this, we formulated and published our Human Rights Policy in November 2018. We will advance initiatives for the respect of human rights not only at the Morinaga Milk Group but also throughout the supply chain.

Over the past few years, it has been widely recognized that society faces common challenges, including the sustainable development goals (SDGs). The Morinaga Milk Group will address these challenges proactively to contribute to making Brighter Smiles for our stakeholders.

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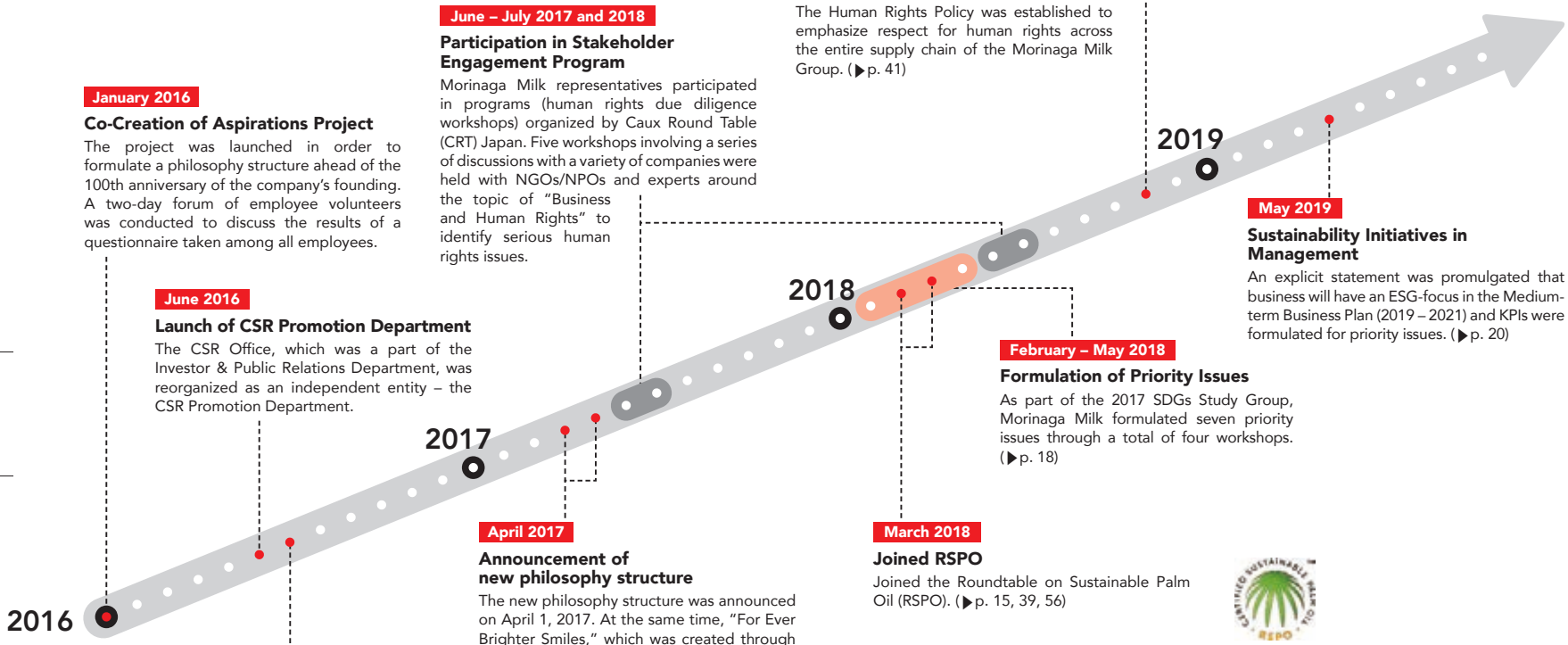
Progress of Sustainability Initiatives

To coincide with the 100th anniversary of its founding, Morinaga Milk formulated a new structure for its philosophy and began working to realize this new approach under the slogan: "Making Sustainable Society a Reality." The initiatives related to sustainability that Morinaga Milk has taken in recent years are as follows.



January 2016

Co-Creation of Aspirations Project

The project was launched in order to formulate a philosophy structure ahead of the 100th anniversary of the company's founding. A two-day forum of employee volunteers was conducted to discuss the results of a questionnaire taken among all employees.

June 2016

Launch of CSR Promotion Department

The CSR Office, which was a part of the Investor & Public Relations Department, was reorganized as an independent entity – the CSR Promotion Department.

July 2016

Establishment of the CSR Committee

The CSR Committee, chaired by the President, was established. The committee meets once every six months. The CSR Promotion Department at the headquarters serves a coordination function with all other divisions, departments, etc. in Morinaga Milk. (▶p. 13)



April 2017

Announcement of new philosophy structure

The new philosophy structure was announced on April 1, 2017. At the same time, "For Ever Brighter Smiles," which was created through the Co-Creation of Aspirations Project, became the new Corporate Slogan. (▶p. 10)

May 2017

Holding of SDGs Study Group

The SDGs Study Group was held with the participation of employees from a variety of departments and positions. Outside experts as instructors were invited to consider the relationship between the SDGs and corporate activities across the entire supply chain.

June – July 2017 and 2018

Participation in Stakeholder Engagement Program

Morinaga Milk representatives participated in programs (human rights due diligence workshops) organized by Caux Round Table (CRT) Japan. Five workshops involving a series of discussions with a variety of companies were held with NGOs/NPOs and experts around the topic of "Business and Human Rights" to identify serious human rights issues.

November 2018

Formulation of Human Rights Policy

The Human Rights Policy was established to emphasize respect for human rights across the entire supply chain of the Morinaga Milk Group. (▶p. 41)

February – May 2018

Formulation of Priority Issues

As part of the 2017 SDGs Study Group, Morinaga Milk formulated seven priority issues through a total of four workshops. (▶p. 18)

March 2018

Joined RSPO

Joined the Roundtable on Sustainable Palm Oil (RSPO). (▶p. 15, 39, 56)

April 2018

Signed United Nations Global Compact

Morinaga Milk signed the United Nations Global Compact, which sets out protection of human rights, elimination of unfair labor, action on the environment, and prevention of corruption. (▶p. 15)

May 2019

Sustainability Initiatives in Management

An explicit statement was promulgated that business will have an ESG-focus in the Medium-term Business Plan (2019 – 2021) and KPIs were formulated for priority issues. (▶p. 20)

4-1016-18-100-00

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CSR of Morinaga Milk

Policy and Approach

Our Approach to CSR

The Morinaga Milk Group believes that all practical steps toward realizing its corporate philosophy fall within the scope of CSR. All employees of the Morinaga Milk Group contribute to the creation of a society in which people can enjoy happiness and fulfillment through their everyday work activities.

System

CSR Promotion System

Through the CSR Committee chaired by the president, Morinaga Milk is promoting CSR activities throughout the entire Group. In 2016, the CSR Promotion Department was established as a special department with company-wide functions for organizing CSR activities and strengthening cross-departmental activities in each department to establish a system through which the entire company could address management issues related to CSR. The concept of CSR can be spread throughout the entire Group by disseminating and sharing sufficient information inside the Morinaga Milk Group.

The CSR Committee was established to reinforce the functions of the Board of Directors. It identifies topics that should be addressed in order to achieve a sustainable society from an ESG (Environment, Social, and Governance) perspective and deliberates on action, progress, and confirmation.

CSR Committee

With the president as the chairperson, the committee consists of the officers, the relevant department managers, and people appointed by the chairperson. The CSR Promotion Department, meanwhile, takes charge of coordination. The regular committee meeting is held once every six months, in principle.

CSR Promotion Department

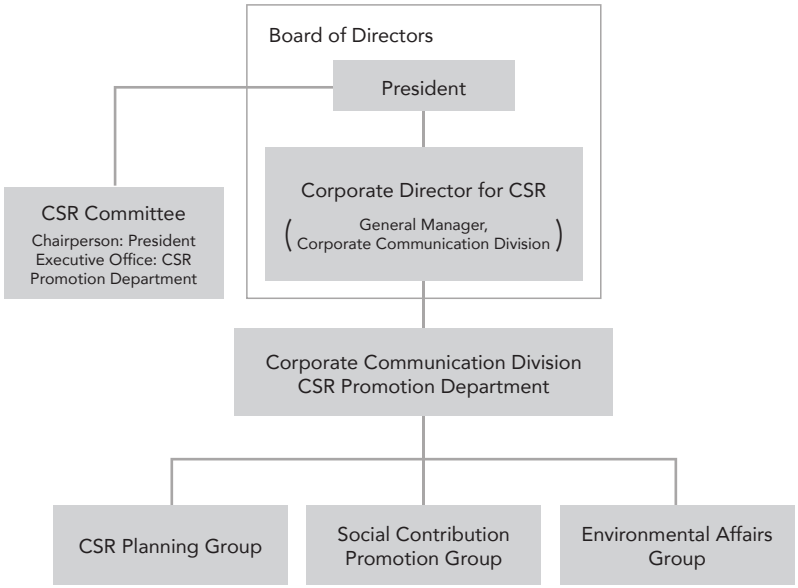
The CSR Promotion Department consists of the CSR Planning Group, the Social Contribution Promotion Group, and the Environmental Affairs Group.

The CSR Planning Group is responsible for dissemination of non-financial ESG-related information, as well as the planning, implementation, and promotion of measures to improve the corporate and organizational culture.

The Social Contribution Promotion Group is responsible for promoting social contribution activities such as plant tours and food education.

The Environmental Affairs Group is responsible for promoting company-wide environmental affairs as well as overseeing the operation and supervision of ISO 14001 Environmental Management Systems.

CSR Promotion System



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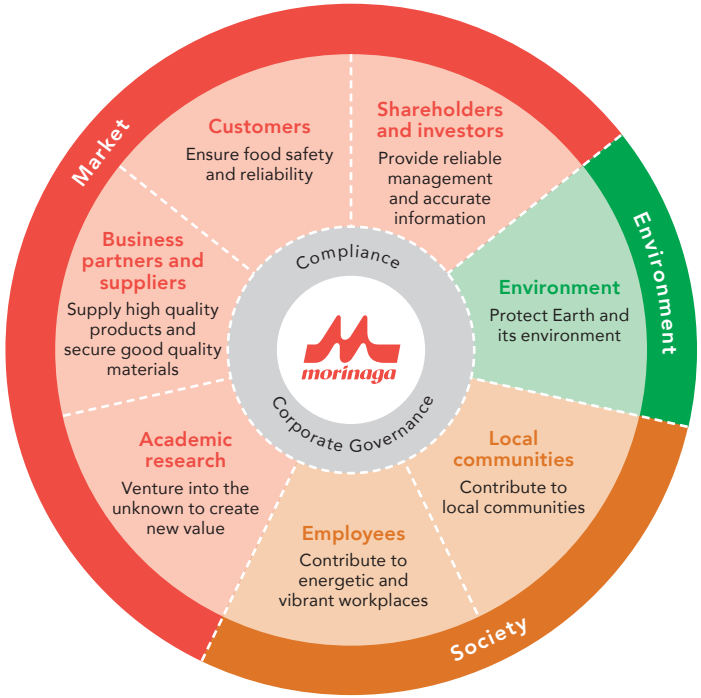
Communication with Stakeholders

The Circle of Empathy

The corporate activities of Morinaga Milk are based on expanding empathy with seven groups of stakeholders and identifying the topics which must be addressed in the relationships with each group of stakeholders.



Communication Methods

Morinaga Milk uses the following methods to communicate with each group of stakeholders.

Stakeholders	Communication methods and results
Customers	(1) Consumer Service Office (2) Customer satisfaction questionnaire surveys (3) Angel 110 Hotline (4) Social contribution activities such as Expedition of Woods and Food
Shareholders and investors	(1) General Meeting of Shareholders Number of voting rights exercised: 420,112 (2) Briefings for individual investors Number held: 4 Financial results briefings Number held: 2 (3) Dissemination of information through the investor relations site
Business partners and suppliers	(1) CSR procurement questionnaires (2) Quality improvement seminars and distribution seminars (3) Supplier briefings
Academic research	Joint research and presentations at conferences
Employees	(1) Energy Survey (employee satisfaction survey) (2) Career surveys (3) Dialogue through the Co-Creation of Aspirations Forum
Local communities	(1) Plant tours Number of visitors in fiscal 2018: 30,000 (2) Participation in environmental cleanup activities and other events Number of participants in fiscal 2018: 12,758
Environment	(1) Use of certified raw materials (2) Cooperation and collaboration with environmental industry groups (3) Cleanups around plants

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Joining External Initiatives and Groups

Morinaga Milk engages in dialogue and collaboration with diverse stakeholders in order to realize a sustainable society.

On the global level, Morinaga Milk signed the UN Global Compact in April 2018 endorsing the 10 Principles related to protecting human rights, eliminating unfair labor, taking action on the environment, and preventing corruption advocated by the United Nations.

In addition, regarding palm oil and palm kernel oil, which are used as raw materials, Morinaga Milk joined the Roundtable on Sustainable Palm Oil (RSPO) in March 2018, based on the Group Procurement Policy. In April 2019, Morinaga Milk also took part in Japan Sustainable Palm Oil Network (JaSPON), serving as an executive committee member. Going forward, Morinaga Milk will continue to purchase sustainable palm oil.

4-1016-18-100-00

In Japan, Morinaga Milk served as chair of the Japan Dairy Industry Association and the Committee for Milk Container Environmental Issues in fiscal 2018 and now serves as an executive committee member of Japan Dairy Association (J Milk) in order to improve the quality of milk and dairy products and production technology and to contribute to the development of the dairy industry.

External Evaluations and Commendations

Ratings and Evaluations

Morinaga Milk has been highly rated by a variety of external institutions as a corporate entity that implements activities aimed at achieving a sustainable society.

Morinaga Milk received highest level DBJ Environmental Rating from the Development Bank of Japan. (2019)

In the DBJ Environmental Rating, which is a financing program of the Development Bank of Japan (DBJ), Morinaga Milk received the highest rating given to companies with outstanding environmental initiatives.

Morinaga Milk was selected for inclusion in the SNAM Sustainability Index. (2018)

The SNAM Sustainable Investment Fund, which began in August 2012, is an investment product for pension funds and institutional investors that invest widely in companies with high ratings on ESG (Environment, Social, and Governance).

Morinaga Milk was selected for inclusion for the first time in 2018.

Morinaga Milk acquired a DBJ BCM rating from the Development Bank of Japan. (2017)

Morinaga Milk acquired a DBJ BCM rating awarded by the Development Bank of Japan Inc. (DBJ) to companies with outstanding initiatives for disaster prevention and business continuity.

Morinaga Milk acquired the DBJ BCM rating for the first time in 2017.

Morinaga Milk acquired the highest DBJ Health Management rating from the Development Bank of Japan. (2016)

Morinaga Milk acquired the highest rating awarded to companies with outstanding initiatives that consider employee health based on the DBJ Health Management rating, a financing menu of the DBJ.

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Commendations

Morinaga Milk has received commendations from a variety of external institutions for the quality of products, research activities, and social activities.

***Thick Greek Yogurt PARTHENO Plain* (two varieties – with and without sugar) won a Two-Star Superior Taste Award from the International Taste & Quality Institute (iTQi) 2018.**



In international contests which evaluate the taste and quality of food and beverages, *Thick Greek Yogurt PARTHENO Plain* (two varieties – with and without sugar) won a Two-Star Superior Taste Award, which is awarded to products recognized as "remarkable."

Morinaga's "*Study in novel health function of Aloe vera gel derived phytosterols and application for functional food*" was the result of research and development in Aloesterol®. The study won the Japan Society of Nutrition and Food Science's fiscal 2018 Award for Achievement in Technological Research.

As part of Morinaga Milk's 15 years of research, it was confirmed that Aloesterol® has an effect on improving skin function in addition to their anti-obesity and anti-diabetes actions. Morinaga Milk is also promoting application in functional foods containing Aloesterol® such as yogurt, which can contribute to skin health.

Expedition of Woods and Food won the Judging Committee Encouragement Award at the Awards for Companies Promoting Experience-based Learning Activities for the Youth organized by the Ministry of Education, Culture, Sports, Science and Technology.

The award recognizes the social contribution activities of companies that foster children's survival skills with the idea that experience-based activities are the starting point for building character.

Morinaga Milk won the Judging Committee Chairman's Award in the 5th Food Industry Mottainai (Reducing Wastefulness) Awards organized by the Japan Organic Recycling Association (sponsored by the Ministry of Agriculture, Forestry and Fisheries, and co-sponsored by the Ministry of the Environment and the Consumer Affairs Agency) for developing tofu with a long shelf life and turning "okara" (soy pulp) into animal feed.

By making long-term storage of tofu possible with the use of aseptic packaging technology, Morinaga created new markets, including overseas sales and use in disaster stockpiles. This was highly rated.

Moreover, in order to effectively utilize the "okara" produced in the manufacture of tofu, the "okara" is fermented with lactobacillus to make a pleasant-tasting silage, which is sold by Morinaga Rakunou Co., Ltd., an affiliated company.

***KRAFT Pure (Muku) – Mature Cheddar Flavor* and *KRAFT Pure (Muku) – Mature Gouda Flavor* won a Three-Star Superior Taste Award and a Two-Star Superior Taste Award from the International Taste & Quality Institute (iTQi) 2018.**



In international contests to evaluate the taste and quality of food and beverages, *KRAFT Pure (Muku) – Mature Cheddar Flavor* won a Three-Star Superior Taste Award, the highest level awarded for products recognized as "exceptional," and *KRAFT Pure (Muku) – Mature Gouda Flavor* won a Two-Star Superior Taste Award, which is awarded to products recognized as "remarkable."

The Morinaga Milk Annual Report won the Gold Award in the Traditional Annual Report division of the International ARC Awards 2018.

Morinaga Milk was given the Gold Award in the Traditional Annual Report division of the International ARC Awards 2018, one of the world's biggest competitions for annual reports. The award was the third consecutive award following our fiscal 2015 report, which was the first English language annual report published by the company.

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Seven Priority Issues

Seven Priority Issues

"For Ever Brighter Smiles" — following its corporate slogan, Morinaga Milk has formulated seven priority issues. These form a set of guidelines for helping create a sustainable society and ensuring Morinaga Milk continues to contribute to the health of people during the next 100 years of its history.

● Health and Nutrition



We offer health and nutrition by developing and selling products that combine functionality and good taste "For Ever Brighter Smiles."

- There is growing demand today for highly nutritious products and products with high palatability. Moreover, over the medium to long term, the trend toward aging societies will become the norm. Morinaga Milk aims to use its proprietary R&D prowess to contribute to achieving healthy lifestyles through promoting harmony of both mind and body.
- As Japan's population ages and grows smaller in number, Morinaga Milk will aim to create and provide technologies and services that not only result in product appeal, but also help transform people's lifestyles.

● The Environment



Manufacturing safe and reliable products while striving to reduce energy use and cut waste and helping to create a sustainable society.

- Morinaga Milk will engage in corporate activities mindful of influence on climate change and forests.
- Morinaga Milk recognizes that reducing food waste is an urgent task for ensuring the effective use of the world's limited resources.

● Human Rights



Carry out business activities that consider human rights, respect diversity, and create an environment in which all people can perform to their full potential.

- Morinaga Milk recognizes that its people are a particularly important management resource for helping to form a sustainable society. Morinaga Milk will work alongside those outside the company to promote diversity and address various human rights issues, with the goal of realizing "For Ever Brighter Smiles" for everyone.

● Supply Chains



We procure raw materials and manufacture products with an emphasis on safety and reliability, and consistently provide high-quality products.

- Morinaga Milk will continue to research new formulations while working with its research institutes and plants to get maximum benefits from new dairy ingredients, in preparation for a future likely to have a shortage of dairy ingredients.
- Safety is one of the most important areas of focus. Morinaga Milk will continue to carry out its current initiatives for safety.

● Nurturing the Next Generation



We support the healthy growth of children who will contribute to creating a sustainable society.

- Morinaga Milk is helping to foster sound physical and mental health, provide career education, and support child-rearing aimed at a brighter tomorrow for all children.

● Human Resource Development



We will focus on developing human resources who can achieve "For Ever Brighter Smiles."

- Developing a broad range of human resources, from new hires to executive management, is critical to sustainable growth as a company. Morinaga Milk will establish systems and programs that harness individual aptitude for skills development and promote professional growth.

● Corporate Governance



We will continue to work on establishing and augmenting a highly effective governance system to achieve sustainable growth and improve corporate value.

- Morinaga Milk will engage stakeholders appropriately through dialogue and the proactive disclosure of information.
- Together with sharing messages from management, Morinaga Milk will work to build up internal controls, including establishing rules, fostering the right mindset in employees, and ensuring fair transactions with suppliers.

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Formulating the Priority Issues

Seven Requirements “For Ever Brighter Smiles”

In April 2017, Morinaga Milk announced its new corporate philosophy along with a new corporate slogan.

As the next step in its evolution, in 2018 Morinaga Milk formulated priority issues.

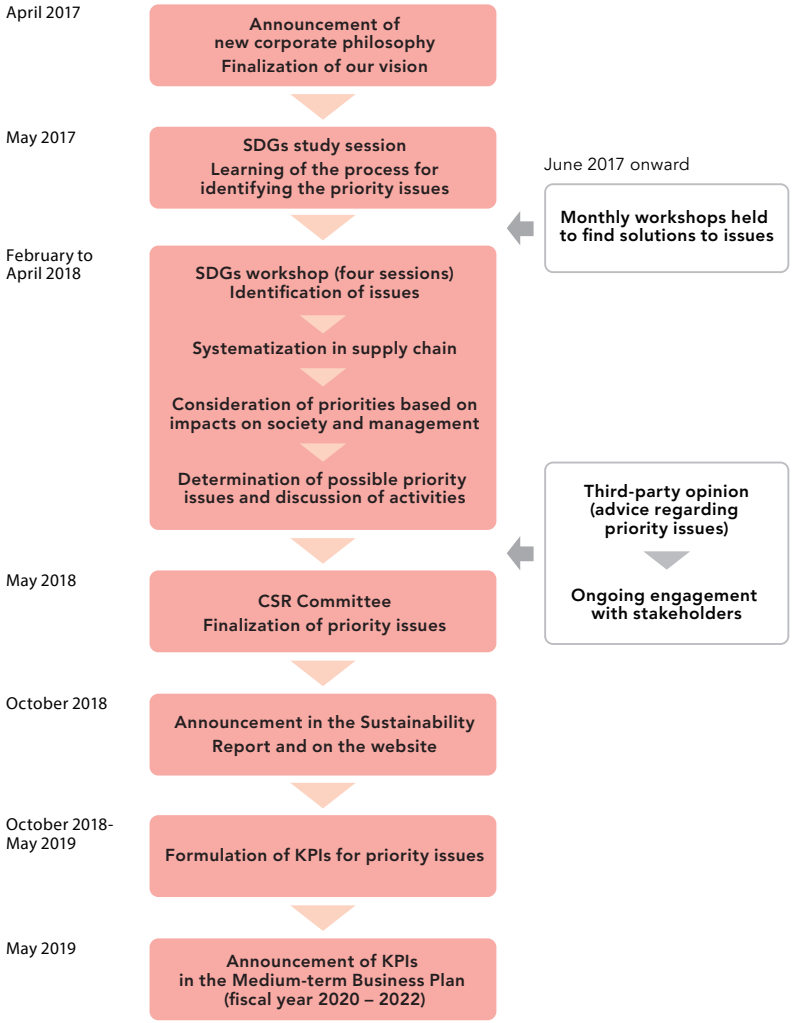
These priority issues represent areas of particular focus to achieve an enriched society filled with bright smiles, one of the major underlying goals.

To formulate priority issues, Morinaga Milk held workshops on a total of four occasions. Each session was attended by around 30 employees from various departments who worked together to identify issues. As a result of discussions, seven major issues were identified. These seven priority issues were then approved by the CSR Committee.

Contributing to a Sustainable Society

During this process, Morinaga Milk referenced its own Guiding Principles along with the GRI Guidelines, ISO 26000, and the SDG Compass advocated by the United Nations. Through efforts to address the priority issues, Morinaga Milk will be able to contribute to a sustainable society as a good corporate citizen.

Workflow for Formulating Priority Issues



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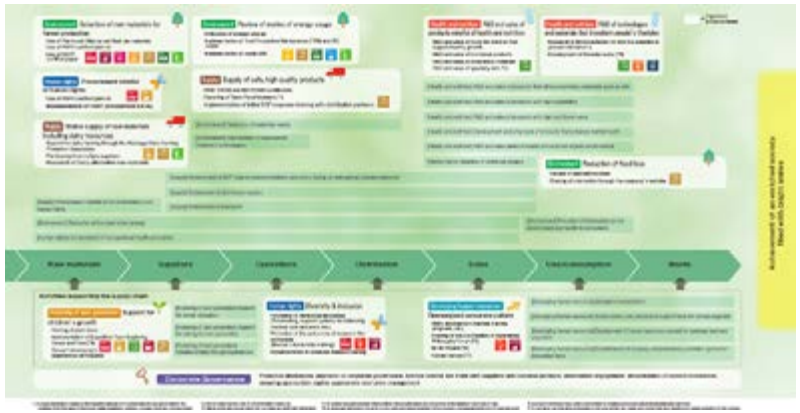
Identifying Issues in the Supply Chain

Morinaga Milk engages in a wide range of activities spanning from raw materials procurement to manufacturing, sales, and waste disposal. When formulating the seven priority issues, the company determined specific efforts to be made to resolve issues across the entire supply chain, and among these, areas of particular importance were identified.

All departments and divisions are now working to address their individual issues.

Priority Issues in the Supply Chain and Specific Actions



WEB → For details, see the CSR section of our corporate website.
▶ https://www.morinagamilk.co.jp/english/csr/materiality/

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) consist of 17 goals and 169 targets for sustainable development established by the United Nations. Adopted in 2015, the goal is to achieve the SDGs by the year 2030. With the basic concept "Leave no one behind," the SDGs require efforts not only by governments and NGOs, but also by the private sector, in order to solve the world's problems, including economic disparities, sustainable consumption and production, and climate change.

Morinaga Milk is committed to doing its part to help achieve the SDGs.



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Establishment of KPI

Morinaga Milk embarked on a new three-year Medium-term Business Plan beginning in fiscal 2019. This plan incorporated the idea of ESG-oriented management aimed at fulfilling our corporate principles into the new basic policy. Following this basic policy, Morinaga Milk has presented its approaches to the seven priority issues and established KPI* for each of these initiatives.

* KPI (Key Performance Indicator) refers to a numerical indicator for objectively assessing and managing the progress and achievement of an activity.

Health and Nutrition



Basic Approach

We offer health and nutrition by developing and selling products that combine functionality and good taste "For Ever Brighter Smiles."

Direction of activities	KPI
Contribute to the extension of healthy lifespans	Bring products incorporating nutritious functional ingredients onto the market
	Share information on nutritious and functional ingredients that help to maintain health
Contribute to the healthy growth of babies and infants	Provide Bifidobacterium breve M-16V; continue to provide in over 120 facilities in Japan and overseas

The Environment



Basic Approach

Manufacturing safe and reliable products while striving to reduce energy use and cut waste and helping to create a sustainable society.

Direction of activities	KPI
Expand environmental activities, which had been centered on production divisions, to all consolidated companies and all divisions	Offices with ISO 14001 certification: ensure that all offices of consolidated companies have earned this certification by 2030
	Understand Scope 1 and Scope 2 emissions for the entire Group by fiscal 2021
Reduce environmental impacts from manufacturing activities	**Reduce CO_2 emissions intensity:** Reduce 8% compared to fiscal 2013 by fiscal 2021 Reduce 20% compared to fiscal 2013 by fiscal 2030 Reduce 80% compared to fiscal 2013 by fiscal 2050
	Reduce intensity of food waste: Reduce 30% compared to fiscal 2013 by fiscal 2021
	Reduce intensity of industrial waste: Reduce 33% compared to fiscal 2013 by fiscal 2021
	Reduce landfill waste: Reduce annual emissions to less than 300t by fiscal 2021 Eliminate completely by fiscal 2030
	Reduce water use: Reduce annual water use by 9% compared to fiscal 2013 by fiscal 2021
Reduce environmental impacts in the overall supply chain	Calculate 6 of 15 categories of Scope 3 emissions by fiscal 2021
Promote use of environment-friendly packaging	**Weight of plastic packaging covered by the Containers and Packaging Recycling Law:** down 10% compared to fiscal 2013

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Human Rights



Basic Approach

Carry out business activities that consider human rights, respect diversity, and create an environment in which all people can perform to their full potential.

Direction of activities	KPI
Identify human rights issues and devise countermeasures in dialogue with stakeholders	Hold dialogue with stakeholders
Identify cases of human rights infringement at suppliers	Understand current situation through CSR procurement survey
Identify ingredients and suppliers that affect Company management	Create a list of important suppliers
Respond to the Group's foreign employees (including those working for cooperating companies)	Set up a working environment for the Group's foreign employees
Promote diversity and inclusion	[Target for 2027] Tele- and satellite commuting, rate of taking paid leave, rate of hiring female employees, number of female managers, rate of taking maternity leave, rate of male employees taking childcare leave, and number of employees quitting for family care

Supply Chains



Basic Approach

We procure raw materials and manufacture products with an emphasis on safety and reliability, and consistently provide high-quality products.

Direction of activities	KPI
Efficient supplier management corresponding to material risk	Strengthen mechanism for evaluating supplier management level depending on each material's risk
Create a system for providing safe and high-quality products	Acquire FSSC 22000 certification at all of the Group's 29 plants by fiscal 2020
Respond to supply risks for main raw materials	Purchase main raw materials from multiple companies and geographically diverse purchasing
	Expand use of RSPO-certified palm oil

Nurturing the Next Generation



Basic Approach

We support the healthy growth of children who will contribute to creating a sustainable society.

Direction of activities	KPI
Provide a place to learn about food culture and nutrition in order to acquire the basic skills to live healthy and enjoyable lifestyles (food education classes, KidZania)	Total participants over three-year period starting in 2019: 300,000
Provide a place to learn about the gifts of nature and the techniques and research that utilize them (plant tours, Expedition of Woods and Food, career education)	Same as above
Establish an environment in which the next generation can be raised	Provide ongoing consultation on infants with the Angel 110 hotline; handle calls from a total of 1 million people by fiscal 2020

Human Resource Development



Basic Approach

We will focus on developing human resources who can achieve "For Ever Brighter Smiles."

Direction of activities	KPI
Promote the Corporate Philosophy	Hold annual forum open to all employees
Encourage the independent growth of each individual employee by pursuing diversity	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
Develop employees who can perform in a global business environment	Pursue a program for training global human resources
Develop human resources via health management	Improve uptake rate of follow-up exams and re-assessments: 80% (2023) Rate of attending mental health education: 100% (2023)

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Corporate Governance

Basic Approach

We will continue to work on establishing and augmenting a highly effective governance system to achieve sustainable growth and improve corporate value.

Direction of activities	KPI
Transparent, equitable, prompt and bold decision-making based on diverse values in Board of Directors' meetings	Evaluation scores and comments in evaluation of Board of Directors (diversity of Board of Directors and substance of discussions)
Strengthen the management system	Augment regular committees (Personnel Remuneration Committee, Internal Control Committee, CSR Committee)

Solving Future Issues

Morinaga Milk formulated the priority issues in fiscal 2018 and established the KPIs for each priority issue in fiscal 2019. In fiscal 2019, progress report meetings were organized for each priority issue in order to achieve the KPIs. KPI Promotion Leaders will lead progress management.

Morinaga Milk will also continue appropriate discussion and review of the KPIs based on global trends and dialogue with stakeholders.

Among the priority issues receiving particular attention in terms of corporate risk awareness and a high level of global interest, are climate change, plastic in the oceans, and respect for human rights in the supply chain (implementation of human rights due diligence). KPIs have been set up for each of these issues, which Morinaga Milk will continue to confirm.

Going forward, Morinaga Milk will value the circle of empathy with society and continue to identify and solve issues through dialogue with our stakeholders.

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Health and Nutrition

Basic Approach

We offer health and nutrition by developing and selling products that combine functionality and good taste "For Ever Brighter Smiles."

Morinaga Milk recognizes that its core business is the development and sale of products that contribute to health and nutrition for prolonging healthy life expectancy and the healthy development of infants. Achieving corporate principles is a goal of health and nutrition, while the guiding principles set out the actions that each and every employee must take.

Health and nutrition are closely tied to Morinaga Milk's commitment to contribute to people's happy life filled with healthy "smiles." Over the years, Morinaga Milk has explored the benefits and possibilities with research into proprietary nutritious and functional food ingredients such as bifidobacteria and lactoferrin, which began with in-house research on the role that breastmilk plays in babies' health.

Morinaga Milk's various products, from infant and toddler milk to specialty milk as well as yogurt, nursing care food and liquid diets, have helped to improve health and bring smiles to people.

Looking ahead, the corporate goal is to contribute to people's health and nutrition not only in Japan, but around the world as well. Morinaga Milk will continue to tackle challenges toward this end.

System

Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA (Plan–Do–Check–Act) cycles, with the general managers of the relevant divisions responsible for "Priority Issue: Health and Nutrition" and the general managers of the relevant departments responsible for promoting KPIs.

Based on the recognition that health and nutrition represent our core business, company research institutes, Marketing Department, Sales Department, and Manufacturing Department work together as a team to promote our initiatives in health and nutrition.

KPIs

Direction of activities	KPI
Contribute to the extension of healthy lifespans	Bring products incorporating nutritious functional ingredients onto the market
	Share information on nutritious and functional ingredients that help to maintain health
Contribute to the healthy growth of babies and infants	Provide Bifidobacterium breve M-16V; continue to provide in over 120 facilities in Japan and overseas

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Morinaga Milk's Nutritious and Functional Ingredients

Morinaga Milk has been researching ingredients for maintaining health for over 50 years.

As a result, these ingredients were found to improve the health of people from all generations, from babies to the elderly.

Bifidobacteria



Morinaga Milk's research into bifidobacteria began in 1969, progressing from maintaining babies' health to identifying applications for Bifidus and even providing a supplies of the bacterial strains worldwide.

In 1977, the company released *Morinaga Bifidus*, a milk-based drink containing bifidobacteria. In the 21st century, under the concept of probiotics, much research is being conducted into the detailed effects and action mechanisms of lactobacillus and bifidobacteria. As one of the first to focus on bifidobacteria, Morinaga Milk has conducted various research on Bifidobacterium longum BB536 and other probiotic organisms, making the company a pioneer in Japan in this field.

Bifidobacteria Powder, a powdered form of several types of dried bifidobacteria, is used in a large number of supplements and other products. Its production requires technological know-how for making live bacteria into powder and keeping it stable for long periods of time at room temperature, and this know-how remains a major strength of Morinaga Milk even today.

Currently, Morinaga Milk's bifidobacterium strains are being used around the world, including in the US, Europe, and Southeast Asia. From babies to the elderly, the aim is to contribute to the health of people around the world.

◆Main bifidobacteria

Bifidobacterium longum BB536 can be used by people of all ages for various health benefits such as excellent regulation of intestinal function by improving intestinal flora.

Bifidobacterium breve B-3 is a bifidobacterium that Morinaga Milk discovered after focusing on obesity prevention.

Bifidobacterium breve M-16V has the ability to promote normalization of intestinal flora in infants. Administering it to low birth weight babies, who tend to have under-developed intestinal function, speeds up colonization of bifidobacteria and promotes normal development of the intestines.

Bifidobacterium breve A1 has the potential to improve cognitive function in people with suspected mild cognitive impairment, and now Morinaga Milk is conducting in-depth research on this strain.

WEB Morinaga Milk's Bifidobacteria Research
▶ https://www.morinagamilk.co.jp/english/research/r_and_d/bifidobacteria/

Lactoferrin



Morinaga Milk began researching lactoferrin in the early 1960s. Lactoferrin is a protein compound of iron (ferrin) found in milk (lacto). It is found in particularly large quantities when a mother first begins producing breastmilk and believed to offer protective benefits to newborns.

In 1986, Morinaga Milk was the first in the world to release an infant and toddler milk containing lactoferrin, called *Morinaga BF-L Lactoferrin Dry Milk*. Today, the company sells lactoferrin products for people of all ages—from infant and toddler milk to lactoferrin yogurt and supplements.

WEB Morinaga Milk's Lactoferrin Research
▶ https://www.morinagamilk.co.jp/english/research/ingredients/

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Topics

MILEI: Manufacturing High Quality Lactoferrin

MILEI GmbH, headquartered in Leutkirch, Germany, has accumulated some 40 years of experience since beginning production in 1975. Currently, MILEI supplies high quality whey protein concentrates and dairy food ingredients such as lactose to multinational food companies in Europe and Asia. In particular, it has the know-how to manufacture high quality and high purity lactoferrin, having established a strong reputation among many users. Going forward, MILEI will establish a system that increases production to expand its supply capacity to play a role as one of the world's largest suppliers in the field.



Peptide



Cow's milk contains good quality protein, and is used in products such as infant and toddler milk. However, it cannot be used for babies with milk allergies. Therefore, Morinaga Milk developed a peptide that has been digested by enzymes (milk protein degradant).

In 1977, Morinaga Milk released *MA-1*, the first milk in Japan containing peptide for babies and infants with allergies. In 1994, the company released another product called *Morinaga Peptide Milk E-Akachan*, which combines more than a half century of Morinaga Milk's technologies, knowledge and experience in the development of infant and toddler milk, especially for the allergenicity of milk.

In recent years, Morinaga Milk was granted a patent for MKP®, a tripeptide of methionine, lysine and proline derived from casein. Clinical trials targeting people with high blood pressure confirmed that MKP® has an effect in lowering blood pressure.

WEB Morinaga Milk's Peptide Research
▶ https://www.morinagamilk.co.jp/english/research/ingredients/

Lactulose



Lactulose is a saccharide made from lactose contained in cow's milk. Morinaga Milk has continued to research the role played by lactulose in increasing bifidobacteria, and released *Morinaga G Dry Milk*, an infant and toddler milk containing lactulose, in 1960.

WEB Morinaga Milk's Lactulose Research
▶ https://www.morinagamilk.co.jp/english/research/ingredients/

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Contributing to Prolonging Healthy Life Expectancy

Morinaga Milk is pursuing product R&D under the theme of prolonging healthy life expectancy for an era when people will commonly live to the age of 100. The company will research and develop products using nutritious and functional ingredients and supply them to consumers so that people can not only live longer, but also have healthier and more active lives.

Triple Yogurt

This yogurt displays three functionalities in lowering and stabilizing blood pressure, blood sugar and triglyceride levels. Tripeptide MKP® lowers higher systolic pressure, while the indigestible dextrin (dietary fiber) stabilizes the blood sugar and triglyceride levels after a meal.



Milk Life

This is a powdered milk product for adults that includes nutritious and functional ingredients such as Bifidobacterium longum BB536, lactoferrin, and LAC-Shield™. It has established a strong reputation for its well-balanced composition of nutrients that can be consumed readily.



Morinaga Milk Supplements

Foods with Function Claims include Bifidobacterium longum BB536, Bifidobacterium breve B-3 and lactoferrin, which can be readily consumed as nutritious and functional ingredients.



Medical Food and Nursing Care Food

The Morinaga Milk Group carefully researches and develops medical foods and nursing care food in terms of taste, nutritional value, safety, and ease of eating, so that the elderly and people with illnesses can maintain their quality of life while experiencing the joy of food.

Using the opinions of medical and nursing care professionals, Clinico Co., Ltd. (a company within the Morinaga Milk Group) and Morinaga Milk's Wellness & Nutritional Science Institute work together to develop and market medical food and nursing care food. This includes liquid diets, nutritional supplement foods, jellies, and pureed foods for patients who have difficulty swallowing.



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Information Dissemination on Nutritious and Functional Ingredients

The Morinaga Milk Group disseminates information, including the results of research on nutritious and functional ingredients, to various stakeholders including customers and suppliers.

Symposiums and exhibitions

(In Japan)

In fiscal 2018, Morinaga Milk made presentations at more than 16 academic societies. Of these, the presentation at the 72nd annual meeting of the Japan Society of Nutrition and Food Science entitled "*Study in novel health function of Aloe vera gel derived phytosterols and application for functional food*" was recognized with the FY2018 JSNFS Award for Achievement in Technological Research.

In addition, in February 2019, Morinaga Milk organized a public symposium called Intestinal Flora Research Seminar at Juntendo University. During the symposium, presentations were made on the relationship between the brain and intestines as well as the relationship between colon diseases and intestinal flora. More than 110 people attended.



The public symposium in session

(Outside Japan)

Every year, Morinaga Milk actively participates in around 20 symposiums or exhibitions outside of Japan in cooperation with overseas business partners to promote health and functional ingredients.

From February 11 to 15, 2019, Morinaga Milk participated in the Probiota conference in Denmark, which brought together pioneering probiotics companies to present their latest research results. Morinaga Milk presented its research on the bifidobacteria that are normally present in the human gut.

At Vitafoods, an exhibition for disseminating food and functional ingredients and innovative technologies held every year in Europe and Asia, Morinaga Milk presented information about bifidobacteria.

In November 2018, Morinaga Milk held a symposium on lactoferrin for pediatricians in collaboration with P.T. Sanghiang Perkasa, its local partner company in Indonesia.

At the symposium, Dr. Aman Bhakti Pulungan, President of the Indonesian Pediatric Society and organizer of the symposium, pointed out the expectation that lactoferrin will play a significant role against infectious diseases, which is a serious issue in Indonesia.



Contributing to the Healthy Growth of Infants

Morinaga Milk began researching and developing infant and toddler milk in the 1920s with the commitment to contribute to the healthy growth and development of infants. Over the years, the company engaged in research of infant and toddler milk that combines lactoferrin, etc. with nutritional elements such as protein, fats, carbohydrates, vitamins, and minerals in order to provide products as close to mother's milk as possible.

In recent years, Morinaga Milk has developed its infant and toddler milk business mainly in Asia in order to contribute to children's nutrition not only in Japan, but around the world.

Looking ahead, Morinaga Milk will continue its long-standing research and development on the nurturing and protective powers of breastmilk.

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Contributions to Building Nutritional Infrastructure in Asia

Emerging countries mainly in Southeast Asia are experiencing rapid population growth and urbanization. The more population concentrates in cities, the more important it is to build nutritional infrastructure to supply safe and high-quality foods. Playing an active role in solving this issue represents the social mission of Morinaga Milk as a food company.

Morinaga Milk considers the supply of infant and toddler milk as part of this nutritional infrastructure. The company manufactures infant and toddler milk at product bases in Japan and overseas, including Indonesia, and supplies products to markets in Indonesia, Pakistan, Malaysia, Vietnam, etc. Morinaga Milk aims to create an environment in which children around the world can grow healthily.

Overseas Launch of Infant and Toddler Milk



Provision of Bifidobacterium Breve M-16V to Low Birth Weight Babies



Normally, the intestinal flora of babies is composed of more than 90% bifidobacteria. However, very low birth weight babies or super low birth weight babies with a birth weight of less than 1,500 g have an underdeveloped intestinal tract. This condition delays the proliferation of bifidobacteria, resulting in an increase in E. coli and S. aureus. Morinaga Milk is now pursuing joint research with university hospitals in the field. By administering our proprietarily developed Bifidobacterium breve M-16V to very low birth weight babies or super low birth weight babies, it was found that intestinal flora good for bifidobacteria form more quickly, preventing dangerous health conditions in newborns such as necrotizing enterocolitis and septicemia.

Currently, Morinaga Milk provides M-16V to more than 120 facilities nationwide in Japan, including newborn intensive care units (NICUs) and pediatric wards, supporting the sound development of countless babies. In addition, the effects of Bifidobacterium breve M-16V on low birth weight babies have been reported overseas through academic societies and papers, and it has been used in NICUs in Australia since 2012. Furthermore, in recent years, use has begun at NICUs in New Zealand and Singapore. Morinaga Milk will continue to support the healthy growth of babies and children around the world.

Provision of Bifidobacterium Breve M-16V = 1 packet

	2014	2015	2016	2017	2018
Japan (packets)	116,000	152,000	171,000	197,000	210,000
Overseas (packets)	26,000	31,000	43,000	62,000	75,000

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Specialty Milk

As a company that manufactures infant and toddler milk, Morinaga Milk offers in Japan infant and toddler milk that can be consumed safely by children with milk allergies, as well as specialty milk designed individually for children with congenital metabolic disorders.

Commercially available specialty milk

Morinaga Milk supplies specialty milk for milk allergies, lactose intolerance, gastro-esophageal reflux and low birth weight babies.



Commercially Available Specialty Milk

Product Name	Characteristics
Morinaga New-MA-1	Milk for milk allergy with highly enzymatically digested proteins
Morinaga MA-mi	Milk for milk allergies with improved nutritional balance, flavor and solubility with reduced allergenicity
Morinaga Non-Lactose	Lactose-free milk for children with lactose intolerance and diarrhea
Morinaga AR Milk	Milk for children prone to gastroesophageal reflux disease with a higher milk viscosity using a naturally derived thickening ingredient (locust bean gum)
Morinaga GP-P	Milk for low birth weight babies

Milk for children with congenital metabolic disorders or other diseases

Morinaga Milk supplies medical institutions, under the guidance of the Safety Development Committee*, with specialty milk that is a vital nutritional supplement for children with congenital metabolic disorders, etc.



Congenital metabolic disorders are a serious health condition. If identified in newborn babies at an early stage and food therapy is initiated, most children will grow properly. Therefore, milk for children with such conditions needs special processing, such as removing protein or reducing phosphorous concentration based on the individual child's needs. Such specialty milk requires advanced manufacturing technologies, so the knowledge and experience of infant nutrition that Morinaga Milk has developed over many years is applied. In fiscal 2018, Morinaga Milk supplied 5,500 cans.

* Safety Development Committee
The Special Milk Joint Safety Development Project was launched in 1980 under the guidance of the (then) Ministry of Health and Welfare with public funding in order to develop and improve, and provide a steady supply of specialty milk to treat children with congenital metabolic disorders. This project defines the specific criteria for specialty milk and its quality, ingredients, and method of use, as well as implements the development, improvement, and steady supply of the specialty milk. At the same time, a Safety Development Committee was established, consisting of academic experts and directors of dairy companies to ensure the smooth operation of the project.

Types of Specialty Milk for Children with Congenital Metabolic Disorders and Other Diseases

Category	Main indications	Symbol	Name
Protein and amino acid metabolism disorders	Phenylketonuria	MP-11	Low phenylalanine peptide powder
Electrolyte metabolism disorders	Adrenocortical hypofunction	MM-2	Low potassium milk
	Heart and kidney diseases	MP-2	Low protein, low sodium milk
	Idiopathic hypercalcemia	MM-4	Low calcium milk
	・Hypoparathyroidism ・Pseudohypoparathyroidism ・Kidney disease	MM-5	Low phosphorus milk
Malabsorption	Deficiency in lipid absorption	ML-1	Low fat milk
Other	・Cystic fibrosis ・Citrin deficiency	ML-3	Proteolytic MCT milk

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Breastmilk Additive Powder



Breastmilk additive powder is intended to reinforce the nutritional elements of breastmilk for very low birth weight babies. Morinaga Milk provides *HMS-1* and *HMS-2*.

Small babies who weigh less than 1,500 g tend to have complications such as underdeveloped physical functions for digestion and absorption. Therefore, they need to increase their weight quickly through adequate nutritional intake to develop their body's functions. However, breastmilk alone is relatively lacking in calories or various nutritional elements for such babies. As such, *HMS-1* and *2* reinforce protein and trace elements such as calcium and phosphorous, which cannot be sufficiently provided by mother's breastmilk alone. These products also provide increased calorific value, promoting faster development in babies. In fiscal 2018, Morinaga Milk sold around 15,000 boxes of *HMS-1* and around 12,000 boxes of *HMS-2*, for a total of 27,000 boxes.

* *HMS-1* is sold in 100 packets/box and *HMS-2* in 60 packets/box

Enhancing Public Health

Contributing to Health with *PURESTER*

PURESTER, a slightly acidic electrolyzed water generator, is a hygiene control apparatus developed by Morinaga Milk aiming for high anti-bacterial effect and safety. *PURESTER* was first sold around 20 years ago, more than 6,000 units have been sold as of March 31, 2019.



Slightly acidic electrolyzed water generator
PURESTER μ-Clean II

Unlike the alcohol disinfectants and sodium hypochlorite commonly used for sterilization, the slightly acidic electrolytic water generated by *PURESTER* has been confirmed to have minimum effect on the skin and to be safe even if it accidentally enters the mouth. It has been verified as effective at killing a range of viruses, bacteria that cause food poisoning, and pathogenic micro-organisms, making it effective in various situations, such as food processing, which require strict hygiene management.



Can be used for a variety of purposes, including equipment cleaning

Customers who are already using *PURESTER* have provided highly positive feedback explaining that *PURESTER* water can be used easily in the same way as municipal water despite being a disinfectant, making *PURESTER* indispensable for on-site hygiene management.

Morinaga Milk is committed to providing its long-standing hygiene management technology to society to help protect the healthy lives of people. Continuing efforts are made to develop new and innovative ways to realize this commitment.

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The Environment



Basic Approach

Manufacturing safe and reliable products while striving to reduce energy use and cut waste and helping to create a sustainable society.

Morinaga Milk products are made from nature's rich bounty of agricultural products such as milk, coffee beans, tea leaves, and aloe. Protecting the environment and being thankful to nature for these gifts is essential to continued business.

To this end, it is absolutely necessary to address climate change, reduce food loss and industrial waste, and respond to the issue of plastic containers. Morinaga Milk will also communicate closely with business partners to contribute to the creation of a sustainable society, not only within the company but throughout the supply chain.

Currently, the Morinaga Milk head office, research institutes, plants under direct management, and production affiliates work under the ISO 14001 environmental management system in accordance with the following environmental policies.

Environmental Policy of the Morinaga Milk Group

Basic Philosophy

As a food company that aims to contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology, the Morinaga Milk Group contributes to social sustainability by protecting the environment and preventing environmental pollution.

Basic Policy

1. We set objectives for our activities for environmental protection and the prevention of environmental pollution throughout the total lifecycles of our activities, products, and services. By reviewing those goals on a regular basis, we continuously improve our environmental management system.
2. We properly manage compliance with environmental laws and regulations and our environmental commitments.
3. We assess and respond to not only the impact of our business activities to environment, but also the impact of the environment to our business activities.
4. We address the following priority environmental management issues:
   (1) We promote greenhouse gas emission control to prevent global warming.
   (2) We promote business operations based on resource efficiency and energy efficiency to make effective use of limited resources.
   (3) We promote the 3Rs (Reduce, Reuse, Recycle) and appropriate disposal of waste in order to form a sound material-cycle society.
   (4) We promote the development of new technologies related to the environment and incorporate environment-friendly technology in product development.
   (5) We disseminate accurate information on the environment and make efforts to improve our social credibility.
   (6) We strive for coexistence with society and communities.
5. This policy is disseminated to all employees and released to the public outside the company.

Revised: April 1, 2019
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

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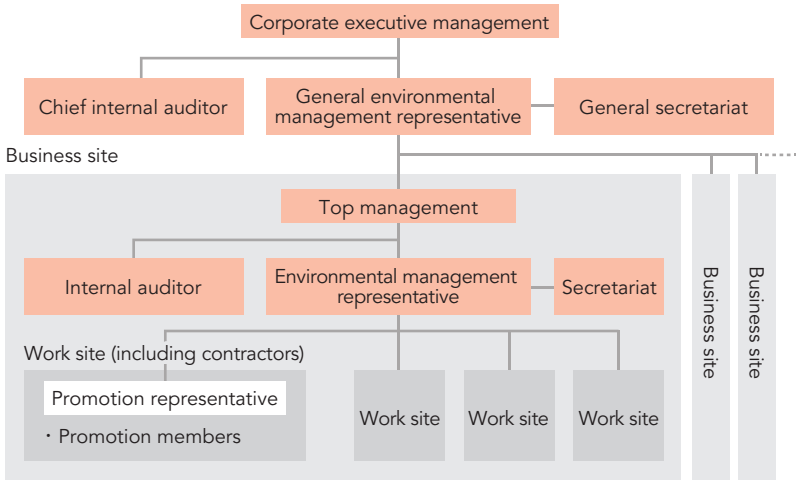
System

ISO 14001 Environmental Management System



Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA cycles, with the general managers of the relevant divisions responsible for "Priority Issue: the Environment" and the general managers of the relevant departments responsible for promoting KPIs.
Additionally, in accordance with the ISO 14001 environmental management system, a management system was created to extend from corporate executive management down through to each site/office.

KPIs

Morinaga Milk announced an ESG-focused management in its 2019 Medium-term Business Plan and established KPIs for the environment, which is one of seven priority issues.

Even before the announcement of the Medium-term Business Plan, however, Morinaga Milk had its own Medium-term Environmental Plan in place.

As Morinaga Milk moves forward with this policy, progress made in the environmental activities will be disclosed to the public via the KPIs in the Medium-term Business Plan.

Direction of activities	KPI
Expand environmental activities, which had been centered on production divisions, to all consolidated companies and all divisions	Offices with ISO 14001 certification: ensure that all offices of consolidated companies have earned this certification by 2030
	Understand Scope 1 and Scope 2 emissions for the entire Group by fiscal 2021
Reduce environmental impacts from manufacturing activities	**Reduce CO_2 emissions intensity:** Reduce 8% compared to fiscal 2013 by fiscal 2021 Reduce 20% compared to fiscal 2013 by fiscal 2030 Reduce 80% compared to fiscal 2013 by fiscal 2050
	Reduce intensity of food waste: Reduce 30% compared to fiscal 2013 by fiscal 2021
	Reduce intensity of industrial waste: Reduce 33% compared to fiscal 2013 by fiscal 2021
	Reduce landfill waste: Reduce annual emissions to less than 300t by fiscal 2021 Eliminate completely by fiscal 2030
	Reduce water use: Reduce annual water use by 9% compared to fiscal 2013 by fiscal 2021
Reduce environmental impacts in the overall supply chain	Calculate 6 of 15 categories of Scope 3 emissions by fiscal 2021
Promote use of environment-friendly packaging	**Weight of plastic packaging covered by the Containers and Packaging Recycling Law:** down 10% compared to fiscal 2013

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Awareness of Environmental Risk

Since the Morinaga Milk Group is a food-based business, its business activities are impacted by its ability to readily obtain raw agricultural products affected by ongoing global warming, changes in customer preferences, the impact of weather disasters such as typhoons on production and logistics, strengthened regulations and other various factors.

In fiscal 2019, the Group's basic environmental policy was revised to add the phrase "We assess and respond to not only the impact of our business activities to environment, but also the impact of the environment to our business activities."

As a first step, risks and opportunities throughout the supply chain were identified and a primary assessment for priority levels was conducted. A scenario analysis of these risks and opportunities as well as an evaluation of the financial impacts are planned.

Compliance with Environmental Laws and Regulations

For facilities such as wastewater treatment plants and boilers that could cause environmental pollution, the Morinaga Milk Group has compiled all legal requirements for each facility into a checklist to confirm that regulatory requirements are met. Moreover, these laws and regulations are checked once a year for revisions. A system for smoothly obtaining the necessary information through industry organizations was also established.

In fiscal 2018, there were no major violations of environmental laws or regulations.

Framework for Implementing Environmental Management

Environmental impact assessment and environmental goals

The Morinaga Milk Group evaluates the magnitude of environmental impacts from its business activities as well as the risks and opportunities to its business activities from environmental changes such as global warming; KPIs are established as environmental goals.

These initiatives are incorporated into the targets for each business site, with progress managed on a monthly basis using an "implementation table."

Environmental education

The Morinaga Milk Group carries out awareness and competency training for ISO 14001. Awareness training is provided to all employees at ISO 14001-certified sites as an e-learning program. Competency training to improve environmental knowledge and awareness among employees is provided as group training to environmental management representatives from each site and through lectures at each site. Representatives who require more specialized training are encouraged to acquire qualifications or attend external courses.

Environmental audits

Through internal audits, Morinaga Milk confirms whether it is implementing matters such as initiatives toward its environmental goals, compliance with environmental laws, and environmental education in an appropriate manner. There are two types of internal audits: those carried out at a business site by internal auditors employed at that site, and general internal audits by auditors from other sites.

Morinaga Milk has its own system for internal auditors, with four levels of competency. Levels 3 and above serve as internal auditors, while Level 1 auditors are qualified to act as general internal auditors. In fiscal 2018, the seminar for Level 3 auditors was held 18 times and was completed by 115 employees. A total of 2,546 employees are certified for one of the four levels.

In fiscal 2018, general internal audits were held at 19 business sites by general internal (Level 1) auditors.

External reviews

Environmental management system certification is outsourced to an external auditing organization, with an annual check done for adherence to ISO 14001 multi-site certification.

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Expanding Environmental Activities Group-wide

Environmental Management System

The Morinaga Milk Group has obtained ISO 14001:2015 multi-site certification for its head office and research center, plants, and Group companies. Efforts are being made to expand this certification beyond manufacturing sites to all business sites, including sales sites.

Sites with ISO 14001:2015 certification
Scope of certification: Production and R&D for milk, milk products, ice cream, beverages, and other food products

- Head Office, Research/Information Centers
  Head Office (Morinaga Plaza Building)
  Shiba 5-33-1, Minato-ku, Tokyo 108-8384
  Head Office (Meguro Building)
  Meguro 4-4-22, Meguro-ku, Tokyo 153-8657
  Head Office (Shibaura DF Building)
  Shibaura 3-13-8, Minato-ku, Tokyo 108-0023
  Research/Information Center
  Higashihara 5-1-83, Zama City, Kanagawa 252-8583
- Saroma Plant
  Nishitomi 123, Saroma-cho-aza, Tokoro-gun, Hokkaido 093-0504
- Betsukai Plant Nishishunbetsu-kiyokawa-cho 18 , Betsukai-cho, Notsuke-gun, Hokkaido 088-2572
- Morioka Plant Aoyama 2-3-14, Morioka City, Iwate 020-0133
- Fukushima Plant
  Shimizuuchi 5, Fushiogami-aza, Fukushima City, Fukushima 960-8154
- Tone Plant Uchimoriya-machi 4013-1, Jousou City, Ibaraki 303-0043
- Tokyo Plant Okudo 1-29-1, Katsushika-ku, Tokyo 124-8577
- Tama Site
  Tokyo Tama Plant Tateno 4-515, Higashiyamato City, Tokyo 207-0021
  Yamato Plant Tateno 4-601, Higashiyamato City, Tokyo 207-0021
  Chilled Products Coordination Center – East Japan
  Tateno 4-540, Higashiyamato City, Tokyo 207-0021
  Engineering Development Center
  Tateno 4-515, Higashiyamato City, Tokyo 207-0021
- Matsumoto Plant Kamada 2-1-4, Matsumoto City, Nagano 390-0837
- Fuji Plant Nakazatohigashi-cho 639, Fujinomiya City, Shizuoka 418-0046
- Chukyo Plant Nakanara-cho Hitotsume 1, Konan City, Aichi 483-8256
- Kinki Plant Tsutoiiden-cho 2-95, Nishinomiya City, Hyogo 663-8242
- Kobe Site
  Kobe Plant Mayafuto No. 3, Nada-ku, Kobe City, Hyogo 657-0854
  Chilled Products Coordination Center – West Japan
  Mayafuto No. 3, Nada-ku, Kobe City, Hyogo 657-0854
- Yokohama Morinaga Milk Industry Co., Ltd.
  Yoshiokahigashi 3-6-1, Ayase City, Kanagawa 252-1125
- Hokkaido Hosho Milk Plant Co., Ltd.
  Katsuraoka-cho 3-8, Otaru City, Hokkaido 047-0264
- Tokachi Urahoro Morinaga Milk Industry Co., Ltd.
  Zaimoku-cho 1, Urahoro-cho-aza, Tokachi-gun, Hokkaido 089-5607
- Tohoku Morinaga Milk Co., Ltd., Akita Plant
  Kamikaruishino 38-1, Iwase-aza, Odate City, Akita 018-3596
- Tohoku Morinaga Milk Co., Ltd., Sendai Plant
  Minato 1-1-9, Miyagino-ku, Sendai City, Miyagi 983-0001
- Nihon Seinyu
  Takanoichi 694-1, Nukanome-aza, Takahata-machi-oaza, Higashiokitama-gun, Yamagata 999-2176
- Chez Forêt Co., Ltd.
  Kamikoya 1355-31, Yachiyo City, Chiba 276-0022
- MK Cheese Co., Ltd.
  Ochiaikita 1-1-1, Ayase City, Kanagawa 252-1116
- Fuji Morinaga Milk Industry Co., Ltd.
  Nameri 18, Nagaizumi-cho, Sunto-gun, Shizuoka 411-0933
- Toyo Fermented Milk Co., Ltd.
  Okehazama-shinmei 1518, Midori-ku, Nagoya City, Aichi 458-0919
- Morinaga-Hokuriku Milk Industry Co., Ltd., Toyama Plant
  Mukaishinjo-machi 8-3-45, Toyama City, Toyama 930-0916
- Morinaga-Hokuriku Milk Industry Co., Ltd., Fukui Plant
  Takagi 2-601, Fukui City, Fukui 910-0805
- Hiroshima Morinaga Milk Industry Co., Ltd.
  Miiri 1-19-7, Asakita-ku, Hiroshima City, Hiroshima 731-0211
- Kumamoto Morinaga Milk Industry Co., Ltd.
  Kakize-machi 431-1, Higashi-ku, Kumamoto City, Kumamoto 861-8011
- Furijiport Co., Ltd., Kumamoto Plant
  Morikata-nitahata 1812-24, Kikuchi City, Kumamoto 861-1312
- Okinawa Morinaga Milk Co., Ltd.
  Agarizaki 4-15, Nishiharacho-aza, Nakagami-gun, Okinawa 903-0105

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Climate Change

Reduction of CO_2 Emissions

The Morinaga Milk Group is working to reduce CO_2 as a measure against global warming. CO_2 emissions from production in fiscal 2018 were 341,000 tons. Various initiatives at each plant were taken over the course of the year, such as upgrading to high-efficiency refrigerating machines and shifting to inverters for air-conditioning, wastewater pumps and the like. At the Hokkaido plants, work is moving forward to convert from fuel oil to natural gas.

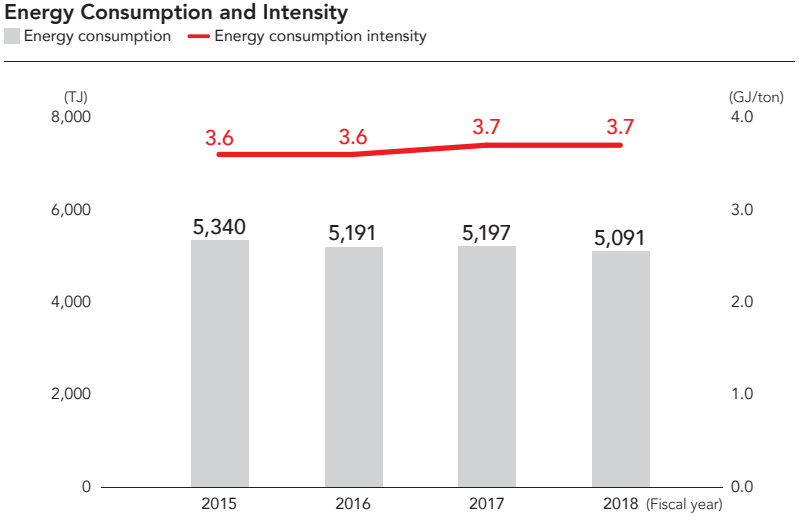
Various distribution initiatives are also underway. Between 2015 and 2018, Morinaga Milk implemented a modal shift from truck transport to railways and ships in eight cases. In addition, Morinaga Milk revised delivery and eliminated 35.5 of its chilled daily delivery courses, while beginning cooperative delivery with other companies in nine cases. More than 40 percent of cooperating delivery companies have acquired Green Management Certification, and over 70 percent use low-pollution vehicles.

Use of Biomass

Morinaga Milk's Kobe Plant uses coffee grounds, etc. from coffee beverage production to generate energy for plant operation. Since such biomass energy* is carbon-neutral, it also contributes to reductions in CO_2 emissions.

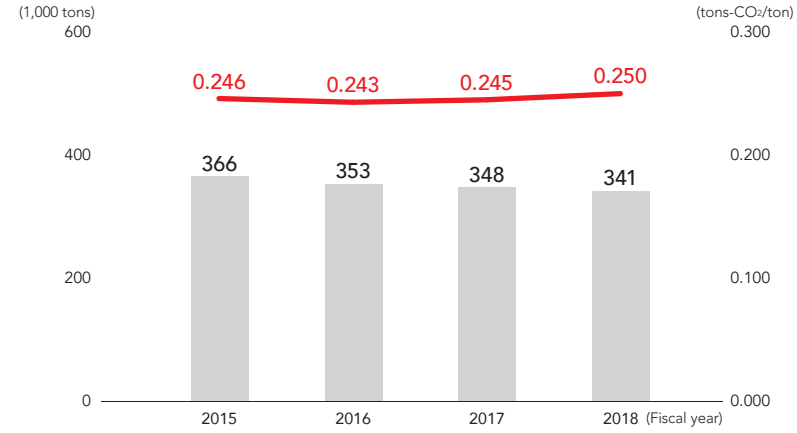
* Biomass energy
A generic term for energy derived from organic matter such as plants. It is expected to become a replacement for fossil fuels.

Energy Consumption and Intensity



* Figures are for directly managed/Group company plants with ISO 14001 certification.
* Intensity: Amount of usage or emission per year divided by the production amount
Intensity = Amount of usage or emission per year (GJ)/Production amount (ton) in 1 year

CO_2 Emissions and Intensity



* Figures are for directly managed/Group company plants with ISO 14001 certification.
* Intensity: Amount of usage or emission per year divided by the production amount
Intensity = Amount of usage or emission per year/Production amount (ton) in 1 year

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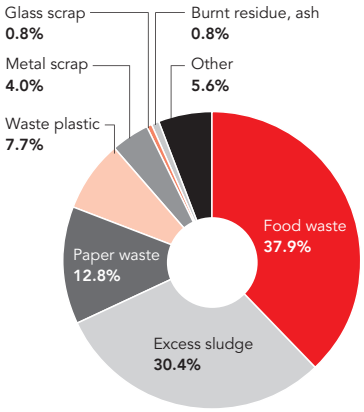
Resource Recycling

Initiatives to Reduce Waste

Industrial plant waste includes food waste such as coffee and tea extract residue, waste paper, waste plastics, metal scrap, excess sludge generated from wastewater treatment systems, etc. In FY 2018, food waste and excess sludge accounted for the highest and second-highest proportion of plant waste at Morinaga Milk Group plants, 38% and 30% respectively (together making up 68% of the total waste production).

In FY 2018 changes were made in wastewater treatment management methods and, at certain plants, in oxygen supply methods for wastewater treatment to increase aeration efficiency. As a result, excess sludge was reduced by 500 tons per year.

Percentage of Discharged Waste by Type, FY 2018



* Figures are for directly managed/Group company plants with ISO 14001 certification.

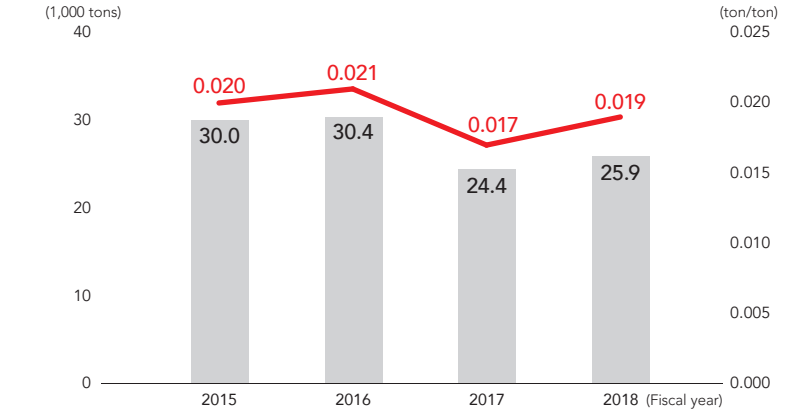
Waste Volume by Type*

Total	37,500 tons
Food waste	14,200 tons
Excess sludge	11,400 tons
Paper waste	4,800 tons
Waste plastic	2,900 tons
Metal scrap	1,500 tons
Glass scrap	300 tons
Burnt residue, ash	300 tons
Other	2,100 tons

* Total amount of waste that has been processed by an outside contractor

Industrial Waste Emissions† and Intensity

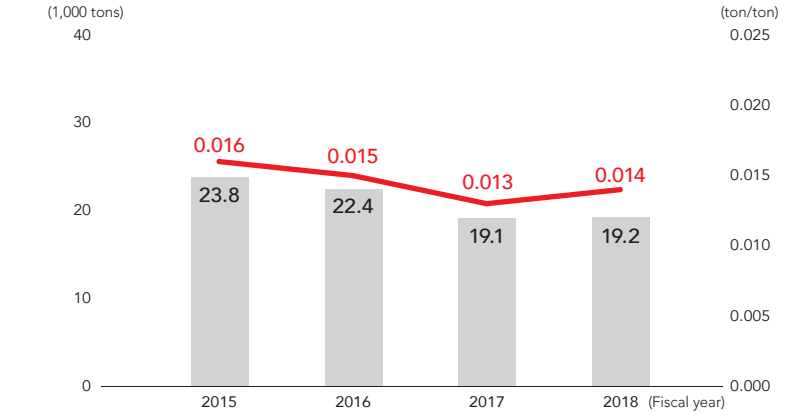
† The amount for which waste manifests were issued



* Figures are for directly managed/Group company plants with ISO 14001 certification.
* Industrial waste emissions intensity:
The weight of industrial waste (tons) discharged over 1 year divided by annual production (tons)
* Past values (2015–2017) have been recalculated and revised for consistency with the calculation method used for FY 2018.

Food Waste Generated† and Intensity

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



* Figures are for directly managed/Group company plants with ISO 14001 certification.
* Food waste generation intensity:
The weight of food waste (tons) discharged over 1 year divided by annual production (tons)
* Past values (2015–2017) have been recalculated and revised for consistency with the calculation method used for FY 2018.

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Reduction of Food Loss

Long-life products

If you check the expiry dates of Morinaga Milk Group products, you will find that some have best-before periods of one month or longer, even for products that are generally perishable due to a high nutritional content. Many of these items are manufactured through our unique long-life production method under sterile conditions. The long-life production method is a technology that separates the food sterilization process and container sterilization process to ensure that products can be preserved with fine flavor for long periods without preservatives or antiseptic agents.

Since these products have a long shelf life, consumers can more effectively plan their use, resulting in a lower rate of disposal. These products are also suited to stockpiling for disasters as part of a stockpile-use* cycle.

* In a stockpile-use cycle, consumers periodically check the best-by date and use the product in a timely way, purchasing replacements as necessary.

Examples of products produced using the long-life production method



Morinaga milk


Morinaga milk pudding



Silken tofu



Climeal CZ-Hi

Food recycling

The Morinaga Milk Group promotes the reduction and recycling of food waste generated at its plants, etc. In six years, from fiscal 2013 to fiscal 2018, food waste was reduced by approximately 6,000 tons. At one of the directly managed plants in Tokyo, 100 percent of the okara (soy pulp) generated from tofu production is used as animal feed.

This okara is then fermented with lactobacillus to make a pleasant-tasting silage that is sold to dairy farmers by Morinaga Rakunou Co., Ltd., a Group affiliate that produces milk products. At one of the Tokyo plants, dairy products are produced using raw milk from dairy cows fed with this silage.

This initiative received the Judging Committee Chairman's Award at the 5th Food Industry Mottainai (Reducing Wastefulness) Awards for fiscal 2017.

Recycling of okara



Soy milk

Okara is separated from soy milk
The tofu production process turns soybeans into soy milk and okara.

Okara (soy pulp)

Lactic acid is fermented with specialized equipment
Okara is mixed with lactobacillus and stored under sealed conditions for lactic acid generation.



Feed
The resulting product is sold to dairy farmers as silage.



Dairy production
Cows consuming this silage produce milk for use in dairy products.



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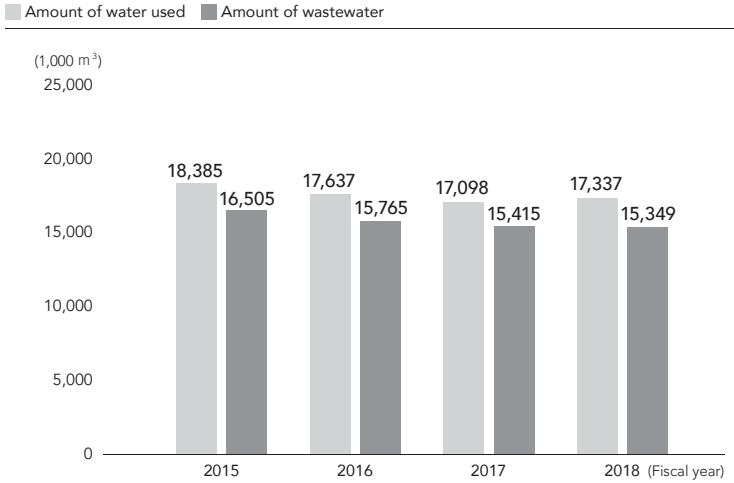
Water Resources

Each Morinaga Milk Group plant has continued with improvements to make even more efficient use of water resources and to carry out ongoing development and improvement of wastewater treatment technologies to maintain water quality. To reduce water consumption, plants are recycling once-used water as wash water.

Amount of Water Used and Amount of Wastewater



* Figures are for directly managed/Group company plants with ISO 14001 certification.

Advanced wastewater treatment

To clean wastewater after use and return it to nature, all Morinaga Milk Group plants are also equipped with wastewater treatment facilities, in which an activated sludge of microorganisms removes waste by digesting the nutrients in the wastewater. Once the nutrients are consumed, the sludge is gravity separated and the treated wastewater is discharged. Some plants have also introduced MBRs (membrane bioreactors) which filter excess sludge via a membrane to help clarify the treated wastewater even further.

The Morinaga Milk Tokyo plants introduced fine bubble aeration as a pretreatment in fiscal 2013 to optimize their wastewater treatment. Bubbles with a diameter of no more than several dozen micrometers are diffused into the wastewater to stably decompose previously difficult-to-treat fat and oil components. Adding this fine bubble aeration reduced the amount of excess sludge generated by 63 percent in fiscal 2018 compared to fiscal 2012, with no significant changes in production volume.

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Environmental Consideration in the Supply Chain

Initiative for Biodiversity

Morinaga Milk became a member of the Roundtable on Sustainable Palm Oil*1 in March 2018. Palm oil production requires large-scale deforestation and has environmental impacts such as loss of biodiversity. It has also been pointed out that palm oil production could have human rights issues regarding labor on plantations.

Morinaga Milk has been promoting the purchase of book-and-claim*2 palm oil since 2018, and will purchase 100 percent of the needed palm oil this way from fiscal 2019.

For coffee, tea and other beverages, Rainforest Alliance Certification*3 is used for raw materials in certain products such as *Mt. RAINIER CAFFÈ LATTE and Deep Espresso*. FSC®-certified*4 paper is used for *MOW* cup ice cream paper sleeves and the boxes for *Pino* and *PARM* ice cream products. The goal is to switch to FSC®-certified paper for as many ice cream products as possible by 2020.

*1: RSPO (Roundtable on Sustainable Palm Oil)
Certifies that palm oil has been produced on farms that meet certain standards under which there are no serious negative effects on tropical forest conservation, biodiversity or the lives of the people who depend on the forests.

*2: Book and Claim
Palm oil producers issue RSPO-certified credits (certificates) based on sustainable palm oil production. End users purchase these certified credits to assist producers of sustainable palm oil.

*3: Rainforest Alliance Certification
Certification by the non-profit Rainforest Alliance. Certification is given only to farms that meet strict standards for forest and ecosystem protection, soil and water resource preservation, labor environment and livelihood protection, etc. in order to protect the global environment and ensure sustainable living.

*4: FSC® Certification
An international certification system for forest protection run by the Forest Stewardship Council® (FSC®). Certifies that forest resources have been produced using forest management that is appropriate from an environmental conservation point of view, of social benefit, and economically sustainable. FSC standards allow only third-party certification bodies to review and certify companies.

REPORT ▶ Please see the "Procurement Focused on Consideration for the Environment and Human Rights" section (p. 56) for details.

Reduction of CO_2 Emissions from Transport

In order to reduce environmental impacts from transporting products, Morinaga Milk initiatives include joint delivery with several businesses (sharing space in the same vehicle), a modal shift in transport from trucks to rail and ship, and joint delivery with other companies in the same industry. Between 2015 and 2018, Morinaga Milk implemented a modal shift from truck transport to railways and ships in eight cases. In addition, Morinaga Milk revised delivery and eliminated 35.5 of its chilled daily delivery courses, while beginning cooperative delivery with other companies in nine cases.

More than 40 percent of the cooperating delivery companies have acquired Green Management Certification, and over 70 percent use low-pollution vehicles, helping to further reduce CO_2 emissions.

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Promotion of Environmentally Conscious Containers/Packages

Plastic Containers

Many Morinaga Milk Group products use plastic containers, therefore environmental pollution, including marine pollution, from plastic containers is an important societal issue. But because plastic containers also contribute to extending the shelf life of products and improving convenience of use, it is vital to maximize function in a wise way while minimizing environmental pollution.

With this basic standpoint, Morinaga Milk has established its Eco-package Guide, which sets out design guidelines for environment-friendly containers and packages. This guide serves as the basis for implementing the 3Rs (reduce, reuse, recycle) from the product planning and development stage, and for the development and improvement of containers and packages that are safe and easy to use. The original 2005 guide was fully updated in 2018 and checks based on the Japan Standards Association's JIS Z0130-2 (Optimization of the packaging system) are done for new product releases using the Containers and Packages Environmental Confirmation Sheet.* In this way, Morinaga Milk can confirm whether appropriate environmental considerations are being given by looking at matters such as the role of each packaging component and whether there is leeway for further reductions.

Additionally, a Plastic Measures Subcommittee was created in fiscal 2018 under the CSR Committee to examine measures for plastic containers. The subcommittee considers matters regarding reducing plastic container usage and adopting the use of biomass plastics.

As for cooperation with external parties, Morinaga Milk works with various industry groups and participates in the Ministry of Economy, Trade and Industry's Clean Ocean Material Alliance (CLOMA) and the Ministry of the Environment's Plastic Smart Forum to more effectively tackle plastic waste issues.

Examples of how Morinaga Milk has improved containers and packages to be more environmentally friendly are provided on the company website; put forward as case studies by membership-based organizations such as the Japan Food Industry Association, the Japan Dairy Industry Association and the Japan Soft Drink Association; and provided to the Ministry of Agriculture, Forestry and Fisheries' Plastic Resource Recycling Action Declaration, the Ministry of the Environment's Plastics Smart, and Keidanren's Contributing to the UN SDGs through Measures Addressing Plastic Waste Issues.

Under the new Medium-term Business Plan, the goal by 2021 is to reduce the use of plastic containers subject to the Containers and Packaging Recycling Law by 10 percent over fiscal 2013 levels. Morinaga Milk is moving forward with initiatives toward this goal.

* Containers and Packages Environmental Confirmation Sheet
When developing products, Morinaga Milk uses this confirmation sheet as a checklist for the environmentally conscious design of containers and packaging. The checklist has 11 items such as "volume reduction at disposal" and "simplified packaging." When an item is not checked off on the list, the reasons and issues for this become shared knowledge that can be used for the next round of development.

Containers and Packages with the 3Rs in Mind

Morinaga Milk is working to advance the development of containers and packages while giving consideration to the 3Rs (reduce, reuse, recycle).

In 2019, the shape of the corrugated cardboard used to transport the 4-pack Bifidus yogurt line was revised, reducing cardboard use by about 8 percent.



Width here reduced.

Reflecting Customer Opinions

Morinaga Milk has introduced many improvements based on the valuable opinions and suggestions sent to the Consumer Service Office. Examples are provided on the company website.

WEB Applying customer feedback
▶ https://www.morinagamilk.co.jp/customer/voice/

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Human Rights

Basic Approach

Carry out business activities that consider human rights, respect diversity, and create an environment in which all people can perform to their full potential.

Morinaga Milk respects the United Nations Guiding Principles on Business and Human Rights and works to respect human rights throughout the supply chain. As part of this stance, preparation is underway to implement human rights due diligence* by fiscal 2021. To realize the mission of "Ever Brighter Smiles," emphasis will be placed on environmental improvements in all processes, from procurement of raw materials to production and sales.

As a first step, in 2017 Morinaga Milk participated in the Stakeholder Engagement Program organized by Caux Round Table Japan and began identifying human rights issues in the supply chain. Morinaga Milk also signed the UN Global Compact in April 2018 and participated in another Caux Round Table Japan–sponsored stakeholder engagement program, with overseas experts offering comments on the proposed human rights policy. From these, the Morinaga Milk Group Human Rights Policy was formulated in November 2018.

This human rights policy is being disseminated to stakeholders and business partners. Systems are also in place to respect diversity within the company and create environments in place to uphold the policy.

Morinaga Milk will continue to carry out business activities with the aim of respecting human rights throughout the supply chain.

* Human rights due diligence
This is the process by which companies can recognize, prevent, and deal with adverse impacts on human rights. Actions include formulating a human rights policy, assessing the impact of business activities on human rights, and tracking and disclosing performance with regard to human rights.

Morinaga Milk Group Human Rights Policy

Basic Philosophy

The Morinaga Milk Group respects human rights and diversity as basic rights for people to live healthy and enjoyable lifestyles as we aim to realize our corporate philosophy "contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology."

Background

We have formulated this policy based on the Guiding Principles on Business and Human Rights of the United Nations and in respect to various international codes of conducts regarding human rights, such as Universal Declaration of Human Rights and United Nations Global Compact, to promote initiatives related to respecting human rights. This policy also expresses our dedication towards respecting human rights based on our corporate philosophy and guiding principles.

Scope

This policy applies to all executives and employees of the Group and also hopes that all of our business partners involved in our products and services to support this policy, and suppliers comply with this policy.

Basic Policy

1. We respect basic human rights, individuality, and diversity, and do not discriminate or engage in harassment based on race, gender, age, religion, language, nationality, sexual orientation, gender identity, and having disabilities or not. In the case abuse of human rights is found, we will take necessary measures including measure to prevent reoccurrence of such cases urgently and earnestly.
2. We do not engage in forced or child labor.
3. We create working environment where employees can feel safe and secure while working and also be healthy both mentally and physically.
4. We respect the employees' basic right of collective bargaining.
5. We comply with laws and regulations of Japan and countries and regions we engage business in.
6. We properly educate our executives and employees.
7. We respect each diverse way of thinking and their stances, and strive to create a corporate culture that enables everyone to exert their full potential and work enthusiastically.
8. We disseminate this policy to all employees and also release it to the public.

November 2, 2018
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

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System

Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA cycles with the general managers of the relevant divisions responsible for "Priority Issue: Human Rights" and the general managers of the relevant departments responsible for promoting KPIs.

The Morinaga Milk Group also believes that human rights should be addressed in all divisions and departments. A system to address human rights issues on a company-wide basis is currently being developed.

KPIs

Direction of activities	KPI
Identify human rights issues and devise countermeasures in dialogue with stakeholders	Hold dialogue with stakeholders
Identify cases of human rights infringement at suppliers	Understand current situation through CSR procurement survey
Identify ingredients and suppliers that affect Company management	Create a list of important suppliers
Respond to the Group's foreign employees (including those working for cooperating companies)	Set up a working environment for the Group's foreign employees
Promote diversity and inclusion	[Target for 2027] Tele- and satellite commuting, rate of taking paid leave, rate of hiring female employees, number of female managers, rate of taking maternity leave, rate of male employees taking childcare leave, and number of employees quitting for family care

Disseminating the Human Rights Policy

Human Rights Policy Training

The Morinaga Milk Group began compliance training in 2019 in order to educate employees about the Group's human rights policy, which was created in November 2018. Compliance officers visit business sites and Group companies for this training. Details will be reported in the sustainability report for the next fiscal year.

Compliance Consultation Corner "Morinaga Milk Helpline" (internal reporting system)

The Morinaga Milk Group regards harassment as a human rights issue and works toward solutions through Morinaga Milk Helpline, a consultation service for compliance-related matters.

REPORT ▶ Please see the "Compliance" section (p. 76) for details.

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Promotion of Occupational Health and Safety

The Morinaga Milk Group regards occupational health and safety as one of the most important foundations of its corporate activities. The Health and Safety Basic Policy was established not just for employees, but also for all persons at business sites. In line with this basic policy, the Group promotes safety and health education along with the identification and evaluation of hazards (hazard locations) to reduce and eliminate them. The goal is zero work-related accidents.

Morinaga Milk Group Basic Policy on Health and Safety

The Morinaga Milk Group recognizes that health and safety are the foundation of the company and its management. We also recognized that ensuring safety in cooperation with the employees is the most important responsibility of the management and engages in activities to ensure safe and comfortable workplace for the employees.

Basic Policy

1. All employees work on safety and health activities and act to realize "safety first" practices and "zero accidents" at the workplace.
2. We promote the creation of a corporate culture and environment where "everyone always follows prescribed rules," and comply with the Industrial Safety and Health Act, related laws, and internal regulations.
3. We promote the creation of a work environment that is both physically and mentally comfortable and cooperate with industrial physicians to conduct periodic health examinations and health guidance to improve our employees' health.
4. We, especially our manufacturing department, work on the following safety and health activities:
   (1) Implementation of measures to eliminate and reduce potential hazards and harmful effects through risk assessment
   (2) Preparation of work standards for regular and irregular works, dissemination of those standards to employees, and compliance with the rules
   (3) Prevention of the recurrence of occupational accidents through information-sharing and the promotion of activities to prevent similar disasters
   In particular, the implementation of measures based on past disaster lessons to completely prevent the recurrence of accidents such as "pinched and rolled," "falling," and "burn injury" types
   (4) Implementation of safety and health audits (formal audit and internal audit) for the continuous improvement of health and safety levels
   (5) Implementation of safety and health education and training to improve safety knowledge and safety awareness
   (6) Promotion of the "Keep safe!" activities by all employees

August 1, 2017
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

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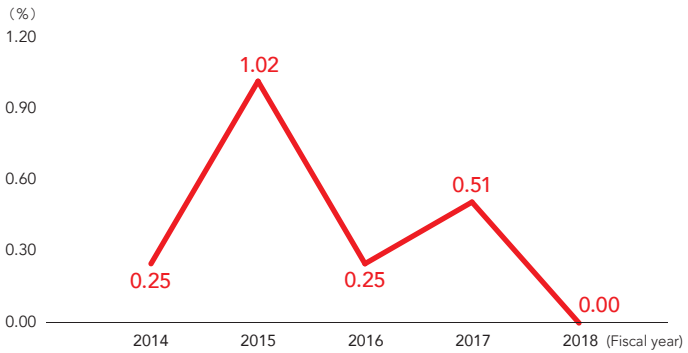
Lost Work Hours and Serious Accidents

When an occupational accident occurs in the Group, information is immediately sent to the head office, which provides support guidance regarding the causes and the measures to be taken. On-site guidance is provided as necessary. Information is shared in the form of flash reports and monthly reports describing disaster prevention and safety measures, which are deployed horizontally across all business sites of the Manufacturing Department in order to prevent similar occurrences.

Industrial Accident Frequency Rate

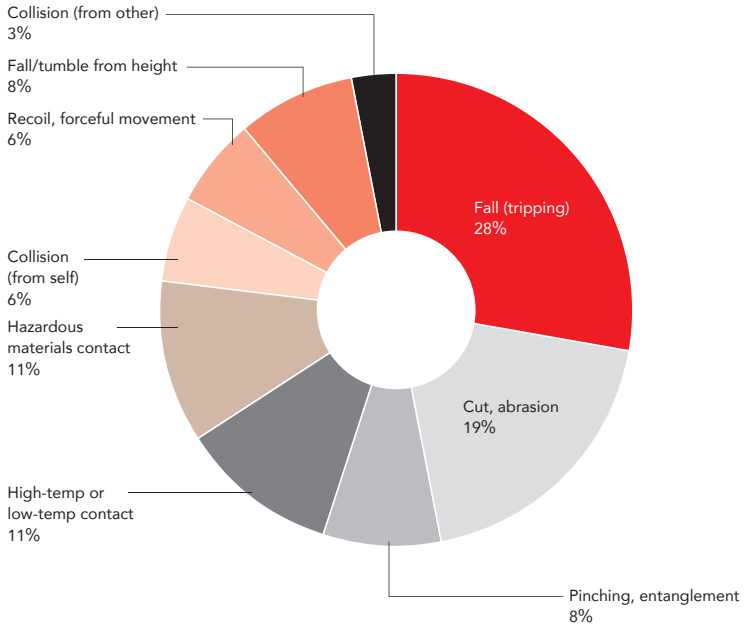


Note: Excludes Group companies

Workplace accidents (by type)

In recent years, the largest number of workplace injuries has come from falls (tripping), which made up 28 percent of all workplace accidents in fiscal 2018. The next most common type of injury was cuts and abrasions at 19 percent (7 occurrences), followed by contact injuries (hazardous material or burns from high/low temperatures) at 11 percent.

Percentage of Workplace Accidents by Type (FY 2018)



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Management to Prevent Occupational Accidents

Health and safety audits

The Morinaga Milk Group uses a 166-item health and safety audit checklist to carry out internal audits of documents and manufacturing operations at each site overseen by the Manufacturing Department every half year in order to prevent work-related accidents. The Group also strives to take compliance with laws, regulations, and health and safety activities to the next level. The head office will also carry out a main audit of all business sites within the next three years; in fiscal 2019, these audits are scheduled at 12 sites. Specialized external organizations are requested to carry out safety inspections. Opinions of these organizations are incorporated into health and safety activities. Such external inspections are scheduled for 16 sites in fiscal 2019.

For internal health and safety audits, the Morinaga Milk Group uses an assessment system with internal auditors who have received training at the head office. The purpose is to raise the level of knowledge and understand what items should be given attention and measured for evaluation.

Ensuring safety at new facilities

Morinaga Milk conducts equipment safety inspections before starting up a new plant at the time new equipment is brought in, or when major changes are made to building structures or manufacturing processes. Preliminary checks are done with a focus on lessons learned from past accidents and on compliance with laws and regulations in order to confirm that operations can be started assuredly and safely.

Health and Safety Promotion Activities

"Keep safe!" activities

The Morinaga Milk Group promotes "Keep safe!" activities.

"Keep safe!" activities refer to the mindset of giving priority to safety and health. This phrase is meant to be used in place of stock greetings in Japan such as "Good morning" and "Thanks for the hard work." The underlying idea is to warmly encourage coworkers and others to start the day by putting safety first so as to be able to return home in the same condition as one arrived. It also serves as a reminder to not get injured and to not cause injury to others.

Employee training

1. Safety training with danger simulation devices
   Morinaga Milk lends out devices for safety education (two sets of five machines) in rotation to plant sites of the Manufacturing Department. The devices simulate dangers from pinching and entanglement, compressed air, sealing pressure and electrical shock. (In fiscal 2019, use of these danger simulation devices is planned for 21 sites.)
2. A series of six safety DVDs is circulated to each manufacturing site for viewing as part of safety education.
3. Basic safety compliance items are organized by type of occupational accident. Addressing eight subjects, the information is distributed to all sites over the internal network for use in safety education.
4. Safety officers at Morinaga Milk head office have developed an in-house, seven-part e-learning program. Program content is sent out about every two months to all employees working at plants.
5. A theme is decided according to the type of occupational accident and sent out approximately once per month with the aim of preventing similar types of accidents. Each site carries out a risk assessment and evaluation based on the theme with modifications and guidance provided by health and safety officers at head office in order to build capabilities.
6. Employees who have been with Morinaga Milk for four to five years undertake a risk assessment exercise, with modifications and guidance provided on each of seven topics.

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Stakeholder Engagement

As part of human rights due diligence initiatives, Morinaga Milk participated in the Stakeholder Engagement Program sponsored by Caux Round Table Japan in 2017 and 2018 and began identifying human rights issues in the supply chain.

In 2018, Morinaga Milk also attended the Business and Human Rights Conference in Tokyo to learn about global trends in business and human rights as well as examples in other companies.

In addition, Morinaga Milk carried out an individual dialog with overseas experts Mr. Livio Sarandrea (UNDP Developmental Regional Planning and Regional Program Manager and Chief Advisor on Business and Human Rights) and Mr. Puvan Selvanathan (CEO of Bluenumber Foundation) to obtain their feedback on the draft of Morinaga Milk Group's human rights policy. The finalized policy was created in November 2018 after taking their opinions into consideration.



Participants of Business and Human Rights Conference in Tokyo



In dialog at the conference

Suppliers

Morinaga Milk is dealing with suppliers and other business partners to respect human rights throughout the supply chain.

For raw materials, Morinaga Milk is advancing the purchase of RSPO–certified palm oil and Rainforest Alliance–certified coffee beans.

Morinaga Milk also regularly conducts procurement surveys with suppliers, shares the company Procurement Policy with them, and conducts human rights surveys.

REPORT ▶ Please see the "Supply" section (p. 51) for details.

CSR Procurement Survey (2016)

Morinaga Milk Group periodically conducts CSR surveys, etc. on the labor environment at raw material production sites and processing plants. One survey was done in 2016 and another is planned for 2019. The 2016 survey asked questions on 26 items, including human rights, compliance, environmental management, relationship with the local community, and information security. Two hundred companies responded, a response rate of 100 percent. Among the questions in terms of human rights, emphasis was placed on whether or not child labor was being used.

Question: Is child labor being used? If there is temporary use of child labor, please explain in the Reasons column.

Response:

1. No use of child labor	99%
2. Temporary use of child labor	1%
3. Use of child labor	0%
4. Don't know	0%
5. Other	0%

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Initiatives with Partner Distribution Companies

Morinaga Milk is working with its distribution partners to reduce driver working hours, given that their current long work hours should be reduced.

Specific initiatives
- Promotion of pallet deliveries
- Modal shift to rail and sea transport
- Joint deliveries within the Group and with other companies in the same industry
- Review and improve work content through careful examination of the current situation, review and improve transaction conditions, review inspection work at unloading, etc.
- Shorten the time needed to secure break times (reduce waiting times, relax conditions for designated delivery times, etc.)

Employment Survey for Non-Japanese Employees

The Morinaga Milk Group employs foreign nationals as well as Japanese nationals whose first language is not Japanese.

Plans are underway to implement an employment survey for non-Japanese employees for all Morinaga Milk business sites and for Group companies in order to confirm employment conditions and to improve the working environment.

The results of this survey will be reported in next year's sustainability report.

Diversity & Inclusion

The Morinaga Milk Group believes it is important to not only recognize diversity, but to also encourage all employees to fully realize their own individuality and abilities while accepting each other's differences, and to promote corporate activities. Morinaga Milk has published its Diversity and Inclusion Declaration and implements a variety of company-wide measures in this regard.

Morinaga Milk Diversity and Inclusion Declaration

Management and employees will:
- Respect the diversity of employees and work to create a workplace in which all employees can maximize their potential.
- Support employee "smiles" and "vibrancy." both at and away from work.
- Continue to express Morinaga Milk's characteristic values to society through our employees' smiles and vibrant work ethic.

Initiatives and Results

Promotion of diversity and inclusion

Morinaga Milk has held briefings to ensure that all employees properly understand and implement diversity and inclusion. Since 2017, Morinaga Milk has held an annual diversity forum together with other food product companies with keynote speakers and panel discussions. More than 100 people from Morinaga Milk participate each year.

In 2007, the Fostering the Next Generation Committee took the opportunity to listen to the voices of female employees with children. This committee is also responsible for creating the short-time work system and establishing leave for school events for both male and female employees. Such efforts are now regarded as part of diversity promotion. Morinaga Milk is promoting the establishment of a system that supports a diversity of working styles regardless of gender, and is also developing a rewarding work environment for employees to sufficiently realize their individual potential.

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KPIs and results for support for female workers

Morinaga Milk is advancing career development for women as part of its diversity promotion efforts. This support includes training programs such as "Female Leader Training" and the "Work × Child-raising Power-Up Seminar" to support employees seeking to advance in their careers and employees seeking to balance the demands of work and caring for children. Morinaga Milk is also examining mechanisms and tools to promote the engagement of female workers who return to their workplaces after childcare leave.

Morinaga Milk is now working on the first phase of an action plan for compliance with the "Act on Promotion of the Women's Participation and Advancement in the Workplace".

KPIs and Results for Support for Females (Morinaga Milk only)

	2017	2018	2027 goal
Percentage of new female graduates*	40.0	44.9	50
No. of female managers	38	42	100

* Total for administration, sales and R&D employees

Childcare support system

Morinaga Milk is enhancing childcare support measures. Employees burdened with the dual demands of work and child-raising are able to actively engage in their work in various departments with support from the reduced-hours work system, flextime policy, etc. In addition, Morinaga Milk has had a paternity leave system since 2015 to raise awareness about the participation of male workers in child-raising. The number of male workers who are using paternity leave and childcare leave is increasing.

Morinaga Milk was certified by the Director of Tokyo Labor Bureau in 2008, 2010, and 2012 as a business that supports parenting. In recognition of this certification, Morinaga Milk received the "next generation certification mark" (known as Kurumin) in those same years. Morinaga is now working on the 6th phase of the action plan.

- Percentage of employees who took spousal childbirth leave in FY 2018: 76.5% (124 people)
- Percentage of employees who took paternity leave in FY 2018: 16.7% (27 people)

Nursing care support system

In recent years, the number of employees working while caring for their families has been increasing. In 2017, Morinaga Milk responded to this trend by starting a system allowing employees to divide nursing care into three separate leave periods of up to 185 days in total, a period exceeding the requirement under the relevant law. In 2018, Morinaga Milk established the "Long-Distance Travel Subsidy for Providing Nursing Care" for employees burdened with high travel costs of returning to their hometown, etc. to provide nursing care to a family member. This subsidy covers part of the travel costs for such employees. Morinaga Milk supports employees aiming to balance work and nursing care.

Employee Turnover Due to Nursing Care (Morinaga Milk only)

	2016	2017	2018	2027 goal
Employee turnover (persons)	6	4	0	0

Employment of people with disabilities

Morinaga Milk employs people with diverse backgrounds from new graduates to experienced staff. Employees with disabilities are placed in positions where they can demonstrate their individual abilities.

Employment of People with Disabilities (Morinaga Milk only)

	2015	2016	2017	2018
Number	84	84	89	94
Percentage	2.18	2.14	2.22	2.20

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Workstyle Reform

Work-life Balance

In 2017, Morinaga Milk launched a Workstyle Reform Committee to develop an infrastructure environment and system so that all employees, with their diversity of backgrounds, can fully demonstrate their abilities.

Morinaga Milk has introduced a "No Overtime Day" system, "My Holiday System," and "Interval System" to better reflect the working styles of employees and make their work more interesting.

The "No Overtime Day" serves as a reminder to employees at all business sites, including the head office, that work is to be finished within designated working hours.

Under the "My Holiday System" started in fiscal 2019, employees give notice to their managers for five days of consecutive leave, making it easier for the workplace managers to adjust schedules so that employees do not feel anxiety about using their paid leave. Thanks to these efforts, the use of paid leave has increased in recent years, reaching 64.9% in FY 2018. Morinaga Milk continues to move forward with such initiatives with the aim of reaching 85% use of paid leave in fiscal 2027.

For the physical and mental health of employees, an "Interval System" has been in place in the head office, branches, and sales offices since 2014. The Interval System secures more rest time for employees by ensuring off-time of a certain duration from the end of work, including overtime work, to the start of work on the next day. Effort is being made at all levels to encourage the healthy living of employees through the prevention of overwork.

Morinaga Milk also works with distribution partners to reduce working hours–especially for truck drivers, for whom long working hours is a particular concern.

REPORT ▶ Please see the "Initiative with Partner Delivery Companies" section (p. 47) and "Supply" section (p. 54) for details.

Systems to promote flexible ways of working

Morinaga Milk promotes flexible ways of working through its "Teleworking/Satellite Work System," "Reduced-hours Work System," and flextime policy.

Since its introduction in 2017, the "Teleworking/Satellite Work System" has improved work productivity by allowing employees to use their time more effectively and strike a better balance between work and private life. All employees, with or without childcare or nursing care obligations, are eligible to use the system. Morinaga Milk continues to review the working styles most amenable to highly productive work. As of July 2019, 240 people have used this system.

Under the flextime policy introduced in June 2015, work starts at the Morinaga Milk head office between 7:00 and 10:00 a.m. and ends between 3:30 and 6:30 p.m. Employees can individually set their working hours within those time zones.

In addition, a flextime policy has been adopted at the Research & Information Center to improve awareness of efficient work operations.

Support system to balance ongoing medical treatment and work

In 2018, Morinaga Milk implemented the following three systems to support employees who need ongoing medical treatment so that they can continue to work with peace of mind as allowed by the short-time work system, the reduced working days system, and a time-difference work system.

Short-time work system:	A shortened work day by up to 2 hours
Reduced working days system:	A four-day work week without using paid leave
Time-difference work system:	Shift work hours by up to two hours either way with no change in total working hours.

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Fair and Equitable Employment

Morinaga Milk revised its personnel system for contract employees in April 2016 to allow fixed-term contract employees who have a certain level of experience to enter into an open-end employment agreement with the company. Also, those contract employees without defined employment periods can be regarded as regular employees under the system. Since 2016, 20 contract employees have had their status changed. Morinaga has clarified the scope of responsibility and expected roles in each employment classification so as to promote the active participation of diverse employees.

Moreover, many former employees who have ended their employment for personal reasons or a career change, express their desire to return to Morinaga Milk at a later time. To respond to such desires and, at the same time, take advantage of the experience and skills such former employees have accumulated during their tenure in other companies, Morinaga Milk now has an arrangement for rehiring former employees. Regular employees who have worked at Morinaga Milk for more than three years are, in principle, eligible for rehiring regardless of the reasons for leaving Morinaga Milk. To date, eight people have returned to active work under this arrangement.

Management-Labor Dialogue

Morinaga Milk has organized the All Morinaga Labor Union as a forum for dialog between management and labor. A union-shop system is used and 100 percent of full-time employees, excluding management, are members of the union.

In order for the company and the union to have mutual understanding and cooperation, the labor agreement requires holding management meetings, including joint management meetings attended by both management and union representatives (twice per year) and business site management meetings with union branch representatives.

Management-labor councils are also held for safety measures and labor hour measures (twice per year for each). Morinaga Milk strives to improve occupational health and safety in the workplace and to discuss wage increases and bonuses, as well discuss improvements to working conditions apart from wages.

Finally, before revisions, etc. are made to internal regulations, a proposal is provided for discussion to the All Morinaga Labor Union. These efforts are part of maintaining close communications with the union.

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Supply Chains

Basic Approach

We procure raw materials and manufacture products with an emphasis on safety and reliability, and consistently provide high-quality products.

In each stage of the supply chain through product development, raw material procurement, production, distribution and sale, the Morinaga Milk Group always considers how best to deliver high-quality products that are safe and reliable to consumers.

The Quality Policy sets out the Morinaga Milk Group approach to quality throughout the supply chain, not only at production sites.

Moreover, in procuring raw materials, the Morinaga Milk Group implements procurement focused on consideration for the environment and human rights across the supply chain based on the approach in the Procurement Policy of the Morinaga Milk Group.

Morinaga Milk Group Quality Policy

As a food company that produces and sells milk, dairy products, ice cream, beverages and other foodstuffs, the Morinaga Milk Group aims to contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology. We listen carefully to customer opinions, work tirelessly to ensure food safety and quality, and deliver safe, high-quality products and services.

Quality Policy

1. We thoroughly control quality management in every process of product development, raw material procurement, production, distribution, and sales to ensure food safety and quality of our products.
   In doing so, we take all of the following steps.
   1) In the planning and R&D phases, we design a product with a close focus on food safety and high quality.
   2) In the phases of selecting equipment, technology, and raw materials, we consider potential risks and examine the impacts on food safety and quality.
   3) We clarify the person responsible for quality control in every business section and take measures to ensure the food safety and quality of our products.
2. We contribute to society through our activities based on compliance with laws, regulations and standards.
3. We provide accurate, easy-to-understand information from the customers' viewpoint.
4. Each of us individually strives to refine our knowledge and skills and maintain and improve quality levels.

September 2017
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

Morinaga Milk Group Procurement Policy

To deliver high-quality, delicious, safe, and reliable products to the customers, the Morinaga Milk Group procures materials in compliance with the laws and social standards while also considering human rights, environment, and other social responsibilities in cooperation with its business partners. We also engage in fair, just, and transparent relationship with all our business partners.

Procurement Policy

1. We comply with laws and social norms and strive for fair transactions focused on considerations for human rights, the environment, biodiversity, occupational health and safety, etc.
2. To improve the quality and value of the products the Morinaga Milk Group offers to the customers, we place emphasis on cooperative relationships with our business partners in the areas of raw material quality, safety, technological capability, price, and delivery date.
3. In conducting procurement activities, we provide fair, equitable and transparent opportunities to all of our business partners and implement transactions accordingly.

"Procurement" in this policy covers not only the procurement of raw materials and packaging materials used for products, but also various transactions involved in the procurement of management resources such as facilities and equipment, and the various services to maintain and manage the same.

September 2017
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

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System

Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA cycles, with the general managers of the relevant divisions responsible for "Priority Issue: Supply Chains" and the general managers of the relevant departments responsible for promoting KPIs.

Based on the Quality Policy, Morinaga Milk has stipulated Quality Rules* for each stage of the supply chain: product development, raw material procurement, production, distribution, and sales. In order to systematically control quality based on these Quality Rules, Morinaga Milk has established a quality assurance system to ensure the quality and reliability of all the products by implementing this system.

* The Quality Rules not only comply with laws and regulations and voluntary industry standards, etc., but also set internal standards that exceed industry levels.

Quality Assurance System of the Morinaga Milk Group



KPIs

Direction of activities	KPI
Efficient supplier management corresponding to material risk	Strengthen mechanism for evaluating supplier management level depending on each material's risk
Create a system for providing safe and high-quality products	Acquire FSSC 22000 certification at all of the Group's 29 plants by fiscal 2020
Respond to supply risks for main raw materials	Purchase main raw materials from multiple companies and geographically diverse purchasing
	Expand use of RSPO-certified palm oil

Quality Initiatives with Suppliers

Raising Quality Levels Together with Suppliers

Morinaga Milk conducts business with many suppliers, both for the procurement of various raw materials such as milk, containers, and packaging, and for the handling of the logistics of raw materials and goods. In order to deliver high-quality, safe, reliable, delicious, and worthwhile products to consumers, Morinaga Milk ensures that business partners know the Morinaga Milk Group Procurement Policy (indicated above) with a view to securing their understanding and cooperation, and to ensuring a mutual exchange of information that strengthens collaboration.

This exchange includes quality assurance certificates for raw materials suppliers, information about the raw materials used (ingredient ratios, source materials, country of origin, allergens, genetic modifications, the presence or absence of food additives, etc.), the safety of container and packaging materials, safety in use, compliance with legal standards (e.g., compliance with residual agricultural chemicals standards), the status of quality control in the supplier's manufacturing processes, etc.

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Quality Improvement Seminar

Morinaga Milk holds a Quality Improvement Seminar with suppliers of raw materials once a year. This provides an opportunity for mutual communication while sharing information on understanding the quality assurance system and initiatives for maintaining and upgrading the quality of raw materials and their containers and packaging and for improving the hygiene environment.

Number of Companies Participating in Quality Improvement Seminar

	2015	2016	2017	2018
No. of participating companies	28	23	24	20

Quality Audits at Suppliers' Plants

Positive communication with suppliers is important for a supply of high-quality raw materials. As a method of communication, the Morinaga Milk Group carries out document screenings and conducts quality audits at supplier factories.

Business partners understand the Morinaga Milk Group Quality Policy and cooperate to check for any food safety and quality issues from a variety of perspectives, such as managing for foreign substances, allergens, etc. When an issue arises, the Group works with mutual understanding to reach a solution in order to ensure a continued supply of safe, reliable high-quality raw materials.

For raw material imports from Europe, Oceania, or other locations, the Group visits local factories overseas as needed and conducts audits the same way as in Japan. Although it is sometimes difficult to require overseas business partners to maintain the same quality control levels as in Japan, by carefully explaining the Morinaga Milk Group's Quality Policy to overseas business partners and gaining their understanding, the Group has built both a domestic and international procurement system for high-quality raw materials.

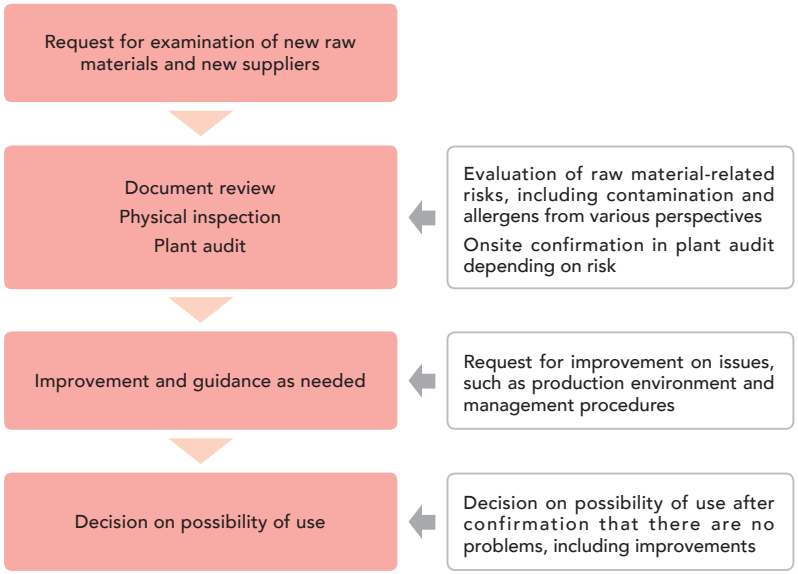
In fiscal 2018, the Group conducted audits of its business partners in the United States and Europe to improve the supply system.

There were no significant risk incidents in fiscal 2018.

Audits Conducted

	2016	2017	2018
Morinaga Milk plants (no.)	9	28	31
Contractors (no.)	44	53	40
Suppliers (no.)	56	47	31
Total (no.)	109	128	102

Basic Flow for Use of New Raw Materials



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Aiming to Improve Distribution Quality

The Morinaga Milk Group holds distribution seminars for partner companies to which it outsources transportation for product distribution and warehouse cargo handling. The aim of these seminars is to improve distribution quality levels by presenting reports on distribution quality activities and examples of initiatives at partner companies, sharing information, and engaging in vigorous discussion, as well as strengthen the collaboration required to achieve this aim.

In 2018, 46 logistics partner companies, all Morinaga Milk Group production plants, the Manufacturing Department (Head Office) and centers took part, sharing issues and presenting examples of initiatives related to maintaining product quality, precision of operations, and safety. Morinaga Milk has established targets for maintaining distribution quality, precision of operations, and safety. Progress is confirmed through such means as holding regular monthly meetings of distribution departments between business sites and regular meetings with partner companies as part of cooperation with them to achieve corporate targets.

Continuing efforts are made to improve distribution quality by holding meetings with logistics partner companies and creating opportunities for them to learn about the product characteristics of the liquid diet and nursing care foods of CLINICO Co., Ltd. and the points to note in product transportation.

In addition, efforts are being made to further improve the quality of distribution through creating manuals for transport and delivery crews entering and exiting logistics centers, preparing action plan sheets to give concrete shape to the PDCA for annual warehouse checks, and strengthening the systems for improving product warehousing issues, with collaboration between Head Office and each business site.

Ensuring a Stable Supply of Quality Domestic Raw Milk

Visits by nationwide Dairy Farm Services Office staff to dairy farmers in their area



The Dairy Farm Services Department at the Manufacturing Division sends representatives from Morinaga Milk's six Dairy Farm Services Offices nationwide to visit dairy farmers in their area regularly to ensure a supply of quality domestic raw milk.

By providing information on technology for improving milk quality, raw milk demand and supply, and other areas, the staff works to increase the motivation of dairy farmers to produce milk. The staff also listens to dairy farmers about the problems and struggles of expanding production directly, striving together to think of improvements to solve problems.

In addition, in order to enhance these activities promoting production in dairy farming, the Dairy Sustainability Group was established within the Dairy Farm Services Department at the Manufacturing Division in January 2019 to extend the support system.

Going forward, Morinaga Milk will continue to work toward sustainable dairy farms in partnership with dairy producers.

Initiatives with dairy farmers to increase milk production volume

Dairy cows take at least two years to start producing milk. This has been a burden on dairy farm management and is one factor in sluggish domestic raw milk production. Therefore, at the farm of Morinaga Rakunou Co., Ltd., a Morinaga Milk Group company, a dairy breeding cattle contracting business was established. The motto of this business is "Raising healthy and strong cattle." The business contracts out cattle breeding to enable farmers to focus on raw milk production.

The business takes breeding cattle that will become dairy cattle from farmers, impregnates them and then returns them to the farmers. In addition, Morinaga Milk utilizes advanced technology for the production and transplantation of fertilized eggs and is actively working to transferring fertilized eggs from *wagyu* Japanese beef cows into dairy cows in order to increase the incomes of dairy farmers.

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Plant tours for dairy farmers

Morinaga Milk holds tours at Morinaga Milk Group plants for dairy farmers. The feedback from dairy farmers who have attended these tours shows that actually being able to see the raw milk they have produced being turned into products has led to increased motivation to produce raw milk and improved awareness about ensuring the quality and safety of raw milk. Going forward, Morinaga Milk will continue to hold these tours as a means of communication.

Initiatives of the Morinaga Dairy Farming Promotion Association

The Morinaga Dairy Farming Promotion Association was established as an incorporated foundation in 1968 in commemoration of the 50th anniversary of Morinaga Milk's founding. The association has supported dairy farmers in various ways over the past 50 years. In December 2011 it became a public interest incorporated foundation. Association activities include Dairy Farming Management Presentation Meetings to introduce unique and leading-edge domestic management approaches. Activities also include barn meetings, where progressive dairy farmers in local regions can exchange information at their farms as well as gain knowledge from both Japan and overseas. Morinaga also provides training for up-and-coming dairy farmers of the next generation, both in Japan and abroad, to contribute to the sustainable development of dairy farming.



Initiatives aimed at stable supply of dairy ingredients

Morinaga Milk also procures dairy ingredients from Oceania, the U.S., and Europe among other places. However, as there is a risk of impact from climate change and international conditions, Morinaga Milk aims to secure as many purchasing channels as possible to create a system for ensuring the consistent purchase of dairy ingredients with stable quality at an appropriate price.

In addition, Morinaga Milk research centers and plants are collaborating on research into new blend designs so that new dairy ingredients can be used in preparation for any future shortages of milk raw materials.

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Procurement Focused on Consideration for the Environment and Human Rights

The Morinaga Milk Group has formulated the Procurement Policy and is implementing procurement focused on consideration for the environment and human rights. Based on this policy, efforts are being made to procure raw materials with a focus on giving consideration to the environment and human rights. This includes raw materials with RSPO certification, Rainforest Alliance certification, and FSC® certification.

Morinaga Milk joined RSPO*1 in March 2018. As large-scale deforestation is carried out when producing palm oil, it has been pointed out that deforestation impacts the natural environment through the loss of biodiversity and the erosion of human rights in terms of the labor on farms. Since 2018, Morinaga Milk has been promoting purchase of palm oil through the Book and Claim*2 model. Book and Claim purchases will account for 100% of palm oil purchases from fiscal 2019.



(left) *Mt. RAINIER DEEP ESPRESSO*, which uses Rainforest Alliance-certified coffee beans
(Right) *MOW*, which uses an FSC®-certified paper sleeve

With regards to beverages, such as coffee and tea, Morinaga Milk currently uses Rainforest Alliance-certified*3 raw materials for some products, including *Mt. RAINIER DEEP ESPRESSO*.

In addition, with regards to paper, Morinaga Milk uses FSC®*4-certified paper for the paper sleeves for *MOW* and for the packing boxes used with *Pino* and *PARM*. The goal for ice cream products is to transition to FSC®-certified paper for paper materials that are replaceable by 2020.

The use of raw materials with a focus on giving consideration to the environment and human rights also affects product prices, quality, and transportation efficiency. Therefore, information is shared across departments and efforts are made to collaborate and cooperate with business partners and suppliers.

Morinaga Milk conducts regular surveys, including the CSR Procurement Questionnaire, of the working environment for sites that produce and process raw materials. The questions cover 26 items, including human rights, compliance, environmental management, relationships with the local community, and information security. Suppliers are requested to give detailed and accurate answers.

*1: RSPO
The Roundtable on Sustainable Palm Oil certifies palm oil produced on farms that meet certain standards to prevent palm oil production having a profoundly negative impact on the preservation of tropical forests, the diversity of the organisms that live in them, and the lives of the people who depend on the forests.

*2: Book and Claim
Book and Claim is a model for issuing certification credits (certificates) based on the volume of certified palm oil produced by palm oil producers. It provides a mechanism by which end users support the producers of certified palm oil through the purchase of certification credits.

*3: Rainforest Alliance certification
Rainforest Alliance certification is a certification by the Rainforest Alliance, an NPO. The certification is only granted to plantations that meet strict standards in such areas as protecting forests and ecosystems, preserving soil and water resources, improving the labor environment, and providing livelihood security, thereby protecting the global environment and ensuring sustainable living.

*4: FSC® certification
FSC® certification is an international certification program for protecting forests. Products and packaging only receive this certification after being examined by a group of third-party certification bodies based on FSC® (Forest Stewardship Council®) criteria to confirm that the forest resources used have been produced appropriately from the perspective of environmental preservation, and produced under socially meaningful and economically sustainable forest management.

CERTIFIED SUSTAINABLE PALM OIL RSPO
4-1016-18-100-00

RAINFOREST ALLIANCE CERTIFIED

FSC
www.fsc.org
FSC® N002235
The mark of responsible forestry

Topics

Signed the Vancouver Declaration on SDGs and FSC® Certification
On October 11, 2017, the FSC® Annual General Meeting held in Vancouver, Canada, unveiled a declaration calling for expanded support of SDGs and the FSC®. As a company that endorses this objective, Morinaga Milk signed the declaration along with 56 Japanese and overseas companies.

Morinaga Milk is contributing to the use of sustainable forest resources through gradual expansion, starting with familiar products such as *MOW* ice cream and *Piknik* beverages.

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Participation in the Japan Sustainable Palm Oil Network (JaSPON)

In April 2019, Morinaga Milk participated in the Japan Sustainable Palm Oil Network (JaSPON) as a founding member and served as director in order to accelerate the procurement and consumption of sustainable palm oil in the Japanese market with the aim of solving a range of problems in palm oil production related to the environment and development.

Morinaga Milk is collaborating with the members toward the realization of sustainable palm oil procurement and consumption in the JaSPON network of 18 companies and groups, which includes retailers and consumer goods manufacturers.

JaSPON Japan Sustainable Palm Oil Network

Internal Quality Initiatives at Morinaga Milk

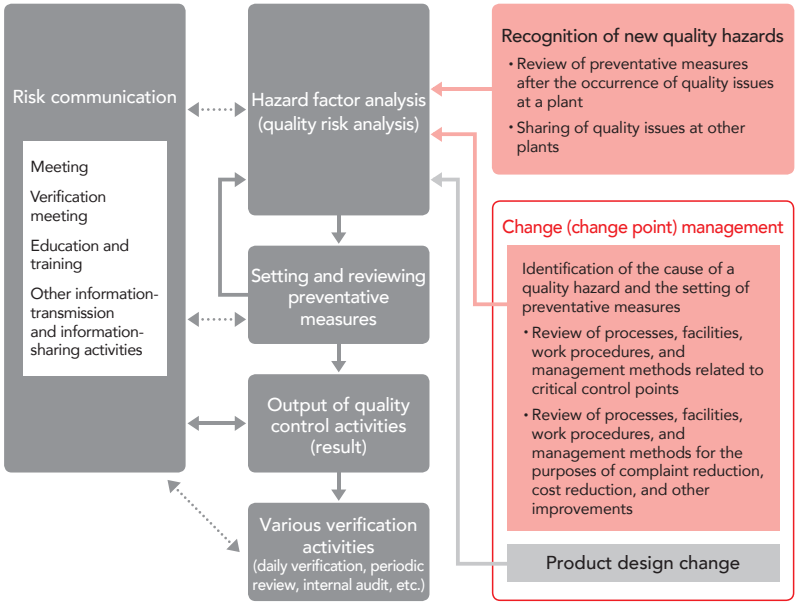
"MACCP": Morinaga Milk's Unique Quality Management System

The Morinaga Milk Group operates its own original system for quality management called MACCP.

MACCP uses hazard analysis methods to ensure a product has the intended qualities. The aim is to provide products that customers can use reliably and to carry out stable manufacturing.

A major feature of MACCP is achieving a high level of quality assurance by preventing the occurrence or re-occurrence of trouble before it happens. Through the use of both MACCP and internal audits, the Group aims to further enhance its quality management.

Conceptual Diagram of MACCP System Operation



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Initiatives on FSSC 22000

In order to deliver even higher safety and reliability, the Morinaga Milk Group aims to obtain FSSC 22000*, the international standard scheme for food safety management, company-wide.

The entire Morinaga Milk Group is working toward FSSC 22000. Six plants in Japan had obtained certification by fiscal 2018. Plans call for certification of 24 other plants by fiscal 2020.

Food safety is only possible when all the parties involved, including the company, its business partners, and customers, are making efforts rather than the efforts of just one party. Maintenance of the safety and quality of products will be achieved through effective use of FSSC 22000 and positive communication among the parties involved.

Morinaga Milk is also putting efforts into in-house education so that employees understand FSSC 22000 correctly and continue to produce safe and reliable products. In fiscal 2018, two FSSC 22000 internal auditor training courses were organized by the head office.

In order to continue providing customers with safe and reliable products, each and every employee will refine their knowledge and skills with the aim of maintaining and improving quality levels.

* FSSC 22000
FSSC 22000 is an acronym for Food Safety System Certification 22000. It is a scheme for food safety approved under the Global Food Safety Initiative (GFSI). Based on ISO 22000, the standard aims for the practice of more reliable product safety management and the provision of safe food to consumers.

Taste/Flavor Panel Meisters System

In quality control, the human tongue can often be more sensitive than numbers obtained with scientific testing. Therefore, Morinaga Milk identifies employees with particularly advanced taste sensitivity and certifies them as "Taste/Flavor Panel Meisters*." Such employees can detect even slight flavor abnormalities by taste before products are shipped.

* Taste/Flavor Panel Meisters
Each year, Morinaga Milk holds a taste sensitivity challenge for all employees. The employees who do well are certified as "Taste/Flavor Panel Meisters." Any employee certified as a Meister for three years running earns the title of "Grand Meister." As of September 2019, there are 71 employees certified as Meisters.

Raw Material Checks (triple-check after prior lot inspections)

Good products can only be produced from high-quality and safe raw materials. Therefore, the Morinaga Milk Group has established a system of "prior lot inspections" from the raw material procurement stage to support the quality and safety of all products. Before raw materials are delivered to plants, lots of specified materials are sampled and inspected by the Quality Control Department according to their risk. Only the raw materials that pass inspection are delivered to plants.

A total of three inspections (triple-check) are conducted after raw materials that passed the prior lot inspection are delivered to the plants, from the point of raw material acceptance to just before use for production.

Maintaining an Environment that Protects Quality

The Morinaga Milk Group has put efforts into occupational health and safety as a means of maintaining an environment that protects quality.

Occupational health and safety are two of the most important foundations for corporate activities. They play an integral role in the Basic Policy on Health and Safety for everyone, not only Morinaga Milk Group employees working at business sites. In accordance with this basic policy, action is taken to implement health and safety education, identify and assess hazard sources (hazardous locations), and promote activities to reduce and eliminate such sources so that employees can accomplish their work safely and in good health with the aim of zero labor accidents.

REPORT ▶ Please see the "Human Rights" section (p. 41) for details.

Mechanisms for Training People to Continue Protecting Quality

The Morinaga Milk College was established in 2002 to provide quality education for employees based on the belief that "people (employees) create quality." Morinaga Milk College is an internal educational institution in the Manufacturing Department tasked with "transferring technology and skills" and "maintaining and improving quality technology." The college offers a variety of employee education courses.

REPORT ▶ Please see the "Developing Human Resources" section (p. 70) for details.

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Responding to Customers

Morinaga Milk released its Declaration of Conformity with ISO 10002 (Complaints Handling Management System) in 2007.

In accordance with ISO 10002, the Basic Policy on Customer Satisfaction and the Guiding Principles was established. Morinaga Milk actively strives to continually improve customer service.

To further promote consumer-focused management, Morinaga Milk issued the Voluntary Declaration on Consumer Orientation in 2017 and the Voluntary Declaration on Consumer Orientation Follow-up in 2019.

Basic Policy on Customer Satisfaction

We value communication with customers in response to their comments, including complaints, requests, and inquiries, and strive to deliver "reliability" and "happiness." We think and act with the customer as our starting point, and aim to be a company that is trusted more.

Guiding Principles

1. We take the views of customers seriously and strive to respond equitably and fairly acting with integrity and speed.
2. We share the valuable opinions of customers internally to utilize these opinions for making products and services.
3. We strive to actively provide customers with appropriate and easy-to-understand information.
4. We respect the rights of customers and comply with relevant laws, regulations and norms for employee conduct.

Voluntary Declaration on Consumer Orientation

1. Philosophy

(1) Corporate slogan

"For Ever Brighter Smiles"

(2) Corporate philosophy

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

(3) Guiding principles

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 towards them?

2. Initiative Policy

(1) Management commitment

We publish and share the following messages from management on our website and in the Integrated Report.

1) We will continue to supply products and services with meaningful value that provides customer satisfaction and empathy.
2) We will establish the Basic Policy on Customer Satisfaction and the Guiding Principles in accordance with ISO 10002 and continue striving actively to improve customer service.
3) We will continue to provide products with recognized value that match customer needs.

(2) Ensuring corporate governance

1) We will create mechanisms to collect the content of customer inquiries every day and report them to management.
2) We will establish opportunities for management to confirm and discuss customer service status and issues.

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(3) Positive action by employees
(fostering corporate culture and employee awareness)
1) We will provide training to ensure that all employees think and act with the customer as the starting point and continue to work on activities with an even stronger customer starting point.
2) We will encourage the acquisition of specialist qualifications related to consumer affairs, such as consumer advisor.

(4) Seamless collaboration of relevant internal departments
1) We will build a system for the acquisition of customer opinions and promptly share them companywide.
2) We will analyze customer opinions and share them more deeply internally through opportunities such as liaison meetings.
3) We will build mechanisms for promptly contacting the management team and relevant departments when product accidents occur or signs that predict such occurrence are found. We will also create internal emergency troubleshooting standards and follow them when solving problems.

(5) Enhancing provision of information to consumers and bilateral exchange of information
1) We will post information related to safety, reliability and the environment on our website to assist choices and use by customers.
2) We will provide customers with product information through various means including easy-to-understand labeling on packaging and on our website so that our products can be used in a safe and reliable manner.

(6) Improvement and development based on consumer and social demands
1) We will regularly update the case studies on our website about utilization of customer opinions and requests in the improvement of products and services.
2) Specifically, we will innovate to make product container materials, shape, and labeling easy to open, easy to carry, and easy to see.
3) We will develop products to meet the increasing need for health and nutrition for infants through to the elderly.
4) We will strive to develop and improve containers and packaging with a focus on consideration for the 3Rs (reduce, reuse, recycle), safety, and ease of use from the product planning and development stage.

April 1, 2017
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

WEB

Voluntary Declaration on Consumer Orientation
▶ https://www.morinagamilk.co.jp/information_morinaga/170116.html (Japanese only)

Voluntary Declaration on Consumer Orientation Follow-up
▶ http://www.morinagamilk.co.jp/archives/005/201810/20180725follow_up.pdf (Japanese only)

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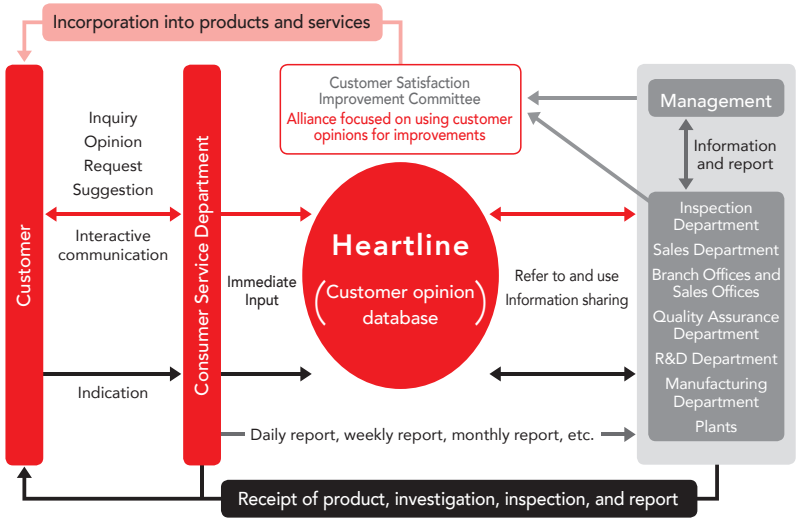
System to Take Advantage of Customer Opinions



Mechanisms to report opinions to management

At the Customer Satisfaction Improvement Committee, which is convened three times a year, customer opinions that arrive continuously and examples of improvements using customer opinions are presented to the management, including the President, for discussion.

Customer complaints and opinions are also compiled into a daily report that is shared with management, including the President and the general managers of the relevant departments.

Consumer Service Office

Since establishing the Consumer Service Office in 1972, Morinaga Milk has received inquiries, consultations, and comments about products from all over Japan. In fiscal 2018, Morinaga Milk received approximately 63,000 opinions by toll-free phone, postal mail, and email. When a reply to the customer is required, the Center collaborates promptly with the relevant department and strives to provide a timely and genuine response.

Mechanism to use customer opinions

Morinaga Milk considers customer opinions to be a valuable management resource. The opinions are input into Heartline, our customer opinion database, to build a mechanism for each employee to refer to and use in developing and improving products and services.

In fiscal 2018, Morinaga Milk received an opinion on the quality of Morinaga *Rennyu Koori* creamy ice cream expressing anxiety about hygiene because the rim of the product lid had cracked or come open a little. There was a desire for a product lid that allows customers to check whether it has already been opened. The cap-style lid was changed to a crimp-style lid.

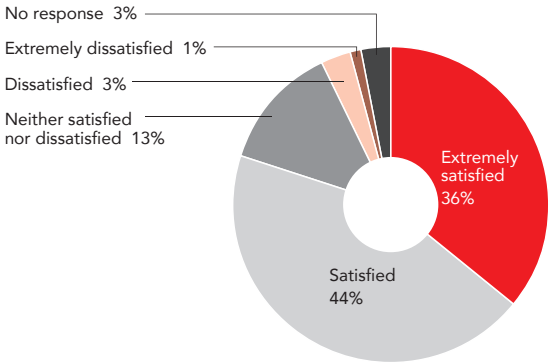


Before change　After change

Customer satisfaction questionnaire survey

In 1995, Morinaga Milk began conducting questionnaire surveys on the satisfaction levels and opinions of customers who accessed the Consumer Service Office. These surveys provide the collected opinions from customers regarding their interactions with the persons they contact through the telephone service and deal with later in the consultation process (including visits). Customers also explain their future intentions to purchase Morinaga Milk products. These responses provide vital feedback for our process to improve the quality of our services and products. In 2018, 80% of customers responded that they were "extremely satisfied or satisfied" in terms of overall satisfaction with our service.

Overall Satisfaction with Service



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Mechanism for improving customer satisfaction (Heartline Training)

Morinaga Milk provides "Heartline training" so that employees will be aware of and reflect customer satisfaction in their future work by hearing and experiencing real customer opinions.

The content of the training consists of listening to real customer service interactions, learning about the system for using customer opinions, and exchanging opinions with communicators who provide telephone service to customers.

Heartline Training Results

	2015	2016	2017	2018
No. of times held	64	62	76	73
No. of participants	95	107	143	81



Heartline training

Voluntary standards for promotional campaigns

Morinaga Milk has established Voluntary Standards for Promotional Campaigns, which include using language that is easy for customers to understand and writing style precautions for when running promotional campaigns for customers.

For example, for customer campaigns involving reply postcards, online responses, notices printed on product packaging and so forth, promotion planners ensure that their plans comply with a checklist of over 50 items.

Establishment of Emergency Supply Systems

Business Continuity Plan (BCP)

The Morinaga Milk Group has established a BCP in order to promptly determine the products society needs and to restore and maintain stable supply in the event of a crisis, such as a large-scale disaster. The aim of the BCP is that, as a member of the food industry, which involves a strong element of social and public interest, the Morinaga Milk Group will not allow a serious interruption of business or will restore business as quickly as possible even when there is an interruption to the supply of products that are essential to people's lives, even in an emergency.

In order to increase the effectiveness of such measures, the Morinaga Milk Group will review and improve the BCP, including the establishment and practice of a safety confirmation system for disasters, the maintenance of emergency supplies for disasters, and the strengthening of back-up systems for the Group's information system.

Basic Policy of the Morinaga Milk Group's BCP

Protect human life: Priority is given to the protection of the lives of Morinaga Milk Group employees and their families as well as business partners, the neighboring community, related parties, and customers.

Contribute to society: the Morinaga Milk Group will contribute to society, including the affected areas, by working to provide food aid and supply.

Business continuity: the Morinaga Milk Group will create the necessary systems taking the utmost consideration of the safety of employees and strive for the stable supply of the Group's products in accordance with the needs of customers, business partners, and the affected areas.

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Constant Readiness

The Morinaga Milk Group has prepared disaster action plans for earthquakes, fires, typhoons, and floods. In the event of a disaster, the Group will evacuate in accordance with appropriate instructions and guidance and ensure proper execution through regular disaster prevention training.

Disaster prevention training is held once a year. In addition to evacuation guidance, fire extinguisher operation, and transportation of the injured, AED training is provided at business sites, with guidance obtained from local fire stations to improve proficiency.

As well as using the disaster action plan, the Morinaga Milk Group stipulates all manufacturing sites (plants) will carry out prompt collection of information and recovery based on the Emergency Countermeasures Operating Manual. All employees work to maintain and enhance response capability through execution of the guidance of disaster prevention organizations and practical training with fire extinguishing equipment in addition to annual disaster prevention training. Collaboration with local fire stations is undertaken to form in-house fire brigades, which participate in regional rallies to improve their techniques. Furthermore, implementing earthquake resistance measures for buildings is underway.



Disaster prevention training at Head Office

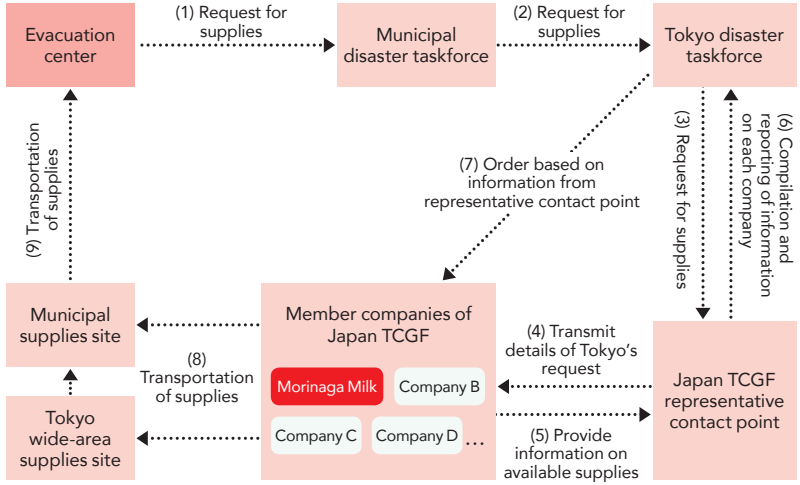
Disaster Relief Systems

Morinaga Milk participates in The Consumer Goods Forum (Japan TCGF) established in August 2011 under the leadership of the consumer goods and distribution industries. Under the Earthquake Countermeasures Sharing Project, which is one of its activities, Morinaga Milk created a system for cooperating with other companies to procure relief supplies promptly in the event of a large-scale disaster such as an earthquake with its epicenter directly beneath Tokyo.

Morinaga Milk has also supplied infant and toddler milk and long-life products as emergency food for areas affected by disasters in collaboration with relevant government ministries/agencies and industry groups.

After the 2011 Great East Japan Earthquake, for example, Morinaga Milk supplied 8,000 cans of infant and toddler milk through the Japan Dairy Association. In cooperation with stakeholders, Morinaga Milk will continue to provide such disaster assistance.

Overview of Supplies and Relief System Based on Agreement (*) with Tokyo Metropolitan Government



(*) Supplies and relief agreement in an emergency between Japan TCGF and Tokyo Metropolitan Government

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Nurturing the Next Generation

Basic Approach

We support the healthy growth of children who will contribute to creating a sustainable society.

Morinaga Milk believes that since it is people who create society, cultivating people is something that must be done by society as a whole—it is not just the job of the education system.

With the rapid development of information technologies and globalization, it is becoming apparent that society is moving away from an era where future development remains an extension of current accepted practices. With the revised government guidelines for education in Japan, in terms of education Morinaga Milk aims to assist in developing the qualities and abilities the young need to innovate into the future.

To achieve this aim, Morinaga Milk has prepared a program utilizing its own knowledge to foster today's children with their future in mind. Morinaga Milk will continue to be a company that supports the next generation.

System

Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA cycles with the general managers of the relevant divisions responsible for "Priority Issue: Nurturing the Next Generation" and the general managers of the relevant departments responsible for promoting KPIs.

The CSR Promotion Department serves as the secretariat for next-generation education programs and works in cooperation with the relevant departments.

KPIs

Direction of Activities	KPI
Provide a place to learn about food culture and nutrition in order to acquire the basic skills to live healthy and enjoyable lifestyles (food education classes, KidZania)	Total participants over three-year period starting in 2019: 300,000
Provide a place to learn about the gifts of nature and the techniques and research that utilize them (plant tours, Expedition of Woods and Food, career education)	Same as above
Establish an environment in which the next generation can be raised	Provide ongoing consultation on infants with the Angel 110 hotline; handle calls from a total of 1 million people by fiscal 2020

Morinaga Milk's Activities for Nurturing the Next Generation

Plant Tours

Morinaga Milk gives plant tours at three of its plants (Tokyo Tama, Chukyo, Kobe) to show consumers how its products are produced. On-site visits to the plant's sanitary production lines and other facilities demonstrate Morinaga Milk's commitment to manufacturing excellence and production grounded in safety and reliability.



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Expedition of Woods and Food



The "Expedition of Woods and Food" class is an outdoor educational experience for about 30 elementary school students from Grades 4 through 6. The children spend four nights and five days together exploring life in nature. They cooperate with their classmates in a series of eating, creating, and playing experiences such as harvesting vegetables, tending to animals at dairy farms, climbing trees, playing in rivers, building rudimentary structures, and taking plant tours, all with the aim of discovering the essentials of living by one's own devices in nature.

Pavilions at KidZania Tokyo and KidZania Koshien



KidZania provides an interactive experience where children can be leaders and learn about society while having fun. Empathizing with the KidZania concept of fostering realistic vocational experiences to equip children with the skills they need to survive in the future, Morinaga Milk is an official sponsor of "Milk House" pavilions at two KidZania cities–in Tokyo since 2012 and Koshien (in the Kansai area) since 2016. Children visiting Milk House work as "milk food marketers" to plan and create products that consumers will appreciate. The goal in shaping the program is to give the children the following experiences: (1) Provide new "added value" to consumers and understand the work that this entails, (2) Learn more about milk and dairy products, and (3) Understand and take an interest in the dairy industry.

Career Education

Visiting classes at elementary schools

Morinaga Milk began these on-site classes in 2015 with the aim of leveraging our advanced milk technologies to create foundations in children for developing a healthy and rich well-being.

Elementary school is a vital period in a child's growth. Using the familiar ingredient of milk, these 45-minute classes teach children to interpret the nutritional information on milk cartons and to think about the meaning of why school lunches provide a serving of milk each day.

Results

	2015	2016	2017	2018
No. of times held	1	3	4	5
No. of participants	31	80	132	327

Career education for junior and senior high school students

It has been pointed out that changes in social structures and values have resulted in less-than-ideal occupational and work attitudes. In 2014, Morinaga Milk began cooperating with Twice Research Institute to develop project-based learning geared toward junior high, high school, and university students to contribute to solving social issues in the education field.

In this program, students work as a member of the company to present their findings on issues we put forward. This program aims to nurture a healthy occupational, work and moral attitude that will serve as a source of vitality when the students transition to the working world.

Morinaga Milk employees participate and provide advice through school visits or by working with students over the internet to support their efforts.

Results

	2015	2016	2017	2018
No. of times held	20	23	20	19
No. of participants	1,000	1,048	874	774

* An increase in the number of participating companies for this intern-style work and an increase in the number of available programs has resulted in a reduction in the number of participating students for each company.

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Tour of Volleyball

Since 2016, Morinaga Milk has been running volleyball clinics around Japan with technical guidance from former Olympic athletes. These clinics aim to support the growth of female junior high school athletes as well as communicate the importance of food through Morinaga Milk products and services.



Results

	2016	2017	2018
No. of times held	21	22	23
No. of participants	2,317	2,277	2,398

Creating an Environment for Nurturing the Next Generation

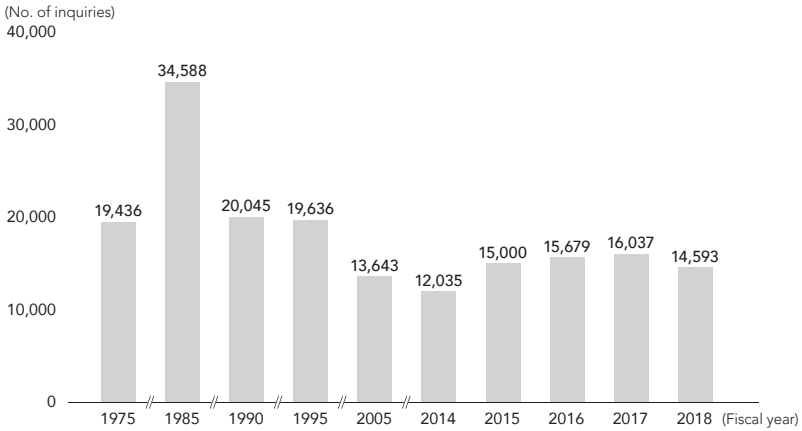
Angel 110 Hotline for Free Childrearing Consultations

In May of 1975, when the number of nuclear families was surging in an environment of rapid economic growth, Morinaga started a free childcare telephone consultation service. This service helps mothers who were struggling with taking care of their children in a dramatically changing child-raising environment. The consultation service continues to welcome questions from mothers about their early stages of pregnancy, child-raising, and their children's early years up to elementary school. As of March 2019, the consultation service received 988,318 questions. The questions have spanned the gamut of topics from eating habits ("How much and what should I feed my baby?") and parental fears ("I have no confidence in my child-raising skills") to child development.

Beyond telephone consultations, Morinaga also takes part in activities supporting events at local childcare assistance facilities, nursing student programs, and childcare support seminars for employees.

Center consultants listen to the anxieties, troubles, and doubts of the parents of young children, think through things with them to help them find solutions, and work in other ways to ease their worries. Morinaga is committed to continuing offering support to anyone struggling with the challenges of pregnancy and bringing up children.

Angel 110 Hotline Inquiries



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Human Resource Development

Basic Approach

We will focus on developing human resources who can achieve "For Ever Brighter Smiles."

Morinaga Milk was founded over a century ago. Throughout its history, Morinaga Milk has fostered a positive corporate culture centering on a commitment to quality. Over the next 100 years, Morinaga Milk will continue to build a culture in which employees can take up new challenges together with enthusiasm and energy, while also valuing the achievements of the past.

To instill a culture of embracing challenges, it is essential for each and every employee to enhance their own skills. Toward this end, the company needs independent workers with the quality of defining their own goals and taking action to achieve outcomes.

As a company that aims for sustainable growth, it is crucial for each and every employee to be willing to better themselves, while the company needs to recognize its responsibility of fostering human resources who can carry the torch of the company's future. As such, the culture of fostering human resources will be instilled at various workplaces using continuous training. This is Morinaga Milk's vision for human resource development.

Approach to Human Resource Development

- Foster human resources who can recognize their roles and responsibilities while embracing the challenges of reform and innovation based on the corporation philosophy and guiding principles.
- Strategically develop human resources who will bear core responsibilities in the future.
- Foster human resources who will contribute to the organization by respecting diversity and working collaboratively with others.
- Employees are to take the initiative and play an independent role in their own self growth while the company provides opportunities to foster such growth.
- Improve the leadership and training skills of senior employees who are responsible for cultivating human resources.

System

Morinaga Milk CSR Committee meetings, which are chaired by the president, are held twice a year for monitoring and reporting on the progress of KPIs. In addition, Morinaga Milk implements PDCA cycles with the general managers of the relevant divisions responsible for "Priority Issue: Human Resource Development" and the general managers of the relevant departments responsible for promoting KPIs. Moreover, the Human Resources Department acts as the main department in charge of human resources development, while working collaboratively with the Manufacturing Division and Sales & Marketing Division.

At Morinaga Milk, human resources development is implemented centering around the model of on-the-job training (OJT) where employees acquire specialized knowledge and skills through practical work and improve their abilities to execute job functions while gaining experiences. Through this, employees grow their experience and receive feedback from their superiors and senior colleagues thereby refining their skills and techniques.

Moreover, it is also important to learn outside of practical work in order to achieve growth. Therefore, Morinaga Milk provides a number of learning opportunities from off-the-job (Off-JT) programs including rank-based training and diversity support programs, to correspondence education, e-learning, and business schools under self-development support programs for employees who are taking the initiative to improve themselves.

Through the combination of the three programs: OJT, Off-JT, and self-development support programs, it is the aim to develop a corporate culture that inspires individuals to seek self-improvement and embrace reform and innovation.

The specific initiatives under Off-JT programs and self-development support programs are revised each year as the annual human resource development plan, with each development program being proposed and implemented.

Moreover, each department is in charge of their own training to enhance specialization among their staff. For example, the Manufacturing Division is taking the lead in hosting Morinaga Milk University with the goal of passing down manufacturing technologies, while the Sales & Marketing Division is taking charge of Morinaga Sales University in conducting training to improve sales skills.

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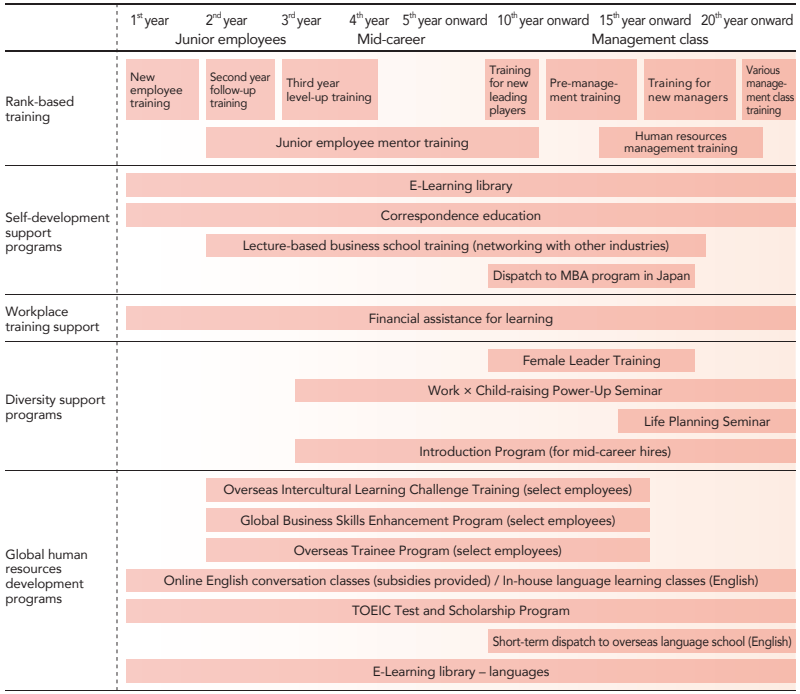
Human Resource Development System



KPIs

Direction of activities	KPI
Promote the Corporate Philosophy	Hold annual forum open to all employees
Encourage the independent growth of each individual employee by pursuing diversity	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
Develop employees who can perform in a global business environment	Pursue a program for training global human resources
Develop human resources via health management	Improve uptake rate of follow-up exams and re-assessments: 80% (2023) Rate of attending mental health education: 100% (2023)

System for Developing Human Resources to Support Business

Disseminate the Corporate Philosophy

In 2017, Morinaga Milk celebrated its centennial and established a new corporate philosophy structure and slogan for the Morinaga Milk Group for the next 100 years.

In order to institute these ideas as fundamentals guiding all of our actions, it is important for employees to understand and integrate the corporate philosophy into their daily duties. Therefore, various programs to promote the corporate philosophy are being implemented.

Energy survey

The Energy survey is designed to understand the main factors that influence willingness to work and organizational culture revitalization. This can contribute to developing more effective improvement activities and human resources policies to address issues revealed in order to achieve a corporate culture where employees work with enthusiasm and energy.

The survey is conducted once a year targeting everyone involved with Morinaga Milk, including full-time employees, seconded workers, temporary workers, and employees of affiliated companies. The survey results of the entire company as well as by division are shared via feedback with the director in charge, as well as head of each business site and organization. The results serve as important data for understanding the condition of each organization, and are therefore always shared within each business site to promote vitalization.

As each business site completes the feedback process, a workplace workshop is conducted in promoting workplace energization.

Score of Feeling "Energized" (Question: I am working with enthusiasm and energy)

	2016	2017	2018
Score of feeling "energized"	4.81	4.91	4.86

* Results of response from full-time employees only
* Scores of 6.0 and above indicate desirable status; scores of 4.0 and below indicate improvement needed.

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Co-Creation of Aspirations forums

The Co-Creation of Aspirations forum is held once a year in order to foster a sense of unison through understanding the corporate philosophy and guiding principles. In turn, this promotes the Morinaga Milk Group's management as a whole following one philosophy.

Each year, the forum is held under a different theme. In fiscal 2016, it was conducted as a workshop to establish the corporate philosophy itself, under the theme of "Creating a New Corporate Philosophy and Guiding Principles." In fiscal 2017, the theme was "Practical Application of Guiding Principles in Business Duties to Realize the Philosophy," while in fiscal 2018, the theme was "Discussion on Challenges and Improvement Activities by Organization in Promoting Corporate Philosophy and Guiding Principles," with over 100 employees in attendance each year.

Feedback from those in attendance received included, "I was able to see the effect on team building by practicing the guiding principles. I felt a sense of mutual respect with a deepened understanding for one another. This made me want to try it at my own workplace," as well as "Prior to my attendance, I had wanted to make the workplace better but felt it was difficult to achieve on my own, but after this forum I figured it may be possible to make changes if I could gather more people who think alike."

Manager workshops and workplace seminars

Morinaga Milk holds manager workshops and workplace seminars in order to develop human resources who can lead team members while fulfilling the vision for workplaces under the corporate philosophy and to empower each workplace to solve problems independently. At the manager workshop, every year more than 50 managers participate, discussing matters about the development of team members. At workplace seminars, managers and members together discuss how to implement the corporate philosophy in the workplace.

Participant comments included, "I was able to broaden my horizon by thinking about the issues faced by other workplaces, which served as a hint in finding solutions to issues at my own workplace" and "Participants ranged from newer managers to highly experienced ones. This served as an opportunity to experience other viewpoints and approaches."

Encourage Independent Growth

Human resource management system

Morinaga Milk considers its people to be an important asset and is now developing a workplace environment where each and every person can fully contribute their competencies.

In 2007, Morinaga Milk launched a new human resources management system targeting all employees. The goal of this system is to increase employee motivation and enhance their skills by elevating employees' independence, their understanding of personnel evaluations, and the fairness of these evaluations.

Specifically, Morinaga Milk introduced a target management system, where during the course of regular communication supervisors and team members establish targets and difficulty level, evaluate progress actions and skills, and provide feedback as needed.

Diversity support programs

As part of the promotion of diversity, Morinaga Milk offers a variety of training programs and seminars to support employees' diverse working styles.

The Female Leader Training is held once annually. It involves female employees building their own unique management style during the course of their career unbound to the status quo while planning for various life events.

The Work × Child-raising Power-Up Seminar is held once annually. It involves learning a highly motivating unique work style tailored to one's job so that employees can produce meaningful results in both quantity and quality despite a limited amount of time. Close to 70 employees have taken part since 2016.

Number of Participants in Female Leader Training

	2013	2014	2015	2016	2017	2018
No. of participants	17	13	17	18	29	24

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Morinaga Milk College

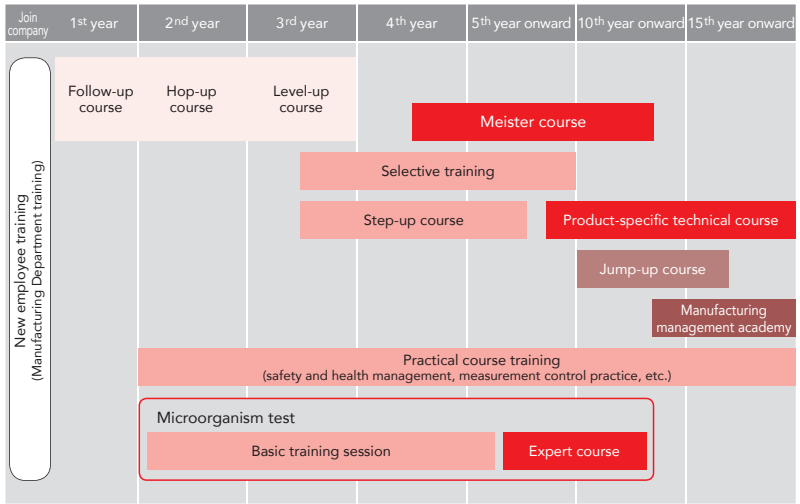
Morinaga Milk College is an internal educational institution in the Manufacturing Department tasked with "transferring technology and skills" and "maintaining and improving quality technology," and it offers a variety of employee education. The college offers a "Follow up course," a "Hop up course," and a "Level up course" aimed at the acquisition of basic knowledge of safety measures and milk technologies for engineering-related employees from their first to their third year at Morinaga Milk.

Later on, the college provides the selective "Step up course (product category specific training)," the "Jump up course (training for workplace leaders)," and "Meister training (improving technical and skill levels)" to aid the training of young engineers.

In terms of practical training courses, the college offers various kinds of specialist training for core technologies.

"Measurement management practical training," for example, teaches the technical basics of accurately measuring the volume of raw materials and products, while the "Microorganism expert course" is aimed at improving techniques and skills for microbial testing. Such courses help to cultivate various specialists who will play an important role in maintaining and enhancing quality.

Diagram of Training System



Number of Trainees

Name and objective of training	2015	2016	2017	2018
Follow-up course Acquisition of basic technologies and skills (established in 2018)	–	–	–	165
Hop-up course Acquisition of basic technologies and skills and strengthening work execution capabilities (includes 3rd year employees up until 2017)	48	53	111	103
Level-up course Acquisition of basic technologies and skills and strengthening work execution capabilities (established in 2018)	–	–	–	93
Step-up course Training human resources able to establish conditions for preventing product-category specific issues (made a selective training course from 2018)	98	98	111	56
Jump-up course Encouraging awareness of expected roles to develop workplace leaders	30	33	33	32
Total	176	184	255	449

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Global Human Resource Development

Morinaga Milk is focusing on developing and growing its international operations over the next 10 years as a key to its sustainable growth. Toward this end, in addition to committing management resources, Morinaga Milk is developing human resources not only proficient in English, but also with the ability to build personal relationships with people of differing backgrounds and values, convey one's needs accurately, and build consensus with others during the course of business.

Global business skills enhancement program

As a skill to complement a global mindset focused on intercultural understanding, the program commenced in 2017 with the aim of empowering employees so that they can convey what they want to say in English both logically and assertively, in order to enhance their global business skills* needed for business communication in English. This four- to five-month program involves select employees carrying out business simulations at the start and end of the program to measure skills in assertiveness, negotiations, and presentations, assigning a score and receiving feedback. During the course of the program, participants enhance their skills through group lessons in addition to input training for learning the techniques behind global business success.

* Morinaga Milk's definition of global business skills
The ability to build personal relationships with people of differing backgrounds and values, convey one's needs accurately, and build consensus with others during the course of business.

Number of Program Participants

	2017	2018
No. of participants	8	8

Overseas trainee program

This program provides junior employees with experience living and working overseas to prepare them for future overseas assignments. Through such experiences at an early stage in their career, these employees are better prepared and equipped to contribute their competencies during a shorter duration stay when posted overseas as an expatriate employee in the future. The program lasts less than two years, during which time participants learn how to involve those around them in producing business success.

Topics

Comment from Shibata,
an employee in the Overseas Trainee Program

I have been working, as part of the first Overseas Trainee Program, at Morinaga Nutritional Foods (Asia Pacific) Pte. Ltd., a company in Singapore that has been selling milk ingredients and bifidobacteria since June 2018. I'm responsible for the sales and marketing of new food ingredients.

Developing new markets overseas requires careful consideration of differences in taste and culture in each country, which leaves an element of difficulty. As a trainee on the job, every day I learn about approaches and business customs overseas and how to achieve positive outcomes in a short period of time while involving those around me. I look forward to learning much more so that I will be able to contribute right away in any market. After working overseas, I found that it is important to understand and respect people of varying backgrounds. I feel it is important to use concrete information such as numbers, and to discuss things in ways that account for the other person's point of view. I feel like there are many opportunities overseas even if you don't have past experience as long as you try.

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Implementing Health Management

In order to realize the corporate philosophy "Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology," Morinaga Milk issued the "Morinaga Milk Health Declaration" with an added commitment to employees' health.

Based on this declaration, Morinaga Milk is implementing the Morinaga Milk Health Management Program, which involves the promotion of health and awareness activities to further improve employees' health including prevention, treatment and relapse prevention from the standpoint of both physical and mental health care.

Moreover, the Basic Policy on Health and Safety that ensures a safe work environment for all job duties to be carried out safely, which forms the basis of health, has been developed, published and promoted.

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
Morinaga Milk Industry Co., Ltd.

Morinaga Milk Group Basic Policy on Health and Safety

The Morinaga Milk Group recognizes that health and safety are the foundation of the company and its management. We also recognized that ensuring safety in cooperation with the employees is the most important responsibility of the management and engages in activities to ensure safe and comfortable workplace for the employees.

Basic Policy

1. All employees work on safety and health activities and act to realize "safety first" practices and "zero accidents" at the workplace.
2. We promote the creation of a corporate culture and environment where "everyone always follows prescribed rules," and comply with the Industrial Safety and Health Act, related laws, and internal regulations.
3. We promote the creation of a work environment that is both physically and mentally comfortable and cooperate with industrial physicians to conduct periodic health examinations and health guidance to improve our employees' health.
4. We, especially our manufacturing department, work on the following safety and health activities:
   (1) Implementation of measures to eliminate and reduce potential hazards and harmful effects through risk assessment
   (2) Preparation of work standards for regular and irregular works, dissemination of those standards to employees, and compliance with the rules

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(3) Prevention of the recurrence of occupational accidents through information-sharing and the promotion of activities to prevent similar disasters
In particular, the implementation of measures based on past disaster lessons to completely prevent the recurrence of accidents such as "pinched and rolled," "falling," and "burn injury" types
(4) Implementation of safety and health audits (formal audit and internal audit) for the continuous improvement of health and safety levels
(5) Implementation of safety and health education and training to improve safety knowledge and safety awareness
(6) Promotion of the "Keep safe!" activities by all employees

August 1, 2017
Michio Miyahara
President and Representative Director
Morinaga Milk Industry Co., Ltd.

Physical Cares

- Subsidy for examination cost to increase physical uptake rate in employees age 30 and above
- Mail-in exam implemented to increase the uptake rate for cervical cancer in female employees in their 20s
- In order to increase the uptake rate of follow-up exams and re-assessments, Morinaga Milk will share with the health insurance social data on screening results in conducting health instructions by the health insurance association, as well as provide health management and recommended screening as appropriate by either the company's industrial health unit staff (public health nurse) or person in charge of each business site's health management.

Mental Care

At each business site, mental health training is provided by industrial psychiatric doctor. Also, training on care of team members for management level employees (e-learning) is conducted.

Policy to Balance Medical Treatment and Work

In order to help employees reconcile work with their medical treatment, Morinaga Milk has implemented the time-difference work system, short-time work system (working hours reduced by a maximum of 2 hours), and reduced working days system (4 days a week), so that employees requiring long-term medical treatment will feel confident to remain in their jobs.

Also, the following programs have been implemented in support of employees returning to work from leave.

- Establish a standardized system of "Return Support Program" which includes reduced ease-in working hours
- Implement regular interviews with industrial physicians (generally for 6 months) upon return to work

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Corporate Governance

Information about corporate governance is disclosed in our Corporate Governance Report and Integrated Report.

WEB

Corporate Governance Report
▶ https://www.morinagamilk.co.jp/english/ir/management/governance.html
Integrated Report
▶ https://www.morinagamilk.co.jp/english/ir/library/annual.html

Basic Approach

We will continue to work on establishing and augmenting a highly effective governance system to achieve sustainable growth and improve corporate value.

KPIs

Direction of activities	KPI
Transparent, equitable, prompt and bold decision-making based on diverse values in Board of Directors' meetings	Evaluation scores and comments in evaluation of Board of Directors (diversity of Board of Directors and substance of discussions)
Strengthen the management system	Augment regular committees (Personnel Remuneration Committee, Internal Control Committee, CSR Committee)

Compliance

Basic Approach

Pursuant to the Code of Conduct, directors and employees thoroughly perform their duties toward the realization of the corporate philosophy under the premise that the corporate activities comply with the law, the Articles of Incorporation, company regulations, and social ethics.

Compliance Code of Conduct

The Morinaga Milk Group calls attention to specific action criteria for all officers and all employees to engage in compliance on a daily basis using the "Five Action Check Points" and "Our Courage." These codes of conduct have been compiled on a portable compliance card that all employees carry and use during the course of their daily work to think about their own actions. The goal is to have each and every employee fully understand and put into practice these codes of conduct so that the Morinaga Milk Group can be trusted by society.

Five Action Check Points
Ask yourself, will your action…
1. violate laws or regulations?
2. subject the company to social criticism?
3. embarrass your family, friends or acquaintances if they find out?
4. damage the trust and brand of the entire Morinaga Milk Group?
5. go against your own good conscience?

Our Courage
1. Courage to refuse a supervisor's orders
2. Courage not to cover up
3. Courage not to turn a blind eye

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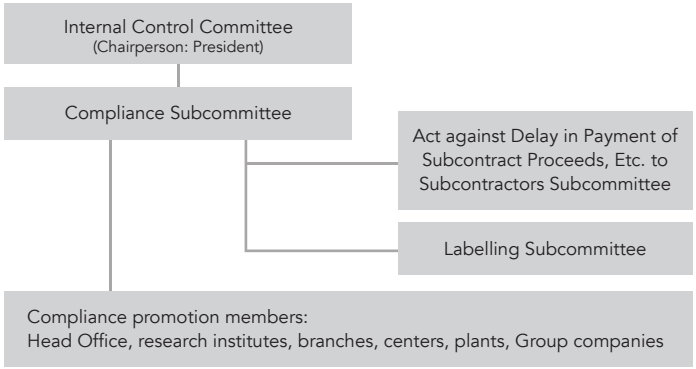
System

The Morinaga Milk Group has established the Internal Control Committee chaired by the president, along with four subcommittees under its control: the Compliance Subcommittee, the Risk Management Subcommittee, the Financial Reporting Subcommittee, and the Information Security Subcommittee. This system is responsible for internal control of the entire Group and strives to develop the structure underpinning audits.

The promotion of compliance is carried out mainly by the Compliance Subcommittee, which also determines compliance action policy and directs and verifies activities.

The Morinaga Milk Group has also established compliance committees in each organization (headquarter departments, business sites, and affiliated companies). In addition to committee activities, these committees serve as a consultation desk for their respective organizations, escalating matters to the whistleblower reporting system as necessary.

Compliance Promotion System



Instilling Compliance Awareness

The Morinaga Milk Group provides rank-based training, organization-based training that includes Group companies, and e-learning in order to instill and consolidate awareness of compliance.

Compliance Training

Apart from understanding compliance, compliance training covers a variety of topics including the corporate philosophy, awareness and actions, etiquette and moral violations, the whistleblower reporting system, harassment, violations of transportation regulations, information leakages, overwork, response to anti-social forces, mental health, labeling issues, and violations of the subcontractor act, among others.

Targets

Rank-based training: (new employees, new leading players/managers, mid-career hires, administrative managers, newly appointed officers of Group companies)

Business site-specific training, Group company-specific training: Relevant persons within an organization (all workers in the same organization, including employees, temporary employees, part-time workers, and employees of partner companies, etc.)

Status of Compliance Training (Morinaga Milk Group)

	2015	2016	2017	2018
Number of participants	2,764	3,985	4,984	5,151

E-Learning

Targets and Training Content

Morinaga Milk Group employees	Short e-learning compliance class
New leading players	Basic course on corporate ethics and compliance
New managers	Basic series on labor management Workplace power harassment
Directors and managers of Group companies	Basic course on corporate ethics and compliance, course on sexual harassment prevention, course on power harassment prevention, basic course on workplace mental health care for managers, basic approach to labor management, labor management and workplace building, basic course on business coaching

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Implementation of E-Learning for All Group Employees (FY 2018)

	April	June	August	January
Number of participants	5,985	5,408	5,751	5,949
Completion rate (%)	80	73	77	80

Compliance Hotline: Morinaga Help Line (Whistleblower Reporting System)

The Morinaga Milk Group established the Morinaga Help Line as a contact point for employees to report compliance issues. The Morinaga Help Line is located inside the company and outside the company with lawyers as the recipients of information.

The name of the person, their affiliation and nature of their consultation are protected in accordance with laws, regulations, and in-house rules, which makes it possible for any employee to report an issue without worry of reprisal. Inappropriate situations are reported to the applicable department, which is then instructed to make corrections. Afterwards, the person reporting the matter verifies the improvements. For consultations or questions about the reporting person's duties, the matter will be directed to legal counsel as needed to obtain advice on how to deal with the issue.

In addition, the Compliance Subcommittee receives quarterly reports on the status of the help line and makes necessary improvements to the internal structure.

Consultations Received by the Morinaga Help Line

	2015	2016	2017	2018
Total number of consultations	33	53	46	44

Information Security

Basic Approach

The Morinaga Milk Group's basic approach aims to improve performance by maintaining and managing the confidentiality, integrity, and availability of all its information assets and to make proactive use of such assets. This approach is made known to all officers and employees.

In addition, to respond to changes in the external environment and to make the information security management more reliable, the Group decides and reviews the relevant rules as appropriate.

System

The Morinaga Milk Group has established the Internal Control Committee chaired by the president, along with the Information Security Subcommittee under it. The subcommittee meets once per month to identify issues concerning the Group's information security as well as to plan and implement responses and spearhead audits. The Information Security Subcommittee also plans and implements reliable information security countermeasures.

For departments and Group companies, the head of each organization is responsible for information security.

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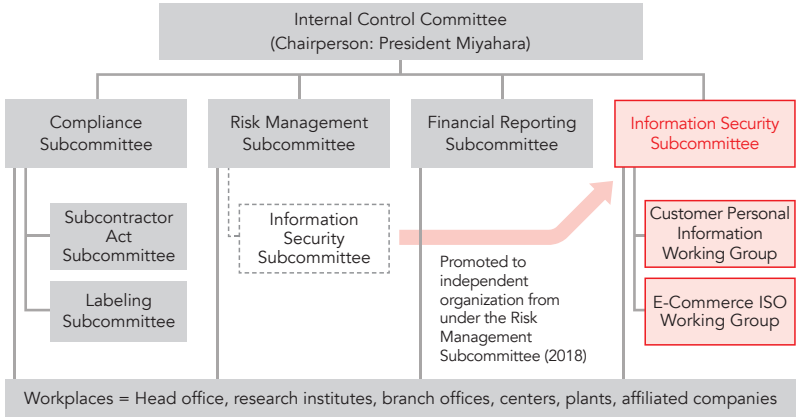
Information Security Organization



Information Security Countermeasures

Occurrence of Major Information Security Incident

In April 2018, the servers of the Morinaga Milk Group's e-commerce site were illegally accessed by an external party, and the leak of credit card information and other personal information of customers was confirmed. An investigation by a third-party organization was requested and countermeasures were implemented. The Morinaga Milk Group sincerely apologizes for the inconvenience caused to many customers.

WEB Apology concerning the leakage of customer information from the health foods e-commerce site and notification of investigation results
▶ https://www.morinagamilk.co.jp/release/newsentry-2899.html (Japanese only)

Handling incidents such as information leakages

When an incident such as an information leakage has been confirmed, prompt action will be taken in accordance with the handling standards for emergency problems.

When a situation has occurred, a countermeasures headquarters chaired by the president will be established to promptly disseminate information to all board members and related departments, and work to solve the emergency.

Also, if an investigation confirms violations of laws and regulations by subcontractors, employees, etc., the response will be sanction of dismissal, criminal charges, pursuit of civil liability, or the like.

Initiatives for Information Security Countermeasures

Morinaga Milk gives priority to illegal access countermeasures when a serious incident occurs.

In addition to technical and physical measures, Morinaga Milk also takes ongoing system measures, such as reviewing security standards (rules) and further strengthening against vulnerabilities, etc.

Moreover, as a countermeasure against increasingly sophisticated cyberattacks, Morinaga Milk provides targeted e-mail attack training for all employees and ensures that virus countermeasures are in place for information equipment and devices.

Training on Information Security Management

As part of compliance training, Morinaga Milk disseminates knowledge about information security through targeted e-mail attack training and company-wide security briefings, with the aim of increasing the information security knowledge of Morinaga Milk Group employees.

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Personnel Data

Number of employees as at the end of each fiscal year

	Unit	2015	2016	2017	2018
Employees – consolidated*	Persons	5,602	5,771	5,987	6,157
Employees – non-consolidated	Persons	3,023	3,035	3,144	3,247

* Morinaga Milk Industry Co., Ltd., Morinaga Milk Industry Sales Co., Ltd., Tohoku Morinaga Milk Industry Co., Ltd., Furijiport Co., Ltd., Hiroshima Morinaga Milk Industry Co., Ltd., MK Cheese Co., Ltd., Clinico Co., Ltd., Tokyo Dairy Co., Ltd., Rizan Corporation, Morinaga-Hokuriku Milk Industry Co., Ltd., Towa Techno Co., Ltd., Morinyu Sunworld Co., Ltd., Chez Forêt Co., Ltd., Morinaga Rakunou Co., Ltd., Toyo Fermented Milk Co., Ltd., Morinaga Milk Industry Hokkaido Co., Ltd., Morinaga Milk Industry Kyushu Co., Ltd., Napoli Ice Cream Co., Ltd., Tokachi Urahoro Milk Industry Co., Ltd., Milei GmbH, Milei Plus GmbH, Milei Protein GmbH & Co. KG., Morinaga Nutritional Foods, Inc., Pacific Nutritional Foods, Inc., Nihon Seinyu, Fuji Morinaga Milk Industry Co., Ltd., Okinawa Morinaga Milk Industry Co., Ltd., Kumamoto Morinaga Milk Industry Co., Ltd., Yokohama Morinaga Milk Industry Co., Ltd., Morinaga Engineering Co., Ltd., Hokkaido Hosho Milk Plant Co., Ltd., Sunfco Ltd., MM Property Funding Corp.

Number of employees by gender as at the end of each fiscal year (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Men	Persons	2,444	2,455	2,556	2,629
Women	Persons	579	580	588	618
Total	Persons	3,023	3,035	3,144	3,247

* Full-time employees only

Number of new full-time employee hires by gender (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Men	Persons	47	47	98	103
Women	Persons	17	17	29	42
Total	Persons	64	64	127	145

* New graduates only

Turnover and turnover rate (including mandatory retirement; Morinaga Milk only)

	Unit	2015	2016	2017	2018
Turnover	Persons	127	107	99	85
Turnover rate	%	3.5	3.0	2.7	2.3

Number of people with disabilities and employment rate (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Employees with disabilities	Persons	84	84	89	94
Employment rate	%	2.18	2.14	2.22	2.20

Ratio of female managers (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Ratio of female managers	%	4.2	4.5	4.5	4.8

Number of re-hires and re-hire rate of persons aged 60 and older (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Number re-hired	Persons	45	50	36	30
Re-hire rate	%	91.8	96.2	87.8	96.8

Number of employees taking parental leave by gender (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Men	Persons	9	14	18	27
Women	Persons	32	37	49	54
Total	Persons	41	51	67	81

Rate of returning to work from parental leave by gender (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Men	%	100.0	100.0	100.0	100.0
Women	%	97.0	94.6	100.0	100.0

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Total working hours and average number of days of paid leave taken (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Total working hours	Hours	1,974	1,965	1,965	1,974
Number of days of paid leave taken	Days	11.6	12.0	12.2	12.0

* Total working hours for labor union members only

Number of persons hired as returnees (Morinaga Milk only)

	Unit	2015	2016	2017	2018
Number hired	Persons	1	3	0	1

Ratio of base pay and total compensation by gender (Morinaga Milk only)

Not disclosed

Annual training hours and cost per employee (Morinaga Milk only)

Not disclosed

Targets for diversity & inclusion and results (Morinaga Milk only)

Targets	Unit	2017	2018	2027 target
Work styles				
Number of employees using telework and satellite work system	Persons	67	205	1,000
Ratio of days of annual paid leave taken	%	62.8	64.9	85
Exclusion of gender-based role assignment				
Ratio of female new graduate hires*	%	40.0	44.9	50
Number of female managers	Persons	38	42	100
Ratio of spouses taking maternity leave	%	68.0	76.5 (124 persons)	100
Ratio of male employees taking childcare leave	%	9.3	16.7 (27 persons)	100
Nursing care support				
Turnover due to nursing care	Persons	6	0	0

* Total for administrative and sales staff and R&D staff

Environmental Data

† : Results that include the receipt of a third-party guarantee

††: For results marked this way, the scope of 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.

Raw materials used

	Unit	2015	2016	2017	2018
Raw materials used	1,000 tons	1,219	1,181	1,169	1,118

Packaging used

Scope of data: Products subject to the Containers and Packaging Recycling Law

	Unit	2015	2016	2017	2018
Colorless glass	1,000 tons	27.7	26.3	24.3	22.0
Brown glass	1,000 tons	0.7	0.1	0.0	0.0
Other glass	1,000 tons	0.0	0.0	0.0	0.0
PET	1,000 tons	0.0	0.1	0.1	0.2
Plastic	1,000 tons	21.0	20.5	20.3	18.8
Paper containers	1,000 tons	11.7	12.0	12.3	11.8
Paper packs	1,000 tons	20.8	20.6	17.7	18.1
Steel cans (powdered milk)	1,000 tons	1.1	1.1	0.8	0.9
Aluminum cans	1,000 tons	0.0	0.0	0.0	0.0
Total	1,000 tons	83	81	76	72

Food product manufactured

	Unit	2015	2016	2017	2018
Food product manufactured	1,000 tons	1,489	1,452	1,420	1,360

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Energy consumption††

	Unit	2015	2016	2017	2018
Fuel*1	TJ	4,602	4,478	4,505	4,376†
Electricity (purchased)*2	TJ	738	713	691	715†
Total	TJ	5,340	5,191	5,197	5,091†
Intensity	GJ/ton produced	3.6	3.6	3.7	3.7

*1 Fuel indicates fossil fuel consumption.
It does not include renewable energy such as biomass.
Fuel is calculated as an aggregate amount of kerosene (3 TJ), Class A heavy oil (766 TJ), light oil (3 TJ), LPG (34 TJ), LNG (108 TJ) and town gas (3,763 TJ), minus the amount of by-product energy sold (302 TJ).
Figures in parentheses are fiscal 2018 results.
*2 Electricity is calculated as 1,000 kWh = 3.6 GJ. It is the sum of daytime power (442 TJ) and nighttime power (273 TJ). Figures in parentheses are fiscal 2018 results.

Energy consumption (crude oil equivalent)††

	Unit	2015	2016	2017	2018
Fuel*	1,000 kL	119	116	116	113
Electricity (purchased)*	1,000 kL	51	50	48	50
Total	1,000 kL	170	165	164	163
Intensity	kL/ton produced	0.114	0.114	0.116	0.120

*: Calculated based on the Energy-saving Law. The crude oil equivalent is calculated by multiplying the calorific value by 0.0258 (according to the Energy-saving Law Enforcement Ordinance)
*: Fuel is calculated as an aggregate amount of kerosene (80 kL), heavy oil A (19,770 kL), light oil (90 kL), LPG (880 kL), LNG (2,780 kL) and town gas (97,100 kL), minus the amount of by-product energy sold (7,800 kL). "Electricity (purchased)" is the sum of daytime power (32,000 kL) and nighttime power (18,000 kL) purchased. Figures in parentheses are fiscal 2018 results.

CO_2 emissions††

	Unit	2015	2016	2017	2018
Scope 1*1,2	1,000 tons-CO_2	248	241	242	233†
Scope 2*1	1,000 tons-CO_2	118	111	106	107†
Total	1,000 tons-CO_2	366	353	348	341
Intensity	Tons-CO_2/ ton produced	0.246	0.243	0.245	0.250

*1 Scope 1 and 2 are GHG Protocol–compliant
*2 Excludes CO_2 emissions associated with the sale of by-product energy

CO_2 emissions (Scope 3)

	Data scope	Unit	2015	2016	2017	2018
Upstream Transportation and Distribution (Category 4) *1	Morinaga Milk	1,000 tons -CO_2	48.8	48.0	47.5	45.6
Employee Commuting (Category 7)*2	Morinaga Milk	1,000 tons -CO_2	1.37	1.47	1.51	1.51

*1 Total value of CO_2 equivalent for raw materials and product transportation, warehouse energy use and fluorocarbon leakage
*2 Calculated by multiplying the commuting distance for each commute of an employee by the calculation coefficient for the commuting method
The coefficient is the emissions intensity value set out by the Ministry of the Environment in its Green Value Chain Platform

Calculation standard

Item	Calculation standard
Fuel (amounts used for kerosene, Class A heavy oil, light oil, LPG, LNG, town gas)	Act on the Rational Use of Energy (Energy-saving Law), Act on Promotion of Global Warming Countermeasures (Global Warming Law)
Electricity (purchased)	
Scope 1	Emissions relative to energy resource use (kerosene, Class A heavy oil, light oil, LPG, LNG, town gas), calculated according to the Energy-saving Law and Global Warming Law
Scope 2	Emissions relative to energy resource use (purchased electricity), calculated according to the Energy-saving Law and Global Warming Law

CO_2 reduction initiatives††

	Unit	2015	2016	2017	2018
Reduced amount	1,000 tons-CO_2	9.2	8.8	8.6	8.1

* Accumulated value of CO_2 reduction effects achieved with capital investments and production efficiency improvements

Fluorocarbon leakage (CO_2 equivalent)††

	Unit	2015	2016	2017	2018
Leaked amount	1,000 tons-CO_2	7.2	13.8	11.2	12.0

* Calculated based on the Fluorocarbons Emission Control Law
For GWP (Global Warming Potential), the values designated in the Fluorocarbons Emission Control Law are used

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SOx, NOx and other significant atmospheric emissions††

	Unit	2015	2016	2017	2018
SOx	1,000 tons	0.17	0.22	0.22	0.17
NOx	1,000 tons	0.44	0.43	0.38	0.31

Water used††

	Unit	2015	2016	2017	2018
Total	1,000 m^3	18,385	17,637	17,098	17,337
Intensity	m^3 /ton produced	12.3	12.1	12.0	12.8

Wastewater††

Type	Unit	2015	2016	2017	2018
Ocean discharge	1,000 m^3	1,467	1,399	1,383	1,440
River discharge	1,000 m^3	13,951	13,232	12,869	12,883
Sewage discharge	1,000 m^3	1,088	1,134	1,163	1,026
Total	1,000 m^3	16,505	15,765	15,415	15,349
Intensity	m^3 /ton produced	11.1	10.9	10.9	11.3

Waste materials generated††

	Unit	2015	2016	2017	2018
Outsourced processing					
Industrial waste*1	1,000 tons	30.0	30.4	24.4	25.9
Specially controlled industrial waste	1,000 tons	0.005	0.0004	0.015	0.027
Valuables and recyclables	1,000 tons	11.9	11.4	10.9	11.6
Internally processed (onsite)	1,000 tons	17.6	18.9	12.4	12.1
Total amount of waste generated	1,000 tons	59.5	60.6	47.7	49.6
Food waste	1,000 tons	23.8	22.4	19.1	19.2
Landfilled waste*2	1,000 tons	0.6	0.4	0.4	1.3
Waste generation intensity	Tons/ ton produced	0.040	0.042	0.034	0.036
Industrial waste generation intensity	Tons/ ton produced	0.020	0.021	0.017	0.019
Food waste generation intensity	Tons/ ton produced	0.016	0.015	0.013	0.014

Past values (2015–2017) have been recalculated and revised for consistency with aggregation methods used in fiscal 2018.

*1 Amount of industrial waste: The amount of waste generated from business activities that has been processed by an outside contractor. Does not include valuables collection

*2 Amount of landfill waste: Of waste generated, the amount that was processed by landfilling

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Third Party Assurance

Translation

The following is an English translation of an independent assurance report prepared in Japanese and is for information and reference purposes only. In the event of a discrepancy between the Japanese and English versions, the Japanese version will prevail.

September 19, 2019

Independent Assurance Report

TO:
Mr. Michio Miyahara
President and Representative Director
MORINAGA MILK INDUSTRY CO., LTD.

Kenji Sawami
Engagement Partner
Ernst & Young ShinNihon LLC

We, Ernst & Young ShinNihon LLC, have been commissioned by MORINAGA MILK INDUSTRY CO., LTD. (hereafter the "Company") and have carried out a limited assurance engagement on the Key Environmental Performance Data of the Company and its major subsidiaries for the year ended March 31, 2019 on the Company's Sustainability Report 2019 (hereafter the "Report"). The scope of our assurance procedures was limited to the Indicators marked with the symbol "†" in the Report.

1. The Company's Responsibilities

The Company is responsible for preparing the Indicators in accordance with the Company's own criteria, which it determined with consideration of Japanese environmental regulations as presented in Sustainability Initiatives in the Company's report (p.80 Calculation Standard). Greenhouse gas (GHG) emissions are estimated using emissions factors, which are subject to scientific and estimation uncertainties given instruments for measuring GHG emissions may vary in characteristics, in terms of functions and assumed parameters.

2. Our Independence and Quality Control

We have met the independence requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants in July 2018, which is based on the fundamental principles of integrity, objectiveness, professional competence and due care, confidentiality, and professional behavior.

In addition, we maintain a comprehensive quality control system, including documented policies and procedures for compliance with ethical rules, professional standards, and applicable laws and regulations in accordance with the *International Standard on Quality Control 1* issued by the International Auditing and Assurance Standards Board in April 2009.

3. Our responsibilities

Our responsibility is to express a limited assurance conclusion on the Indicators included in the Report based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with the *International Standard on Assurance Engagements: Assurance Engagements Other than Audits or Reviews of Historical Financial Information* - ("*ISAE 3000*") (Revised), issued by the International Auditing and Assurance Standards Board in December 2013, *Practical Guidelines for the Assurance of Sustainability Information*, revised in December 2014 by the Japanese Association of Assurance Organizations for Sustainability Information and, with respect of GHG emissions, the International Standard on Assurance Engagements: *Assurance Engagements on Greenhouse Gas Statements* ("*ISAE 3410*"), issued by the International Auditing and Assurance Standards Board in December 2013. The procedures, which we have performed according to our professional judgment, include inquiries, document inspection, analytical procedures, reconciliation between source documents and Indicators in the Report, and the following:

- Making inquiries regarding the Company's own criteria that it determined with consideration of Japanese environmental regulations, and evaluating the appropriateness thereof;
- Inspecting relevant documents with regard to the design of the Company's internal controls related to the Indicators, and inquiring of personnel responsible thereof at the Company and one major factory visited ;
- Performing analytical procedures concerning the Indicators at the Company and one major factory visited; and
- Testing, on a sample basis, underlying source information and conducting relevant re-calculations at the Company and one major factory visited.

The procedures performed in a limited assurance engagement are more limited in nature, timing and extent than a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is lower than would have been obtained if we had performed a reasonable assurance engagement.

4. Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Indicators included in the Report have not been measured and reported in accordance with the Company's own criteria that it determined with consideration of Japanese environmental regulations.

GRI Content Index

This report uses GRI Standards as reference.
The following reports also include disclosures.

- Integrated Report

URL https://www.morinagamilk.co.jp/english/ir/library/annual.html

- Corporate governance Report

URL https://www.morinagamilk.co.jp/english/ir/management/governance.html

GRI Standard		Disclosure	Page number (s) and/or URL (s)
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016			
Organizational profile			
	102-1	Name of the organization	About Us (5)
	102-2	Activities, brands, products, and services	About Us (5, 6, 7, 8)
	102-3	Location of headquarters	About Us (5)
	102-4	Location of operations	About Us (5)
	102-5	Ownership and legal form	About Us (5)
	102-6	Markets served	About Us (5)
	102-7	Scale of the organization	About Us (5, 9)
	102-8	Information on employees and other workers	About Us (5), Human Rights (41), Human Resource Development (67), Data Book (78)
	102-9	Supply chain	About Us (5), Seven Priority Issues (19)
	102-10	Significant changes to the organization and its supply chain	About Us (5)
	102-11	Precautionary Principle or approach	Seven Priority Issues (19)
	102-12	External initiatives	CSR of Morinaga Milk (15)
	102-13	Membership of associations	CSR of Morinaga Milk (15), Health and Nutrition (23), The Environment (39), Supply Chains (56)
Strategy			
	102-14	Statement from senior decision-maker	Commitment of the President (11)
	102-15	Key impacts, risks, and opportunities	Seven Priority Issues (17, 19)
Ethics and integrity			
	102-16	Values, principles, standards, and norms of behavior	Corporate Mission (10)
	102-17	Mechanisms for advice and concerns about ethics	Compliance (74)
Governance			
	102-18	Governance structure	Integrated Report, Corporate governance Report
	102-19	Delegating authority	Integrated Report, Corporate governance Report
	102-20	Executive-level responsibility for economic, environmental, and social topics	CSR of Morinaga Milk (13)
	102-21	Consulting stakeholders on economic, environmental, and social topics	CSR of Morinaga Milk (13)
	102-22	Composition of the highest governance body and its committees	Integrated Report, Corporate governance Report
	102-23	Chair of the highest governance body	Integrated Report, Corporate governance Report
	102-24	Nominating and selecting the highest governance body	Integrated Report, Corporate governance Report
	102-25	Conflicts of interest	Compliance (74), Corporate governance Report
	102-26	Role of highest governance body in setting purpose, values, and strategy	Integrated Report, Corporate governance Report
	102-27	Collective knowledge of highest governance body	Integrated Report, Corporate governance Report
	102-28	Evaluating the highest governance body's performance	Integrated Report, Corporate governance Report
	102-29	Identifying and managing economic, environmental, and social impacts	CSR of Morinaga Milk (13)

	102-30	Effectiveness of risk management processes	Integrated Report, Corporate governance Report
	102-31	Review of economic, environmental, and social topics	Integrated Report, Corporate governance Report
	102-32	Highest governance body's role in sustainability reporting	
	102-33	Communicating critical concerns	
	102-34	Nature and total number of critical concerns	
	102-35	Remuneration policies	Integrated Report, Corporate governance Report
	102-36	Process for determining remuneration	Integrated Report, Corporate governance Report
	102-37	Stakeholders involvement in remuneration	Integrated Report, Corporate governance Report
	102-38	Annual total compensation ratio	Integrated Report, Corporate governance Report
	102-39	Percentage increase in annual total compensation ratio	Integrated Report, Corporate governance Report
Stakeholder engagement			
	102-40	List of stakeholder groups	CSR of Morinaga Milk (14, 46)
	102-41	Collective bargaining agreements	Human Rights (41, 50)
	102-42	Identifying and selecting stakeholders	CSR of Morinaga Milk (13, 14), Human Rights (41, 46)
	102-43	Approach to stakeholder engagement	CSR of Morinaga Milk (13, 14), Human Rights (41, 46)
	102-44	Key topics and concerns raised	Seven Priority Issues (17, 19)
Reporting practice			
	102-45	Entities included in the consolidated financial statements	About Us (5), Integrated Report, Financial Results
	102-46	Defining report content and topic Boundaries	Editorial Policy (4)
	102-47	List of material topics	Seven Priority Issues (17)
	102-48	Restatements of information	
	102-49	Changes in reporting	
	102-50	Reporting period	Editorial Policy (4)
	102-51	Date of most recent report	Editorial Policy (4)
	102-52	Reporting cycle	Editorial Policy (4)
	102-53	Contact point for questions regarding the report	Editorial Policy (4)
	102-54	Claims of reporting in accordance with the GRI Standards	Editorial Policy (4)
	102-55	GRI content index	GRI content index (83)
	102-56	External assurance	Third Party Assurance (82)

GRI Standard	Disclosure	Page number (s) and/or URL (s)
GRI 200 Economic Standard Series		
Economic Performance		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
GRI 201: Economic Performance 2016		
201-1	Direct economic value generated and distributed	About Us (9)
201-2	Financial implications and other risks and opportunities due to climate change	
201-3	Defined benefit plan obligations and other retirement plans	
201-4	Financial assistance received from government	
Market Presence		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

GRI 202: Market Presence 2016			
	202-1	Ratios of standard entry level wage by gender compared to local minimum wage	
	202-2	Proportion of senior management hired from the local community	
Indirect Economic Impacts			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	
	103-2	The management approach and its components	
	103-3	Evaluation of the management approach	
GRI 203: Indirect Economic Impacts 2016			
	203-1	Infrastructure investments and services supported	
	203-2	Significant indirect economic impacts	Health and Nutrition (28)
Procurement Practices			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Supply Chains (51)
	103-2	The management approach and its components	Supply Chains (51)
	103-3	Evaluation of the management approach	Supply Chains (51)
GRI 204: Procurement Practices 2016			
	204-1	Proportion of spending on local suppliers	
Anti-corruption			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Compliance (74)
	103-2	The management approach and its components	Compliance (74)
	103-3	Evaluation of the management approach	Compliance (74)
GRI 205: Anti-corruption 2016			
	205-1	Operations assessed for risks related to corruption	
	205-2	Communication and training about anti-corruption policies and procedures	Compliance (74)
	205-3	Confirmed incidents of corruption and actions taken	
Anti-competitive Behavior			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Compliance (74)
	103-2	The management approach and its components	Compliance (74)
	103-3	Evaluation of the management approach	Compliance (74)
GRI 206: Anti-competitive Behavior 2016			
	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	

GRI Standard	Disclosure	Page number (s) and/or URL (s)
GRI 300 Environmental Standards Series		
Materials		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 301: Materials 2016		
301-1	Materials used by weight or volume	The Environment (31, 36, 37), Data Book (79)
301-2	Recycled input materials used	The Environment (31, 36, 37), Data Book (79)
301-3	Reclaimed products and their packaging materials	The Environment (31, 36, 37), Data Book (79)

Energy			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
	103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 302: Energy 2016			
	302-1	Energy consumption within the organization	The Environment (31, 35), Data Book (80)
	302-2	Energy consumption outside of the organization	The Environment (31, 35), Data Book (80)
	302-3	Energy intensity	The Environment (31, 35), Data Book (80)
	302-4	Reduction of energy consumption	The Environment (31, 35), Data Book (80)
	302-5	Reductions in energy requirements of products and services	The Environment (31, 35), Data Book (80)
Water			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
	103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 303: Water and Effluents 2018			
	303-1	Water withdrawal by source	The Environment (31), Data Book (81)
	303-2	Water sources significantly affected by withdrawal of water	
	303-3	Water recycled and reused	The Environment (31), Data Book (81)
Biodiversity			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
	103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 304: Biodiversity 2016			
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	
	304-2	Significant impacts of activities, products, and services on biodiversity	The Environment (34)
	304-3	Habitats protected or restored	
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	
Emissions			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
	103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 305: Emissions 2016			
	305-1	Direct (Scope 1) GHG emissions	The Environment (31, 35), Data Book (80)
	305-2	Energy indirect (Scope 2) GHG emissions	The Environment (31, 35), Data Book (80)
	305-3	Other indirect (Scope 3) GHG emissions	Data Book (80)
	305-4	GHG emissions intensity	The Environment (31, 35), Data Book (80)
	305-5	Reduction of GHG emissions	The Environment (31, 35), Data Book (80)
	305-6	Emissions of ozone-depleting substances (ODS)	
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	The Environment (31), Data Book (81)

Effluents and Waste			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), The Environment (31)
	103-2	The management approach and its components	Seven Priority Issues (17), The Environment (31)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), The Environment (31)
GRI 306: Effluents and Waste 2016			
	306-1	Water discharge by quality and destination	The Environment (31, 38), Data Book (81)
	306-2	Waste by type and disposal method	The Environment (31, 36), Data Book (81)
	306-3	Significant spills	The Environment (31), Data Book (81)
	306-4	Transport of hazardous waste	
	306-5	Water bodies affected by water discharges and/or runoff	
Environmental Compliance			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	The Environment (31)
	103-2	The management approach and its components	The Environment (31)
	103-3	Evaluation of the management approach	The Environment (31)
GRI 307: Environmental Compliance 2016			
	307-1	Non-compliance with environmental laws and regulations	The Environment (31, 33)
Supplier Environmental Assessment			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	The Environment (31), Supply Chains (51)
	103-2	The management approach and its components	The Environment (31), Supply Chains (51)
	103-3	Evaluation of the management approach	The Environment (31), Supply Chains (51)
GRI 308: Supplier Environmental Assessment 2016			
	308-1	New suppliers that were screened using environmental criteria	
	308-2	Negative environmental impacts in the supply chain and actions taken	

GRI Standard	Disclosure	Page number (s) and/or URL (s)
GRI 400 Social Standards Series		
Employment		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Human Rights (41), Human Resource Development (41)
103-2	The management approach and its components	Human Rights (41), Human Resource Development (41)
103-3	Evaluation of the management approach	Human Rights (41), Human Resource Development (41)
GRI 401: Employment 2016		
401-1	New employee hires and employee turnover	Data Book (78)
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	
401-3	Parental leave	Data Book (78)
Labor/Management Relations		
GRI 103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Human Rights (50)
103-2	The management approach and its components	Human Rights (50)
103-3	Evaluation of the management approach	Human Rights (50)
GRI 402: Labor/Management Relations 2016		
402-1	Minimum notice periods regarding operational changes	Human Rights (50)

Occupational Health and Safety			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 403: Occupational Health and Safety 2016			
	403-1	Workers representation in formal joint managementworker health and safety committees	Human Rights (41, 50)
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Human Rights (41, 44)
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Human Rights (41)
	403-4	Health and safety topics covered in formal agreements with trade unions	Human Rights (41, 50)
Training and Education			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Resource Development (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Resource Development (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Resource Development (41)
GRI 404: Training and Education 2016			
	404-1	Average hours of training per year per employee	Non-disclosure
	404-2	Programs for upgrading employee skills and transition assistance programs	Human Resource Development (67, 68, 70)
	404-3	Percentage of employees receiving regular performance and career development reviews	Human Resource Development (67)
Diversity and Equal Opportunity			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41, 47)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41, 47)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41, 47)
GRI 405: Diversity and Equal Opportunity 2016			
	405-1	Diversity of governance bodies and employees	Corporate Governance (74), Data Book (78)
	405-2	Ratio of basic salary and remuneration of women to men	Non-disclosure
Non-discrimination			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 406: Non-discrimination 2016			
	406-1	Incidents of discrimination and corrective actions taken	
Freedom of Association and Collective Bargaining			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 407: Freedom of Association and Collective Bargaining 2016			
	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	
Child Labor			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41, 46)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41, 46)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41, 46)

GRI 408: Child Labor 2016			
	408-1	Operations and suppliers at significant risk for incidents of child labor	Human Rights (46)
Forced or Compulsory Labor			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 409: Forced or Compulsory Labor 2016			
	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	
Security Practices			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 410: Security Practices 2016			
	410-1	Security personnel trained in human rights policies or procedures	Human Rights (42)
Rights of Indigenous Peoples			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 411: Rights of Indigenous Peoples 2016			
	411-1	Incidents of violations involving rights of indigenous peoples	
Human Rights Assessment			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Human Rights (41)
	103-2	The management approach and its components	Seven Priority Issues (17), Human Rights (41)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Human Rights (41)
GRI 412: Human Rights Assessment 2016			
	412-1	Operations that have been subject to human rights reviews or impact assessments	Human Rights (41)
	412-2	Employee training on human rights policies or procedures	Human Rights (41, 42)
	412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	
Local Communities			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Nurturing the Next Generation (64)
	103-2	The management approach and its components	Seven Priority Issues (17), Nurturing the Next Generation (64)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Nurturing the Next Generation (64)
GRI 413: Local Communities 2016			
	413-1	Operations with local community engagement, impact assessments, and development programs	
	413-2	Operations with significant actual and potential negative impacts on local communities	
Supplier Social Assessment			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Supply Chains (51)
	103-2	The management approach and its components	Seven Priority Issues (17), Supply Chains (51)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Supply Chains (51)

GRI 414: Supplier Social Assessment 2016			
	414-1	New suppliers that were screened using social criteria	
	414-2	Negative social impacts in the supply chain and actions taken	Human Rights (46), Supply Chains (53)
Public Policy			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	
	103-2	The management approach and its components	
	103-3	Evaluation of the management approach	
GRI 415: Public Policy 2016			
	415-1	Political contributions	
Customer Health and Safety			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Seven Priority Issues (17), Supply Chains (51)
	103-2	The management approach and its components	Seven Priority Issues (17), Supply Chains (51)
	103-3	Evaluation of the management approach	Seven Priority Issues (17), Supply Chains (51)
GRI 416: Customer Health and Safety 2016			
	416-1	Assessment of the health and safety impacts of product and service categories	Seven Priority Issues (17), Supply Chains (51)
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	
Marketing and Labeling			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Supply Chains (51)
	103-2	The management approach and its components	Supply Chains (51)
	103-3	Evaluation of the management approach	Supply Chains (51)
GRI 417: Marketing and Labeling 2016			
	417-1	Requirements for product and service information and labeling	
	417-2	Incidents of non-compliance concerning product and service information and labeling	
	417-3	Incidents of non-compliance concerning marketing communications	
Customer Privacy			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Information Security (76)
	103-2	The management approach and its components	Information Security (76)
	103-3	Evaluation of the management approach	Information Security (76)
GRI 418: Customer Privacy 2016			
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Information Security (76, 77)
Socioeconomic Compliance			
GRI 103: Management Approach 2016			
	103-1	Explanation of the material topic and its Boundary	Compliance (74)
	103-2	The management approach and its components	Compliance (74)
	103-3	Evaluation of the management approach	Compliance (74)
GRI 419: Socioeconomic Compliance 2016			
	419-1	Non-compliance with laws and regulations in the social and economic area	Compliance (74)


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