

Chapter 3

Contributing to Making Social Sustainability a Reality

With major changes affecting both society and the environment, we must give consideration to the global environment and contribute to the solution of social problems to achieve sustainable growth. In this section we will introduce some of the ESG initiatives prioritized by the Morinaga Milk Group with the aim of contributing to making social sustainability a reality.

Contributing to Making Social Sustainability a Reality

The Morinaga Milk Group continues to work toward making social sustainability a reality by contributing to the solution of social issues through its products, services, and activities.

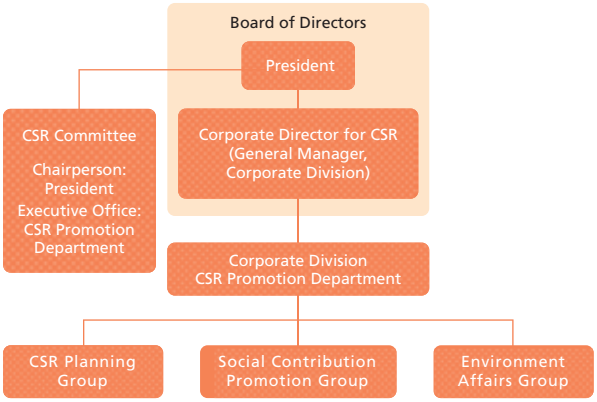
Morinaga Milk Group policies https://www.morinagamilk.co.jp/english/about/vision/

CSR Promotion System

The CSR Committee, which is chaired by the President, promotes CSR activities throughout the entire Morinaga Milk Group. In 2016, we established the CSR Promotion Department as a special department to provide company-wide functions in this area. Its role is to develop CSR activities, improve cross-departmental coordination, and create systems through which to pursue management priorities relating to CSR. It will continue to disseminate and share comprehensive information to ensure that the concept of CSR is assimilated throughout the Morinaga Milk Group.

The CSR Committee was established to reinforce the functions of the Board of Directors through deliberations focusing on environmental, social, and governance (ESG) perspectives, including the identification of issues suitable for initiatives toward the realization of a sustainable society. The CSR Committee also initiates actions and monitors progress.

CSR Promotion System



Stakeholder Awareness

The Group's corporate activities are based on expanding empathy with seven groups of stakeholders and identifying the topics that must be addressed in the relationships with each category of stakeholders.



Communication Methods

Stakeholders	Communication methods and results
Customers	① Consumer Service Office ② Customer satisfaction questionnaire surveys ③ Angel 110 hotline ④ Social contribution activities (e.g. Expedition Team Exploring Forest and Food)
Shareholders and investors	① General Meeting of Shareholders (June 2020) Number of voting rights exercised: 407,085 ② Briefings for individual investors Number held in the fiscal year ended March 31, 2020: 7 Financial results briefing Number held in the fiscal year ended March 31, 2020: 2 ③ Dissemination of information through the investor relations website
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 the fiscal year ended March 31, 2020: 25,000 ② Participation in environmental cleanup activities and other events
Environment	① Use of certified raw materials ② Cooperation and collaboration with environmental industry groups ③ Cleaning around manufacturing plants

Identification of Priority Issues to Realize a Sustainable Society

In April 2017, we formulated and announced a new Group philosophy structure, including corporate slogans. The next step, in 2018, was the formulation of priority issues through four workshops. About 30 employees representing a variety of departments participated in these workshops, which resulted in the identification of suitable issues for initiatives by the Morinaga Milk Group. After extensive discussions, seven priority issues were adopted and approved by the CSR Committee.

Seven Priority Issues

Health and Nutrition



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

- There is high demand for highly nutritious products and products that are highly palatable. Moreover, this demand will grow over the medium to long term as aging societies become the norm. We aim to use our proprietary R&D strengths to contribute to achieving healthy lifestyles through promoting harmony of both mind and body.
- As Japan's population ages and grows smaller in number, we 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



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

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

Human Rights



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

- We recognize that people are a particularly important management resource for helping to form a sustainable society. We will work alongside those outside the company to promote diversity and address various human rights issues, with the goal of realizing "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.

- We will continue to research new formulations, while working with our 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 the most important focus in all initiatives by the Group. We will continue to implement existing safety-related activities.

Nurturing the Next Generation



We support the healthy growth of children as future contributors to the creation of a sustainable society.

- We are helping to secure a brighter future for children through our support for healthy mental and physical development, career education, and child raising.

Human Resource Development



We will focus on developing human resources who can realize the slogan "For Ever Brighter Smiles."

- Developing a broad range of human resources, from new hires to senior management, is critical to sustainable growth as a company. We 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.

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

Progress of Main KPIs

One of the goals in our 10-year Vision is to develop the Morinaga Milk Group into a company that persistently helps make social sustainability a reality. This is reflected in the high priority that we have given to ESG initiatives. We are determined to achieve all of the key performance indicators (KPIs) for the seven priority issues that we identified in 2018.

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

Main KPIs	Progress in the Fiscal Year Ended March 31, 2020
Launch products incorporating nutritious functional ingredients	• Launch of food with functional claims *Triple Yogurt*, expansion of the *Milk Life* series of nutritional milk powder products for adults (creating new healthy lifestyles) • Research and marketing for bifidobacteria, lactoferrin, and other ingredients
Provide Bifidobacterium breve M-16V; continue to provide in over 120 facilities in Japan and overseas	• Bifidobacterium breve M-16V is supplied to over 140 facilities in Japan and overseas, including newborn intensive care units (NICUs)
Business sites with ISO 14001 certification: ensure that all sites of consolidated companies have earned this certification by 2030	• Number of certified sites: 30 • One site certified in the fiscal year ended March 31, 2020: the Metropolitan Regional Office became the first sales site to receive certification
Weight of plastic packaging covered by the Containers and Packaging Recycling Law: 10% reduction compared to the fiscal year ended March 31, 2014	• 15.9% reduction since the fiscal year ended March 31, 2014
Create a list of important suppliers	• Created a list of key suppliers and completed a questionnaire survey to ascertain their current status
Set up a working environments for the Group's foreign employees	• Completed a survey of the number of foreign employees • Added specific items for foreign employees to the checklist for operational audits
Strengthen mechanism for evaluating supplier management level depending on each raw material's risk	• Classification and evaluation of raw materials • Class-based supplier audits conducted at 23 factories in the fiscal year ended March 31, 2020
Acquire FSSC 22000 certification at all of the Group's 29 plants by the fiscal year ending March 31, 2021	• Number of factories certified: 10 (Japan) • Certification achieved at four plants in the fiscal year ended March 31, 2020 (Japan)
Total participants over three-year period starting in the fiscal year ended March 31, 2020: 300,000	• Approximately 100,000 visitors, including KidZania visits, factory tours, and company visits • Number of participants in company visits in the fiscal year ended March 31, 2020: approximately 600 (approximately twice the number for the previous year)
Provide ongoing consultation on infants with the Angel 110 hotline; handle calls from a total of 1 million people by the fiscal year ending March 31, 2021	• Advice provided to over 980,000 callers • In 2020, we will mark the 45th anniversary of the establishment of this service. We will continue to enhance our public information activities
Implementation of programs for training global human resources	• Total of 96 participants • 20 participants in the fiscal year ended March 31, 2020
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	• Scheduled training implemented as planned • Carried out interviews with employees within their first three years with the Group
Evaluation scores and comments in evaluation of the Board of Directors (diversity of the Board of Directors and substance of discussions)	• The effectiveness of the Board of Directors was confirmed based on the results of the evaluation • The evaluation results were used to identify issues requiring improvement as the basis for further enhancement of the effectiveness of the Board of Directors
Augment regular committees (Personnel Remuneration Committee, Internal Control Committee, CSR Committee)	• Personnel Remuneration Committee: submitted proposed revisions, etc. of the executive compensation scheme to the Board of Directors • Internal Control Committee: a new working group was established within the Information Security Subcommittee to enhance the Group's management of confidential information • CSR Committee: multiple subcommittees (focusing on supply chains, etc.) have been established to accelerate the adoption of ESG-focused management



Health and Nutrition

Main KPIs and Progress

- Bring products incorporating nutritious functional ingredients onto the market
  - ➡ • Launch of food with functional claims *Triple Yogurt*, expansion of the *Milk Life* series of nutritional milk powder products for adults (creating new healthy lifestyles)
    • Research and marketing for bifidobacteria, lactoferrin, and other ingredients
- Provide Bifidobacterium breve M-16V; continue to provide in over 120 facilities in Japan and overseas
  - ➡ Bifidobacterium breve M-16V is supplied to over 140 facilities in Japan and overseas, including newborn intensive care units (NICUs).

01 *Triple Yogurt*: The Industry's First Triple-function Yogurt

Triple Yogurt is a food with functional claims that lists functions related to blood pressure, blood glucose level, and neutral fat. In the fiscal year ended March 31, 2020, sales of this product reached almost double the target level. In addition, *Triple Yogurt* won the 38th Japan Food Journal Blockbuster Food Award in 2019 and has been recommended by the Tokyo Dietetic Association as a food suitable for people who need to pay attention to these three issues.



Triple Yogurt's three functions

- Reduction of high blood pressure (systolic blood pressure)
- Moderation of increased blood sugar after eating
- Moderation of neutral fat increase after eating

02 *Milk Life:* Creating New Healthy Lifestyles

The Milk Life series of nutritional milk powder for adults was launched in 2016 in response to consumer feedback calling for the introduction of milk powder products for adults. By combining six key ingredients to support adult health and well-balanced nutrition, *Milk Life* products have helped to create new healthy lifestyles. Sales showed steady growth in the fiscal year ended March 31, 2020.



03 Bifidobacterium breve M-16V: Supplying Bacteria to Newborn Intensive Care Units (NICUs) and Other Facilities

We supply Bifidobacterium breve M-16V to NICUs and other medical facilities, such as pediatric units, for use with low birth weight babies and other babies with underdeveloped intestinal functions. Bifidobacterium breve M-16V is being used not only in Japan, but also in overseas markets, including Australia, New Zealand, and Singapore.

04 Slightly Acidic Electrolyzed Water Generator *PURESTER*: Helping Improve Public Health

Designed to produce slightly acidic electrolyzed water, the *PURESTER* system makes use of our knowledge of hygiene management in manufacturing plants. We will continue to contribute to good public health with similar initiatives.

05 Bifidobacterium longum BB536: Received Japan Association for Food Immunology's 2019 Food Immunology Industry Award in Recognition of Research

In October 2019, the Japan Association for Food Immunology presented its Food Immunology Industry Award to Morinaga Milk Industry in recognition of achievements resulting from many years of research relating to Bifidobacterium longum BB536.

06 Functional Ingredients: Increased Focus on the Dissemination of Research Results

We are continually enhancing our approach to the dissemination of information about the results of our research into functional ingredients. In addition to improvements to the content available on our website, we actively present papers at conferences and participate in overseas symposiums and exhibitions. In the fiscal year ended March 31, 2020, we presented papers at 96 conferences. The aim of these activities is to contribute to the realization of healthy lifestyles by sharing information about the value of nutritional ingredients.



The Environment

Main KPIs and Progress

- Business sites with ISO 14001 certification: ensure that all sites of consolidated companies have earned this certification by 2030
  - ➡ • Number of certified sites: 30
  - • One site certified in the fiscal year ended March 31, 2020: the Metropolitan Regional Office became the first sales site to receive certification
- Weight of plastic packaging covered by the Containers and Packaging Recycling Law: 10% reduction compared to the fiscal year ended March 31, 2014
  - ➡ The fiscal year ended March 31, 2020: 15.9% reduction

01 Certification under the ISO 14001 standard for environmental management systems

The Morinaga Milk Group has obtained ISO 14001:2015 (Environmental management systems) multi-site certification for its head office and research center, plants, and Group companies. We are currently working to obtain ISO 14001 certification not only for manufacturing sites, but also for our business sites, including sales offices. In the fiscal year ended March 31, 2020, the Metropolitan Regional Office became the first sales site to achieve ISO 14001 certification.

02 Plastic-related Measures

As a company that uses large quantities of plastic containers for its products, the Morinaga Milk Group recognizes environmental pollution caused by plastic containers and packaging, including plastic waste in rivers and seas, as a significant social issue. We are also aware of the need for initiatives to address this problem. We have formulated and introduced the "Eco-package Guide," a set of guidelines for environment-friendly packaging design, while also implementing 3R (reduce, reuse, recycle) systems and developing and improving containers and packaging that are safe and easy to use. In the fiscal year ended March 31, 2019, we established the Plastic Measures Subcommittee under the CSR Committee to study various initiatives relating to plastic containers, including the reduction of plastic container use, and the use of biomass plastics. The amount of plastic containers and packaging used in the fiscal year ended March 31, 2020 was 15.9% less than the figure for the fiscal year ended March 31, 2014. We have already achieved the KPI relating to this issue, but we will continue to work toward further improvement.

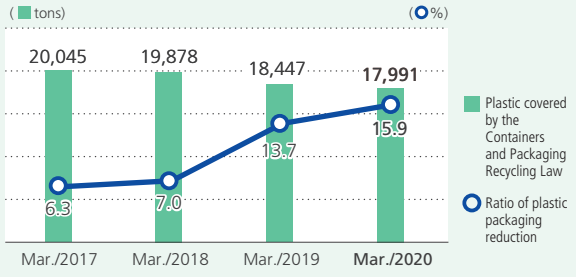
03 Climate Change Measures: Reducing CO_2 Emissions

- Reduction of CO_2 emissions intensity
  KPI: reduce 8% compared to the fiscal year ended March 31, 2014 by the fiscal year ending March 31, 2022
  ➡ Progress
  Fiscal year ended March 31, 2020: 12.6% reduction

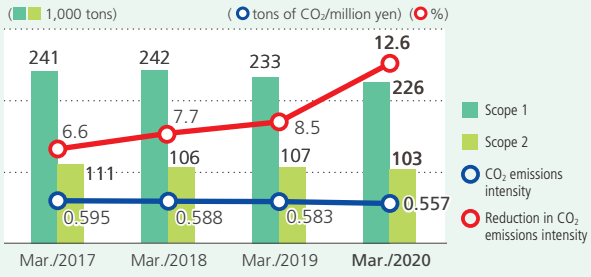
The Morinaga Milk Group is working to reduce CO_2 as a measure to address climate change. We have updated cogeneration systems at the Saroma and Betsukai Plants in Hokkaido. We are also moving forward with plans to switch from fuel oil to natural gas, which emits less CO_2. Other initiatives are focusing on the use of renewable energy. Examples include the installation of solar panels at the Tone Plant, and the utilization of coffee grounds from the production of coffee-based beverages at the Kobe Plant to generate energy for plant operations. By the fiscal year ended March 31, 2020, these initiatives had reduced our CO_2 emissions intensity* by 11.3% compared with the fiscal year ended March 31, 2014 level.

* CO_2 emissions intensity: Beginning in the fiscal year ending March 31, 2021, we calculate our disclosure data using net sales as the denominator (tons of CO_2/million yen). We have recalculated the data for all of the fiscal years included in this disclosure.

Plastic Packaging Used/Ratio of Plastic Packaging Reduction (Compared to the Fiscal Year Ended March 31, 2014)



CO_2 Emissions/CO_2 Emissions Intensity Reduction in CO_2 Emissions Intensity (Compared to the Fiscal Year Ended March 31, 2014)



Scope of data: See note on page 55

The Environment

04 Protecting Water Resources

- Reduction of water use
  KPI: reduce 9% compared to the fiscal year ended March 31, 2014 by the fiscal year ending March 31, 2022
  ➡ Progress in the fiscal year ending March 31, 2020: 7.6% reduction

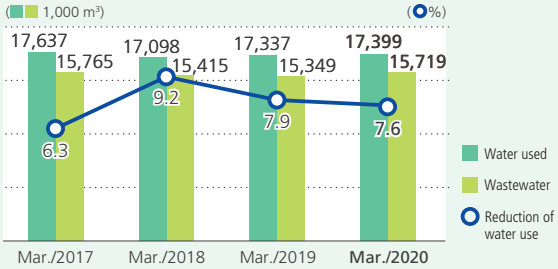
The Morinaga Milk Group is reducing water consumption by improving the efficiency of water resource utilization. We are also developing and improving wastewater treatment technologies to maintain water quality. Water consumption is being reduced through the reuse of water in washing processes. Our initiatives to maintain water quality include the installation of wastewater treatment systems in all plants. At some of our plants, we have introduced membrane bioreactor (MBR) systems, which use membranes to separate activated sludge. The use of membranes results in a higher level of purity in the treated water. Developed by a Group company, Morinaga Engineering Co., Ltd., these wastewater treatment systems are being used not only within the Morinaga Milk Group, but also by around 300 of our business partners.

Morinaga Engineering Co., Ltd.
https://www.morieng.co.jp/english/index.html



The foam jet system is a highly efficient aeration system that supplies oxygen in fine bubbles. Various benefits can be achieved by diffusing fine bubbles into wastewater.

Water Used/Wastewater
Reduction of Water Use (Compared to the Fiscal Year Ended March 31, 2014)



05 Reduction of Food Waste

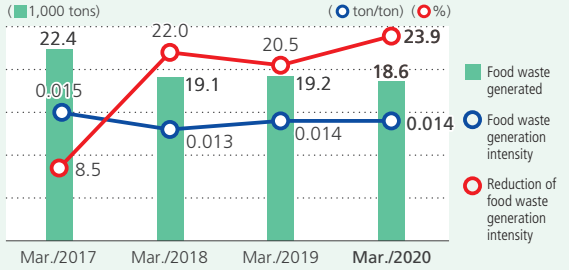
- Reduction of food waste per unit of production
  KPI: reduce 30% compared to the fiscal year ended March 31, 2014 by the fiscal year ending March 31, 2022
  ➡ Progress in the fiscal year ended March 31, 2020: 23.9% reduction

We are developing products with a long shelf life as a way of reducing food loss. Some of our products now have best-by periods of one month or longer, including some that are manufactured under sterile conditions using our original long-life production technology. This method is used with various products, including milk, chilled cup-type drinks, liquid foods, desserts, and tofu. Because these products have long shelf lives, they help to reduce food waste in households and are also suitable for stockpiling in preparation for disasters.

Long-life production method
https://www.morinagamilk.co.jp/english/quality_safety/base/secret/



Food Waste Generated/Food Waste Generation Intensity
Reduction of Food Waste Generation Intensity
(Compared to the Fiscal Year Ended March 31, 2014)



Notes:
1. Amounts of industrial waste, valuable resources, and animal and vegetable residues processed on-site
2. Food waste generation intensity: annual quantity of food waste (tons) discharged divided by annual production (tons)
3. Past values have been recalculated and revised for consistency with the calculation method used since the fiscal year ended March 31, 2019.



Supply Chains

Main KPIs and Progress

- Strengthen mechanism for evaluating supplier management level depending on each raw material's risk
  - ➡ • Raw material classification and evaluation
  - • Supplier audits were conducted under our classification system at 23 plants in the fiscal year ended March 31, 2020
- Acquire FSSC 22000 certification at all of the Group's 29 plants by the fiscal year ending March 31, 2021
  - ➡ • Number of certified plants: 10 (Japan)
  - • Certification obtained at 4 plants in the fiscal year ended March 31, 2020 (Japan)

01 Supply Chain Management

The Morinaga Milk Group collaborates with many business partners and suppliers in each of its supply chains on product development, the procurement of raw materials, and product manufacturing and distribution. We recognize that continuing reinforcement of these collaborative relationships is vital to our ability to supply high-quality products. Each year we hold a Quality Improvement Seminar for suppliers of raw materials as an initiative designed to maintain a strong focus on safety and reliability. We also ensure our raw materials are of the highest quality through continuing quality audits at our supplier's production facilities. Since 2019, we have classified raw materials from a risk management perspective. Audits based on these raw material classifications are helping to enhance the effectiveness of both quality management and business continuity planning (BCP).

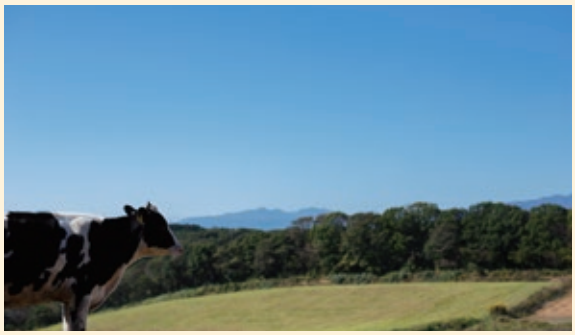
02 FSSC 22000 Certification

FSSC 22000 is an international standard for food safety management systems. In line with our commitment to the improvement of product safety and reliability, we aim to achieve certification under this standard at all of our plants. As of March 31, 2020, 10 plants were certified under FSSC 22000. We will continue to work toward the achievement of our KPI by achieving certification at our other plants.

03 Strengthening Raw Milk Production Base in Japan and Support for Dairy Farmers

Initiatives to ensure the production of high-quality raw milk are vital to our ability to manufacture safe, delicious milk and dairy products. Morinaga Dairy Service Co., Ltd., a member of the Morinaga Milk Group, supplies feed and other products to dairy farmers, and supports them through consultation on various aspects of farming, such as nutritional management. The Morinaga Dairy Farming Promotion Association*1 holds dairy farm management presentations to inform farmers about successful and innovative farm management methods throughout Japan. Other activities include barn meetings, which provide opportunities to visit successful local farms and exchange information on-site, and seminars about cutting-edge dairy farming technologies and expertise from Japan and overseas. We will continue to contribute to the sustainable development of dairy farming.

*1 The Morinaga Dairy Farming Promotion Association was established as an incorporated foundation in 1968 to commemorate the 50th anniversary of the founding of Morinaga Milk Industry. In December 2011, it became a public interest incorporated foundation.



04 Improving Distribution Quality and Solving Social Issues

We hold seminars and meetings for our partner companies in the areas of transportation and warehouse operations as part our ongoing commitment to the improvement of distribution quality. The distribution industry is currently facing multiple challenges, including an increase in the percentage of small-lot deliveries, and long working hours for drivers due to labor shortages. We have taken a number of steps toward the solution of these problems, including endorsement of the aims of the White Logistics Movement*2 in September 2019, and issuing a declaration of voluntary action.

*2 This initiative was launched by the Japanese Ministry of Land, Infrastructure, Transport and Tourism (MLIT) with the aim of improving the productivity of truck transportation and efficiency in the logistics sector by creating an enhanced "white" working environment that is more suitable for female drivers and drivers in their sixties.



Human Resource Development

Main KPIs and Progress

- Pursue a program for training global human resources
  ➡ Total of 96 participants; 20 participants in the fiscal year ended March 31, 2020
- 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
  ➡ • Scheduled training implemented as planned
  • Carried out interviews with employees within their first three years with the Group

01 Global Human Resource Development

The Morinaga Milk Group aims to achieve further growth as a global company and has set a numerical target of increasing the overseas sales ratio to 15% or higher by the fiscal year ending March 31, 2029. In preparation for future growth, we are developing global talent through the continuing implementation of various programs, such as the Global Business Skills Enhancement Program and Overseas Intercultural Learning Challenge Training.

	Mar./2018	Mar./2019	Mar./2020
Number of participants in global human resource development programs	20	24	**20**

02 Promoting Diversity

By promoting diversity and inclusion, we are working to optimize our management by creating an environment in which diverse people can succeed and contribute. We believe that the achievement of diversity and inclusion requires a multifaceted approach at various levels, including recruitment, support for skill development, raising awareness, and improvement of the workplace. The Morinaga Milk Group is accelerating the implementation of various initiatives, including the introduction of systems to allow working at home or at satellite offices, the provision of training programs to help female workers develop their careers and balance work with caring for children or aging relatives, and LGBT awareness programs. We actively recruit mid-career workers, foreigners, and people with disabilities.

	April 1, 2017	April 1, 2018	April 1, 2019	April 1, 2020
Number of female managers	38	42	43	**46**

03 Morinaga Milk Awards (Internal Award System)

The Morinaga Milk Group will continue to take up new challenges. In the fiscal year ended March 31, 2019, we expanded our internal award system with the establishment of the Morinaga Milk Awards (MMA), which recognize achievements linking the guiding principles expressed in our "Eight Questions" (Guiding Principles), including the willingness to take on challenges, and an energetic approach to work. There are multiple awards under the MMA system. In addition to awards for achievements, awards are also given in recognition of behavior and processes. We have enhanced the administration of the system by introducing employee voting to determine the top prize winners, and company-wide sharing of experience and ideas gained through initiatives selected for awards. By providing group-wide recognition of organizations, teams, and individuals that are practicing the behaviors of the "Eight Questions," the MMA system is helping to encourage independent initiatives toward realization of our Corporate Mission.





04 Health Management

We are implementing the Morinaga Milk Health Management Program, which is based on the Morinaga Milk Health Declaration. Under this program, employees who work to improve their health under the Specific Health Guidance* system are eligible for various forms of health support, including the supply of health-promoting Morinaga Milk Industry products. The selection of a sleep improvement initiative at one of our sites for a Morinaga Milk Award in 2019 is indicative of growing awareness that employee health benefits from lifestyle improvement. We implement various other initiatives from both physical and mental health perspectives, and as a result Morinaga Milk Industry was certified as an Outstanding Health and Productivity Management Organization by the Japanese Ministry of Economy, Trade and Industry in 2020.

* Under this system, specialist staff provide lifestyle improvement support to individuals who are deemed to have a high risk of lifestyle diseases based on the results of designated medical examinations (available to persons aged between 40 and 75) focusing on metabolic syndrome, and who are deemed likely to benefit significantly from measures to prevent lifestyle diseases.

Realizing the 10-Year Vision

We are contributing to the solution of social issues through our business activities to achieve sustainable growth in partnership with society.



Hidekazu Takano
Executive Managing Officer
General Manager, Corporate Division

Implementing ESG-focused Management to Contribute to the Achievement of the SDGs

The Morinaga Milk Group recognizes that to ensure the sustainable development and growth of the world economy, businesses need to address social issues seriously and contribute to the solution of problems. That is why we are continually examining the reasons for the existence of the Morinaga Milk Group, the roles and contribution that society expects from us, and what we need to do to achieve sustainable growth in partnership with society. Discussions on these and other questions led to the inclusion of ESG-focused management practices as a basic policy under the Medium-term Business Plan that we launched in the fiscal year ended March 31, 2020. In the second year of the plan, the entire Morinaga Milk Group will continue to work toward the KPIs set for each of the seven priority issues adopted in May 2018.

Responding to Urgent Social Issues Caused by COVID-19

The most urgent social issue facing the international community today is the wide-ranging impact of the COVID-19 pandemic. In the process leading up to the declaration of a state of emergency by the Japanese government, the Morinaga Milk Group decided that its first responsibility as a manufacturer of essential food items was to ensure its ability to meet its responsibility to supply products. While taking great care to prevent infection and protect the health of our employees, we worked to fulfill our role as a supplier of products necessary for health and nutrition. Within the organization, the crisis provided an opportunity to review our existing approach to business and take a new look at our productivity. We actively introduced new work styles, including teleworking and online meetings. We will continue our efforts to create a framework within which individual employees will remain energized in their work via new work styles while achieving self-realization and growth.

Continuing to Enhance Messaging and Dialogue to Provide a True Image of Morinaga Milk Industry

In recent years, our approach to management has evolved in response to the growing influence of corporate governance codes and stewardship codes in the market. Meetings of the Board of Directors are characterized by lively discussions among internal and external directors, based on medium- to long-term management perspectives. This highly effective process of debate is not limited by any concept of maintaining the status quo.

In 2019, we began to publish integrated reports with the aim of informing as many people as possible about the Morinaga Milk Group, while enhancing our accountability to our shareholders, investors, business partners, consumers, and employees. In June 2020, we implemented organizational changes that brought the Investor & Public Relations Department, CSR Promotion Department, and General Affairs Department, which is responsible for shareholder-related actions, under the jurisdiction of the Corporate Division. These changes have integrated and strengthened our systems for external corporate communications. Going forward, we will continue to expand our communications with stakeholders in order to provide a true image of Morinaga Milk Industry, including information about the people who work on the front lines of our business operations.

Since its founding, Morinaga Milk Industry has taken an extremely careful approach to business with a particular focus on quality, safety, and hygiene. We are aware that in addition to ensuring the continuity of our robust corporate culture, we also need to expand our field of vision and adapt our perceptions in step with social change. We will continue to build a structure in which every individual employee can take pride in the fact that he or she is contributing to society.

Directors and Audit & Supervisory Board Members (as of June 26, 2020)

Directors



Representative Director and President

Michio Miyahara

April 1975	Joined the Company
April 2001	General Manager of Morioka Plant
June 2003	Managing Officer and General Manager of Engineering Section, Production Department
June 2005	Executive Managing Officer and General Manager of Production Department
February 2006	Executive Managing Officer and General Manager of Manufacturing Division
June 2007	Senior Executive Managing Officer and General Manager of Manufacturing Division
June 2007	Senior Managing Director, Senior Executive Managing Officer and General Manager of Manufacturing Division
June 2009	Director and Executive Vice President
February 2010	Director, Executive Vice President, Managing Officer and General Manager of Sales & Marketing Division 2
June 2011	Representative Director and Executive Vice President
June 2012	Representative Director and President (present)
	to present



Executive Vice President and Representative Director

Teiichiro Okawa

(Assistant to President, R&D and overseas)

April 1982	Joined the Company
June 2012	General Manager of Food Research & Development Institute
June 2013	Managing Officer and General Manager of Food Research & Development Institute
June 2015	Managing Director, Executive Managing Officer and General Manager of Food Research & Development Institute
November 2015	Managing Director
June 2016	Managing Director, Executive Managing Officer and General Manager of R&D Division
June 2017	Senior Managing Director, Senior Executive Managing Officer and General Manager of R&D Division
June 2020	Senior Managing Director
June 2020	Director and Executive Vice President (present)
	to present



Senior Managing Director

Yoichi Onuki

(Strategic planning, finances and information system)

April 1983	Joined the Company
May 2008	General Manager of Sales & Marketing Administration Office, Sales & Marketing Division
February 2010	General Manager of Sales & Marketing Administration Office
June 2011	Managing Officer, General Manager of Corporate Strategic Planning Department and General Manager of Public Relations Department
November 2014	Managing Officer, General Manager of Corporate Strategic Planning Department
June 2015	Director, Executive Managing Officer and General Manager of Corporate Strategic Planning Department
April 2016	Director
June 2017	Managing Director
June 2018	Managing Director, Executive Managing Officer and General Manager of Strategic Planning Division
June 2019	Senior Managing Director, Senior Executive Managing Officer and General Manager of Strategic Planning Division (present)
	to present



Managing Director

Tsuyoshi Minato

(Administration, public relations, CSR, special affairs and audit)

April 1988	Joined the Company
November 2007	General Manager of Special Affairs Department
June 2010	Managing Officer and General Manager of Special Affairs Department
June 2015	Director, Executive Managing Officer, Deputy General Manager of Special Affairs Division and General Manager of Special Affairs Department
November 2015	Director, Executive Managing Officer and Deputy General Manager of Special Affairs Division
June 2016	Managing Director, Executive Managing Officer and General Manager of Special Affairs Division
June 2018	Managing Director, Executive Managing Officer, General Manager of Corporate Division and General Manager of Special Affairs Division
June 2020	Managing Director, Executive Managing Officer General Manager of Special Affairs Division (present)
	to present



Managing Director

Shigemi Kusano

(Quality assurance, manufacturing, dairy farm services and distribution)

April 1980	Joined the Company
April 2008	General Manager of Tokyo Plant
June 2011	General Manager of Quality Assurance Department
June 2013	Managing Officer and General Manager of Production Department, Manufacturing Division
November 2013	Managing Officer and General Manager of Manufacturing Department, Manufacturing Division
June 2016	Director, Executive Managing Officer, Deputy General Manager of Manufacturing Division and General Manager of Manufacturing Department
June 2017	Director, Executive Managing Officer and General Manager of Manufacturing Division
April 2019	Director
June 2019	Managing Director (present)
	to present



Managing Director

Kenichi Ohara

(Sales and marketing)

January 1982	Joined Kelly Clark Company (until October 1982)
December 1982	Joined Hagoromo Canning Company (current Hagoromo Foods Corporation) (until April 1986)
April 1986	Joined Future Marketing Co., Ltd. (until October 1987)
December 1987	Joined the Company
June 2007	Seconded to Chez Forêt Co. Ltd. (Representative Director and President)
June 2010	Managing Officer and Deputy General Manager of Tokyo Office of the Company
June 2012	Managing Officer and Deputy General Manager of Sales & Marketing Division 1
June 2016	Director, Executive Managing Officer and General Manager of Sales & Marketing Division 1
June 2017	Director, Executive Managing Officer and General Manager of Sales & Marketing Division
June 2020	Director
June 2020	Managing Director (present)
	to present

Directors and Audit & Supervisory Board Members (as of June 26, 2020)

Directors



External Director

Shoji Kawakami

April 1974	Joined Toyota Motor Co., Ltd. (current Toyota Motor Corporation)
January 1994	General Manager of Cost Accounting Office, Accounting Division, Accounting Group of Toyota Motor Corporation
January 1998	Seconded to Kuozui Motors, Ltd. as Vice President
January 2000	Senior Vice President of Kuozui Motors, Ltd.
January 2001	General Manager, Affiliated Business Department, Accounting Division of Toyota Motor Corporation
January 2005	Seconded to AISAN INDUSTRY CO., LTD.
June 2005	Transferred to AISAN INDUSTRY CO., LTD. as Director
June 2007	Managing Director of AISAN INDUSTRY CO., LTD.
June 2008	Senior Executive Managing Officer and Representative Director of AISAN INDUSTRY CO., LTD.
June 2013	Part-time Advisor of AISAN INDUSTRY CO., LTD. (until June 2014)
June 2015	External Director of the Company (present)
June 2018	External Director of TECHNOSMILE, INC. (until June 2019)
	to present



External Director

Takatomo Yoneda

April 1968	Joined The Industrial Bank of Japan, Limited (IBJ) (current Mizuho Financial, Inc.)
May 1993	General Manager of Bangkok Branch (BIBF) of IBJ
January 1997	General Manager of Bangkok Branch (full branch) of IBJ
June 1997	General Manager of International Finance Division of IBJ (until May 1998)
June 1998	Director of Copal Co., Ltd. (current NIDEC COPAL CORPORATION)
October 1998	Chairman and Representative Director of NIDEC COPAL (MALAYSIA) SDN. BND.
April 2002	Managing Director and CFO of NIDEC COPAL CORPORATION
June 2008	Director, Senior Executive Managing Officer and CFO of NIDEC COPAL CORPORATION
June 2012	Senior Executive Managing Officer of NIDEC COPAL CORPORATION (until December 2012)
June 2015	External Audit & Supervisory Board Member of the Company
June 2019	External Director of the Company (present)
	to present



External Director

Yukari Tominaga

April 1981	Joined Hitachi Computer, Consultant Ltd. (current Hitachi Solutions, Ltd.)
April 2007	General Manager, Application Systems Department, Business Group No. 2. of Hitachi Solutions, Ltd.
October 2010	Operating Officer; General Manager, Application Systems Department, Industrial and Retail Solutions Systems Business Department No. 1, Industrial and Retail Solutions Systems Business Group of Hitachi Solutions, Ltd.
April 2011	Executive Officer; Deputy General Manager, Retail Solutions Business Division, Industrial and Retail Solutions Systems Business Group of Hitachi Solutions, Ltd.
April 2012	Executive Officer; General Manager, Retail Solutions Business Division, Industrial and Retail Solutions Systems Business Group of Hitachi Solutions, Ltd.
April 2013	Executive Officer; General Manager, Financial Systems Business Division, Financial Systems Business Group of Hitachi Solutions, Ltd.
April 2014	Vice President and Executive Officer; Chief Officer, Financial Systems Business Group; Fellow, Group Management Foundation Reinforcement Group of Hitachi Solutions, Ltd.
April 2015	Vice President and Executive Officer; Chief Officer, Social Innovation Promotion Group; Deputy Chief Officer, Sales Operations; Fellow, Technical Reform and Management Group of Hitachi Solutions, Ltd.
October 2015	Vice President and Executive Officer; Fellow, Technical Reform and Management Group of Hitachi Solutions, Ltd.
October 2016	Vice President and Executive Officer; Chief Officer, Quality Assurance Group of Hitachi Solutions, Ltd.
December 2016	Vice President and Executive Officer; Chief Officer, Quality Assurance Group; Chief Officer, Procurement Management Group of Hitachi Solutions, Ltd.
October 2018	Vice President and Executive Officer; Chief Officer, Quality Assurance Group of Hitachi Solutions, Ltd.
April 2019	Chief Diversity Officer of Hitachi Solutions, Ltd.
April 2020	Fellow of Hitachi Solutions, Ltd. (present)
April 2020	Advisor of TODA CORPORATION (present)
June 2020	External Director of the Company (present)
	to present

Auditors



Full-time Audit & Supervisory Board Member

Keiki Hirota

April 1978	Joined the Company
June 2005	Managing Officer and General Manager of Beverage & Dessert Division
February 2006	Managing Officer and General Manager of Tohoku Branch
June 2007	Managing Officer and Deputy General Manager of Sales & Marketing Division
May 2008	Managing Officer, Deputy General Manager of Sales & Marketing Division, and General Manager of Advertising Department
May 2009	Managing Officer and Deputy General Manager of Sales & Marketing Division
February 2010	Managing Officer and Deputy General Manager of Sales & Marketing Division
June 2012	Seconded to Daily Foods Corporation. (Representative Director and Vice President)
June 2014	Representative Director and President of Daily Foods Corporation
June 2018	Full-time Audit & Supervisory Board Member of the Company (present)
	to present



Full-time Audit & Supervisory Board Member

Mitsumasa Saito

April 1980	Joined the Company
June 2008	General Manager of General Affairs Department
May 2009	General Manager of Purchasing Department, Manufacturing Division
June 2011	Managing Officer and General Manager of Purchasing Department, Manufacturing Division
June 2012	Managing Officer and General Manager of Human Resources Department
June 2016	Director
June 2018	Director, Executive Managing Officer and General Manager of Corporate Communication Divisions
June 2020	Director
June 2020	Full-time Audit & Supervisory Board Member (present)
	to present



External Audit & Supervisory Board Member

Masahiko Ikaga

October 1979	Joined Tohmatsu Aoki Audit Corporation (current Deloitte Touche Tohmatsu LLC)
May 1988	Director of Tohmatsu Touche & Ross Consulting Co., Ltd. (current ABeam Consulting Ltd.)
May 1990	Partner of Tohmatsu Aoki Audit Corporation
April 1993	Director of Tohmatsu Consulting Co., Ltd. (current Deloitte Tohmatsu Consulting LLC)
March 2000	Representative Director and President of Tohmatsu Consulting Co., Ltd.
October 2010	Director and Chairman of Tohmatsu Consulting Co., Ltd. (until November 2013)
November 2013	Chief Strategy Officer of Deloitte Touche Tohmatsu LLC (until November 2015)
March 2016	Retired from Partner of Deloitte Touche Tohmatsu LLC
April 2016	Established Masahiko Ikaga Certified Public Accountant Office
May 2016	Representative Director of PrajnaLink Co., Ltd. (present)
June 2016	External Audit & Supervisory Board Member of the Company (present)
March 2017	Outside Corporate Audit & Supervisory Board Member of Yamaha Motor Co., Ltd. (present)
June 2017	Outside Director of RYOBI LIMITED (present)
	to present



External Audit & Supervisory Board Member

Mayumi Yamamoto

April 1984	Registered as an Attorney at law (Tokyo Bar Association) Joined Takeo Ishiguro law firm
September 1990	Established Ginza Shin Sogo law firm (until December 2004)
January 2005	Established Ginza Shin Meiwa law firm (present)
June 2019	External Audit & Supervisory Board Member of the Company (present)
June 2020	Outside Director of MIRAIT Holdings Corporation (present)
	to present

Messages from External Directors



Shoji Kawakami
External Director

The formulation of action plans is a priority for the realization of the Morinaga Milk Group 10-year Vision.

In the year since the Morinaga Milk Group 10-year Vision was announced under the Medium-term Business Plan, I have been very encouraged to see the evolution of the meetings of the Board of Directors and Executive Management Committee from venues for hearing reports into forums for lively debate, as well as the start of a forward-looking transformation process across the entire organization. These changes are enhancing employee motivation toward the achievement of targets, which is now being reflected in the numerical results. The Group appears to be making steady progress toward the achievement of the targets in its Medium-term Business Plan.

However, I feel that the Company needs to work a little faster on the formulation of action plans based on the Morinaga Milk Group 10-year Vision, and that management should move as quickly as possible to introduce specific measures defining strategic directions for each department. For example, if global expansion is a goal, management should be indicating which markets in which countries are to be given priority, what the goals are, and how to approach those goals. Strategic priorities should be clearly defined from a medium- to long-term perspective, and the processes for achieving those goals should be shared with everyone in order to strengthen cohesion and provide greater driving force. These efforts are vital to the realization of the 10-year Vision and should be carried out as quickly as possible.

Growth initiatives are driven by people. Management needs to speed up measures in place that are designed to change employee mindsets. Efforts are also needed to create an environment in which employees inspired by the spirit of challenge can take action without hesitation.





I believe that the most important tasks for a member of the Board of Directors are to improve corporate value, and to prevent the impairment of that value.

I have spent my career so far in the IT sector, in which I have also gained management experience. I believe that the fact that I have never worked in the food industry actually helps me to fulfill my role as an independent director, because there are likely many things that I will notice precisely because I lack detailed knowledge of the industry. Part of the role that I am expected to play is to provide input and make decisions from this bird's-eye perspective.

The COVID-19 crisis has been accompanied by a rise in social and economic uncertainty. In such times it is especially important to be ready to take risks and take up new challenges without fear of failure. I advocate a success theory which states that the best balance for human growth is 51 successes for every 49 failures. My goal is to contribute to the improvement of engagement by supporting the creation of structures in which employees, including those at the executive level, can act with courage in their areas of responsibility.

This is a corporate group in which all stakeholders are treated as customers, and which people view with a sense of familiarity and affection. I will use my experience and knowledge to help this already attractive corporate group to become even more attractive.

I will use my past experience to contribute to the creation of "Ever Brighter Smiles."

Yukari Tominaga
External Director

Takatomo Yoneda
External Director

Morinaga Milk Industry is working with strength, speed, and the spirit of challenge to link social value to economic and corporate value.

Morinaga Milk Industry has steadily improved its revenue, and set a new record for operating income for the fourth straight year in the fiscal year ended March 31, 2020. The priority going forward is to use this improvement to drive major reforms in revenue and finance that will lead to sustainable growth. Significant progress has already been made on measures to support this process. However, management will need to work with greater urgency and intensity to ensure Morinaga Milk Industry's evolution into a company that can succeed against fierce competition, while also meeting the expectations of all stakeholders by achieving a high level of sustainability. I am confident that the Morinaga Milk Group still has great growth potential, and I am determined to support that growth to the best of my ability, so that the Group can achieve further change and synergies.

The fiscal year ending March 31, 2021 will be an important time for consolidating a path to the achievement of the Medium-term Business Plan goals, while adapting to the "new normal." I have high hopes that the steady implementation of the plan will be a major first step toward the evolution of the Morinaga Milk Group as an organization with a robust financial base and corporate culture, and the ability to unite toward new challenges.

From a medium- to long-term viewpoint, the company's approach to business will be transformed by changes in consumer behavior and lifestyles due to the COVID-19 crisis. At the same time, the Morinaga Milk Group 10-year Vision is well suited to an era in which there is greater health awareness and focus on food functionality. By seizing this shift and responding to society's expectations, they aim to link the social value of the Group to economic value and corporate value, leading to growth and success as a business group that exerts greater presence.

Corporate Governance

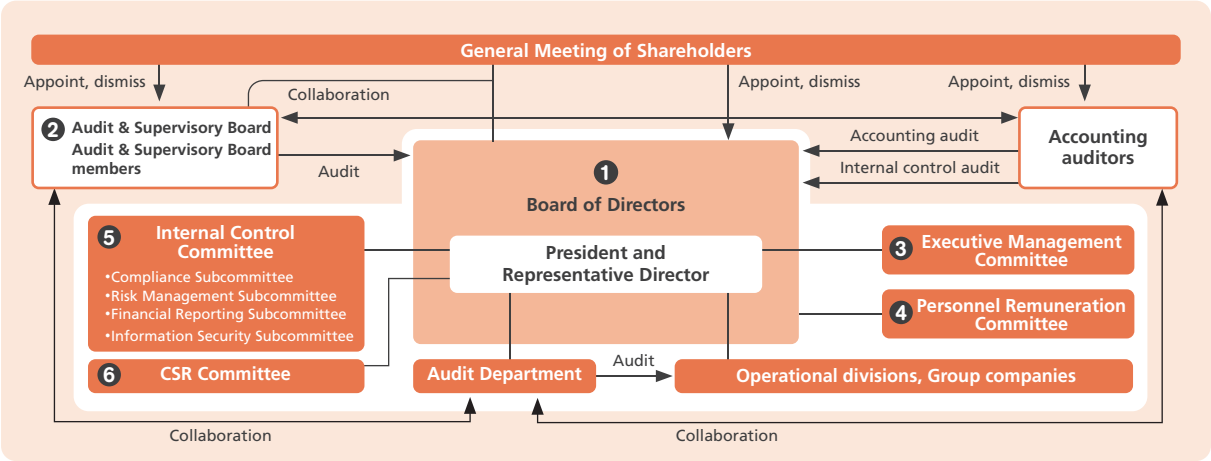
Basic Approach

The Morinaga Milk Group contributes to society through its business activities, based on its Corporate Mission, and continually works to develop and enhance a highly effective corporate governance system to achieve sustainable growth and increase corporate value, under the basic policies on the right. In accordance with the Companies Act of Japan, the Company selected the framework of a company with an Audit & Supervisory Board to set up a double-checking structure, with the Board of Directors providing supervision and the Audit & Supervisory Board members performing audits of legality and appropriateness. The Board of Directors functions as the highest decision-making body for management and, through organic collaboration with all components of the corporate governance framework, strives to maintain and improve management transparency, fairness, and speed to ensure its effectiveness.

Basic Philosophy

1) Respect shareholders' rights, and ensure equal treatment.
2) Respect the perspectives and rights of various stakeholders including our shareholders, customers, business partners, local communities, employees, and build proper relationships with them.
3) Disclose corporate information appropriately, and ensure transparency.
4) Build structures to ensure organic collaboration among the bodies comprising the corporate governance system, and ensure that operations are effectively supervised by the Board of Directors.
5) Aim to achieve sustainable growth and improve corporate value, and have constructive dialogue with shareholders who expect these aims and medium- to long-term profits to be realized.

Corporate Governance Organization



1 Board of Directors

Number of meetings held in fiscal year ended March 31, 2020:

14

Approach to the Composition of the Board of Directors

In accordance with the Articles of Incorporation, the Board of Directors consists a maximum of 12 directors and four Audit & Supervisory Board members. The Company's policy is to select officers of excellent character and insights, irrespective of gender or nationality, who possess the professional expertise and extensive business and management experience necessary to maintain the Company's sustainable growth. The Company also invites the number of independent external directors and independent external Audit & Supervisory Board members necessary to ensure sustainable growth. There must be at least two independent external directors, and a majority of external members on the Audit & Supervisory Board. All external officers must meet the Independence Standards.

The Company also takes care to ensure continuity and continuing professional development, and to train successors in order to maintain a balance between incumbent and new appointments, and between executive and non-executive officers.

Effectiveness Evaluation of the Board of Directors

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

Specifically, a survey is done by the directors and Audit & Supervisory Board members regarding general matters relating to the Board of Directors, such as its composition and operating method, deliberations, and collaborations with external officers, and an evaluation is conducted by the Board based on the results. In order to obtain unbiased opinions from those taking the survey, it is performed through an anonymous questionnaire, and the collection, summary, and analysis of the survey results is contracted to an external body.

In the results of the evaluation for the fiscal year ended March 31, 2020, as in the previous year, the survey results indicated that the Board of Directors was generally functioning effectively.

The previous year's survey results indicated that further improvement was required in a number of areas, including the

independence and diversity of the Board of Directors, the separation of management oversight and executive roles, and the expansion of deliberations by the Personnel Remuneration Committee. The latest survey results confirmed that improvements were being made in these areas.

Priorities going forward include the expansion of deliberations by the Board of Directors about management strategies and plans for the entire Group from a medium- to long-term perspective, and further strengthening of deliberations on reports from the Personnel Remuneration Committee, which was restructured the year before last to allocate a majority of seats to external officers. The Company will continue to implement management actions designed to enhance corporate governance and achieve sustainable improvement in corporate value by solving issues identified through this survey.

❷ Audit & Supervisory Board Audit & Supervisory Board Members

Number of meetings held in fiscal year ended March 31, 2020: **14**

The Audit & Supervisory Board consists of four members, of whom two are full-time directors and two external directors. The Company has also selected one deputy member, who will join the Audit & Supervisory Board if the number of members falls below the statutory requirement.

The Audit & Supervisory Board meets once a month ahead of meetings of the Board of Directors. It also holds special meetings as required. At these meetings, members pass resolutions on audit policies, plans, and methods, and related items, and discuss audit reports, survey results, and other matters relating to proposals to be submitted to the Board of Directors.

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

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

Names, Roles, Responsibilities, and Composition of Committees Established by Morinaga Milk Industry

Committee name	Roles and responsibilities	Composition
❸ **Executive Management Committee** Number of meetings held in fiscal year ended March 31, 2020: 22	Ensures efficient and reliable execution of important management issues through decisions, discussions, and verification of business execution based on its delegated authority	Representative director (chairperson), executive directors, general managers, full-time Audit & Supervisory Board members, and others
❹ **Personnel Remuneration Committee** Number of meetings held in fiscal year ended March 31, 2020: 7	Enhances transparency and objectivity in relation to decisions on the appointment and dismissal of and remuneration for officers, when determining the following measures and submitting reports to the Board of Directors • Proposals for appointment, reappointment, and dismissal of directors and Audit & Supervisory Board members • Revision of the Independence Standards for external officers • Proposals for appointment and removal of representative directors and directors with operational responsibilities • Devising and implementing a plan for a successor to the president and representative director • Proposals relating to executive directors' areas of responsibility • Policies relating to the remuneration of directors and Audit & Supervisory Board members • Proposals relating to the treatment of directors and Audit & Supervisory Board members after their retirement	Representative director (chairperson), two external directors, one external Audit & Supervisory Board member
❺ **Internal Control Committee** Number of meetings held in fiscal year ended March 31, 2020: 2	Establishing the Group's internal control system and maintaining and enhancing its effectiveness	Representative director (chairperson); directors in charge of compliance, risk management, financial reporting, and information security; general managers; full-time Audit & Supervisory Board members; and others
❻ **CSR Committee** Number of meetings held in fiscal year ended March 31, 2020: 2	Establishing the basic policy for the Group's CSR activities and maintaining various initiatives	Representative director (chairperson), directors in charge of CSR, managers of relevant departments, and others

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

Candidates for director positions are determined by the Board of Directors after examinations and reports by the Personnel Remuneration Committee.

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

In the event that an officer is suspected of negligence or dishonesty, or violations of laws, regulations or the Articles of Incorporation in relation to performance of his or her duties, or if an officer has become unable to continue his or her duties for health reasons, the Personnel Remuneration Committee will conduct deliberations and submit a report to the Board of Directors, which will determine the content of a motion to be put before the General Meeting of Shareholders seeking the dismissal of the officer concerned from the position of representative director or executive director.

Cross-shareholdings

The Company holds cross-shareholdings only in cases where this is deemed likely to contribute to the improvement of medium- to long-term corporate value, based on comprehensive assessments of the economic rationale and the necessity of such shareholdings in relation to business operations. The Board of Directors verifies the justification for important policy shareholdings on an individual basis each year. If it is found that there is little justification for a shareholding, the shares will be sold after considering market conditions and other factors.

Based on this verification process, the Company sold part of its policy shareholdings in the fiscal year ended March 31, 2020. Verification involves an assessment of investment profit and loss based on trading gains, dividend yields, the risk of market value fluctuations, capital costs, and other specific criteria. Decisions on whether or not to retain shareholdings also take into consideration the economic merits and the necessity of each shareholding.

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

Appointment of External Executive Officers

As part of its efforts to enhance the fairness of its management structures, the Company has appointed three external members to its nine-member Board of Directors, and allocated half of the seats on its four-member Audit & Supervisory Board to external members.

The three external directors meet the definition of an "outside director" in Article 2 Item 15 of the Companies Act of Japan. There are no special conflicts of interest with the Company. The two external members of the Audit & Supervisory Board meet the definition of an "outside company auditor" in Article 2 Item 16 of the Companies Act of Japan. There are no special conflicts of interest with the Company.

Policy on Constructive Dialogue with Shareholders

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

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

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

Corporate Governance Changes

The Group is continually developing and enhancing its corporate governance structures with the aim of achieving sustainable growth and increasing corporate value. After Japan's Corporate Governance Code took effect in June 2015, Morinaga Milk Industry began to implement measures to develop structures with enhanced independence, transparency, and supervisory functions. Morinaga Milk Industry also defined its basic stance on corporate governance in the Morinaga Milk Group Corporate Governance Guidelines, which were adopted in October of the same year.

2014	June	Appointment of one external director
2015	June	Appointment of two external directors
	Oct.	Adoption of the Morinaga Milk Group Corporate Governance Guidelines
2016	Jan.	Start of Board of Directors' effectiveness evaluations
	Feb.	Assignment of staff to support the Audit & Supervisory Board
	June	Establishment of the CSR Committee
		Reduction of directors' term of office to one year
2017	Dec.	Abolition of the corporate counselor system
2018	June	Introduction of restricted stock-based compensation for internal directors
		Introduction of the divisional system (to improve the effectiveness of the supervisory and executive functions of management)
	Nov.	Appointment of a majority of external directors to the Personnel Remuneration Committee
2019	June	Abolition of takeover defense measures
2020	June	Number of external directors increased to three (Independent external directors now hold one-third of Board seats)

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

Remuneration for Officers

Remuneration for directors* is linked to business results, such as the achievement of medium- to long-term profit targets. Recently the remuneration system for directors was partially amended under a policy designed to strengthen directors' motivation to achieve medium- to long-term strategic goals that contribute to sustainable growth and the improvement of corporate value. The Personnel Remuneration Committee will continue to consider approaches to the development of a remuneration system that will heighten directors' motivation to maximize corporate value. Remuneration for external directors and Audit & Supervisory Board members does not include stock-based compensation or other performance-related items.

*Excluding external directors

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

Category	Number of officers	Basic remuneration		Restricted stock-based compensation	Total remuneration amount
		Fixed remuneration	Performance-linked remuneration		
Directors (excluding external directors)	8	¥216 million	¥106 million	¥58 million	¥381 million
External directors	2	¥18 million	—	—	¥18 million
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	2	¥48 million	—	—	¥48 million
External Audit & Supervisory Board members	2	¥17 million	—	—	¥17 million
Total	14	¥300 million	¥106 million	¥58 million	¥465 million

Notes: 1. Basic remuneration of ¥10 million, ¥2 million, and ¥2 million was paid to one director, one external director, and one external Audit & Supervisory Board member, respectively, who retired on June 27, 2019. These amounts are not reflected in figures shown in the above table.
2. The targets and results used as indicators for the performance-linked portion of basic remuneration are as follows.
Targets for performance-linked remuneration: consolidated net sales of ¥600 billion, consolidated operating income of ¥22.5 billion (targets for the fiscal year ended March 31, 2019)
Results used as the basis for performance-linked compensation: consolidated net sales of ¥583.5 billion, consolidated operating income of ¥22.3 billion (results for the fiscal year ended March 31, 2019)
3. Pursuant to a resolution of the Board of Directors at its meeting on July 11, 2019, 13,400 shares of common stock of the Company were allocated to eight directors as restricted stock compensation.
4. There are no amounts representing compensation payable to important employees.

Development of Internal Control Systems and Systems to Ensure Appropriate Operation by Group Subsidiaries

To ensure the effective development of internal control systems, Morinaga Milk Industry has established an Internal Control Committee and assigned responsibility to the General Affairs Department. The supervising officers for Group companies are responsible for the oversight of internal control systems in individual Group companies. The Internal Control Committee receives and checks regular reports about the internal control status of Group companies and issues directives when necessary.

Compliance with laws and regulations, the Articles of Association, company rules, social ethics, and behavior norms by all directors and employees is a fundamental requirement for all corporate activities. All directors and employees are required to perform their duties in ways that contribute to the realization of the corporate philosophy. The Company has established the Compliance Subcommittee of the Internal Control Committee to raise, foster, and consolidate compliance awareness by promoting compliance initiatives throughout the Group. It has also established the "Morinaga Milk Helpline," an internal reporting system through which people wishing to report issues can directly contact an internal consultation help desk or an external attorney.

The Information Security Subcommittee of the Internal Control Committee was established to strengthen information management. Documents concerning to performance of duties by directors and related information are stored and controlled appropriately by the units in charge in accordance with the information security policy and internal rules. Directors are able to peruse these documents as required. Important information relating to the performance of duties by directors and other officers of subsidiaries must be regularly reported to Morinaga Milk Industry.

Morinaga Milk Industry ensures the reliability of its financial reporting by thoroughly managing the business processes required for the compilation of financial reports. To achieve this, the Company has established the Financial Reporting Subcommittee within the Internal Control Committee and also works closely with the accounting auditors to ensure accurate financial reporting across the entire Morinaga Milk Group.

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



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

Risk Management

Risks that could have a possible impact on the operating results and financial position of the Group are as follows. With regard to risk management, the Group is working to establish a risk management system by identifying individual risks and determining a person responsible for managing each risk. To do so, the Group has established the Risk Management Subcommittee under the Internal Control Committee which is developing a reporting system as well as a cooperation structure. In the event of unforeseen circumstances, the Group will respond to them promptly in accordance with the crisis management regulations to prevent and minimize any further damage. Forward-looking statements are current as of the date of publication (June 29, 2020) of the Securities Report for the fiscal year ended March 31, 2020.

(1) Dairy and Milk Industry

Upon transactions of raw milk, which is the raw material in dairy products produced by the Group, its producers are paid a subsidy based on the subsidy system for manufacturing-use milk producers stipulated in the Livestock Stabilization Act. In the event that this Act is substantially modified or abolished in the future and the level of subsidies changes, there is the possibility of such changes having an impact on the operating results and financial position of the Group.

In addition, the dairy products produced by the Group are under a tariff system set in place to protect the domestic agricultural industry. However, in the event that there are significant changes to the tariff system, there is the possibility of such changes having an impact on the operating results and financial position of the Group.

The Group is closely working with the relevant authorities and organizations in order to solve issues of the dairy and milk industry in a timely and appropriate manner. The Group also constantly make visits to dairy farmers and organizations in order to promote dairy production by providing information on dairy cow health management techniques and the supply and demand of milk.

(2) Procurement of Raw Materials

The prices of main raw materials the Group procures may be affected by factors such as domestic and international supply and demand conditions, changes in the tariff system, market conditions and foreign exchange rates. Thus, there is the possibility of such price fluctuations having an impact on raw material procurement and production costs.

The Group has been closely monitoring the trends in the raw materials market in preparation for significant changes in the supply and demand conditions. The Group has also established the "Morinaga Milk Group Procurement Policies" and takes a variety of measures against the risks regarding raw materials procurement in line with the Policies, such as procurement from multiple regions and multiple suppliers and procurement of alternative materials, setting the safety and security as the top priority.

(3) Safety of Food Products

The Group takes every measure to ensure the safety and quality of its food products in its manufacturing processes. However, in the event that an unforeseen product-related accident occurs which is linked to a large-scale product recall or product liability compensation, there is the possibility of such an event having an impact on the operating results and financial position of the Group.

The Group has established its quality policy describing the attitude toward quality not only at the manufacturing sites but also throughout the supply chain, in order to ensure the safety and quality of its products.

(4) Effects of Exchange Rate Fluctuations

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

The Group works to minimize the foreign exchange risk by making foreign exchange forward contracts and settlements in foreign currencies while collecting related information from financial institutions and other sources.

(5) Effects of Weather Conditions

Sales of the Group's each division may be affected by the weather. In particular, in the event of a cool summer, sales of certain products such as ice cream and beverages usually decline, and there is the possibility of such an event having an impact on the operating results and financial position of the Group.

The Group is endeavoring to respond flexibly to the influence of weather conditions by optimizing the entire operation through close coordination between each operating section from production to sales, making timely production adjustments according to sales conditions.

(6) Effects of Natural Disasters, Casualties, and Infectious Diseases

In the event of sudden and serious disasters occurred at the Group's operation sites, such as earthquakes, storms, and other natural disasters; incidents and accidents including fires and terror; and the spread of infectious diseases, there is the possibility of such an event having an impact on the operating results and financial position of the Group, due to product supply interruptions caused by the prolonged suspension of businesses and disruptions in logistics, as well as to changes in markets and consumers' lifestyles.

The Group has organized a business continuity plan and other manuals to prepare for such disasters. In accordance with the plan and manuals, the Group strives to establish a system that will enable it to supply appropriate products and restore business activities as soon as possible, with the protection of the lives of its employees and their families, as well as those of the consumers, customers, local communities, and other related parties, as its top priority.

(7) Information Leakage

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

The Group has established an Information Security Subcommittee under the Internal Control Committee, which leads various initiatives such as strengthening measures against unauthorized access and vulnerabilities, the appropriate management of technical information, and reviewing security rules. The Group also strives to improve the knowledge and awareness of information security through the education for employees and the training for targeted email attacks.

(8) Information Systems

The Group utilizes information systems across all aspects of its businesses, including product order receipts, raw material purchase orders, product manufacturing instructions, and accounting processing. Accordingly, the Group has been establishing related regulations, enhancing support systems, and putting security measures in place. However, the Group is exposed to the risk of stoppage or loss of information systems caused by disasters, power outages, computer virus infections, unauthorized access, and other incidents. In the case of these incidents, there is the possibility of such an event having an impact on the operating results and financial position of the Group due to the stagnation of businesses and a fall in social credibility.

To prepare for such incidents, the Group has organized a business continuity plan and other manuals, while making backups of critical data and strengthening measures against vulnerabilities. In addition, the Group educates its employees on the risks involved in information systems for the thorough understanding and implementation of these initiatives.

(9) Intellectual Properties

In the course of its business activities, the Group utilizes various intellectual properties owned by the Group or legally licensed by third parties. Thus, in the event that an unforeseen lawsuit is filed by a third party for the infringement of intellectual property rights, there is the possibility of such an event having an impact on the operating results and financial position of the Group depending on the outcome of the lawsuit.

Respecting intellectual property rights, the Group applies for and maintains intellectual properties for its appropriate business activities, as well as has a specialized section continuously check for the infringement of the rights owned by third parties.

(10) Impact on the Environment

In response to the worsening global environmental issues, in the event that restrictions or rumors arise concerning containers and packaging, use of fossil energy, and other issues, there is the possibility of such an event having an impact on the operating results and financial position of the Group, including a revision of product strategies and an increase in energy costs.

While working to collect information from a wide range of stakeholders, the Group has established the Morinaga Milk Group Environmental Policy, and is setting and managing appropriate environmental targets based on the ISO 14001 Environmental Management System. The Company has also established the "Eco-Packaging Guide" as its container design guideline and is promoting eco-friendly design.

11-year Financial and Non-financial Summary

		Mar./2010	Mar./2011	Mar./2012	Mar./2013
Net sales	(¥ millions)	585,116	583,019	578,299	591,197
Operating income	(¥ millions)	17,102	18,917	13,184	10,166
Ordinary income	(¥ millions)	17,018	18,746	13,187	10,551
Profit attributable to owners of parent	(¥ millions)	8,017	6,164	4,608	5,016
Comprehensive income	(¥ millions)	8,210	8,908	5,635	6,133
Net assets	(¥ millions)	103,635	110,310	113,935	116,750
Total assets	(¥ millions)	357,880	348,394	366,190	368,498
BPS (Net assets per share)	(¥)	405.26	434.37	449.35	469.07
EPS (Net income per share)	(¥)	31.78	24.57	18.39	20.04
EPS (Net income per share)—diluted	(¥)	31.72	24.52	18.34	19.98
Shareholders' equity ratio	(%)	28.4	31.3	30.8	31.4
ROE	(%)	8.1	5.9	4.2	4.4
PER	(Times)	11.6	12.1	17.7	14.3
Cash flows from operating activities	(¥ millions)	29,497	30,913	23,342	21,055
Cash flows from investing activities	(¥ millions)	(15,587)	(17,388)	(14,221)	(13,312)
Cash flows from financing activities	(¥ millions)	(4,762)	(15,959)	(2,889)	(6,859)
Cash and cash equivalents at end of period	(¥ millions)	12,555	10,101	16,336	17,305
Employees		5,653	5,627	5,639	5,712
[Temporary employees—average]		[2,087]	[2,844]	[2,751]	[2,617]

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

Environmental Data

CO_2 Emissions/CO_2 Emissions Intensity

	Mar./2018	Mar./2019	Mar./2020
Scope 1 (Tons CO_2)*1	242	233	226
Scope 2 (Tons CO_2)	106	107	103
CO_2 Emissions Intensity (t-CO_2/¥ million)	0.588	0.583	0.557

*1. Excludes CO_2 emissions associated with the sale of by-product energy

Energy Consumption/Energy Consumption Intensity

	Mar./2018	Mar./2019	Mar./2020
Fuel (TJ)*2	4,505	4,376	4,477
Electricity (TJ)*3	691	715	749
Total	5,196	5,091	5,226
Energy Consumption Intensity (GJ/¥ million)	8.78	8.72	8.91

*2. "Fuel" indicates fossil fuel consumption. "Electricity" is purchased electricity. Renewable energy, such as energy from biomass, is not included.
*3. Electricity is calculated as 1,000 kWh = 3.6 GJ.

Water Used/Wastewater (1,000 m^3)

	Mar./2018	Mar./2019	Mar./2020
Water used	17,098	17,337	17,399
Wastewater	15,415	15,349	15,719

Data scope: Morinaga Milk Industry Co., Ltd. production sites, Tohoku Morinaga Milk Industry Co., Ltd. (Sendai Plant, Akita Plant), Furijiport Co., Ltd. (Kumamoto Plant), Hiroshima Morinaga Milk Industry Co., Ltd., MK Cheese Co., Ltd., Morinaga-Hokuriku Milk Industry Co., Ltd. (Fukui Plant, Toyama Plant), Chez Forêt Co., Ltd., Toyo Fermented Milk Co., Ltd., Tokachi Urahoro Milk Industry Co., Ltd., 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., and Hokkaido Hosho Milk Plant Co., Ltd.

Mar./2014	Mar./2015	Mar./2016	Mar./2017	Mar./2018	Mar./2019	Mar./2020
599,273	594,834	601,499	592,617	592,087	583,582	**590,892**
11,982	6,805	14,317	21,099	21,684	22,331	**25,359**
12,395	8,232	14,959	21,960	22,355	23,174	**25,867**
4,839	4,164	10,576	13,202	15,781	14,017	**18,656**
6,899	7,416	5,794	15,240	17,788	12,600	**16,659**
120,959	125,286	129,370	142,846	159,102	169,167	**183,142**
360,578	383,357	378,852	385,366	414,823	432,256	**436,061**
486.84	502.36	518.61	2,870.80	3,184.08	3,384.81	**3,663.73**
19.60	16.86	42.80	267.02	319.01	283.35	**377.11**
19.54	16.81	42.67	266.27	318.27	282.70	**376.36**
33.3	32.4	33.8	36.9	38.0	38.7	**41.6**
4.1	3.4	8.4	9.8	10.5	8.6	**10.7**
16.9	27.0	14.1	15.5	13.6	13.3	**11.1**
21,946	8,543	28,223	37,350	25,110	18,506	**29,209**
(15,930)	(17,642)	(22,234)	(21,233)	(16,921)	(38,817)	**(13,193)**
(18,211)	12,887	(10,449)	(15,243)	(5,774)	14,112	**(10,843)**
7,080	11,105	6,203	7,077	9,838	3,384	**8,505**
5,664	5,649	5,602	5,771	5,987	6,157	**6,303**
[2,435]	[2,244]	[2,266]	[2,285]	[2,364]	[2,339]	**[2,298]**

Social Data

Employees (consolidated)*1

	March 2018	March 2019	March 2020
Men	4,659	4,743	4,834
Women	1,328	1,414	1,469
Total	5,987	6,157	6,303

Number of Female Managers/Ratio of Female Managers (Morinaga Milk Industry Only)*2

	April 2018	April 2019	April 2020
Number of managers	42	43	46
Ratio of managers	4.8%	4.7%	4.9%

Turnover and Turnover Rate (Including Mandatory Retirement; Morinaga Milk Industry Only)

	Mar./2018	Mar./2019	Mar./2020
Turnover	99	85	100
Turnover rate	2.7%	2.3%	2.7%

Governance Data

Number of Directors/Ratio of External Directors*1

	June 2018	June 2019	June 2020
Number of persons	11	10	9
Ratio	18.2	20.0	33.3

*1. Number or ratio of persons on the last day of the month listed.
*2. Number or ratio of persons on the first day of the month listed.

Management's Discussion and Analysis (Fiscal Year Ended March 31, 2020)

Note: Unless otherwise stated, all comparisons are with the previous fiscal year ended March 31, 2019. Consolidated financial disclosures by Morinaga Milk Industry Co., Ltd. ("the Company") are in accordance with the accounting principles generally accepted in Japan. As of March 31, 2020, the Company had 32 consolidated subsidiaries, and one subsidiary and one affiliated company both of which were accounted for by the equity method (together "the Group").

Operating Performance

Business Management Overview

In the consolidated fiscal year under review, the operating environment continued to change significantly, with heightened uncertainty in both domestic and overseas economies, a cool summer, frequent natural disasters, a change in consumer sentiment following the consumption tax hike, and the outbreak of the global COVID-19 pandemic in the fourth quarter. Such environmental changes prompted domestic consumers to considerably modify their consumption activities. While sales of milk, yogurt, and other products grew reflecting the increased health awareness, sales of food service and institutional-use dairy products fell sharply due to voluntary restraint in going out and traveling.

Consolidated Net Sales and Gross Profit

Based on the Morinaga Milk Group 10-year Vision, the Group has established the new Medium-term Business Plan with the three basic policies of: 1) achieving sustainable growth by enhancing initiatives laterally across our four pillars of business (B-to-C Business, Wellness Business, B-to-B Business, and Overseas Business); 2) performing business with an ESG focus aligned with our corporate philosophy; and 3) further strengthening our business base in a manner that supports the foundations of our corporate activities. The Group has accordingly positioned the fiscal year under review, which is the first year of the said Medium-term Business Plan, as an important year with respect to embarking on our new phase of business, and have carried out various initiatives to achieve the plan. Such initiatives included but not limited to providing and promoting the value of products that meet the needs of customers, taking countermeasures against a rise in operating costs, and reorganizing the Group's entire production base.

As a result of the above, consolidated net sales for the fiscal year under review amounted to ¥590,892 million, up by 1.3% from the previous fiscal year. Cost of sales resulted in ¥401,538 million, up by only 0.8%, due to a lower-than-expected increase in raw material prices and an improved product mix. As a result, gross profit increased by 2.2% year on year to ¥189,354 million, leading to a 0.3 percentage point rise in gross profit margin to 32.0%.

Selling, General and Administrative Expenses and Operating Income

As for the selling, general and administrative ("SG&A") expenses, the Group strived to further streamline sales promotion expenses. However, mainly due to an increase in personnel expenses, aggregate SG&A expenses for the fiscal year under review increased by 0.7% year on year to ¥163,995 million. The ratio of SG&A expenses to net sales, on the other hand, declined by 0.1 percentage point to 27.8%.

As a result of the above, consolidated operating income rose by 13.6% compared with the previous fiscal year to ¥25,359 million. The ratio of operating income to net sales also rose by 0.5 percentage points to 4.3%.

Non-operating Income and Expenses

Overall non-operating income and expenses resulted in net income of ¥508 million, decreasing from ¥843 million posted in the previous fiscal year. This decrease was mainly due to the decline in dividends income to ¥752 million. As a result of recording net non-operating income in addition to an increase in operating income, consolidated ordinary income (the sum of operating income and net non-operating income or expenses) grew by 11.6% year on year to ¥25,867 million.

Extraordinary Income and Loss

Overall extraordinary income and loss resulted in a net income of ¥639 million, reversing the previous fiscal year's net loss of ¥2,943 million. While impairment loss of ¥2,677 million was recorded in association with the reorganization of production sites, gain on sales of non-current assets of ¥6,849 million was posted mainly due to the transfer of trust beneficiary rights in the head office building.

Profit before Income Taxes and Profit Attributable to Owners of Parent

Net non-operating income and net extraordinary income posted in addition to the increase in operating income led to a 31.0% year-on-year increase in profit before income taxes to ¥26,506 million. Total income taxes also increased by 27.2% to ¥7,687 million, resulting in a 0.9 percentage point drop in the effective tax rate to 29.0%. Profit attributable to non-controlling interests declined by 3.4% from the previous fiscal year to ¥162 million.

As a result, profit attributable to owners of parent amounted to ¥18,656 million, up by 33.1% compared with the previous fiscal year.

Performance by Business Segment

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

Food Industry Segment

This segment engages mainly in production and sales of commercial milk, dairy products, ice cream, and beverages. Net sales of the food industry segment increased by 1.0% year on year to ¥569,702 million. Operating income also rose by 7.4% to ¥32,734 million.

Other Business Segment

This segment engages mainly in sales of feed, and the design and construction of plant equipment. Net sales of the other business segment rose by 9.6% year on year to ¥33,166 million. Operating income soared by 23.7% to ¥3,309 million.

Overview of the Results by Business Field in the Medium-term Business Plan

B-to-C Business

Sales of B-to-C Business declined in the first half of the fiscal year under review, due to the impact of the cool summer on beverages, ice cream, and other products, and the review of low-margin products such as milk and desserts to improve the product mix. However, sales of yogurt, especially *Triple Yogurt* which claims three effective functions, grew significantly in the second half. In addition, the spread of COVID-19 increased the demand for home meals as well as foods containing functional ingredients that contribute to improving health, which also helped to drive a 0.6% year-on-year increase in sales of the business over the full fiscal year to ¥305,674 million.

Operating income of the business grew by 21.3% year on year to ¥12,592 million, contributed by the initiatives to promote low-cost operations and price revisions.

Wellness Business

Sales of subsidiary CLINICO's liquid diets, health supplement *Milk Life* (powdered milk for adults), baby foods, and other products were upbeat. However, a decline in sales of infant formula, *Creap* (creaming powder), and skimmed milk resulted in a 0.5% year-on-year decrease in overall Wellness Business sales to ¥55,720 million.

Operating income of the business, on the other hand, rose by 29.9% to ¥4,171 million due to improvements in the product mix.

B-to-B Business

Sales of commercial dairy products, which account for a high proportion in the business, rose due to heightened demand, especially for products such as milk and cheese. However, the spread of COVID-19 in the fourth quarter of the fiscal year resulted in a sharp decline in demand for commercial dairy products for the restaurant industry, hotels, the tourism industry, and the souvenir industry. The sharp rise in sales of functional ingredients recorded during the previous fiscal year also slowed. As a result, sales of B-to-B Business declined by 0.2% year on year to ¥96,723 million.

Operating income of the business also decreased by 8.7% to ¥5,337 million, mainly due to the decrease in sales of high-margin probiotic products.

Overseas Business

Strong sales growth at MILEI GmbH, which manufactures and sells dairy ingredients, drove a sharp rise in overall sales of the business. However, sales of infant formula declined due to uncertainties in export destinations, and the increase in exports of functional ingredients subsided. As a result, Overseas Business sales increased by 8.9% compared with the previous fiscal year to ¥31,518 million.

Operating income of the business soared by 80.6% to ¥2,821 million, contributed by the impact of revenue growth due to increased earnings at MILEI GmbH and an improved product mix.

Financial Position

Assets

Total assets as of March 31, 2020 amounted to ¥436,061 million, an increase of ¥3,804 million, or 0.9%, compared with that of the previous fiscal year-end. Current assets increased by ¥5,325 million, or 3.8%, to ¥145,403 million mainly due to the increases in cash and deposits and merchandise and finished goods that exceeded the decrease in trade notes and accounts receivable. Non-current assets, on the other hand, decreased by ¥1,520 million, or 0.5%, to ¥290,658 million reflecting the decreases in investment securities as well as in property, plant and equipment as a result of the transfer of trust beneficiary rights in the head office building.

Liabilities

Total liabilities as of March 31, 2020 stood at ¥252,918 million, a decrease of ¥10,169 million, or 3.9%, compared with that of the previous fiscal year-end. Current liabilities dropped by ¥12,619 million, or 7.8%, to ¥149,890 million mainly due to decreases in commercial papers, current portion

of bonds, and deposits received. Non-current liabilities by contrast rose by ¥2,450 million, or 2.4%, to ¥103,028 million, reflecting the increase in bonds payable surpassing the decrease in long-term loans payable.

Net Assets

Net assets as of March 31, 2020 amounted to ¥183,142 million, an increase of ¥13,974 million, or 8.3%, compared with the previous fiscal year-end. This increase was mainly attributable to the increase in retained earnings. As a result, the shareholders' equity ratio rose from 38.7% at the previous fiscal year-end to 41.6%, and net assets per share also increased from ¥3,384.81 to ¥3,663.73.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2020 amounted to ¥8,505 million, up by ¥5,121 million, or 151.3%, compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review increased by ¥10,703 million, or 57.8%, to ¥29,209 million. This increase was mainly attributable the increases in profit before income taxes and depreciation.

Cash Flows from Investing Activities

Net cash used in investing activities declined by ¥25,624 million, or 66.0%, from the previous fiscal year to ¥13,193 million. This decline was attributable mainly to the decrease in purchase of non-current assets, and the increase in proceeds from sales of non-current assets brought by the transfer of trust beneficiary rights in the head office building.

As a result of the above, the free cash flow (a total of cash flows from operating activities and investing activities) was a ¥16,016 million cash inflow, reversing a ¥20,311 million cash outflow recorded in the previous fiscal year.

Cash Flows from Financing Activities

Financing activities during the fiscal year under review resulted in a ¥10,843 million cash outflow, while a ¥14,112 million cash inflow was recorded in the previous fiscal year. This turn was attributable mainly to the net decrease in commercial papers for which a net increase was recorded in the previous fiscal year, the decrease in proceeds from long-term loans payable, and the increase in redemption of bonds.

Capital Expenditure

The Group's capital expenditure for property, plant and equipment during the fiscal year ended March 31, 2020 totaled ¥33,729 million. The major purposes of the capital expenditure were installment, renewal and rationalization of manufacturing facilities, as well as reinforcement of the sales structure. Out of the total capital expenditure, that in the food industry segment accounted for ¥32,607 million.

Profit Distribution

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

The dividend to shareholders for the fiscal year ended March 31, 2020 was resolved as ¥60.0 per share, in accordance with the Company's policies described above. As a result, the consolidated and non-consolidated dividend payout ratios for the fiscal year under review were 15.9% and 21.8%, respectively. The dividend for the fiscal year ending March 31, 2021 is planned to be ¥60.0 per share.

Research and Development

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

Major new products developed and released and major R&D activities conducted during the fiscal year ended March 31, 2020 are as follows:

- *Triple Yogurt* (beverage type and one-portion cup type): Yogurt with functional claims in three areas, namely blood pressure, blood glucose level, and neutral fat.
- *Morinaga Aloe Yogurt Power of Aloe*: Yogurt with a functional claim in improving moisture retention capacity and moisture content of skin.
- Bifidobacterium longum BB536: BB536 has been designated by the U.S. Food and Drug Administration (FDA) as GRAS for infants, in addition to the GRAS designation obtained in 2007 for persons aged 9 months and older. This designation expanded the sales possibility of BB536 as a raw material for infant formula and other products in the United States.

Consolidated R&D expenses for the fiscal year under review amounted to ¥4,779 million, up by 2.8% from the previous fiscal year, accounting for 0.8% of consolidated net sales.

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

R&D Division

- R&D Management Department: Integration of research plans of the institutes, and other managerial coordination
- Food Research & Development Institute: Research on new technologies and development of new products
- Wellness & Nutrition Science Institute: Research and development of infant formula and clinical nutritional foods
- Food Ingredients & Technology Institute: Research on various ingredients and development of applied technologies
- Next Generation Science Institute: Research on new materials and intestinal flora
- Food Solution Institute: Evaluation of products, development of new uses and recipes

Manufacturing Division Engineering Department

- Engineering Development Center: Research and development of manufacturing technologies with a focus on manufacturing equipment and systems

Outlook for Fiscal Year Ending March 31, 2021

The COVID-19 pandemic has raised concerns of sharp downsides for the domestic and overseas economies, and made the outlook exceedingly severe. However, the Group will endeavor to continue supplying products to the extent possible, while giving the utmost consideration to the safety and health of employees, in order to fulfill its mission as a company that manufactures foods that are essential to daily life. In terms of the impact of the COVID-19 pandemic on the Group, a significant decline is anticipated in demand for commercial dairy products for the restaurant industry, hotels, tourism, and souvenirs, while robust demand is expected for foods with functional ingredients that contribute to health and for home cooking. In addition, a prolonged standstill in business activities worldwide could impact raw material procurement, production, and sales. The Group will endeavor, however, to establish a product supply system based on our business continuity plan .

These conditions position the fiscal year ending in March 31, 2021, the second year of the Medium-term Business Plan, as the key year for achieving the plan, and the Group will work to further strengthen its corporate structure and businesses. The Company forecasts its consolidated results for the fiscal year ending March 31, 2021 as net sales of ¥591,000 million (up 0.0% year on year), operating income of ¥26,000 million (up 2.5% year on year), ordinary income of ¥26,500 million (up 2.4% year on year), and profit attributable to owners of parent of ¥14,800 million (down 20.7% year on year). These figures of forecasts are calculated by incorporating the effects of economic activity stagnation due to the COVID-19 pandemic until the end of September 2020.

Consolidated Balance Sheets

(¥ millions)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	3,685	8,680
Notes and accounts receivable—trade	65,844	61,729
Merchandise and finished goods	45,497	49,193
Work in process	2,339	3,453
Raw materials and supplies	16,432	16,171
Other	6,809	6,463
Allowance for doubtful accounts	(530)	(288)
Total current assets	140,077	145,403
Non-current assets		
Property, plant and equipment		
Buildings and structures	177,111	186,154
Accumulated depreciation	(100,600)	(99,559)
Buildings and structures, net	76,511	86,595
Machinery, equipment and vehicles	282,134	293,148
Accumulated depreciation	(207,007)	(209,381)
Machinery, equipment and vehicles, net	75,126	83,766
Land	68,231	57,927
Leased assets	6,166	5,783
Accumulated depreciation	(3,524)	(3,167)
Leased assets, net	2,642	2,615
Construction in progress	25,656	16,092
Other	14,946	14,981
Accumulated depreciation	(10,985)	(10,752)
Other, net	3,961	4,229
Total property, plant and equipment	252,130	251,226
Intangible assets		
Other	6,525	6,518
Total intangible assets	6,525	6,518
Investments and other assets		
Investment securities	21,238	19,586
Investments in capital	97	97
Long-term loans receivable	285	263
Net defined benefit asset	1,877	537
Deferred tax assets	4,793	7,150
Other	5,372	5,392
Allowance for doubtful accounts	(142)	(116)
Total investments and other assets	33,523	32,913
Total non-current assets	292,178	290,658
Total assets	432,256	436,061

(¥ millions)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable—trade	54,346	51,386
Electronically recorded obligations—operating	5,194	5,235
Short-term loans payable	10,695	11,644
Current portion of long-term loans payable	9,486	8,628
Commercial papers	5,000	—
Current portion of bonds	5,000	—
Lease obligations	1,215	1,139
Income taxes payable	2,830	4,816
Accrued expenses	32,366	32,461
Deposits received	20,442	16,063
Other	15,932	18,514
Total current liabilities	162,510	149,890
Non-current liabilities		
Bonds payable	40,000	50,000
Long-term loans payable	35,275	27,729
Lease obligations	2,016	2,017
Net defined benefit liability	20,218	20,639
Asset retirement obligations	289	292
Other	2,778	2,349
Total non-current liabilities	100,578	103,028
Total liabilities	263,088	252,918
Net assets		
Shareholders' equity		
Capital stock	21,731	21,760
Capital surplus	19,886	19,919
Retained earnings	121,831	137,767
Treasury stock	(702)	(690)
Total shareholders' equity	162,745	178,757
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,820	6,738
Deferred gains or losses on hedges	(9)	(13)
Foreign currency translation adjustment	(678)	(885)
Remeasurements of defined benefit plans	(2,470)	(3,312)
Total accumulated other comprehensive income	4,661	2,526
Subscription rights to shares	229	203
Non-controlling interests	1,531	1,655
Total net assets	169,167	183,142
Total liabilities and net assets	432,256	436,061

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated statements of income

(¥ millions)

	For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
Net sales	583,582	590,892
Cost of sales	398,337	401,538
Gross profit	185,245	189,354
Selling, general and administrative expenses	162,913	163,995
Operating income	22,331	25,359
Non-operating income		
Interest income	41	40
Dividends income	929	752
House rent income	346	320
Other	1,245	1,116
Total non-operating income	2,563	2,229
Non-operating expenses		
Interest expenses	750	743
Share of loss of entities accounted for using equity method	88	53
Foreign exchange losses	318	261
Other	563	662
Total non-operating expenses	1,720	1,721
Ordinary income	23,174	25,867
Extraordinary income		
Gain on sales of noncurrent assets	36	6,849
Gain on sales of investment securities	266	126
Other	118	47
Total extraordinary income	421	7,023
Extraordinary loss		
Loss on disposal of noncurrent assets	748	802
Contributions to the public interest incorporated foundation Hikari Kyokai	1,710	1,680
Impairment loss	286	2,677
Other	619	1,223
Total extraordinary losses	3,364	6,384
Profit before income taxes	20,230	26,506
Income taxes–current	6,551	9,214
Income taxes–deferred	(506)	(1,527)
Total income taxes	6,044	7,687
Profit	14,186	18,819
Profit attributable to non-controlling interests	168	162
Profit attributable to owners of parent	14,017	18,656

Consolidated statements of comprehensive income

(¥ millions)

	For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
Profit	14,186	**18,819**
Other comprehensive income		
Valuation difference on available-for-sale securities	(646)	**(1,101)**
Deferred gains or losses on hedges	65	**(8)**
Foreign currency translation adjustment	(754)	**(185)**
Remeasurements of defined benefit plans	(165)	**(841)**
Share of other comprehensive income of associates accounted for using equity method	(84)	**(22)**
Total other comprehensive income	(1,585)	**(2,159)**
Comprehensive income	12,600	**16,659**
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,428	**16,521**
Comprehensive income attributable to non-controlling interests	171	**137**

Consolidated Statement of Changes in Shareholders' Equity

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

(¥ millions)

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

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

For the fiscal year ended March 31, 2020 (April 1, 2019–March 31, 2020)

(¥ millions)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	21,731	19,886	121,831	(702)	162,745
Changes of items during period					
Issuance of new shares	29	29			58
Dividends of surplus			(2,720)		(2,720)
Profit attributable to owners of parent			18,656		18,656
Purchase of treasury shares				(9)	(9)
Disposal of treasury shares		4		21	26
Transfer to capital surplus from retained earnings					—
Net changes of items other than shareholders' equity					
Total changes of items during period	29	33	15,936	11	16,011
Balance at end of current period	21,760	19,919	137,767	(690)	178,757

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at beginning of current period	7,820	(9)	(678)	(2,470)	4,661	229	1,531	169,167
Changes of items during period								
Issuance of new shares								58
Dividends of surplus								(2,720)
Profit attributable to owners of parent								18,656
Purchase of treasury shares								(9)
Disposal of treasury shares								26
Transfer to capital surplus from retained earnings								—
Net changes of items other than shareholders' equity	(1,082)	(3)	(207)	(841)	(2,135)	(26)	124	(2,036)
Total changes of items during period	(1,082)	(3)	(207)	(841)	(2,135)	(26)	124	13,974
Balance at end of current period	6,738	(13)	(885)	(3,312)	2,526	203	1,655	183,142

Consolidated Statement of Cash Flows

(¥ millions)

	For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
Cash flows from operating activities		
Income before income taxes and minority interests	20,230	**26,506**
Depreciation	17,892	**18,469**
Impairment loss	286	**2,677**
Amortization of goodwill	133	**104**
Amortization of negative goodwill	(141)	**(132)**
Increase (decrease) in net defined benefit liability	707	**426**
Increase (decrease) in allowance for doubtful accounts	(11)	**(267)**
Loss (gain) on valuation of investment securities	0	**71**
Interest and dividend income	(971)	**(792)**
Interest expenses	750	**743**
Foreign exchange losses (gains)	266	**216**
Share of (profit) loss of entities accounted for using equity method	88	**53**
Loss (gain) on sales of noncurrent assets	(36)	**(6,849)**
Loss (gain) on disposal of noncurrent assets	748	**802**
Loss (gain) on sales of investment securities	(266)	**(123)**
Decrease (increase) in notes and accounts receivable–trade	(4,074)	**4,036**
Decrease (increase) in inventories	(5,075)	**(4,710)**
Increase (decrease) in notes and accounts payable–trade	(1,857)	**(2,875)**
Increase (decrease) in accrued expenses	(1,917)	**119**
Increase (decrease) in deposits received	(4,368)	**(4,379)**
Other, net	4,724	**2,397**
Subtotal	27,110	**36,495**
Interest and dividend income received	972	**822**
Interest expenses paid	(754)	**(768)**
Income taxes paid	(8,822)	**(7,340)**
Cash flows from operating activities	18,506	**29,209**
Cash flows from investing activities		
Purchase of noncurrent assets	(39,247)	**(32,781)**
Proceeds from sales of noncurrent assets	51	**19,474**
Purchase of investment securities	(37)	**(123)**
Proceeds from sales of investment securities	381	**181**
Payments of loans receivable	(5,067)	**(3,631)**
Collection of loans receivable	5,101	**3,746**
Other, net	0	**(58)**
Cash flows from investing activities	(38,817)	**(13,193)**

(¥ millions)

	For the fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,022	**1,116**
Increase (decrease) in commercial papers	5,000	**(5,000)**
Proceeds from long-term loans payable	7,661	**1,747**
Repayments of long-term loans payable	(7,633)	**(9,641)**
Proceeds from issuance of bonds	9,941	**9,942**
Redemption of bonds	—	**(5,000)**
Proceeds from sales of treasury shares	0	**0**
Purchase of treasury shares	(11)	**(9)**
Cash dividends paid	(2,473)	**(2,720)**
Cash dividends paid to minority shareholders	(16)	**(13)**
Repayments of finance lease obligations	(1,378)	**(1,264)**
Net cash provided by (used in) financing activities	14,112	**(10,843)**
Effect of exchange rate change on cash and cash equivalents	(254)	**(51)**
Net increase (decrease) in cash and cash equivalents	(6,454)	**5,121**
Cash and cash equivalents at beginning of period	9,838	**3,384**
Cash and cash equivalents at end of period	3,384	**8,505**

Consolidated Subsidiary Companies (As of March 31, 2020: 32 Companies)

Name	Location	Capital	Voting rights held	Main business area
MORINAGA MILK INDUSTRY SALES CO., LTD.	Minato-ku, Tokyo	¥497 million	100.0%	Seller of dairy products, etc.
TOHOKU MORINAGA MILK INDUSTRY CO., LTD.	Sendai City	¥470 million	100.0%	Manufacturer and seller of dairy products, etc.
FURIJIPORT CO., LTD.	Chiyoda-ku, Tokyo	¥310 million	100.0%	Seller of dairy products, etc.
HIROSHIMA MORINAGA MILK INDUSTRY CO., LTD.	Hiroshima City	¥215 million	100.0%	Manufacturer and seller of dairy products, etc.
MK CHEESE CO., LTD.	Ayase City, Kanagawa	¥200 million	100.0%	Manufacturer and seller of dairy products, etc.
CLINICO Co., Ltd.	Meguro-ku, Tokyo	¥200 million	100.0%	Seller of nutritional products, pharmaceuticals, etc.
TOKYO DAIRY CO., LTD.	Koto-ku, Tokyo	¥121 million	100.0%	Manufacturer and seller of dairy products, etc.
RIZAN CORPORATION*1	Meguro-ku, Tokyo	¥100 million	100.0%	Real estate, all varieties of leasing, etc.
Morinaga-Hokuriku Milk Industry Co., Ltd.	Fukui City, Fukui	¥90 million	100.0%	Manufacturer and seller of dairy products, etc.
TOWA TECHNO CO., LTD.	Hiroshima City	¥90 million	100.0%	Manufacturing and sales of food-related machinery
MORINYU SUNWORLD CO., LTD.	Minato-ku, Tokyo	¥61 million	100.0%	Seller of feed, etc.
Chez Forêt Co., Ltd.	Yachiyo City, Chiba	¥60 million	100.0%	Manufacturer of handmade desserts
Morinaga Dairy Service Co., Ltd.	Minato-ku, Tokyo	¥42 million	100.0%	Seller of feed, etc.
TOYO FERMENTED MILK CO., LTD.*2	Nagoya City	¥30 million	100.0%	Manufacturer and seller of dairy products, etc.
Morinaga Milk Industry Hokkaido Co., Ltd.	Sapporo City	¥30 million	100.0%	Seller of dairy products, etc.
Morinaga Milk Industry Kyushu Co., Ltd.	Fukuoka City	¥30 million	100.0%	Seller of dairy products, etc.
Napoli Ice Cream Co., Ltd.	Minato-ku, Tokyo	¥20 million	100.0%	Manufacturer and seller of ice cream
TOKACHI URAHORO MORINAGA MILK INDUSTRY CO., LTD.	Tokachigun Urahorocho, Hokkaido	¥20 million	100.0%	Manufacturer and seller of dairy products, etc.
MILEI GmbH	Leutkirch, Germany	€90 million	100.0%	Seller of raw milk product
MILEI Plus GmbH	Leutkirch, Germany	€0 million	100.0%	Holding company of MILEI Protein GmbH & Co. KG
MILEI Protein GmbH & Co. KG	Leutkirch, Germany	€5 million	100.0%	Manufacturer of raw milk products
Morinaga Nutritional Foods, Inc.	Torrance City, California, U.S.	$31 million	100.0%	Seller of tofu and other processed soybean products
Pacific Nutritional Foods, Inc.	Tualatin City, Oregon, U.S.	$21 million	100.0%	Manufacturer of tofu and other processed soybean products
NIHON SEINYU	Higashiokitamagun Takahatamachi, Yamagata	¥140 million	99.2%	Manufacturer and seller of dairy products, etc.
FUJI MORINAGA MILK INDUSTRY CO., LTD.	Suntogun Nagaizumicho, Shizuoka	¥50 million	98.9%	Manufacturer and seller of ice cream
OKINAWA MORINAGA MILK INDUSTRY CO., LTD.	Nakagamigun Nishiharacho, Okinawa	¥305 million	97.3%	Manufacturer and seller of dairy products, etc.
KUMAMOTO MORINAGA MILK INDUSTRY CO., LTD.	Kumamoto City	¥50 million	97.1%	Manufacturer and seller of dairy products, etc.
YOKOHAMA MILK INDUSTRY CO., LTD.	Ayase City, Kanagawa	¥60 million	96.5%	Manufacturer and seller of dairy products, etc.
MORINAGA ENGINEERING CO., LTD.	Minato-ku, Tokyo	¥200 million	90.0%	Plant design, engineering, and equipment sales
HOKKAIDO HOSHO MILK PLANT Co., Ltd.	Otaru City, Hokkaido	¥97 million	87.2%	Manufacturer and seller of dairy products, etc.
SUNFCO LTD.	Chiyoda-ku, Tokyo	¥50 million	45.0%	Seller of dairy products, etc.
MM Property Funding Corp.	Minato-ku, Tokyo	¥10 million	—	Leasing of real estate

*1 The company's name changed to Morinaga Milk Business Services Co., Ltd. on April 1, 2020.
*2 Dissolved in May 2020
Notes: 1. The percentage of voting rights listed includes indirect holdings.
2. In addition to this list:
Equity method affiliated subsidiary: 1
Equity method affiliated company: 1

Overseas Subsidiaries and Joint Ventures

MILEI GmbH

Established as a Japan-Germany joint venture in 1972, the company is now a wholly owned subsidiary of Morinaga Milk. The company manufactures and sells products that include whey protein concentrate, lactose, and lactoferrin.
https://www.milei.de/

Morinaga Nutritional Foods, Inc.

Established in Los Angeles in 1985, this company supplies US consumers with long-life *TOFU* made possible by Morinaga Milk technology.
https://www.morinu.com/

Morinaga Milk Industry (Shanghai) Co., Ltd.

Established in Shanghai, China in 2011, the company is a wholly owned subsidiary of Morinaga Milk.

Business Sites (As of March 31, 2020)

Name	Location (in Japan)	Main products manufactured
Head Office	33-1, Shiba 5-chome, Minato-ku, Tokyo	—
Food Research & Development Institute	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Wellness & Nutrition Science Institute	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Food Ingredients & Technology Institute	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Next Generation Science Institute	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Food Solution Institute	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Tohoku Branch	2-10, Chuo 2-chome, Aoba-ku, Sendai City, Miyagi (Sen Metropolitan Building 6F)	—
Metropolitan Regional Office	8-1, Konan 3-chome, Minato-ku, Tokyo (Morinaga Milk Konan Building)	—
Kanto Branch	16-11, Sakaecho, Takasaki City, Gunma (Takasaki East Tower Building 7F)	—
Tokyo Branch	8-1, Konan 3-chome, Minato-ku, Tokyo (Morinaga Milk Konan Building)	—
Central Japan Regional Office	15-30, Tokugawa 1-chome, Higashi-ku, Nagoya City, Aichi (Nagoya Rizan Building)	—
Tokai Branch	15-30, Tokugawa 1-chome, Higashi-ku, Nagoya City, Aichi (Nagoya Rizan Building)	—
Hokuriku Branch	362, Tokumoto 2-chome, Nonoichi City, Ishikawa	—
West Japan Regional Office	1-5, Dojima 1-chome, Kita-ku, Osaka City, Osaka (XYMAX Umeda Shinmichi Building 6F)	—
Osaka Branch	1-5, Dojima 1-chome, Kita-ku, Osaka City, Osaka (XYMAX Umeda Shinmichi Building 6F)	—
Chugoku Branch	3-7, Minamiyoshijima 2-chome, Naka-ku, Hiroshima City, Hiroshima	—
Shikoku Branch	4-18, Imazatocho, Takamatsu City, Kagawa	—
Saroma Plant	Nishitomi 123, Tokorogun Saromacho, Hokkaido	Powdered milk, concentrated milk, butter, and cream
Betsukai Plant	Nishishumbetsukiyokawacho 8, Notsukegumbetsukaicho, Hokkaido	Cheese, powdered milk, whey powder, and butter
Morioka Plant	3-14, Aoyama 2-chome, Morioka City, Iwate	Liquid foods
Fukushima Plant	Shimizuuchi5, Fushiogami City, Fukushima	Powdered milk, butter, decorating whipped cream, and ice cream
Tone Plant	4013-1, Uchimoriyamachi, Joso City, Ibaraki	LL pudding, LL jelly, LL soft serve ice cream mix, probiotic products, and yogurt
Tokyo Plant	29-1, Okudo 1-chome, Katsushika, Tokyo	Milk, pudding, cream, and LL tofu
Tokyo Tama Plant	515, Tateno 4-chome, Higashiyamato City, Tokyo	Milk, milk-based drinks, tea drinks, and yogurt
Yamato Plant	601, Tateno 4-chome, Higashiyamato City, Tokyo	Powdered milk
Matsumoto Plant	1-4, Kamada 2-chome, Matsumoto City, Nagano	Powdered milk, peptides, and medical food supplements
Fuji Plant	639, Nakazatohigashi, Fujinomiya City, Shizuoka	Lactulose (syrup, powder)
Chukyo Plant	1, Hitotsume, Nakanaracho, Konan City, Aichi	Milk, milk-based drinks, lactobacillus drinks, tea drinks, and ice cream
Kinki Plant*	2-95, Tsutoiidencho, Nishinomiya City, Hyogo	—
Kobe Plant	3, Mayafuto, Nada-ku, Kobe City, Hyogo	Milk, milk-based drinks, tea drinks, yogurt, and liquid foods
Administration Support Center	4-22, Meguro 4-chome, Meguro-ku, Tokyo	—
Information System Center	1-83, Higashihara 5-chome, Zama City, Kanagawa	—
Engineering Research Center	515, Tateno 4-chome, Higashiyamato City, Tokyo	—
Chilled Products Coordination Center-East Japan	540, Tateno 4-chome, Higashiyamato City, Tokyo	—
Chilled Products Coordination Center-West Japan	3, Mayafuto Nada-ku, Kobe City, Hyogo	—
Order Control Center	8-1, Shin Yokohama 2-chome, Kohoku-ku, Yokohama City, Kanagawa	—

* Production discontinued in March 2020

Morinaga Nutritional Foods (Asia Pacific) Pte. Ltd.

Established in Singapore in 2015, this company markets dairy raw materials, such as whey protein concentrate and lactose, and bifidobacteria, to infant formula manufacturers and other users in Southeast Asia and the Pacific region.
https://mnf-ap.com/

PT. Kalbe Morinaga Indonesia

This infant formula manufacturing company is a joint venture with Kalbe, Indonesia's biggest pharmaceutical manufacturer.

Corporate Data (As of March 31, 2020)

Corporate Profile

Company name	Morinaga Milk Industry Co., Ltd.
Head office	33-1, Shiba 5-chome, Minato-ku, Tokyo
Founded	September 1, 1917
Established	April 13, 1949
Capital	¥21,761 million
Employees (Non-consolidated)	3,340
URL	https://www.morinagamilk.co.jp/english/

Partner Brands

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

Information Disclosure Tools

For more detailed investor relations information, please see the investor relations page on the corporate website.

- IR News
- Management Information
- To Our Investors
- Performance
- Stock Information
- IR Library

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



Stock Information

Securities code	2264
Business year	From April 1 to March 31 in the following year
Annual General Meeting of Shareholders	June
Date of record for shareholders eligible to receive dividends	March 31 (The Company does not pay an interim dividend.)
Listed stock exchange	Tokyo
Authorized shares	144,000,000 shares
Shares issued and outstanding	49,480,545 shares (excluding 342,898 shares of treasury stock)
Shareholders	24,243
Shareholders' registry manager, management institution for special accounts	Mitsubishi UFJ Trust and Banking Corporation

Major Shareholders

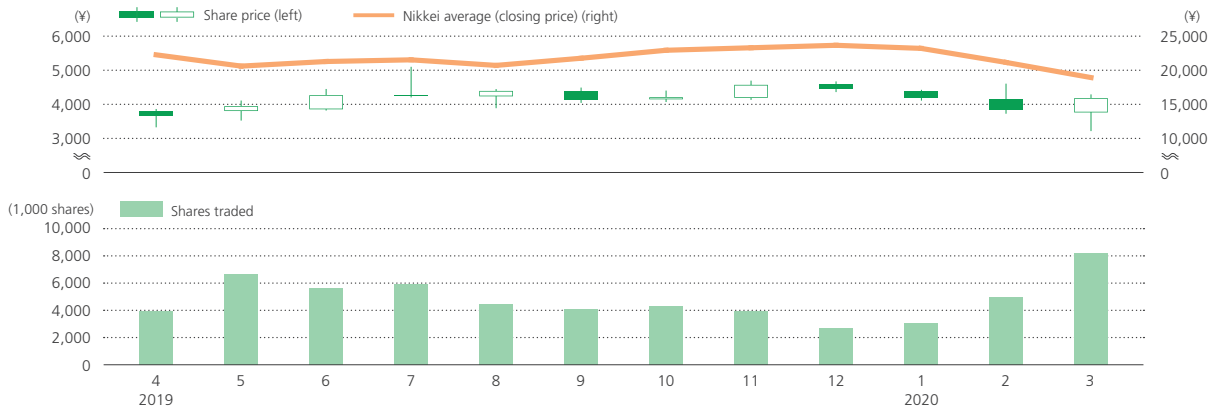
Shareholder	Shareholding (1,000 shares)	Percentage of shares held* (%)
Morinaga & Co., Ltd.	5,249	10.61
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,578	7.23
Mizuho Bank, Ltd.	2,445	4.94
Japan Trustee Services Bank, Ltd. (Trust Account)	2,323	4.70
MUFG Bank, Ltd.	1,388	2.81
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	1,328	2.69
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,071	2.17
Morinaga Milk Employees' Shareholding Association	1,001	2.02
Mitsubishi UFJ Trust and Banking Corporation	923	1.87
The Norinchukin Bank	767	1.55

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

Distribution of Shares



Share Price/Turnover



External Initiatives, Ratings, and Awards

Participation in External Initiatives and Organizations

Morinaga Milk Industry is helping to create a sustainable society through dialogue and collaboration with a wide variety of stakeholders. At the global level, Morinaga Milk Industry signed the United Nations Global Compact in April 2018 and endorsed the Ten Principles advocated by the United Nations in relation to the protection of human rights, elimination of unfair labor practices, environmental action, and prevention of corruption.

In March 2018, Morinaga Milk industry joined the Roundtable on Sustainable Palm Oil (RSPO) and has established guidelines for the procurement of palm oil and palm kernel oil as raw materials. In April 2019, Morinaga Milk Industry joined the Japan Sustainable Palm Oil Network (JaSPON) and became an executive committee member. We will continue to purchase sustainable palm oil in the future.

External Ratings

The Morinaga Milk Group has received high recognition from various independent organizations as a corporate group engaged in activities that contribute to the realization of a sustainable society. (Dates of acquisition or selection are indicated in parentheses.)

Highest ranking under the Development Bank of Japan's Health Management Rated Loan Program (December 2015)
Morinaga Milk Industry was granted the highest rank as a company with outstanding initiatives focused on employee health under the Employees' Health Management Rated Loan Program administered by the Development Bank of Japan.

Certification under the Development Bank of Japan's BCM Rated Loan Program (March 2018)
Morinaga Milk Industry was certified under the Development Bank of Japan's BCM Rated Loan Program in recognition of its outstanding initiatives in the areas of disaster prevention and business continuity.

Highest ranking under the Development Bank of Japan's Environmentally Rated Loan Program (March 2019)
Morinaga Milk Industry received the highest rank as a company with outstanding environmental initiatives under the Environmentally Rated Loan Program administered by the Development Bank of Japan.

Selected for inclusion in the SNAM Sustainability Index* (June 2018, June 2019)
Established in August 2012 as an investment product for pension funds and institutional investors, the SNAM Sustainable Investment Fund invests in a wide range of companies with excellent ESG (environmental, social, governance) reputation. Morinaga Milk Industry was first selected for inclusion in the index in 2018 and was selected again in 2019.

*Name changed to the SOMPO Sustainability Index

Awards

Morinaga Milk Industry has received commendations from a variety of independent organizations in recognition of the quality of its products, research activities, and social activities. (Award dates are indicated in parentheses.)

Products
***KRAFT Pure (Muku) – Mature Cheddar Flavor* and *KRAFT Pure (Muku) – Mature Gouda Flavor* have received Three-Star Superior Taste Awards and Two-Star Superior Taste Awards, respectively, from the International Taste Institute (ITI) for three consecutive years (June 2017, 2018, and 2019).**
In an international contest focusing on the taste and quality of food and beverages, *KRAFT Pure (Muku) – Mature Cheddar Flavor* has won Three-Star Superior Taste Awards for three consecutive years. This is the highest award and indicates that a product is of exceptionally fine quality. *KRAFT Pure (Muku) – Mature Gouda Flavor* has won Two-Star Superior Taste Awards, which are awarded to products recognized as "noteworthy," for three consecutive years.



Morinaga Jelly series awarded the 2019 Mothers' Selection Grand Prize (November 2019)

The Japan Mothers Association presents awards to products used by mothers with young children and concepts that are helpful to mothers. Selected on the basis of votes from ordinary mothers, the awards are given for products that are convenient, energizing, refreshing, and useful for raising children. The grand prize, given to the product that receives the most votes, was awarded to the *Morinaga Jelly* series of products in 2019.

38th Japan Food Journal Blockbuster Food Award presented to _Triple Yogurt_ (December 2019)

The award reflects *Triple Yogurt's* contribution as a new product for the food industry that has stimulated active demand and market activity, and helped to reenergize the retailers that handle these products.



Research Activities

As part of its research and development relating to Aloesterol®, Morinaga Milk Industry undertook a research project entitled "Novel Health Functions of Aloe Vera Gel-derived Phytosterols and Their Application in Functional Foods." This project was selected by the Japan Society of Nutrition and Food Science's for its Achievement in Technological Research Award (April 2018)

Morinaga Milk Industry has been focusing on the functional ingredients contained within the mesophyll (transparent gel layer) of aloe vera since 2003. This work lead to the discovery of Aloesterol®. The award recognizes the value of this research and the results that it has produced, as well as the application of research findings to functional foods.

Infant Nutrition Ingredient of the Year at the NutraIngredients-Asia awards in Singapore presented to Morinaga Milk Industry's Bifidobacterium breve M-16V (September 2019)

The NutraIngredients-Asia awards recognize innovation, excellence, and cutting-edge research in the food and supplement industries in Asia. Morinaga Milk Industry's Bifidobacterium breve M-16V was selected for an award in the Infant Nutrition category in recognition of research contributing to the protection of infants' health.

Morinaga Milk Industry's research into Bifidobacterium longum BB536 selected for a Food Immunology Industry Award from the Japan Association for Food Immunology (October 2019)

Morinaga Milk Industry has been engaged in the research of Bifidobacterium longum BB536 for many years. The Japan Association for Food Immunology selected this work for its Food Immunology Industry Award in recognition of the excellent results achieved.

Social Contribution Activities

The Morinaga Milk Industry _Annual Report_ has been recognized at the International ARC Awards for four consecutive years (October 2016, 2017, 2018, and 2019)

The International ARC Awards are one of the world's most important competitions for corporate annual reports. Morinaga Milk Industry has won awards in four consecutive years since starting to publish its *Annual Report* in 2015.

Morinaga Milk Industry won the Review Committee Chairperson's Award in the 5th Food Industry _Mottainai_ Awards (awards for reducing wastefulness) presented by the Japan Organics Recycling Association (February 2018)

Morinaga Milk Industry has earned high recognition for its aseptic packaging technology, which allows its tofu to have a long shelf life. This has resulted in the creation of new markets, including overseas sales, and disaster stockpiling. In addition, Morinaga Milk Industry has developed pleasant-tasting silage for animals by fermenting tofu with lactobacillus. This product is sold through an affiliated company, Morinaga Rakunou Co., Ltd.

Morinaga Milk Industry's Little Angels Expedition Team Exploring Forest and Food program selected for Judging Panel Encouragement Award in the Corporate Awards for Youth Experience Activity of Japan's Ministry of Education, Culture, Sports, Science and Technology (April 2018)

The Morinaga Little Angels Expedition Team Exploring Forest and Food program gives children a direct experience of nature and helps them to discover the things that are essential to life. The award recognizes excellence in corporate programs relating to experiential activities for children.

Morinaga Milk Industry certified as an Outstanding Health and Productivity Management Organization 2020 (large enterprise category) (March 2020)

In 2020, Morinaga Milk Industry was certified as an Outstanding Health and Productivity Management Organization in the large enterprise category in recognition of its efforts to improve health by practicing excellent health management activities.



"For Ever Brighter Smiles"

MORINAGA MILK INDUSTRY CO., LTD.

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