
morinaga
INTEGRATED
REPORT
2020
Year ended March 31, 2020

Introduction

Morinaga Milk Industry was established in 1917 as Nippon Rennyu Co., Ltd. and through the support of its customers and many stakeholders it has carried on business ever since. Today, the Morinaga Milk Group offers a wide range of products that include milk, infant and toddler milk, dairy-based beverages, yogurt, ice cream, and cheese, as well as nutritional supplement foods and liquid foods.

Milk has the power to support the lives of all people—from newly born infants and growing children, to adults and the elderly. By maximizing the power of milk, the Morinaga Milk Group strives to fulfill its goal of “Partnering Together for Life for a Healthy Body and Mind” with all its stakeholders for many years to come.



Four Business Domains












大人のための粉ミルク
ミルク生活
Nutritional Milk Powder
McRAINIER
CAFFÈ LATTE
カフェラッテ
Latte
Kraft
ひとくち
モッツァレラ
24個入
サラダにぴったり
母乳に近い栄養バランス
はぐくみ
さらに母乳に近く!
母乳に近い量のたんぱく質
初乳に多いラクトフェリン
2種類のオリゴ糖

Corporate Mission

The reason why we concentrate on milk is not simply because we want to offer nutritious products. Food remains our starting point, but we believe that our true mission is something beyond that. It is to nourish the “smiles” that are inspired in daily life among the good company of family and friends. We strongly believe milk also has the power to bring brighter smiles to people of all ages.

Corporate Slogan

“For Ever Brighter Smiles”

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



Corporate Philosophy

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

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

Our Eight Questions

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

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



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Editorial Policy

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

Information Disclosure Tools



Integrated Report 2020 (Print and website)

Introduces the business activities and philosophy of the Morinaga Milk Group for the creation of greater corporate value and sustainable growth

Sustainability Data Book 2020 (Web)

(scheduled release: October 2020)

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



Corporate Website

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

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

Guidelines Referenced

- International Integrated Reporting Framework
- Guidance for Collaborative Value Creation

Forward-looking Statements in this Report

Forecasts and plans concerning the Company's business activities in the fiscal year ending March 31, 2021 and beyond are based on assumptions and economic forecasts as of May 19, 2020 and are not intended as a guarantee of the Company's future financial performance.

History of Morinaga Milk

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

1917–1949

Beginnings in Condensed Milk

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



First dried milk in Japan mass-produced by machine

1949–1967

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

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





Japan's first homogenized milk and creaming powder for coffee

1967–1988

Expansion of Operations as "Innovative Morinaga"

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



Plain yogurt containing bifidobacteria *Morinaga Bifidus Yogurt* (launched in 1978)

1917 — 1950 — 1960 — 1970

Establishment | **Market expansion** | **Category expansion**

1988–

Global Expansion

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

2001–

Pursuing "Delicious and Pleasurable Food" and "Health and Nutrition"

Against a backdrop of increasing health consciousness, we have been proactively developing foods that contribute to consumers' health since 2001. Our many decades of milk-related research and the proprietary functional ingredients that have resulted from it—bifidobacteria and lactoferrin—have been major growth drivers. In the development of new products and the implementation of various initiatives, we pursue health functionality while maintaining a focus on ensuring food's essential deliciousness and pleasure. The Morinaga Milk Group will continue to support the physical and emotional health of our consumers, and contribute to happiness in their daily lives, thereby furthering the creation of an enriched social environment that inspires smiles everywhere.



Bifidus Yogurt series TV commercial
"50 Years of Research" version
(nationally broadcast September 2019)



Fun experiential location for trying *Pino*
"CRAZYpino Studio"
(open from July 20 to Aug. 4, 2019 in Harajuku, Tokyo)



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



Milk Life series of powdered milk products for adults to aid in developing new healthy lifestyle habits



Triple Yogurt with listed functions effective in three areas



Infant and toddler milk launched in Bolivia

1980 ▲ 1990 ▲ 2000 ▲ 2010 ▲ 2020

Promoting globalization

Pursuing "delicious and pleasurable food" and "health and nutrition"

At a Glance

The Morinaga Milk Group's business operations are divided into the B-to-C Business, the Wellness Business, the B-to-B Business, and the Overseas Business. With milk forming the core of its various products, the Group seeks to deliver health and happiness through its business to people in Japan and around the world.

Chilled cup-type coffee



Leading market share in Japan*

42%

* INTAGE SRI (share of sales from April 2019 to March 2020)

Yogurt



Third-largest share in Japan*

11%

* INTAGE SRI (share of sales from April 2019 to March 2020)

Bifidobacterium longum BB536 used in over

30 countries

(as of July 31, 2020)

MILEI's manufacturing share of lacoferrin

No.1* worldwide

* Absolute Reports, 2018 data

LAC-Shield™ selected by over

400 companies

(as of July 31, 2020)

Business Domain

B-to-C Business

The B-to-C Business is the core domain of Morinaga Milk Industry, making up over half of net sales. We handle beverage brands, such as *Mt. RAINIER CAFFÈ LATTE* and Lipton, and a range of well-known everyday products including ice cream, yogurt, cheese, and milk.



Wellness Business

The Wellness Business handles nutritional foods, with a focus on infant formula; mail-order sales of supplements and related products; and liquid foods by our subsidiary CLINICO.



B-to-B Business

The B-to-B Business provides various dairy product ingredients, such as cream, and functional dairy ingredients, such as bifidobacteria, LAC-Shield™, and lactoferrin, to a wide range of businesses.



Overseas Business

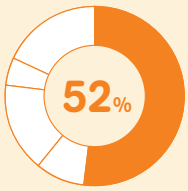
The Overseas Business includes MILEI GmbH in Germany, which manufactures and sells dairy product ingredients; the infant formula export business; and a business manufacturing and selling long-life tofu products.



Note: In addition to these four business domains, there is also an "Other" segment.

Results for the Fiscal Year Ended March 31, 2020

Percentage of Net Sales



Net Sales
¥305.7 billion
(0.6% year-on-year increase)

Operating Income
¥12.6 billion
(¥2.2 billion year-on-year increase)

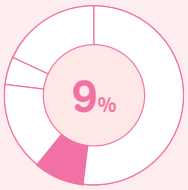
Sales of beverages and ice cream were impacted by a cool summer, and while we continued to review our position on low-profit milk and dessert products, revenue decreased for the first half of the fiscal year and only increased significantly for yogurt in the second half. Due to increased interest in functional ingredients for health and at-home demand, overall net sales for the year increased. Continued improvement of product mix, lower-cost operations, and price revisions resulted in an increase in operating income.

Net Sales by Product Category (Non-consolidated; the Fiscal Year Ended March 31, 2020)

(¥ billions)

	Beverages	Yogurt	Ice cream	Cheese	Milk	Desserts	Commercial milk (home delivery, etc.)
Net sales	66.8	53.6	44.7	32.8	53.0	8.9	21.5
Year on year	±0%	+5%	-1%	-2%	±0%	-19%	+1%

Percentage of Net Sales

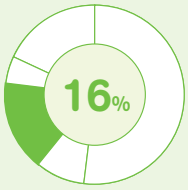


Net Sales
¥55.7 billion
(0.5% year-on-year decrease)

Operating Income
¥4.2 billion
(¥1.0 billion year-on-year increase)

Sales by our subsidiary CLINICO, whose products include liquid foods; *Milk Life*, a nutritional milk powder for adults; and baby foods performed well. By contrast, revenue decreased for infant formula, *Creap* (creaming powder), and skimmed milk, and overall net sales decreased as well. Continued improvement of product mix resulted in increased operating income.

Percentage of Net Sales

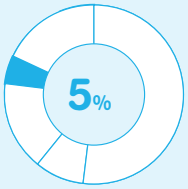


Net Sales
¥96.7 billion
(0.2% year-on-year decrease)

Operating Income
¥5.3 billion
(¥0.5 billion year-on-year decrease)

Revenue increased for products such as milk and cheese, but fourth-quarter demand for commercial dairy products in restaurants and similar industries fell sharply. In addition, demand for functional ingredients, which had expanded rapidly until the previous quarter, slowed slightly and resulted in a decrease of overall net sales. Declining sales of high margin bacteria and other factors resulted in decreased operating income.

Percentage of Net Sales



Net Sales
¥31.5 billion
(8.9% year-on-year increase)

Operating Income
¥2.8 billion
(¥1.3 billion year-on-year increase)

While increased revenue for MILEI GmbH, which manufactures and sells dairy product ingredients, increased overall business revenue as a result, overseas sales of infant and toddler milk decreased and exports of functional ingredients slowed slightly. MILEI's increased business results and a continued improvement of product mix contributed to increased operating income.

Value Creation Roadmap

Under the current Medium-term Business Plan, which will end in the fiscal year ending March 31, 2022, we are working to achieve further growth and success while adapting flexibly to a rapidly changing social environment under the Morinaga Milk Group 10-year Vision.

Previous Medium-term Business Plan

(Fiscal years ended March 31, 2016–March 31, 2019*)

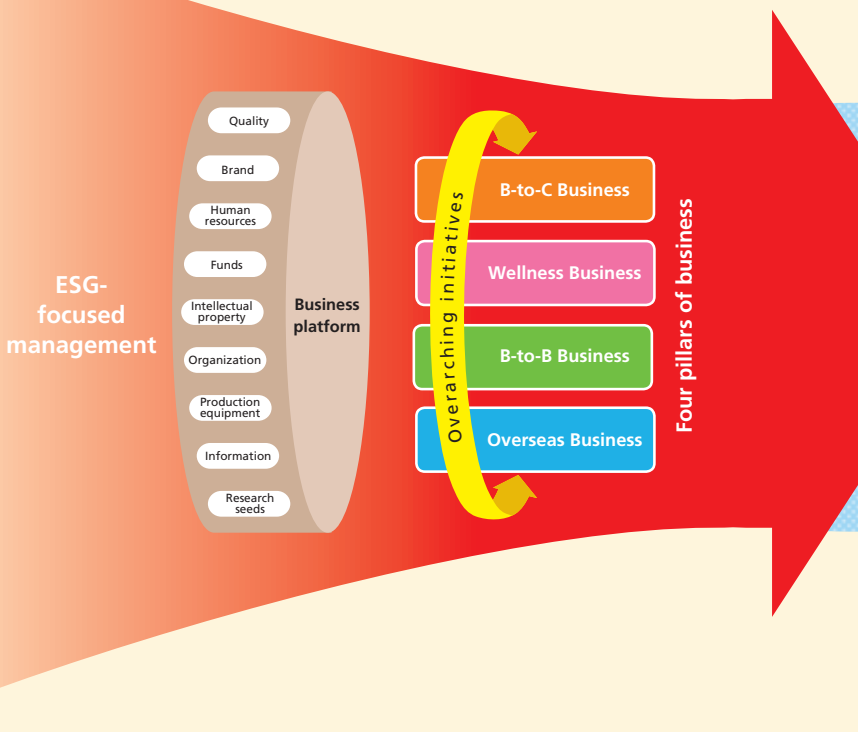
We redefined our four core business domains as the B-to-B Business, the International Business, the Health and Nutritional Food Business, and the B-to-C Business. By appropriately allocating management resources to these priority business domains, we were able to reverse a structural tendency toward low revenue. We also took steps to improve management efficiency, including a transition to an organizational structure optimized for the realization of our strategies, and the centralization of indirect operations. We decided to end the Medium-term Business Plan one year early because these initiatives had already generated results that matched the initial targets in the plan, and because the external environment had changed more than anticipated.

* When we announced the plan, the final year was the fiscal year ended March 31, 2020.

Medium-term Business Plan

(Fiscal years ending March 31, 2020–March 31, 2022)

We have positioned the period covered by this plan as a time for building a robust base to support the realization of our goals under the Morinaga Milk Group 10-year Vision through initiatives based on three basic policies. We will accelerate the rollout of our original functional ingredients in domestic and overseas markets as one of our growth drivers at a time when people's health awareness is growing. We will also contribute to the solution of social issues through ESG-focused management, while also moving forward toward the achievement of the targets in the plan, including the improvement of our business efficiency and financial structure.



Main KPIs

	Mar./ 2019 (results)	Mar./ 2020 (results)
Net sales	¥583.6 billion	¥590.9 billion
Operating income	¥22.3 billion	¥25.4 billion
Ratio of operating income to net sales	3.8%	4.3%
ROE (net income/shareholders' equity)	8.6%	10.7%
Overseas sales ratio	5.0%	5.3%

Three Basic Policies of the Current Medium-term Business Plan

Basic Policy I	Achieving sustainable growth by enhancing initiatives laterally across our four pillars of business
Basic Policy II	Performing business with an ESG focus aligned with our Corporate Philosophy
Basic Policy III	Further strengthening our business base in a manner that supports the foundations of our corporate activities

Our Vision (Fiscal Year Ending March 31, 2029)

We announced the Morinaga Milk Group 10-year Vision in 2019 as a clear statement of our vision for the Morinaga Milk Group 10 years in the future and as an organization from which stakeholders can expect growth. In September 2017, we celebrated our centennial, and we aim to turn our 10-year vision into reality as a step toward our next hundred years.

Corporate philosophy

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

Corporate slogan

"For Ever Brighter Smiles"

Morinaga Milk Group 10-year Vision

- VISION 1: A company that balances "delicious and pleasurable food" with "health and nutrition"
- VISION 2: A global company that exerts a unique presence worldwide
- VISION 3: A company that persistently helps make social sustainability a reality

	Mar./ 2021 (forecast)	Mar./ 2022 (plan)	Mar./ 2029 (targets)
	¥591.0 billion	¥630.0 billion	—
	¥26.0 billion	¥30.0 billion	—
	4.4%	4.8%	At least 7%
	7.9%	9.3%	At least 10%
	6.0%	7.1%	At least 15%

Progress Under the Current Medium-term Business Plan

(Fiscal Years Ending March 31, 2020–March 31, 2022)

For the three-year period until the fiscal year ending March 31, 2022, we have made it a priority to build a robust business base under the three basic policies of achieving sustainable growth by enhancing initiatives laterally across our four pillars of business, performing business with an ESG focus aligned with our Corporate Philosophy, and further strengthening our business base in a manner that supports the foundations of our corporate activities. The numerical targets for our efforts under this plan are net sales of ¥630 billion and operating income of ¥30 billion.

	Mar./ 2019	Mar./ 2020	Mar./ 2022 (planned)	Increase (decrease) compared with Mar./ 2019	Percentage increase (decrease) compared with Mar./ 2019
Net sales	¥583.6 billion	¥590.9 billion	¥630.0 billion	+¥46.4 billion	+8.0%
Operating income	¥22.3 billion	¥25.4 billion	¥30.0 billion	+¥7.7 billion	+34.3%
Profit attributable to owners of parent	¥14.0 billion	¥18.7 billion*	¥19.2 billion	+¥5.2 billion	+37.0%
Ratio of operating income to net sales	3.8%	4.3%	4.8%		
ROE (net income/shareholders' equity)	8.6%	10.7%	9.3%		
Overseas sales ratio	5.0%	5.3%	7.1%		
Dividends	¥55	¥60	Target payout ratio of 20%		

* This includes ¥6.8 billion in extraordinary income from the transfer of fixed assets (beneficial interest in trust) in the fiscal year ended March 31, 2020.

Basic Policy I

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

We will strengthen cross-segment collaboration centering on health and nutritional functionality and aim for sustainable growth based on the following four priority themes.

* Compared with the total for the fiscal year ended March 31, 2019

THEME 1 Further Enhancing Our Main Brands

We will maximize the value of the eight main brands that support our business base and expand the contribution from these eight brands to 18%* of total net sales.

Increase sales of our main brands by **18%**

Compared to the fiscal year ended March 31, 2019

Progress During the Fiscal Year Ended March 31, 2020

There was substantial growth in sales of *Pino*, due to interest generated by a successful promotional campaign. Other products to show significantly higher sales included bite-sized *Fresh Mozzarella Cheese*. However, trends were less encouraging for some products, such as *Greek Yogurt PARTHENO*, and total sales were similar to the previous year's level at ¥120.7 billion (±0% year on year).



THEME 2 Accelerating Development of Bifidobacteria and Proprietary Seeds

We are strengthening our capacity to develop new functional ingredients with the aim of expanding income by 1.5 times* over the three-year period of the plan. We are investing actively in plant facilities, including the expansion of production facilities for probiotics. Manufacturing capacity will double* by the fall of 2020, and ultimately we aim to quadruple* total Group capacity.

Increase income by **1.5 times**

Focus on bifidobacteria differentiation strategy

Increase probiotics supply capacity by **4 times**

Compared with the fiscal year ended March 31, 2019; based on future plans

Progress During the Fiscal Year Ended March 31, 2020

We developed foods containing functional ingredients, including bifidobacteria, and further enhanced existing products. We also stepped up our efforts to disseminate information about our functional ingredients. There was also progress on the expansion of production facilities for probiotics at the Fukui Plant of Morinaga-Hokuriku Milk Industry Co., Ltd. in preparation for the start of operations in the fall of 2020.

THEME 3 Developing the Overseas Business

We will implement strategies to triple the overseas contribution to the group sales to 15%* over the next 10 years, including the expansion of the B-to-B business and bifidobacteria and lactoferrin sales, and initiatives to drive increased growth for our German subsidiary, MILEI GmbH.

Increase overseas sales by
3 times
Compared to the fiscal year ended March 31, 2019

Progress During the Fiscal Year Ended March 31, 2020

While exports of infant and toddler milk decreased, MILEI GmbH, which manufactures and sells whey protein concentrate, lactoferrin, and other ingredients, achieved substantial revenue growth, lifting the overseas sales ratio to 5.3%. This growth reflects rising global awareness of the health benefits of functional ingredients.

THEME 4 Building the Foundations of a Next-generation Healthcare Business

We have developed numerous products that contribute to good health and we will further extend their potential by creating new product lines, while also expanding digital marketing and new sales channels, such as e-commerce.

Increase annual sales in next-generation healthcare business by
¥10 billion
During fiscal years ending March 31, 2023 and 2025

Progress During the Fiscal Year Ended March 31, 2020

We stepped up our efforts to expand new business, including the implementation of a marketing policy based on cooperation with drugstore chains, and pursued open innovation through industry-academia-government collaboration. In January 2020, we also established the E-commerce Enterprises Department.

Basic Policy II Performing Business with an ESG Focus Aligned with Our Corporate Philosophy

We will work to achieve the targets that we have set for the key performance indicators (KPIs) that relate to the seven priority issues defined for our entire supply chain.

We continued to contribute to solving social issues relating to health and nutrition by launching products such as the food with functional claims *Triple Yogurt,* and expanding sales of the *Milk Life* nutritional milk powder for adults. Further information about our progress on KPI targets and other initiatives can be found in Chapter 3, and in Sustainability Data Book 2020 (to be released in October 2020).

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

We will continue the initiatives based on this policy, which are linked to our 10-year Vision and Basic Policies 1 and 2, and work to strengthen the business base.

Capital Investment

In addition to capital investment for the yogurt business, the probiotics business, and other areas, we are also implementing rationalization measures focusing on our production structures. Including capital investment, we plan to implement growth investment totaling ¥50 billion during the current Medium-term Business Plan.

	Mar./ 2018	Mar./ 2019	Mar./ 2020	Mar./ 2021 (plan)
Capital investment	¥24.4 billion	¥39.4 billion	¥33.7 billion	¥27.5 billion
Depreciation	¥16.7 billion	¥17.0 billion	¥17.6 billion	¥20.0 billion

Capital, Interest-bearing Debt, and Dividends

In the fiscal year ended March 31, 2020, we earned ¥6.8 billion in extraordinary income from the transfer of 50.1% of equity in our head office building as beneficial interest in trust. By giving priority to the repayment of interest-bearing debt and the procurement of surplus funds, we were able to improve our debt-to-equity ratio (DER).

	Mar./ 2018	Mar./ 2019	Mar./ 2020	Mar./ 2022 (plan)
Interest-bearing debt	¥88.6 billion	¥105.5 billion	¥98.0 billion	¥90.0 billion
DER	0.56 times	0.63 times	0.54 times	0.42 times

“For Ever Brighter Smiles”

With lives and livelihoods under threat from
the expanding COVID-19 pandemic,
every business needs to consider how they
should respond to this unprecedented situation.
We are determined to enhance the ability of the
Morinaga Milk Group to adapt to environmental
change and achieve sustainable growth,
so that we can fulfill our mission to
bring brighter smiles to our customers.



Michio Miyahara

President and
Representative Director

Adaptability is Key in a Changing and Increasingly Complex Society

Companies today are experiencing changes to their environment at an accelerated rate. We face massive and often conflicting shifts in trends on a global scale, including competition across industrial sectors, advances in information technology, the diversification of consumer behavior, the accelerating formation of corporate alliances and partnerships, the globalization of trade and data, and the rise of protectionism. This was the environment in early 2020 when the world was plunged into an unprecedented situation by the COVID-19 pandemic. In April, the Japanese government declared a state of emergency, inevitably resulting in a downturn in social and economic activity. Another consequence has been an accelerating shift to new work styles, including working remotely. Countless people have been forced to modify their mindsets and behavior patterns across every facet of daily life.

I believe that we have entered a phase in which business will be required to adapt even more quickly and flexibly to changing consumer behavior and needs, and to enhance their adaptability in this increasingly complex social environment.

There are specific challenges for the dairy industry, including the exodus of people from the industry, and a shortage of successors to replace retiring farmers. Consumption of milk and other dairy products has shrunk due to temporary school closures, reduced demand from inbound tourists, and other factors. This situation has resulted in a surplus of raw milk. Going forward, the entire industry will need to work together to maintain and strengthen the milk production base.

Solidifying the Business Continuity Plan

Because the Morinaga Milk Group supplies essential consumer goods, we have a special responsibility to maintain the supply of our products during emergencies. Our response to the current COVID-19 pandemic has been coordinated by a countermeasures task force established under our business continuity plan (BCP). Our response guidelines have focused on comprehensive measures to prevent the spread of COVID-19, and on the maintenance of our manufacturing structures and supply chains. Under these guidelines, we have implemented measures to ensure the continuity of our business operations. Based on our experience of the COVID-19 crisis, I believe that we need to further enhance the effectiveness of our BCP.

Realizing the 10-year Vision

Under the Morinaga Milk Group 10-year Vision, our long-term numerical targets for the fiscal year ending March 31, 2029 are an operating income ratio of at least 7%, ROE of at least 10%, and an overseas sales ratio of at least 15%. We see these figures as thresholds that the Morinaga Milk Group needs to cross to secure its future as a corporate group capable of sustainable growth. We are determined to accelerate our progress toward these goals while continually debating key questions, such as whether we are responding effectively to society's needs in a changing external environment, and whether we are preparing adequately for anticipated future trends.

Vision 1
A company that balances "delicious and pleasurable food" with "health and nutrition"

Consistent consumption of appropriate nutrition is the foundation for good health. For over 50 years, the Morinaga Milk Group has been engaged in research into intestinal flora and bifidobacteria. We will contribute to society by using the knowledge and results of this work to promote health and nutrition. Food also plays a key part in mental health. The experience of delicious food enhances our psychological well-being, fosters human interaction, and creates happiness. We are determined to achieve a balance of these aspects in our corporate and product brands, as well as in the composition of our products and services, and to move from a balance of the two toward a deeper fusion.

➡For details see
"Balancing Delicious and Pleasurable Food with Health and Nutrition" on Page 21.

Vision 2
A global company that exerts a unique presence worldwide

The Morinaga Milk Group has been building overseas markets for infant and toddler milk for many years. The Japanese market is being impacted by a falling birth rate,

but we anticipate continuing growth in infant and toddler milk consumption in overseas markets, especially in emerging economies. We will continue to target growth in this area, while responding flexibly to business risks in each country.

Our functional ingredients, such as bifidobacteria and lactoferrin, have strong potential in terms of building a unique presence worldwide, and we are predicting further growth in world demand for these products. We have obtained the GRAS* designation for Bifidobacterium longum BB536 and Bifidobacterium breve M-16V as ingredients for infant milk, and we will move forward steadily with initiatives to drive further growth in sales.

MILEI GmbH, a member of the Morinaga Milk Group in Germany, which manufactures and sells dairy ingredients, such as whey protein concentrate and lactoferrin, has started to achieve sustained business growth. There are plans for further expansion of its production capacity.

* A Generally Recognized as Safe (GRAS) designation has been a requirement for all new food ingredients sold in the United States since 1958. This designation is based on expert assessments covering criteria ranging from the characteristics of raw materials to product quality.

For details see
"Our Challenge to Become a Global Company" on Page 27.

Vision 3
A company that persistently helps make social sustainability a reality

As a result of the COVID-19 pandemic, I believe that people are beginning to question what is truly necessary for a sustainable society.

From an environmental perspective, there are a wide variety of social issues that need to be addressed. In the area of water resources, a wastewater treatment system developed by a member of the Morinaga Milk Group, MORINAGA ENGINEERING CO., LTD., is now being used not only by the Group but also by almost 300 business partners. We are also working to combat global warming by reducing our CO_2 emissions though improved energy efficiency and the use of renewable energy. Our other initiatives target the reduction of food waste through the development of more long-life products and food recycling, the replacement of plastic containers with paper, and the reduction of packaging. We are also considering the adoption of bioplastics.

Another important activity in recent years is the development and sale of *PURESTER*, a device that generates slightly acidic electrolyzed water. This technology is based on our knowledge of hygiene control for manufacturing operations. As a result of the COVID-19 pandemic, society as a whole seems to have become more aware of hygiene. We aim to realize this vision by linking the growth of our Group businesses to the solution of social issues.

For details see
"Chapter 3: Contributing to Making Social Sustainability a Reality" on Page 32.

Building a Robust Business Base under the Medium-term Business Plan

Our goal under the current Medium-term Business Plan is to build a robust business base for the realization of our 10-year Vision. In the first year of the plan, the fiscal year ended March 31, 2020, we achieved growth in both revenue and income, with net sales reaching ¥590.9 billion, and operating income at ¥25.4 billion.

A review of our initiatives during the year indicates that these achievements resulted from improvements in our product mix. We also accelerated the expansion of our original functional ingredients across four business areas. Our efforts to improve the profitability of our milk business included the accelerated introduction of high added-value products and functional food products designed to support healthy nutrition. We established a new E-commerce Enterprises Department to develop new channels, including further digital marketing and e-commerce business, and we began to create infrastructure for our next-generation healthcare business based on convergence with e-commerce.

However, we did not reach our targets for sales of our eight main brands, including *Mt. RAINIER CAFFÈ LATTE* and *Greek Yogurt PARTHENO*. Going forward, we will step up our efforts to respond to changes in consumer lifestyles and needs, enhance the profitability of brands, and develop product brands to succeed our eight main brands.

We also made progress on key priorities relating to ESG-focused management. There were significant results in the environmental area, including the achievement of some targets in the first year of the plan. Specific products that contributed to progress in the health and nutrition area included *Triple Yogurt*, which offers functional benefits relating to blood pressure, blood sugar levels, and neutral fat. Sales were substantially above the target. We

also recorded sustained growth in sales of the *Milk Life* series, which is a nutritional milk powder that helps adults to build healthy lifestyles.

Our efforts to enhance our business base included initiatives toward the optimization of our production structure, including the start of operations in a new building at the Tone Plant, and the termination of production at the Kinki Plant. We also took steps to improve our financial structure, including the sale of 50.1% of beneficiary rights in our head office building, the improvement of asset values, the reduction of interest-bearing debt, and the improvement of the debt-to-equity ratio (DER).

New Challenges Leading to Improved Structure and Growth

As the second year of the Medium-term Business Plan, the fiscal year ending March 31, 2021 will be a vital stage on our path to the achievement of our targets for the final year of the plan. We will target growth in sales of products that are a match for lifestyle changes and rising consumer interest in health. We will also prioritize the improvement of our product mix. Our targets for the fiscal year are net sales of ¥591 billion and operating income of ¥26 billion.

In May 2020, Toyo Fermented Milk Co., Ltd., a member of the Morinaga Milk Group, terminated production. We will also cease production at the Tokyo Plant in March 2021 as part of planned rationalization measures. We are actively taking up new challenges in growth areas. For example, we plan to double our capacity for probiotics production with the completion of additional facilities at the Fukui Plant of Morinaga-Hokuriku Milk Industry Co., Ltd. in the fall of 2020.

Our policy on shareholder returns is to provide long-term dividend stability with a target payout ratio of 20% or higher, while steadily investing in future growth and maintaining our financial stability. As in the previous fiscal year, we expect the dividend for the fiscal year ending March 31, 2021 to be ¥60 per share.

While working to achieve our financial targets we will also continue to build our business base through initiatives in such areas as corporate brand reinforcement and human resource development. The focus for all of these efforts will be the realization of our vision and the improvement of our corporate value.

Further work is needed to complete our transition away from a structure in which lateral collaboration is hindered by a tendency to think in terms of individual departments. We are determined to improve our corporate structure by creating internal organization and changing mindsets through initiatives targeting the factors, such as vertically oriented culture and a weak awareness of the need for cross-organizational collaboration, that have slowed progress on some initiatives.

Enhancing Corporate Governance

Initiatives to enhance corporate governance in the year ended March 31, 2020 centered on improvements to the functions of the Personnel Remuneration Committee. In June 2020, we further strengthened our corporate governance by introducing a new corporate officer structure and increasing the number of external directors from two to three, or one-third of the total Board of Directors. We will continue our efforts to consider a wide range of external perspectives objectively, and to manage the company transparently, fairly, and effectively.

➡For details see
"Directors and Audit & Supervisory Board Members" on Page 43 and "Corporate Governance" on Page 49.

To Our Stakeholders

The spread of the COVID-19 pandemic has created a situation that we have never before experienced. These times will put companies to the test in terms of their responses to the situation, and even their reason for existence. We are keenly aware that each employee of the Morinaga Milk Group needs to go back to the business fundamentals and reconfirm that the reason we continue to do business and seek further growth is to benefit society and our stakeholders.

Our challenges now are to maximize our corporate value, find solutions to social issues, and achieve sustainable growth by further enhancing our ability to adapt to environmental change, so that we can continue to inspire ever brighter smiles. We look forward to the continuing support of our stakeholders.

Our Response to the COVID-19 Pandemic

As the COVID-19 pandemic expanded globally, on April 16, 2020, a state of emergency declaration under an Act on Special Measures was extended to all of Japan's prefectures and the Tokyo metropolitan area. While giving first priority to the safety of all of our employees, we took various steps to fulfill our social responsibility as a business group engaged in the manufacture of essential products by ensuring supply continuity.

Our Response to the Spread of COVID-19—Actions During the State of Emergency Period*

1 Group-wide Measures

- Establishment of an emergency countermeasures task force
- Enforcing temperature checks regularly, and ensuring that all employees wash their hands, gargle, and wear mask
- Encouraging employees whose work is not directly related to the product supply to work at home

2 Production-related Measures

- Measures to ensure supply reliability, including procurement from multiple suppliers, maintenance of inventories, and collaboration within the supply chain
- Development of measures to ensure supply continuity in the event that employees are infected with COVID-19 (shift work, support systems, alternative manufacturing systems)
- Measures to deal with milk surplus created by school closures, etc.

3 Sales-related Measures

- Measures in response to the negative impact on demand for food services, hotels, tourism, and souvenirs
- Measures in response to heightened awareness of immunity, infection risks, and hygiene; increased at-home demand; and purchasing channel changes
- Measures to maintain business continuity in overseas markets, and response to rising global awareness of functional ingredients

* The state of emergency was lifted on May 25, 2020. However, we are constantly monitoring the situation in Japan and overseas and taking steps to prevent infection and the spread of COVID-19 as the situation evolves.

Outlook for Business Performance in the Fiscal Year Ending March 31, 2021

The outlook is very uncertain because of the risk that the COVID-19 pandemic will cause a long-lasting economic downturn in Japan and other countries.

The Morinaga Milk Group will take every possible step to fulfill its mission as a manufacturer of essential food products by taking the greatest possible care to protect the health and safety of employees and ensuring supply continuity. We expect that the COVID-19 pandemic will result in reduced demand for commercial dairy products for use in restaurants, hotels, tourism, souvenir manufacturing, and other areas. However, we anticipate firm trends in demand for food products containing functional ingredients, which contribute to good health, and products for use in home cooking.

Our corporate activities related to the procurement of raw materials, production, and sales could be affected if the COVID-19 situation has a prolonged impact on business in various countries. However, we will work to establish product supply structures under our business continuity plan (BCP).

In this context, we have positioned the fiscal year ending March 31, 2021, the second year of our current Medium-term Business Plan, as the most important year for the achievement of our targets. We will increase our efforts to strengthen the corporate structure and business operations. Our consolidated financial forecasts for the whole of the fiscal year ending March 31, 2021 are net sales of ¥591.0 billion (unchanged year on year), operating income of ¥26.0 billion (2.5% increase year on year), ordinary income of ¥26.5 billion (2.4% increase year on year), and profit attributable to owners of parent of ¥14.8 billion (20.7% decrease year on year). (These financial forecasts reflect the impact of the economic downturn caused by the COVID-19 pandemic up to the end of September 2020.)

Net sales	¥591.0 billion (±0% year on year)
Operating income	¥26.0 billion (2.5% year-on-year increase)
Profit attributable to owners of parent	¥14.8 billion (20.7% year-on-year decrease)

Our special task force will continue to monitor the situation, including developments in Japan and overseas, and the status of our Group companies in Japan and overseas, our overseas business sites, and suppliers. It will also direct and implement the actions needed to ensure business continuity.



Chapter 2

Realizing the 10-year Vision

The 10-year Vision is a definitive statement of our aspirations for the Morinaga Milk Group as a business group dedicated to the achievement of sustainable growth. Outlined in the following pages are some of our initiatives in Japan and overseas toward the realization of this vision.

Focus 1

Balancing "Delicious and Pleasurable Food" with "Health and Nutrition"

Leveraging the Unique Capabilities of the Morinaga Milk Group to Create New Value

One of the pillars of the Group's 10-year Vision is our commitment to balancing delicious and pleasurable food with health and nutrition. We are uniquely positioned to achieve this goal specifically because of assets, including our research and development capabilities, technologies, marketing skills, and an extensive lineup of brands, that the Group has accumulated over a more than 100-year history. By combining these assets with our accumulated know-how and creativity, we will accelerate our efforts toward the creation of new value.

Key Functional Ingredients Developed by the Morinaga Milk Group

The Morinaga Milk Group's portfolio of functional ingredients includes bifidobacteria, which is one of the main types of probiotic microbiota inhabiting the human large intestine, LAC-Shield™ human-derived lactobacteria, and lactoferrin, a protein that is present in large quantities in human breast milk. Other major products in this category include peptides, which are expected to provide solutions in areas ranging from milk allergies to sports nutrition, Aloesterol®, and Orabarrier®. Through our cutting-edge research into functional ingredients, we are developing functional ingredients and products that combine functionality with delicious taste. The use of this research to create new products will be a major driving force for the realization of the 10-year Vision.

Bifidobacteria

● Bifidobacterium longum BB536	Discovered in healthy infants in 1969, Bifidobacterium longum BB536 is a type of bifidobacteria inhabiting the human intestinal tract. It has been shown to reach the intestine and contribute to the improvement of the intestinal environment. Today Bifidobacterium longum BB536 is being used in over 30 countries.
● Bifidobacterium breve M-16V	We supply Bifidobacterium breve M-16V to over 140 medical institutions and other organizations in Japan and overseas. It is present in large quantities in the human digestive system, especially in babies. Ingestion of this bacterium contributes to the efficient absorption of nutrition by maintaining high levels of bifidobacteria in the intestinal flora.
● Bifidobacterium breve B-3	Morinaga Milk Industry holds a patent for this bacterium (No. 4834798), which was discovered in healthy babies after years of research into intestinal flora. It supports healthy growth and development.

Main Functional Ingredients

● Lactoferrin	Found in large quantities in breast milk, this functional ingredient has important protective properties.
● Peptides	By using enzymes to break down milk proteins, the Morinaga Milk Group has created milk products that can be consumed by people who have milk allergies.
● LAC-Shield™	We first took interest in this product because of its potential to enhance immune functions. As a heat-sterilized bacterial powder, it is suitable for use in processed foods.
● Aloesterol®	This rare functional food ingredient has been shown to increase the skin's collagen content and enhance moisture retention.
● Orabarrier®	The Morinaga Milk Group combined lactoferrin with lactoperoxidase to create this functional ingredient with antibacterial properties.
● Lactulose	This oligosaccharide is used in infant formula and various other products.

Accelerating the Development of Bifidobacteria

Bifidobacteria has been important driver for the creation of new value by the Group. As a pioneer of bifidobacteria research, we have led R&D in this field for many years and helped to reveal the potential of these bacteria. Demand is expanding rapidly in step with rising health awareness. While investing in plant and equipment to increase our production capacity, we will also prioritize the dissemination of information about bifidobacteria.

Health and Safety Benefits Backed by Research Data

We have been engaged in research into bifidobacteria and intestinal flora for over 50 years, and we are the world's leading producer of scientific papers on human residential bifidobacteria*1. By providing products that offer health and safety benefits backed by extensive research, we have gained the support of countless people worldwide and built an excellent reputation in Japan and internationally.

*1 As of 2019. Based on research by Metabologenomics, Inc.



The world's leading producer

of scientific papers on human residential bifidobacteria.

Recognition in Japan and Overseas

Bifidobacterium longum BB536 Japanese Association for Food Immunology: Food Immunology Industry Award

In the fiscal year ended March 31, 2020, we received the Food Immunology Industry Award of the Japanese Association for Food Immunology in recognition of achievements resulting from our many years of research relating to Bifidobacterium longum BB536.

GRAS designation for Bifidobacterium longum BB536 and Bifidobacterium breve M-16V

We have obtained GRAS*2 designation for Bifidobacterium longum BB536 and Bifidobacterium breve M-16V, allowing these products to be sold as food ingredients in the US. Morinaga Milk Industry is the only Japanese company to obtain FDA GRAS designations for the use of bifidobacteria in products for infants (as of April 7, 2020).

*2 See the note on page 17.

"Infant Nutrition Ingredient of the Year" award for Bifidobacterium breve M-16V (Singapore)

Bifidobacterium breve M-16V was selected for the "Infant Nutrition Ingredient of the Year" award in the infant nutrition section of Singapore's NutraIngredients-Asia Awards. These awards are given in recognition of innovation and excellence in foods, supplements, and other products of the Asia nutrition industry.

Strengthening Our Production Structures

We are expanding our production capacity in anticipation of rapid growth in the markets for probiotic products and functional ingredients. We plan to increase our production capacity to approximately 150 tons, which is double the level in the fiscal year ended March 31, 2019, by constructing a new building and adding manufacturing lines for probiotics at the Fukui Plant of Morinaga-Hokuriku Milk Industry Co. The new facilities will become operational in the fall of 2020. In the future, we plan to quadruple production capacity.

Increased Emphasis on the Dissemination of Information

We have prioritized communication about our original functional ingredients, including bifidobacteria with the aim of providing consumers with a wide range of information about these products. We are actively sharing information through our websites, and through the presentation of research papers at symposiums and fairs in Japan and overseas.

Realizing the 10-year Vision

We aim to contribute to health, nutrition, and a rich food culture by improving food knowledge and technology.



Fumiaki Abe
Executive Managing Officer
General Manager, R&D Division

Market Push from Growing Expectations for Food Products with Health Functions

Health awareness is rising as we approach an era when people will commonly live to the age of one hundred, and in Japan and other countries, this is reflected in increasing interest in food ingredients with health functions. In addition, the transition to new lifestyles based on the presence of COVID-19 is driving increased public interest in related topics, such as enhancement of immune function, disease prevention, and intestinal flora. This is likely to raise expectations toward the role of food in disease prevention, including prevention at the presymptomatic stage.

The Group has many advantages that will help us to adapt to these environmental changes and make significant contributions to society. One core advantage is our portfolio of original functional ingredients, such as bifidobacteria, LAC-Shield™, lactoferrin, the tripeptide MKP®, and Aloesterol®. Other advantages include our production technologies for these functional ingredients, and our resource capabilities at all stages from basic to clinical research. We will use these advantages to achieve further expansion by accelerating the use of our knowledge and technology in various types of products.

Focusing Our Efforts on Functional Ingredient Research to Provide Health Benefits to More People

There is growing global interest in the role of functional ingredients, especially bifidobacteria and lactoferrin, in finding solutions for social issues relating to health and nutrition and the Morinaga Milk Group has made these products a main focus of research. Our successful products in the fiscal year ended March 31, 2020 included *Triple Yogurt* and the nutritional milk powder *Milk Life*. *Triple Yogurt*, which includes the tripeptide MKP®, was launched as a product with functional claims relating to blood pressure, blood glucose, and neutral fat. It was selected for Japan Food Journal’s Blockbuster Food Award. The *Milk Life* series contains bifidobacteria and lactoferrin and have gained a large user base as products that contribute to adult health and nutrition. The products’ uses continue to expand, and for example in June 2020, Morinaga *Milk Life (Space)* became the first milk powder to be certified by the Japan Aerospace Exploration Agency (JAXA) as a Japanese food for use in space.

Developing Products that Provide Delicious and Pleasurable Food Experiences

Research over many years has enabled us to unlock the potential of functional ingredients and provide scientific proof of their benefits to human health. At the same time, we have also developed technologies to create delicious food experiences. For example, we have developed ways to maintain the delicious coffee aroma of *Mt. RAINIER CAFFÈ LATTE* for longer, and the technology to lock in the delicious flavor and sense of freshness of *Fresh Mozzarella Cheese*. Even though bifidobacteria is not normally present in yogurt, we have found ways to keep this probiotic bacteria alive in yogurt while maintaining the delicious flavor. Research relating to ice crystal formation, which affects ice cream consistency, has led to the development of ice cream products that offer a truly enjoyable eating experience.

By developing technologies to enhance the joy, surprise, and fun of delicious foods, the Group has been able to create many original products that are enjoyed by people across a wide range of age groups.

We expect the focus on health and nutrition to intensify further as a result of the COVID-19 crisis. We will continue to make active use of the unique knowledge and expertise of the Group to develop unique products that are delicious, enjoyable, and good for health.

Next-generation Healthcare Business

We are building foundations for a next-generation healthcare business that will contribute to health and well-being for all generations. In this business segment, we aim to use various channels, including digital marketing and e-commerce, and to develop and supply products that can address health issues from a longer-term perspective. Our target is to increase sales in this area to ¥10 billion between the fiscal years ending March 31, 2023 through March 31, 2025, as we accelerate our efforts to keep pace with changes in society. We are determined to achieve sustainable growth by providing value to meet the needs of people in all generations, from infants to senior citizens.

Roadmap for a Next-generation Healthcare Business

Mar./2020	Mar./2021	Mar./2022	Mar./2023-Mar./2025
Test sales	**Strategies to encourage multi-purpose use**	**Build business model**	**Expand new businesses**
Test sales to verify sales channels and review	Sales of new products in appropriate channels	Build model for new health business from the testing stage	Cultivate products, build up brand, and increase customers
▼	▼	▼	▼
Ascertain the status of users	**Supply new products**	**Establish products and marketing channels**	**Business expansion**
			Sales target: **¥10 billion**

Examples of Initiatives in the Fiscal Year Ended March 31, 2020

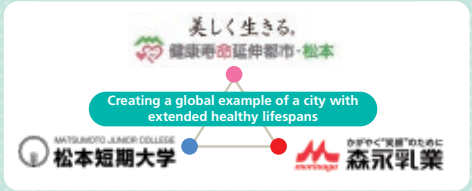
Enhanced Marketing through E-commerce and Digital Channels

In January 2020, we created the E-commerce Enterprises Department to facilitate the use of digital marketing and e-commerce as essential elements in our channel strategy for a next-generation healthcare business. In the fiscal year ended March 31, 2020, we moved forward according to plan with test sales and preparations for full-scale operations. We also targeted real-world outlets through the Online to Offline (O2O) initiative* in collaboration with approximately 1,300 drugstores throughout Japan. We will continue to work toward sales growth and business expansion by strengthening our marketing efforts for a diverse range of products designed to contribute to the health and well-being of consumers of all ages.



* Online to Offline (O2O) initiative: The aim of this marketing initiative is to link online activities through websites and apps to offline purchasing in physical stores, and vice versa.

Accelerating Business Growth through Open Innovation



We aim to create innovative business models through collaboration with external organizations outside of our own corporate group. We also see this kind of collaboration as essential to the creation of foundations for our new businesses. The Morinaga Milk Group will build foundations for a next-generation healthcare business through open innovation based on industry-academia-government partnerships. For several years we have been participating in the Innovative Food & Healthcare Master's Degree program run by Hokkaido University's Center of Innovation (COI), the aim of which is to create a society that is kind to women, children, and the elderly. In the fiscal year ended March 31, 2020, we initiated a new collaborative program in partnership with other participating companies and local governments. In addition, in October 2019, we launched a program to survey infant health and support childbirth and child raising in Matsumoto City in partnership with Matsumoto City Hospital and Matsumoto City, Nagano Prefecture. In addition to our own independent initiatives, our work in partnership with outside organizations is also helping to put the next-generation healthcare business on a path to growth.

Building a Stronger Corporate Structure through Organizational Changes

One of our priorities is the development of a highly flexible organizational structure capable of adapting nimbly to environmental change and putting our strategies into effect quickly and reliably. The Group is optimizing the allocation of resources to each organization, while also implementing organizational reforms designed to create a corporate structure that can adapt flexibly to change. We have implemented various organizational changes over time, but in the fiscal year ended March 31, 2019, we restructured the head office organization into functional divisions and accelerated efforts to optimize administrative and executive functions across the entire corporate organization.

We have also restructured our marketing organization, resulting in a shift away from a vertically divided structure based on product categories to an organization centered on marketing channels. This has led to the evolution of a structure that allows us to follow up the needs of our customers while approaching sales activities flexibly and efficiently as “Team Morinaga.”

One of our basic policies under the current Medium-term Business Plan is to enhance initiatives laterally across our four pillars of business. In addition to improving the productivity of our sales activities, we also see the restructuring of our sales organization as a way to generate further benefits through reciprocal encouragement between business segments.

Voice

Comments from the Evolving Frontline Environment

Yasuhiro Kubota
Customer Sales Planning Department
Customer Sales Management Division
Tokyo Metropolitan Branch

Q. Over two years have elapsed since we restructured the organization from a business segment structure to one based on channels. What benefits have emerged?

Compared to the old segment-based system, in which multiple people would engage in sales activities targeting the same business partner, our sales productivity has improved dramatically. The business environment in the food retailing sector is changing rapidly because of M&A, expansion into overseas markets, an accelerating shift to digital marketing and e-commerce, and other factors. We need to step up our efforts to respond to these changes.

Q. How did the workplace situation change when the restructuring was implemented?

Some customers expressed strong support for the reforms. In addition to this praise from customers, people throughout our workplace, including myself, were highly motivated by the challenge of something new. At the same time, we were also nervous about something completely new. This was because the previous segment-based structure required us to have detailed knowledge of particular product categories, while the shift to a channel-based organization meant that we needed to have a wide range of knowledge, including market environments for multiple product categories, as well as product knowledge, negotiating methods, and the presentation of proposals to business partners.

Q. What challenges have you faced in terms of problem-solving and realizing benefits from the restructuring? How have you responded to those challenges?

One challenge for me was that I had to take on the role of promoting sales for ice cream, an area in which I had no previous experience. However, I asked for guidance from employees with years of experience in that area, and as an organization we also took steps to increase knowledge levels, including holding opportunities for sales staff to acquire basic knowledge.

In addition, my office introduced systems to reduce the office workload so that we could focus on sales activities. This initiative, which originated at our office, is now being extended to other sales offices throughout Japan.



Q. What do you see as the priorities for your workplace going forward? What are your aspirations?

We still need to strengthen our sales capabilities more. In addition to continuing efforts to develop an environment in which we can concentrate on sales activities, I think that we should also improve workplace communication. Compared to right after the restructuring, there are more opportunities for sales staff to exchange views, but we should do even more to enhance our ability to work together.

I work at the Tokyo Metropolitan Branch, which is located in a major area for food consumption as the main office responsible for the Kanto Region. I feel a sense of both motivation and responsibility in my role in this important area, and I will continue to do my best every day.

Realizing the 10-year Vision

We are building a robust structure by enhancing our eight main brands.



Hitoshi Hyodo
Executive Managing Officer
General Manager of Sales & Marketing Division

Aiming for Further Sales Growth by Concentrating Resources on Our Eight Main Brands

Further enhancing our eight main brands is our most important priority for the realization of the 10-year Vision. In the fiscal year ending March 31, 2021, we will concentrate resources on the eight main brands that form the foundation for our B-to-C Business and work to achieve further sales growth through the following initiatives.

① *Mt. RAINIER CAFFÈ LATTE*
We will work to improve our brand value by developing buzzworthy products, such as items made using Japanese or seasonal ingredients, and through initiatives contributing to the achievement of the SDGs, such as by increasing the percentage of RA certified coffee beans*.
* Coffee beans certified by the Rainforest Alliance (RA), an international organization working to protect the environment

② *Bifidus Yogurt*
We will enhance the reputation of *Bifidus Yogurt* by improving the value of bifidobacteria, and raising awareness of *Bifidus Yogurt Improved Digestion* as a food with function claims.

③ *Morinaga Aloe Yogurt*
We will enhance the value of the *Aloe* brand by establishing a market image for *Power of Aloe* drink yogurt as a food with function claims that is good for the skin and beauty.

④ *Greek Yogurt PARTHENO*
We will promote *PARTHENO* as a uniquely delicious product with health benefits through campaigns and other initiatives focusing on new eating suggestions and a fitness theme.

⑤ *Pino*
We will expand the target market through new *Pino* products and buzzworthy marketing promotions, and the use of digital marketing and other methods.

⑥ *PARM*
We will stimulate curiosity for the brand, carry out promotional campaigns, and launch new products that encourage repeat purchases or trial purchases.

⑦ *MOW*
We will expand the target market by updating this product to emphasize the delicious flavors of the ingredients.

⑧ *KRAFT Fresh Mozzarella Cheese*
We will expand sales by offering recipes designed to drive shift in demand toward daily use.

Adapting Flexibly and Quickly to Environmental Change

There was rapid growth in both demand for immunity-related foods, and demand from consumers forced to stay at home under the state of emergency imposed in response to the spread of COVID-19. The Morinaga Milk Group promoted sales of products with long shelf lives, which are ideal for stockpiling. We also adapted to environmental changes and responded to rising awareness of disease prevention by expanding our range of home-use products with functional ingredients. We will continue to accelerate initiatives based on the strengths of Morinaga Milk Industry and the Morinaga Milk Group.

In the fiscal year ended March 31, 2019, we restructured our sales organization to create a "Team Morinaga" capable of quick, flexible action. This change has already produced tangible benefits, and we will continue to enhance our integrated strength through further refinement.

Improving Corporate Value through the Pursuit of Stakeholder Satisfaction

Stakeholder satisfaction is vital to the improvement of corporate value. We will continue to increase those satisfaction levels by leveraging the advantages built by the Group over the past 100 years, including our research and technology, and marketing and sales capabilities, to create products that provide unique value and enhanced functionality, as well as delicious and pleasurable food experiences.

Focus 2

Our Challenge to Become a Global Company

Under the Morinaga Milk Group 10-year Vision, we are aiming to increase our overseas sales ratio to at least 15% by the fiscal year ending March 31, 2029. Our efforts to achieve this goal will be driven primarily by the business activities of our subsidiary MILEI GmbH, our infant and toddler milk business, and our functional ingredients business, including probiotics.

Overseas Business Strategy → **Expansion of overseas sales ratio to at least 15%** by the fiscal year ending March 31, 2029

	Mar./ 2016	Mar./ 2017	Mar./ 2018	Mar./ 2019	Mar./ 2020	Final year of the current Medium-term Business Plan Mar./ 2022 (targets)
Net sales	¥21.7 billion	¥21.8 billion	¥26.3 billion	¥28.9 billion	¥31.5 billion	¥45.0 billion
Operating income	¥0 billion	¥0.5 billion	¥-0.8 billion	¥1.6 billion	¥2.8 billion	¥3.5 billion

Note: The International Business was renamed the Overseas Business starting in the fiscal year ended March 31, 2020.

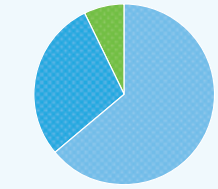
01 MILEI GmbH's Business Potential

Products manufactured by our German subsidiary MILEI GmbH include whey protein, lactose, and lactoferrin. Numerous companies use these products as ingredients for infant and toddler milk and sports nutrition foods.

MILEI's business operations make a vital contribution to the Morinaga Milk Group, accounting for over half of sales in our Overseas Business segment (as of the fiscal year ended March 31, 2020).

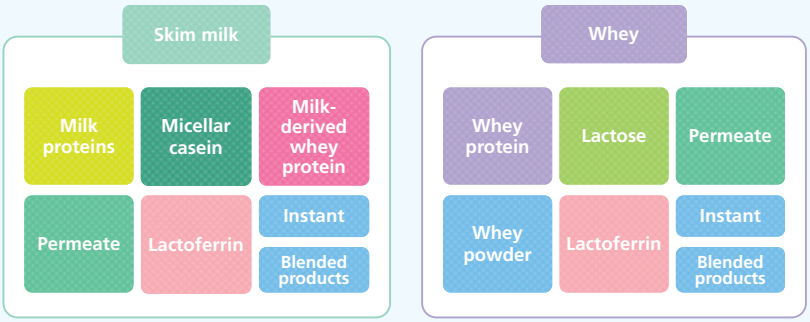
MILEI LIVE. LOVE. ENJOY.

Contributions to Overseas Sales in Fiscal Year 2020



- MILEI GmbH
- Exports of probiotics and infant and toddler milk (non-consolidated)
- Tofu/yogurt sales in the United States

Products Manufactured by MILEI



The History of MILEI

In the 1960s and 1970s, the disposal of large quantities of whey, a by-product from cheese production, was causing increasingly serious environmental problems in Europe. At that time, Japan's advanced membrane filtration technology was seen as a potential solution to this issue, and MILEI GmbH began business with a focus on efforts to address this environmental problem. MILEI's business is expanding thanks to growing demand for whey-based products.

MILEI's Strengths

MILEI possesses the world's most advanced membrane filtration technology and equipment, allowing it to develop a wide variety of products. In terms of total production share, MILEI is a world leader in the manufacture* of lactoferrin, for which demand is expected to expand over the long term. The market for infant and toddler milk in many countries is also expected to grow, and MILEI aims to achieve further expansion in this environment by steadily pursuing category- and area-specific strategies.

*Absolute Reports, 2018 data

A Message from the Management of MILEI GmbH

MILEI will contribute to the realization of the Morinaga Milk Group 10-year Vision by achieving further growth.



Takahiro Yanagida
Geschäftsführer
(Managing Director)
(Production/quality/development)

Jens Kutschera
Geschäftsführer
(Managing Director)
(Sales/procurement/administration)

Rebuilding the Management Structure to End a Three-year Run of Negative Results

In 2014, MILEI commenced construction of a new plant. After production began in the new plant, manufacturing and quality problems and deteriorating market conditions resulted in operating losses for three consecutive years until the fiscal year ended December 31, 2017*. We succeeded in achieving positive results in the fiscal year ended December 31, 2018, and in the fiscal year ended December 31, 2019, there was a substantial increase in our financial performance, so we certainly feel the effect of our efforts.

One of the reasons for this performance turnaround was the rebuilding of our management structure to create an environment in which all employees will be able to exercise their full potential. MILEI now has a management structure is led by two managing directors, with one responsible for production, quality, and development, and the other for sales, procurement, and administration. With clearly defined areas of responsibility, the two presidents have been able to focus on those areas, address area-specific issues in greater detail, and implement far-reaching reforms. In addition, close collaboration between the two managing directors has started to produce a virtuous circle for the entire company through organic collaboration among the various segments.

MILEI's management has also prioritized measures to raise employee motivation, such as sharing the company's vision through an internal newsletter, and fostering closer frontline communication. Another key driving force for MILEI is the sense of unity between local German employees and the Japanese employees on transfer from Morinaga Milk Industry, who respect the differences in their respective business cultures and are working together toward shared goals.

Earning Trust and Positive Reputation through High Product Quality and Productivity

A key advantage for MILEI is the strong relationships that it has built over many years with its wide-ranging customer base, including manufacturers of infant and toddler milk, sports nutrition products, general foods, and nutritional foods in Europe. The addition of Morinaga Milk Industry's production and development technologies and quality control know-how has further strengthened the business.

It was not easy to maintain quality and productivity during the years when major construction work was in progress on MILEI's new plant. However, by combining their strengths, MILEI and Morinaga Milk Industry were able to fulfill the basic responsibility of manufacturers to reliably supply customers with products manufactured to appropriate quality standards. MILEI continues to enhance its reputation for reliability by providing a fine-tuned response to customer needs. Today it is respected internationally as a manufacturer and sales company capable of reliably supplying high-quality dairy ingredients.

Contributing to the Achievement of the 10-year Vision as a Member of the Morinaga Milk Group

One of the pledges to stakeholders in the Morinaga Milk Group 10-year Vision is to increase the ratio of overseas sales from 5% to 15% by the fiscal year ending March 31, 2029. MILEI's growth is essential to the achievement of this ambitious performance target. We aim to achieve sustainable growth by reforming our corporate structure to enhance resilience to market changes, by collaborating with customers worldwide on the development of specialized products and consumer applications, by expanding our lactoferrin business and strengthening production systems to meet growing demand, and by operating as a base to support the global growth of probiotics sales. Through these strategies, we aim to build a unique position by differentiating MILEI from its competitors.

As a member of the Morinaga Milk Group, MILEI will contribute to the realization of the Morinaga Milk Group 10-year Vision not only through the steady accumulation of earnings, but also by pursuing strategies focused on synergies with the Morinaga Milk Group from a medium- to long-term perspective.

* MILEI's financial year is different from the accounting period used by the Morinaga Milk Group (fiscal year ending March 31). Results based on MILEI's financial year are used in the consolidated financial statements after the adjustment of significant transactions to reflect the consolidated balance date.

02 Expanding the Infant and Toddler Milk Business

Increasing consumption in emerging economies and growing demand in Asian countries are driving sustained growth in the global market for infant and toddler milk.

The Group's overseas infant and toddler milk business consists of licensing, joint ventures, and exports. The Morinaga Milk Group brand is widely recognized in Indonesia, where we have a licensing agreement with Kalbe, the country's largest pharmaceutical group.

A manufacturing joint venture established with Kalbe in 2005 has continued to achieve steady growth in its earnings. Key markets for our export business include Pakistan, Vietnam, and Malaysia. We began exporting products to Pakistan in 1978 and established a joint venture company there in 2017. In the past, our main focus in Pakistan was export sales through local distributors. However, in November 2019, we decided to commence manufacturing operations in a local plant.

Our goal is to achieve robust growth through a combination of export sales and local manufacturing. In addition to expanding our existing market share, we will also take up the challenge of developing new markets.



Pakistan



Indonesia



Vietnam



Malaysia

03 Accelerating the Expansion of the Functional Ingredients Business

We have stepped up our B-to-B marketing of functional ingredients in Japan and overseas in response to a global rise in health awareness in recent years. In some cases, functional ingredients need to be registered in individual countries before they can be sold overseas.

We are working to accelerate the expansion of our products in overseas markets by completing registration and approval processes. In 2009, we obtained GRAS* designation for the use of Bifidobacterium longum BB536 in general food products under the U.S. FDA safety review system. In April 2020, Bifidobacterium longum BB536 received an additional GRAS designation, allowing it to be used in products for infants sold in the United States. Bifidobacterium longum BB536 follows Bifidobacterium breve M-16V as the second Morinaga Milk Group ingredient to achieve GRAS certification as an infant and toddler milk additive.

The Morinaga Milk Group is also earning a positive reputation and respect overseas. Bifidobacterium longum BB536 is already used in various food products in over 30 countries around the world, while Bifidobacterium breve M-16V won the Ingredient of the Year award in the infant nutrition category at the NutraIngredients-Asia awards, which are presented in recognition of innovation and excellence in cutting-edge research by Asian manufacturers of foods, supplements, and other nutrition products. We recently expanded our network of sales locations with the establishment of a sales company in Singapore, in addition to our head office in Japan and locations in Germany and the United States. We will continue our efforts to expand sales of our many original functional ingredients, including bifidobacteria products.

*See note on page 17



Bifidobacterium breve M-16V wins Ingredient of the Year award in the Infant Nutrition category. (September 2019)

Global Network

Morinaga Nutritional Foods, Inc.

Established in Los Angeles in 1985 to sell long-life *TOFU* in the United States

MILEI GmbH

Established in Germany in 1972 to manufacture and sell whey protein concentrate, lactose, lactoferrin, etc.

Morinaga Milk Industry (Shanghai) Co.,Ltd.

Established in Shanghai in 2011



Morinaga Nutritional Foods (Asia Pacific) Pte. Ltd.

Established in Singapore in 2015 to sell raw materials to infant and toddler milk manufacturers in Southeast Asia and the Pacific region

PT. Kalbe Morinaga Indonesia

Established in Indonesia in 2005 as a joint venture with Kalbe, Indonesia's largest pharmaceutical manufacturer, to manufacture infant and toddler milk

Progress in Key Regions

Market	Progress
Germany	We have invested over ¥20 billion to expand the production capacity of MILEI GmbH, which manufactures and sells diary product ingredients.
Indonesia	Efforts to strengthen production and marketing are yielding sustained growth in local production and sales of infant and toddler milk.
Singapore	We are strengthening sales and marketing activities for bifidobacteria and other raw materials in emerging markets in Southeast Asia.
Pakistan	We have the leading market share for imported infant and toddler milk, and we have established a manufacturing and sales joint venture with the aim of achieving further growth.
Vietnam	Enhanced local marketing has resulted in strong sales of infant formula and improving brand recognition.
The U.S.	We are producing long-life aseptic tofu for sale across the U.S.



Realizing the 10-year Vision

We are expanding our core business activities and starting up new business initiatives with the aim of achieving our goal of increasing the overseas sales ratio to 15% or higher.



Kiyoshi Nomura
Executive Managing Officer
General Manager, Overseas Business

Improved Revenue and Profit Driven by MILEI's Business Performance

The core elements of the Morinaga Milk Group's Overseas Business are the manufacture and sale of dairy product ingredients by our German subsidiary MILEI, the infant and toddler milk business, for which Asia is the main market, and the functional ingredient business, which includes various probiotic products.

In the fiscal year ended March 31, 2020, MILEI achieved substantial growth in both net sales and profit from its dairy product ingredient manufacturing and sales business. Contributing factors included the stabilization of manufacturing processes and a rise in unit sales prices since the fiscal year ended March 31, 2019, when the company returned to profitability following the new production line becoming operational, as well as efforts to increase production of lactoferrin. As a result, despite slower growth for the infant and toddler milk and functional ingredient businesses, revenue from the Overseas Business segment increased for the fourth consecutive fiscal period and profit for the second consecutive fiscal period.

Building Foundations for New Growth through the Challenge of Overseas B-to-C Business

One of the targets in the Morinaga Milk Group 10-year Vision is an overseas sales ratio of at least 15%. Our strategies to achieve this goal focus not only on the expansion of our current core businesses, including MILEI, but also expansion into new countries and new business areas.

One of these strategies calls for the expansion of our B-to-C Business into overseas markets. However, our B-to-C Business is based primarily on dairy products and chilled items, and it would be difficult to build a business by exporting these products from Japan. Our plan to overcome this challenge involves the simultaneous launch of B-to-C businesses based on local production and sales in a limited number of countries and regions. Once these businesses are operating successfully, we will add other B-to-C businesses and expand into the markets of neighboring countries.

Leveraging Our Accumulated Know-how to Evolve as a Global Enterprise

I believe that food serves three functions: nutrition, taste, and health. As a food manufacturer with roots in the dairy industry, the Group has extensive knowledge of each of these functions. The sense of taste varies in different parts of the world, so we cannot be sure that every product will be suitable for every country. However, we have accumulated nutrition-related technologies through our involvement in infant and toddler milk and other areas, and we also possess technologies and marketing expertise as a leading manufacturer of clinical foods, including foods for elderly care and nutritional supplement foods, in Japan, which has one of the oldest populations in the world.

In health-related products, we have an extensive portfolio of functional ingredients and applied technologies based on these products. For example, we have a long track record of research successes relating to bifidobacteria, and we are a world leader in terms of manufacturing capacity for lactoferrin*. There is an increasing awareness of health and immunity across the whole of society, in part because of the spread of COVID-19, and we expect this to drive further growth in the demand for bifidobacteria and lactoferrin. We therefore see the pursuit of original products based on the seeds of businesses that we have developed in the areas of health and nutrition as the key to achieving our goal of becoming a global company that exerts a unique presence worldwide. The entire Morinaga Milk Group will work together on diverse initiatives toward the realization of this vision.

We cannot expand our overseas business activities solely through the efforts of the Overseas Business segment. We aim to become a global company by enhancing our organizational strengths, so that we can focus the efforts of every unit, including those that have had little involvement in the development of the Overseas Business in the past, to support and drive our overseas expansion.

* Absolute Reports, 2018 data