“For Ever Brighter Smiles”
MORINAGA MILK INDUSTRY CO., LTD.

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INTEGRATED REPORT 2021

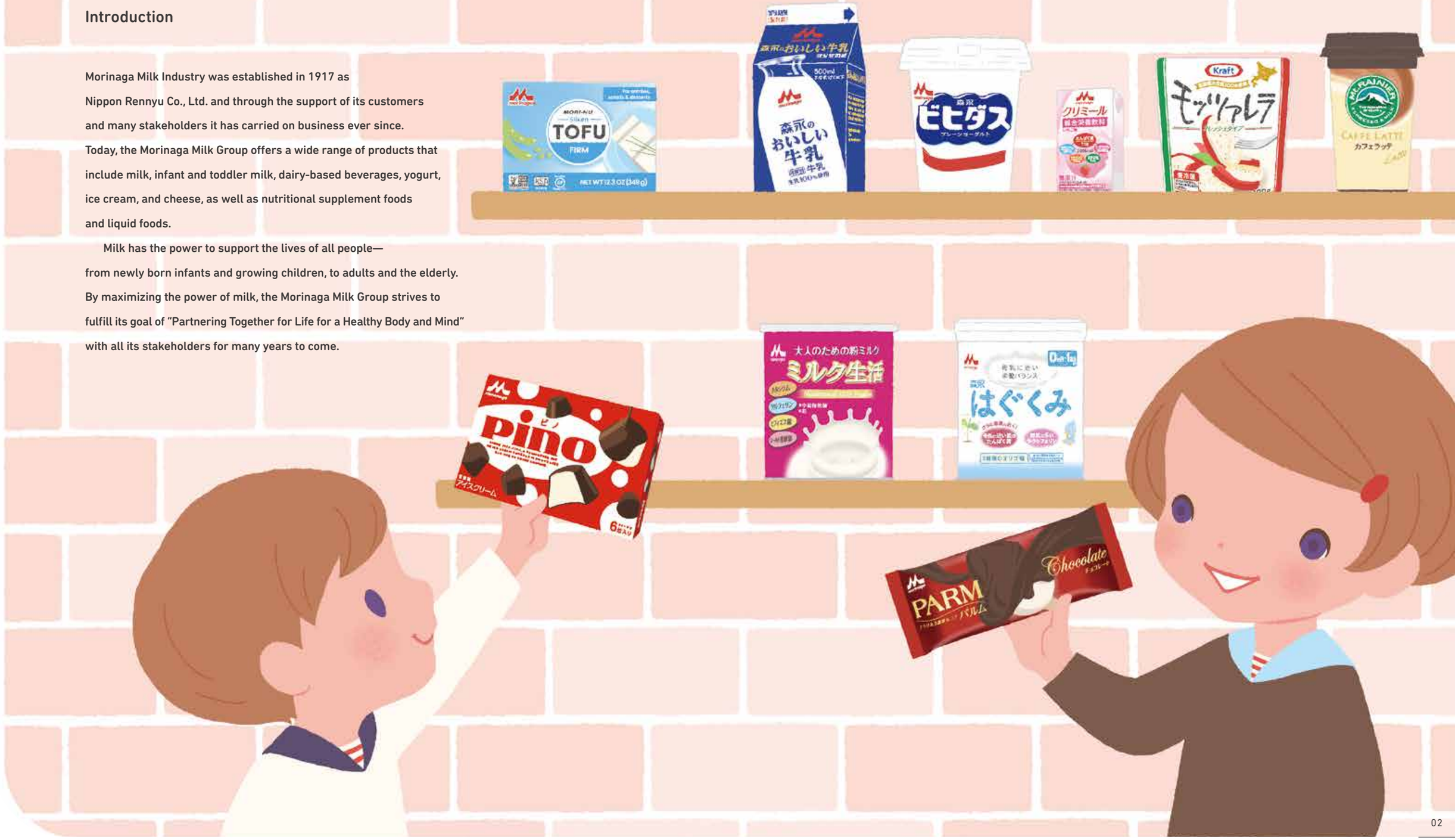
Year ended March 31, 2021

Fulfilling our mission

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.



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

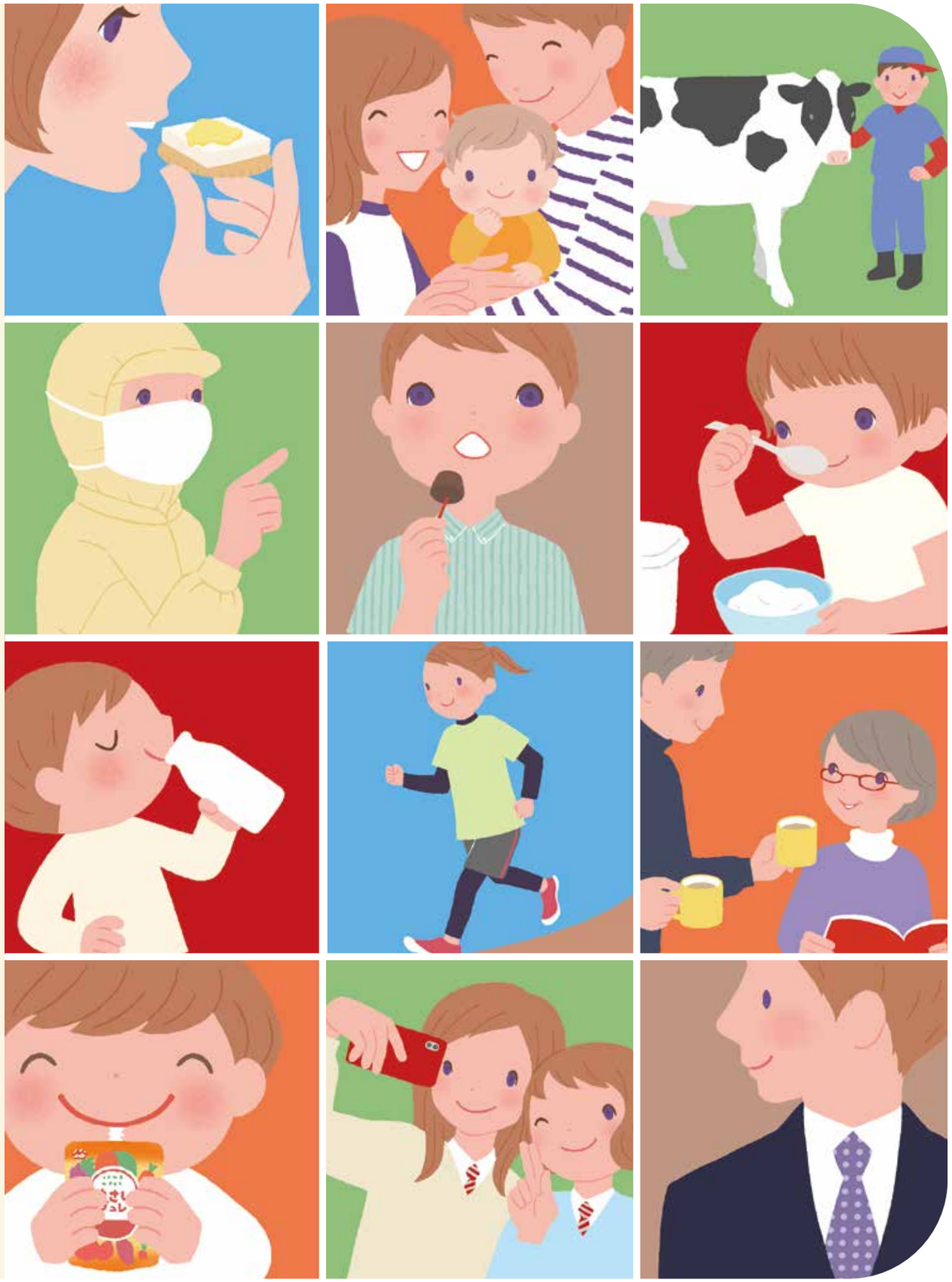
Contribute to healthy and enjoyable lifestyles through offering unique products derived from advanced milk technology.

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 third report of its kind, Integrated Report 2021 is designed to inform readers about the Morinaga Milk Group'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 2021 published on our corporate website (scheduled release: Autumn 2021).

Note: From the beginning of the fiscal year ending March 31, 2022, "Accounting Standard for Revenue Recognition" is applied. In addition, during the first quarter of the fiscal year ending March 31, 2022, the provisional accounting treatments for business combinations were finalized. Accordingly, those contents are reflected in the figures on the consolidated balance sheet as of March 31, 2021.

Information Disclosure Tools



Integrated Report 2021
(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 2021 (Web)
(scheduled release: Autumn 2021)

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 Group 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, 2022 and beyond are based on assumptions and economic forecasts as of May 18, 2021 and are not intended as a guarantee of the Company's future financial performance.



President and
Representative Director
Yohichi Ohnuki

A Message from the CEO

“For Ever Brighter Smiles”

We have inaugurated a new management team to guide Morinaga Milk through environmental change. As a company dedicated to contributing to society through health and nutrition, the Morinaga Milk Group is determined to achieve sustainable growth and improvement in its corporate value by responding to the rise in health awareness and diversifying needs under the new normal.

Mobilizing the Potential of People toward a New Growth Trajectory

I am Yohichi Ohnuki, and I was appointed as President and Representative Director of Morinaga Milk Industry in June 2021. I have been handed the baton from Michio Miyahara, who is now Chairman and Representative Director. I share his commitment to ensuring further growth for Morinaga Milk Group.

When I joined Morinaga Milk in 1983, I was initially assigned to factory work. The three years I spent on frontline production operations gave me a firsthand understanding that the continuing existence of Morinaga Milk depends on products created through collaboration and cooperation among people within and beyond the company. That experience was the starting point for my life as a businessperson, and I remained keenly aware of the importance of people working together in my subsequent career in management planning, investor relations, and other areas.

Management decision-making has become an increasingly challenging task in this era of dizzying change compounded by the unprecedented impact of the COVID-19 pandemic. Yet however radically the environment may change, people will always remain the driving force for business. I will continue to fulfill my responsibility as a leader by ensuring every individual can achieve his or her full potential, and by bringing that potential together to create a powerful driving force.

Working toward Our 10-year Vision through Medium-term Business Plans

Under the Morinaga Milk Group 10-year Vision, the Group aims to become “a company that balances delicious and pleasurable food with health and nutrition,” “a global company that exerts a unique presence worldwide,” and “a company that persistently helps make social sustainability a reality.” Our numerical targets* for the 10-year Vision are an operating income ratio of at least 7%, an ROE of at least 10%, and an overseas sales ratio of at least 15% in the fiscal year ending March 31, 2029. Our Medium-term Business Plans are roadmaps for the realization of this vision.

We are currently working under a Medium-term Business Plan covering a three-year period until the fiscal year ending March 31, 2022. We have made it a priority to build a robust business base under our 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.

Despite the impact of the COVID-19 crisis, our B-to-C Business continued to perform well in the fiscal year ended March 31, 2021, thanks to a rise in health awareness, and demand from people spending more time at home. We also achieved growth and profit

A Message from the CEO

The role of management is to achieve growth by providing a strategic direction and focusing the efforts of our human resources toward our goals.

increases in our probiotics and functional ingredients business and Overseas Business. The emerging effects of structural reforms are starting to yield tangible benefits.

Our targets for the fiscal year ending March 31, 2022, which will be the final year of the current Medium-term Business Plan, include net sales of ¥502 billion and operating income of ¥31 billion. We will work to achieve these goals by raising the motivation of all Group employees, and by further strengthening our corporate structure and business operations. Despite the continuing unpredictability of the times ahead, we are determined to accelerate initiatives across our B-to-C Business, Wellness Business, B-to-B Business, and Overseas Business, by increasing the speed of our adaption to continual environmental change, and by implementing a wide range of measures to maximize earnings.

*Numerical targets before application of "Accounting Standard for Revenue Recognition."

Formulating a Strategic Direction to be Shared Group-wide under the Next Medium-term Business Plan

With our goals under the current Medium-term Business Plan now in sight, we are preparing to achieve further growth under the new Medium-term Business Plan, which we are currently formulating in preparation for its launch in the fiscal year ending March 31, 2023. We are developing a plan that will provide a clear strategic direction for the realization of our l0-year Vision. The key to turning our vision into reality will be the potential of our employees. For that reason, we aim to create a plan with a strategic direction that can be shared by everyone from the management team to individual employees and which will enable each person to focus strongly on his or her role.

The area in which Morinaga Milk Group enjoys its greatest advantage is functional ingredients, and these will form the core of our growth strategy. We will take advantage of the rise in health awareness to accelerate the rollout of functional products, including bifidobacteria, LAC-Shield™, and lactoferrin, with the aim of increasing sales in domestic and overseas markets. We are making steady progress with initiatives spanning multiple businesses and segments. In addition to the expansion of these initiatives, we will also continue to focus on research with the aim of creating a continuing stream of competitive ingredients.

Another vital mission will be the further expansion of our presence in overseas markets. The linchpin for this strategy will be the German company MILEI GmbH, which has achieved consistently strong results since achieving profitability in 2018. MILEI has built a product range to meet a diverse range of customer needs, including mainstay products like concentrated whey protein and lactoferrin. We see potential for further growth in sales of lactoferrin, and we further expanded production capacity in April 2021.

Our Overseas Business currently centers on B-to-B activities, but we also want to include B-to-C transactions in the future. As a first step in this direction, we acquired Elovi Vietnam Joint Stock Company, a manufacturer of dairy products, as a wholly owned subsidiary in June 2021. We will use Elovi both to expand our business in the Vietnamese market, and also as a training ground to prepare our employees to work in overseas locations. Our 10-year Vision calls for the achievement of an overseas sales ratio of at least 15%. We are considering various approaches to this challenging target, including the continuing development of our B-to-C Business and B-to-B Business, as well as M&A.

ESG Management—Addressing Issues while Generating Profit

With just 10 years remaining until 2030, which is the deadline year for the Sustainable Development Goals (SDGs) adopted by the United Nations, ESG issues have become a vital focus of company management. The significance and purpose of ESG management are to provide social value through products and services that help to solve social issues, while also generating profits and enhancing corporate value. The Morinaga Milk Group has made "performing business with an ESG focus" a core policy in its Medium-term Business Plan and is implementing initiatives to link ESG priorities to its core business operations.

A particular priority is contribution to society through health and nutrition. People around the world continue to be affected by health and nutrition issues, including excessive nutritional intake, malnutrition, solitary eating, and child poverty. As a company that supplies products that contribute to human health and nutrition, the Morinaga Milk Group offers a wide variety of products to support health and nutrition at all ages from infancy to old age. In addition to their contribution to the extension of healthy lifespans, these products also provide new opportunities to generate revenue, allowing the Morinaga Milk Group to achieve sustainable growth and survive in the international community.

Specifically, we will expand our development of products that balance "delicious and pleasurable foods" with "health and nutrition." Related products that are already on the market include *Triple Yogurt*, which displays functional claims relating to blood pressure, blood sugar, and neutral fat, and *Bifidus Yogurt Improves Bowel Movement*, which has a functional claim for the alleviation of constipation. All of these products were developed with the emphasis on helping people to enjoy the experience of improving health. They are popular with consumers across a wide range of age groups.

In June 2021, the Morinaga Milk Group established the Sustainability Division, which will work under the direct supervision of the President to promote sustainability management as a path toward sustainable growth for the Morinaga Milk Group. It will collaborate with other units to achieve improvements in corporate value through sustainability management.

Strengthening Governance

We are continually working to build a robust corporate governance structure as the foundation for sustainable growth and the improvement of corporate value. Since June 2020, we have appointed external directors to one-third of the seats on our Board of Directors as part of our commitment to enhancing management supervisory functions and improving management transparency. We have also modified the compensation structure for corporate officers to include a higher percentage of performance-linked remuneration.

The Board of Directors engages in lively debate with no barriers between internal and external directors. We believe that Board meetings should be used not to hear reports, but rather to discuss medium- to long-term issues and strategic directions. Free, frank, and constructive exchanges of opinions have continued to raise the quality of debate under the new corporate officer structure. We will continue our efforts to manage Board meetings efficiently and effectively.

To Our Stakeholders

The Morinaga Milk Group 10-year Vision was formulated before the onset of the COVID-19 pandemic. However, I am convinced our vision closely matches the needs of a world that has become increasingly focused on health and nutrition as a result of the pandemic. The present situation is a major opportunity, as well as a time for the Morinaga Milk Group to fulfill the mission defined in our corporate philosophy by responding to needs and contributing to healthy and enjoyable lifestyles.

We have many strengths, including our R&D capabilities, our technology, our sales and marketing capabilities, and the potential of our employees. We will achieve sustainable growth by further defining and enhancing these strengths, and by increasing our focus on being unique.

The improvement of corporate value also requires the deepening of reciprocal understanding with our shareholders and investors through constructive exchanges of views. We will remain committed to proactive, two-way communication with all stakeholders, including shareholders and investors. We look forward to your continuing support.

History of Morinaga Milk

Since its founding in 1917, the Morinaga Milk Group 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 Co., Ltd. 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. We grew through three areas of business: condensed milk, powdered milk, and commercial milk by selling bottled milk and installing evaporating equipment for powdered 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.



Dried milk

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 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 homogenized milk and 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.


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 infant follow-up formula, 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 counselling 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)

1988-

Global Expansion

Morinaga Milk Group 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.



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



Infant and toddler milk launched in Bolivia

2001-

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

Against a backdrop of increasing health consciousness, Morinaga Milk Group has been proactively developing foods that contribute to consumers' health since 2001. The Group's 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 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.



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



Corporate movie expressing the meaning behind our slogan "For Ever Brighter Smiles" (December 2020—)



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



Triple Yogurt with listed functions effective in three areas

1917 1950 1960 1970 1980 1990 2000 2010 2021

Establishment | Market expansion | Category expansion | 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.

Morinaga Milk in Numbers

Value creation based on R&D and technological capabilities

Bacteria/ functional ingredients

Number of related scientific papers **474**
(as of July 31, 2021)

Number of patents held (in Japan and overseas)

823
(as of July 31, 2021)

Bifidobacterium longum BB536

used in over **30** countries
(as of July 31, 2021)

LAC-Shield™

selected by over **450** companies
(as of July 31, 2021)

Bifidobacterium breve M-16V supplied in Japan and overseas, including NICUs

to over **150** facilities
(as of July 31, 2021)

Bifidobacterium breve M-16V

"Infant Nutrition Ingredient of the Year"[*1] award

Bifidobacterium breve MCC1274

Received the Urakami Award[*2]

MILEI's manufacturing global share of lactoferrin

No.1[*3]

Pursuing "deliciousness and pleasure" and "health and nutrition"

Chilled cup-type coffee
Leading market share in Japan[*4] **42%**



Over **50** years of bifidobacteria research
Bifidus Yogurt



Launched the ever-evolving bite-sized ice cream *Pino* in **1976**



Launched **29** foods with function claims
(as of July 31, 2021)



*1 In September 2019, Morinaga Milk Industry received the "Infant Nutrition Ingredient of the Year" award in the infant nutrition section of Singapore's NutraIngredients-Asia Awards.
*2 Presented as "Probiotic Bifidobacterium breve improves cognitive functions in healthy older adults with mild cognitive impairment" at the 10th Annual Meeting of the Japan Society for Dementia Research.
*3 Absolute Reports, 2020 data
*4 INTAGE SRI (share of sales from April 2020 to March 2021)

Morinaga Milk Businesses

B-to-C Business

The B-to-C Business is the core domain of the Group, 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.





Fiscal Year Ended March 31, 2021
Net sales **¥583.6 billion**
Operating income **¥28.9 billion**

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 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; exports and joint ventures in the infant and toddler milk business and joint ventures; selling of functional ingredients; and a business manufacturing and selling long-life *TOFU* products.



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

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.

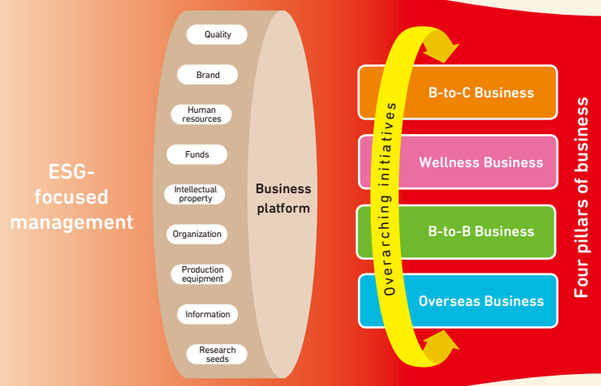
Previous Medium-term Business Plan
(Fiscal years ended March 31, 2016–March 31, 2019[*1])

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[*1] 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.

*1 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.



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

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

Corporate slogan
"For Ever Brighter Smiles"

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.

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

Main KPIs	Mar./2019 (result)	Mar./2020 (result)	Mar./2021 (result)	Mar./2021 (after application[*2])	Mar./2022 (plan)	Mar./2029 (targets[*3])
Net sales	¥583.6 billion	¥590.9 billion	¥583.6 billion	¥488.7 billion	¥502.0 billion	—
Operating income	¥22.3 billion	¥25.4 billion	¥28.9 billion	¥28.9 billion	¥31.0 billion	—
Ratio of operating income to net sales	3.8%	4.3%	4.9%	5.9%	6.2%	At least 7%
ROE (net income/shareholders' equity)	8.6%	10.7%	9.8%	9.9%	16.4%	At least 10%
Overseas sales ratio	5.0%	5.3%	6.4%	7.5%	8.1%	At least 15%

*2 After application of "Accounting Standard for Revenue Recognition."
*3 Before application of "Accounting Standard for Revenue Recognition."

Progress Under the Current Medium-term Business Plan

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

Under the current Medium-term Business Plan, we are working 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. We will further accelerate our efforts to accomplish these goals in the fiscal year ending March 31, 2022, which is the final year of the Medium-term Business Plan.

Key Performance Indicators

(¥ billions)

	Mar./2019*1	Mar./2020*1	Mar./2021*1	Mar./2021 (after application*2)	Mar./2022 (plan)	Increase (decrease) compared with Mar./2019	Percentage increase (decrease) compared with Mar./2019	Medium-term Business Plan (announcement)
Net sales	583.6	590.9	583.6	488.7	502.0	—	—	—
Operating income	22.3	25.4	28.9	28.9	31.0	+8.7	+38.8%	30.0
Profit attributable to owners of parent	14.0	18.7*3	18.7	18.7	35.3*4	+21.3	+151.8%	19.2
Ratio of operating income to net sales	3.8%	4.3%	4.9%	5.9%	6.2%			—
ROE (net income/ shareholders' equity)	8.6%	10.7%	9.8%	9.9%	16.4%			9.3%
Overseas sales ratio	5.0%	5.3%	6.4%	7.5%	8.1%			—
Dividends (¥)	55	60	70	70	70			Target payout ratio of 20%

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.

THEME 1 Further Enhancing Our Main Brands

We will maximize profits from the eight main brands that support our business base and work to establish a solid financial structure.

Progress During the Fiscal Year Ended March 31, 2021

Sales of products such as *Bifidus Yogurt* and *KRAFT Fresh Mozzarella Cheese* remained strong, and there was also a recovery in sales of *Greek Yogurt PARTHENO*. As a result, total sales of our eight main brands increased by 3% year on year to ¥124.4 billion*1. Our goal is to increase sales by 18% compared with the result for the fiscal year ended March 31, 2019*1 over three years, with a focus on maximizing profits and generating cash flows. We are planning to achieve sales of ¥108.8 billion, a year-on-year increase of 2%*2, in the fiscal year ending March 31, 2022.



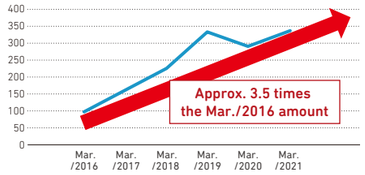
THEME 2 Accelerating Development of Bifidobacteria and Proprietary Seeds

We are strengthening our capacity to develop new functional ingredients with the aim of expanding income by 1.5 times*5 over the three-year period of the plan. We are investing actively in plant facilities, including the expansion of production facilities for probiotics. By November 2020, manufacturing capacity had doubled*5. Our goal for the longer-term future is to quadruple*5 total Group capacity.

Progress During the Fiscal Year Ended March 31, 2021

We accelerated work on the cross-segment development of functional ingredients (see Current Status of Initiatives that Span our Businesses on pages 23–26). In the B-to-B Business, we focused our efforts on the acquisition and development of customers and suppliers. In the B-to-C Business, customers expressed strong approval for products such as *Triple Yogurt* and *Bifidus Yogurt Improves Bowel Movement*, which both contain functional ingredients.

Growth of Domestic B-to-B Sales of Probiotic Products
(Mar./2016 = 100)



THEME 3 Developing the Overseas Business

We will implement strategies designed to achieve an overseas sales ratio of at least 15%*1 by the fiscal year ending March 31, 2029. These efforts will include the expansion of the B-to-B Business and bifidobacteria and lactoferrin sales, initiatives to drive increased growth for MILEI GmbH, and M&A activities.

Progress During the Fiscal Year Ended March 31, 2021

MILEI GmbH, a company that manufactures and sells products such as whey protein concentrate, lactose, and lactoferrin, achieved higher sales thanks to improvements in quality and productivity, as well as the expansion of the company's lactoferrin business. This lifted the Group's overseas ratio sales to 6.4%*1. In addition, we acquired Elovi as a consolidated subsidiary (wholly owned since June 2021), marking the start of our full-scale entry into the B-to-C Business in Vietnam.



Elovi, Vietnam

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 improve their potential by creating new product lines and services, while also expanding digital marketing and new sales channels, such as e-commerce.

Progress During the Fiscal Year Ended March 31, 2021

We worked to expand our e-commerce sales channels, including both our own and other major e-commerce sites. The Group also expanded the scope of the Online to Offline (O2O) initiative we have been pursuing on a trial basis with selected drugstores. We are working to build a base for future business growth by searching for ways to create new value, such as through the establishment of a new health seminar business in January 2021.

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

▶ P. 36 – CHAPTER 3

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

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 I and II, and work to strengthen the business base.

Capital Investment

In addition to capital investment in 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.

(¥ billions)

	Mar./2019	Mar./2020	Mar./2021	Mar./2022 (plan)
Capital investment	39.4	33.7	**23.6**	**20.7**
Depreciation	17.0	17.6	**19.6**	**19.9**

Capital, Interest-bearing Debt, and DER

We are expecting to record an extraordinary income of approximately ¥20.1 billion in the fiscal year ending March 31, 2022 from the transfer of fixed assets. By giving priority to the repayment of interest-bearing debt and the procurement of surplus funds for future growth, we were able to improve our DER.

(¥ billions)

	Mar./2019	Mar./2020	Mar./2021	Mar./2022 (plan)
Interest-bearing debt	105.5	98.0	**101.6**	**90.0**
DER	0.63 times	0.54 times	**0.51 times**	**0.42 times**

From the beginning of the fiscal year ending March 31, 2022, "Accounting Standard for Revenue Recognition" is applied.
*1 Before application of "Accounting Standard for Revenue Recognition."
*2 After application of "Accounting Standard for Revenue Recognition." Year-on-year ratios are calculated based on the results of the fiscal year ended March 31, 2021 and adjusted by applying said accounting standard.
*3 Includes ¥6.8 billion extraordinary gain on sales of non-current assets recorded in the fiscal year ended March 31, 2020.
*4 Expected to record approximately ¥20.1 billion extraordinary gain on sales of non-current assets (before tax).
*5 Compared with the results of the fiscal year ended March 31, 2019.

A Message from the Officer in Charge of Finance

We are committed to a capital policy that creates the optimal balance among growth investments, financial stability, and shareholder returns.



Executive Managing Officer
General Manager of
Strategic Planning Division
Akihiro Nozaki

Review of the Fiscal Year Ended March 31, 2021, Shareholder Returns

The Morinaga Milk Group is currently working toward the goals set in the Medium-term Business Plan. Our capital policy under that plan calls for the generation of cash flows totaling ¥100 billion during the three-year period of the plan, for growth investments. We also aim to maintain financial stability while providing returns to shareholders.

An analysis of our financial position in the fiscal year ended March 31, 2021 shows that total assets increased by ¥17.6 billion over the amount at the end of the previous fiscal year to ¥453.6 billion. The reasons for this growth included increases in cash and deposits for the purpose of providing on-hand liquidity, and an increase in property, plant and equipment due to capital investment. Net assets expanded by ¥19.4 billion to ¥202.5 billion because of an increase in retained earnings and other factors. As a result, the shareholders' equity ratio rose from 41.6% as of March 31, 2020 to 43.9%. The debt-to-equity ratio improved from 0.54 times as of March 31, 2020 to 0.51 times, indicating that we are making a steady transition to a robust financial structure. However, many issues still remain, including our surplus funds. In addition, financial indicators have become increasingly important during the prolonged COVID-19 crisis, and we are making sustained efforts to strengthen our financial structure. Those efforts are resulting in the achievement of a stable business base.

Under the capital policy referred to earlier, we aim to provide reliable and sustained returns to shareholders, based on a dividend payout ratio guideline of 20%. As in the previous fiscal year, we expect to pay a dividend of ¥70 per share.

Prioritized Investment in Areas of Strength with an Emphasis on Balance

Our Medium-term Business Plan provides for growth investments of ¥50 billion. Recent investments include the expansion of lactoferrin production capacity at the German company MILEI GmbH in April 2021, and the acquisition of Elovi Vietnam Joint Stock Company as a wholly owned subsidiary in June 2021.

We will continue to invest steadily in Japan and overseas under a basic policy of prioritized investment in areas that offer growth potential and in which we can leverage our strengths. Priority investment areas include bacteria and functional ingredients, and functional yogurt. General social awareness about health and nutrition has been increasing at an accelerated rate. We are confident that the functional ingredients we possess, such as Bifidobacterium longum BB536, can make a significant contribution to meeting these needs, and we are striving to secure future growth through continued proactive investment. We also need to invest in other areas, including capital investment into renovating aging production facilities, the enhancement of R&D facilities and IT systems, as well as environment-related facilities. We will consider various factors when making decisions about these investments. Our goal is to achieve an optimal distribution of investment resources while maintaining a balance between growth investments and strengthening our financial structure.

We are also selling assets with the aim of effective utilization of our management resources and achieving further improvement in asset efficiency. In the fiscal year ended March 31, 2020, we sold 50.1% of trust beneficiary rights in our head office building. In the first quarter of the fiscal year ending March 31, 2022, we sold the Konan Building in Minato-ku, Tokyo. We also announced we are going to sell the Kinki Plant in the fourth quarter. These measures provide surplus funds from a medium- to long-term perspective and are also significant from the viewpoint of concentrating our management resources. By concentrating our management resources in core business areas, we aim to make optimal use of our assets and maximize returns. We see the improvement of asset efficiency from a utilization perspective as a key step toward the future growth of the Morinaga Milk Group.

Accelerating Change and Collaboration under the Strategic Planning Division

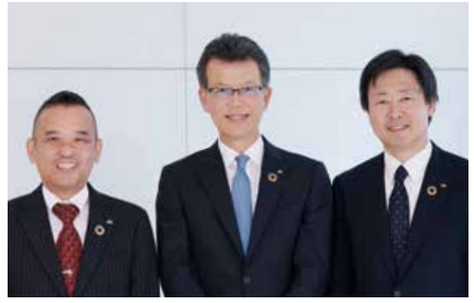
The Strategic Planning Division combines the Corporate Strategic Planning Department, the Finance & Accounting Department, the IT Innovation Department, and the Affiliated Business Department into a single headquarters. These four departments work together to drive the medium- to long-term growth of the Morinaga Milk Group. Their role is to maximize the overall performance of the Group by accelerating company-wide initiatives, gathering diverse input from within and outside of the Group, and providing feedback to management.

This new management structure was launched under the leadership of our new CEO, Yohichi Ohnuki. Currently, its main focus is the formulation of the Medium-term Business Plan that will commence in the fiscal year ending March 31, 2023. A major priority under the next Medium-term Business Plan will be the clarification of a strategic direction that will allow us to leverage the many strengths of the Morinaga Milk Group.

The Strategic Planning Division has important roles to play in establishing criteria for value, including the selection of priority businesses for the medium- to long-term future, in a form that is linked to social issues that we need to address through our business activities, as well as to share those criteria not only within the company, but also with our stakeholders.

Maximizing Corporate Value and Achieving Sustainable Growth

I joined Morinaga Milk in 1988, and for around 20 years, my work related to ice cream, including sales operations in sales offices, as well as marketing, planning, and supply-demand analysis in business divisions. Subsequently, I worked in the Corporate Strategic Planning Department, the Finance & Accounting Department, and the Manufacturing Division before taking up my present position in June 2021. The business environment is continually changing, and to realize our goals under the Morinaga Milk Group 10-year Vision, we need to develop real strengths that cannot be shaken by these changes. I see the role of the Strategic Planning Division as pivotal to these efforts. I will work with a sense of urgency to ensure we can fulfill that role by leveraging my business experience in various areas. I am determined to respond to the expectations of all of our stakeholders by working toward sustainable growth and increase corporate value.



Executive Officer
Deputy General Manager of Strategic Planning Division and General Manager of Corporate Strategic Planning Department
Toshiya Hamada

Executive Managing Officer
General Manager of Strategic Planning Division
Akihiro Nozaki

General Manager of Finance & Accounting Department, Strategic Planning Division
Toshikazu Asakawa

The Corporate Strategic Planning Department and the Finance & Accounting Department are the main units of the Strategic Planning Division responsible for dialogue with stakeholders at earnings announcements and financial results briefings.

The Morinaga Milk Group's Response to the COVID-19 Pandemic

The Group has continually implemented comprehensive measures to prevent infection and limit the spread of COVID-19. We have adapted flexibly to changes in the business environment, prioritizing employee safety while also being engaged in the manufacture of essential products by ensuring supply continuity.

Manufacturing and Distribution

In manufacturing, the Group took comprehensive steps to ensure the continuity of its systems for the supply of safe, dependable products, including the installation of thermal cameras at all manufacturing facilities, and the use of remote working methods for auditing, TPM[*1] seminars, training, and other activities. We also reduced the risk of infections in distribution while also ensuring supply continuity by encouraging staff at our distribution centers to work from home. We continually reminded our distribution partner companies of the need to take effective steps to prevent infections.

Sales and Marketing

Because of the need to suspend food and beverage tasting activities in supermarkets and other venues, we worked to increase exposure through digital signage and point of purchase (POP) LCD display systems. In addition to online activities, such as the O2O[*2] initiative, staff also held online dialogue events with customers who visited the Group's commerce sites as part of our efforts to encourage effective communication with consumers.

Overseas Business

In addition to our efforts to accelerate the shift to remote working, we also reviewed our operations from the perspective of productivity, including the necessity and roles of staff stationed overseas. With trade fairs and other events suspended in many parts of the world, we sought to attract new customers by assigning personnel to participate as speakers at online seminars organized by external organizations.

Research and Development

We maintained our strong focus on research and development, which we see as essential to meeting increasingly sophisticated health and nutrition needs. The Group presented multiple research papers on functional ingredients, including bifidobacteria and lactoferrin, and some of the Group's research findings were published in specialist journals.

Group-wide Measures

The Group has encouraged all workers to check their temperatures, wash their hands, gargle, disinfect their work areas, wear masks, and work from home whenever possible. We have also prioritized the maintenance of employees' mental and physical health and the promotion of good workplace communication. We continuously disseminated information within the Group on such themes as mental and physical health, and the use of communication to enhance remote management capabilities.

*1 Total Productive Maintenance (TPM): A system designed to optimize productivity through the active involvement of all employees in production maintenance activities.
*2 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.

Impact of COVID-19 on Financial Results for the Fiscal Year Ended March 31, 2021

Impact: B-to-B Business net sales fell by approximately ¥19.0 billion, and operating income by around ¥1.5 billion.

The B-to-B Business was heavily affected by a significant decline in demand for commercial dairy products from the restaurant and tourism industries. This had a significant impact on both sales and operating income. However, efforts to improve our product mix and reduce operating costs, including sales promotion expenses, were reflected in growth in the Group's total operating income for the fifth straight year, with a ¥3.5 billion year-on-year increase to ¥28.9 billion.



CHAPTER 2

Realizing the 10-year Vision

The Morinaga Milk Group 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 is the progress we are making toward the realization of this vision.



ROUNDTABLE DISCUSSION 1

CURRENT STATUS OF INITIATIVES THAT SPAN OUR BUSINESSES

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

Managing Director and Executive Managing Officer General Manager, Sales & Marketing Division
Hitoshi Hyodo

Executive Managing Officer General Manager, Overseas Business Division
Takahiro Yanagida

Under the current Medium-term Business Plan, we are building a robust base to support the realization of our goals under the Morinaga Milk Group 10-year Vision. One of our policies under that plan is "achieving sustainable growth by enhancing initiatives laterally across our four pillars of business." Since this is the final year of the Medium-term Business Plan, we asked leaders in the areas of R&D, sales and marketing, and overseas business to talk about current progress and future strategic directions for initiatives that span our businesses.

Fully Leveraging Our Leadership in Functional Ingredients

Q» Functional ingredients are likely to play an extremely pivotal role in the realization of the Morinaga Milk Group 10-year Vision. What are your thoughts on initiatives that span the Group's businesses relating to functional ingredients?

Hyodo: The Functional Ingredients Committee, which we established in 2019, is made up of people from various business areas. It acts as a cross-organizational bridge for our efforts to optimize the use of the Morinaga Milk Group's various functional ingredients, such as bifidobacteria, lactoferrin, peptides, and lactulose.

Abe: The keys to determining effective collaboration include the ways that information is shared and the extent to which efforts are oriented in the same direction. As a result of our efforts to strengthen our organizational structure, people have become more aware of the need to think laterally and share information across organizations.

Q» What do functional ingredients mean to the Morinaga Milk Group, and what specific benefits have resulted from organizational enhancement initiatives?

Abe: With the global surge of interest in the role of functional ingredients in supporting health and nutrition, these ingredients have become important growth drivers for the Morinaga Milk Group. To make full use of our advantage in this area, we are promoting collaboration across segment boundaries. These efforts are now starting to yield benefits everywhere.

Hyodo: One example of that is *Bifidus Yogurt Improves Bowel Movement*, which we launched in April 2020 as a foods with function claims. The first priority for the Sales & Marketing Division is to promote Bifidobacterium longum BB536 as strongly as possible as part of a differentiation strategy designed to link the Morinaga Milk Group with bifidobacteria. As a result of sustained efforts based on various initiatives, the word "bifidobacteria" has started to appear in various media in connection with intestinal health, leading to heightened health awareness. We responded to this trend by stepping up our collaboration with the R&D Division. The result was *Bifidus Yogurt Improves Bowel Movement*. The name is based on an unprecedented approach designed to give consumers a direct sense of the value of the product.

Abe: *Bifidus Yogurt Improves Bowel Movement* was approved as a foods with function claims thanks to clear evidence based on years of research into Bifidobacterium longum BB536. That allowed us to choose "Improves Bowel Movement" as a name that clearly represented the benefits of the product. This is an excellent example of a product that emerged from R&D and was brought to success through collaboration across many areas, including manufacturing, sales and marketing, and public relations.

Hyodo: Our goal is the fusion of "delicious and pleasurable food" with "health and nutrition." That linkage enhances our brand value and fosters confidence and expectations among customers. We will continue to use the potential of functional ingredients to drive further improvement in our corporate value. That will require further acceleration of initiatives that span our businesses.

> We will provide new impetus for the growth of our range of functional ingredients based on bifidobacteria by accelerating the initiatives that span our businesses.
>
> **Hitoshi Hyodo**

A Global Company that Exerts a Unique Presence Worldwide

Q» The functional ingredients are, of course, receiving attention, but there has also been remarkable growth in the Overseas Business.

Yanagida: The German company MILEI GmbH has been a major contributor to the growth for our Overseas Business and our confidence. Our numerical target under the Morinaga Milk Group 10-year Vision is to increase the overseas sales ratio to at least 15%. While this is an extremely ambitious target, it is not a fantasy. Our Overseas Business has made excellent progress under the current Medium-term Business Plan, and this success has created a can-do attitude within the company. Our goal now is to strengthen our ability to

> Our priorities as we work to strengthen our global presence will be the enhancement of our brand power, global human resource development programs, and the strategic deployment of our total business resources.
>
> **Takahiro Yanagida**

bring products to market. The key to that is Group-wide collaboration. Our ability to develop products that fully address consumer needs will depend on careful planning from promotion and marketing to sales. It will also depend on the integrated mobilization of our strategic resources, including the sharing of information about specific consumer needs between our sales and marketing organization and other organizational units, and a cross-organizational approach to the enhancement of our global human resource development.

Q How high a level of recognition does the Morinaga Milk Group's bacterial products and functional ingredients have in other countries?

Yanagida: Recognition levels in the industry are extremely high, in part because of research papers being presented at conferences and other events. Product promotion at expos and trade fairs is also helping to raise awareness of the Morinaga Milk Group's bacterial products and functional ingredients.

Abe: Our products have a strong reputation for quality, and we have established a position for ourselves as a supplier of raw materials. In other countries, the Morinaga Milk Group is strongly associated with bacterial products. In fact, some of our customers are surprised to learn we manufacture dairy products.

Yanagida: Our focus going forward will be on ways to increase the rate that customers use our products in other countries. We will take a proactive approach based on Group-wide collaboration. There has been a global rise in interest in the probiotics business, and competition is intensifying. However, a key advantage for the Morinaga Milk Group is our status as a pioneer in bifidobacteria, as demonstrated by the fact that, with a research track record spanning more than 50 years, we are the world's leading producer of scientific papers on the subject*. We are determined to maintain that advantage by using our original expertise to create added value. We will develop new bacterial products by reflecting market needs and customer feedback in our R&D activities, and by utilizing our unique resources of evidence and technology. We need to ensure that those processes function as efficiently as possible.

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

Q What are your strategies for achieving an overseas sales ratio of at least 15%? What are your views on M&A and other approaches?

Yanagida: We are unlikely to achieve a sales ratio of at least 15% just through growth based on the continuation of our present initiatives. One of the strategies we are considering is M&A, but our goal is not simply to expand the scale of our business. The extent to which we can vertically integrate our overseas business operations with our domestic B-to-C Business will be an important perspective for our growth as a global enterprise. We need to approach our evolution as a global company in stages. Now that we have established MILEI as a robust foundation, the next step will be to improve our presence by building on that foundation as a group capable of competing globally.

Preparing for the Next Growth Stage by Further Strengthening Cross-organizational Human Resource Development

Q What will be the challenges for the Morinaga Milk Group as it works to achieve further growth?

Abe: Our greatest priority will be human resource development. Overseas markets will be an essential part of any future growth strategy, so we will need to increase our efforts in training people capable of working successfully in overseas environments.

Yanagida: In the past, we needed people with strong communication skills, including knowledge of foreign languages and the ability to promote the benefits of our products. In the future, however, our efforts to establish market positions will require people with marketing skills, especially the ability to carry out surveys and analyses and develop strategies based on differing market conditions in each country. We intend to work with other business segments and the Human Resources Department to train those people and create career paths for them.

Hyodo: There is clear evidence of population decline and shrinking markets in Japan. Inevitably, we will need to target overseas markets, and the Sales & Marketing Division will prioritize training people capable of working effectively in overseas environments. We recognize that many aspects of the business model that we use in Japan are unlikely to work without modification in other countries. However, there are likely to be many situations in which our experience in Japan will be valuable. It is also important for people to accumulate experience by working overseas.

Q What are your views on future developments of initiatives that span the Group's businesses?

Hyodo: Functional ingredients are valuable assets for the Morinaga Milk Group. We will use a variety of approaches involving all business segments to provide customers with accurate information about the value of those products. I believe we will need to strengthen our corporate communications and information distribution activities. We are also aiming to expand and consolidate our new health seminar business.

Abe: Lactulose has been a key ingredient for our B-to-B products for many years. Today, it is also widely used in B-to-C products and has become popular with a large number of users. The Sales & Marketing Division has refined its marketing strategy, and, at the same time, the R&D Division has collected the necessary data while determining the strategic direction for obtaining foods with function claims approval based on that strategy. By carrying out additional research, we have been able to create and improve our evidence. We need to establish structures capable of continuously implementing this approach.

> We will drive continuing evolution and growth by applying new evidence and technologies to support long-established materials.
>
> **Fumiaki Abe**

Yanagida: There are many opportunities. For example, we could strengthen our brand potential at the Group level. Brand power has been an important factor driving MILEI's business expansion. Customers choose MILEI products because MILEI and the Morinaga Milk Group both have a reputation for high product quality. I see quality as the core component for brand formation. We cannot build brand power and customer confidence overnight. All business divisions should learn from MILEI's example and explore their own approaches.

Maintaining Our Capacity to Generate Value

Q Finally, what are your thoughts on the Morinaga Milk Group's strategic direction in terms of value creation?

Hyodo: The core advantage of the Morinaga Milk Group is our ability to supply products that contribute to health and nutrition across a wide range of generations, from infants to the elderly. We should utilize that advantage to provide products that address the health issues affecting different age groups. As a company with a corporate philosophy calling for contribution to healthy and enjoyable lifestyles, we have a mission to create value that matches life stages and lifestyles. However much the environment shifts, that will never change.

Abe: The goal of the R&D Division is to use technology to create social value in such forms as health and nutrition values, and good eating habits. We are helping to create greater social value by using our unique technologies to create competitive products. By increasing the social value we provide, we help to expand the earnings of the Morinaga Milk Group, leading to further investment and technological innovation, and even greater social value. Our aim is to bring ever brighter smiles to more and more people by using this virtuous cycle to enable the Morinaga Milk Group to achieve sustainable growth in partnership with society.

Yanagida: We cannot become a truly global enterprise solely by pursuing profit. We also need to raise our international presence. That requires ESG initiatives. We need to expand the scope of those initiatives and disseminate information about them. We will enhance the Morinaga Milk Group's brand power and corporate value by informing the world about our contributions to help create a sustainable society. I see that as the mission of the Overseas Business.

FOCUS 1 Developing Bacteria and Functional Ingredients

Key Functional Ingredients Developed by the Morinaga Milk Group

The Group's portfolio of functional ingredients that contribute to health and nutrition, includes bifidobacteria, lactoferrin, and LAC-Shield™. We are responding to today's increasingly sophisticated health and nutrition needs through our cutting-edge research into functional ingredients, and by expanding our efforts to share information about our research activities and achievements. By further using the Group's functional ingredients, and developing functional ingredients and products that combine functionality with delicious taste, we will continue to work toward the realization of our 10-year Vision.

Bifidobacteria

Bifidobacterium longum BB536

Discovered in 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 150 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 MCC1274

Bifidobacterium breve MCC1274 has been the focus of continual research since it was found to have potential to enhance cognitive functions. In June 2021, the Group received the Urakami Award for an outstanding research presentation at the 10th Annual Meeting of the Japan Society for Dementia Prevention.

Key Functional Ingredients

Lactoferrin

Found in large quantities in breast milk. There is intense interest in its potential as a functional ingredient with health benefits.

Peptides

The Group produces peptides by processing and refining milk proteins.

Aloesterol®

The Group has obtained Japanese patents for multiple uses for this unique ingredient, which is found in the aloe vera plant.

LAC-Shield™

This lactobacillus bacteria can be added to processed foods as a heat-sterilized bacterial powder.

Lactulose

Lactulose is an oligosaccharide made from lactose in milk.

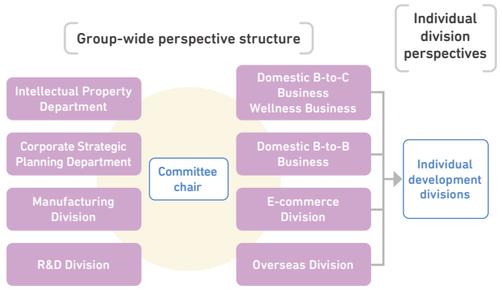
Orabarrier®

The Group combined lactoferrin with lactoperoxidase to create this functional ingredient.

Maximizing the Use of Functional Ingredients—Work of the Functional Ingredients Committee

Information about functional ingredients tended to be scattered across multiple organizational units. The cross-organizational Functional Ingredients Committee was established in 2019 to bring this information together as the basis for a more strategic approach to the utilization of functional ingredients in multiple business areas through cross-organizational collaboration. The committee has created a structure to support the realization of corporate strategies through product development. For example, progress on projects and initiatives is monitored using KPIs and reported to the Executive Management Committee.

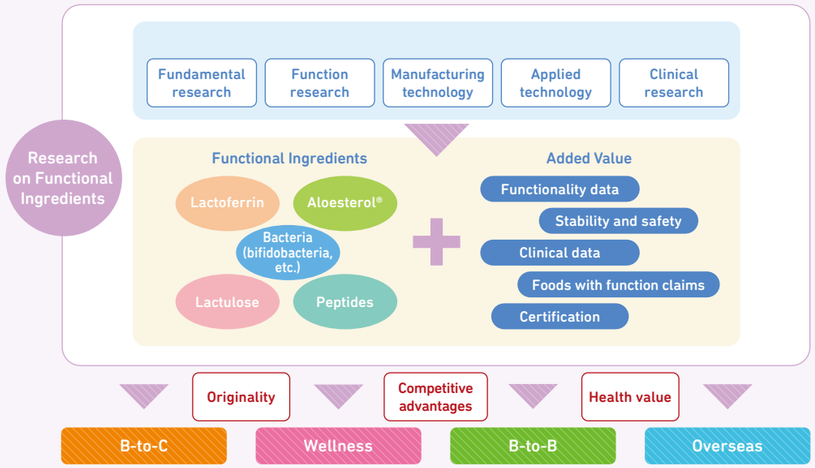
Committee Structure



Morinaga Milk Group R&D
https://www.morinagamilk.co.jp/english/research/

R&D and Business Models for Functional Ingredients

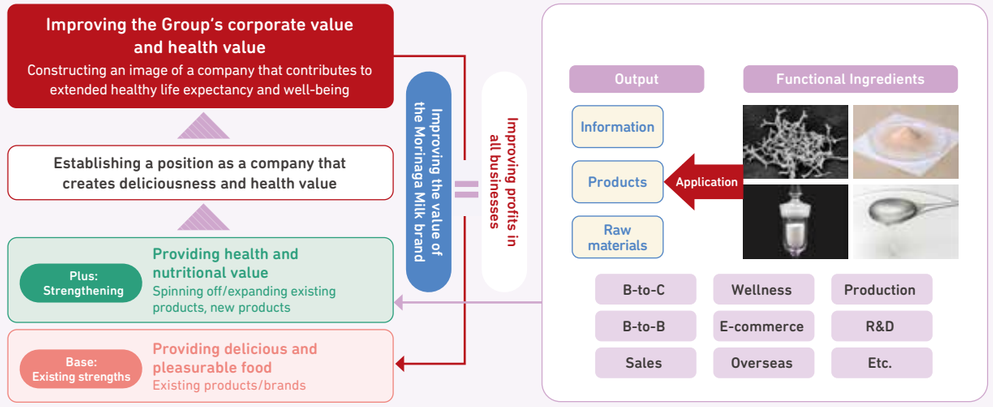
One of the Group's strengths in relation to the utilization of functional ingredients is its in-house capabilities covering all stages of R&D, including basic research, functional research, manufacturing technology, applied technology, and clinical research. Through these R&D activities, we add value to our functional ingredients by producing functionality data and ensuring safety, and reliability. The result is original and competitive products with health value. Since the establishment of Japan's "Foods with Functional Claims" system in April 2015, the Group has obtained approval for a variety of new products. As of July 31, 2021, a total of 29 products had been launched.



Realizing the 10-year Vision

One of our goals under the Group's 10-year Vision is to achieve a balance between "delicious and pleasurable food" and "health and nutrition" by expanding our existing range of products containing functional ingredients, and by developing new products. In this way, we aim to provide health value to consumers while achieving improvement in our corporate value, brand value, and earnings.

We will accelerate our initiatives that span our businesses and departments to realize the 10-year Vision through the discovery of new possibilities for functional ingredients and the accumulation of evidence.



FOCUS 2 Overseas Business Development

Overseas Expansion by the Morinaga Milk Group

The core components of the Group's Overseas Business operations are the dairy product ingredient manufacturing and sales by German company MILEI GmbH, the export of infant and toddler milk, and the development of our functional ingredients business, including probiotics. In June 2021, we took an important step toward the expansion of our overseas B-to-C activities with the acquisition of Elovi as a wholly owned subsidiary.

One of the goals set down in the Group's 10-year Vision is to build Morinaga Milk into "a global company that exerts a unique presence worldwide." Our target is to increase the overseas sales ratio to at least 15% by the fiscal year ending March 31, 2029. That will require further expansion of our Overseas Business. We will move forward steadily toward the realization of our vision and the achievement of our target.

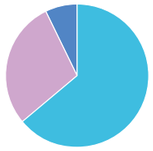
Overseas Business Strategy → **Expansion of overseas sales ratio to at least 15% by the fiscal year ending March 31, 2029**

Overseas Business Growth

We are recording strong healthy trends in our Overseas Business. In the fiscal year ended March 31, 2021, net sales increased by18.2% year on year to ¥37.2 billion[*1], while operating income was ¥2.7 billion higher at ¥5.5 billion[*1]. The overseas sales ratio reached 6.4%[*1].

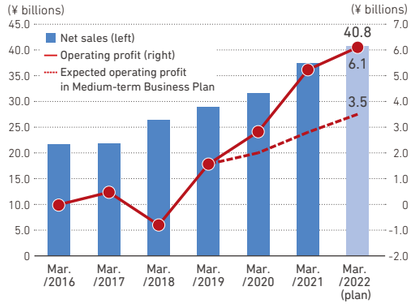
*1 Figures and ratio calculated before the application of the Accounting Standard for Revenue Recognition

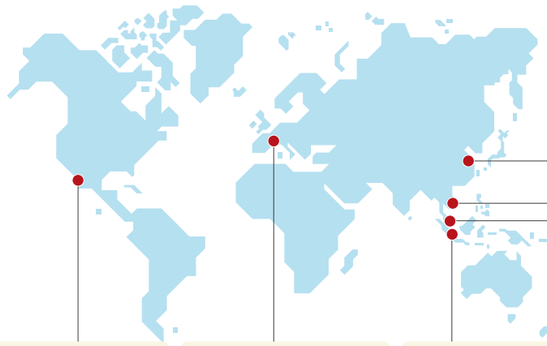
Contributions to Overseas Sales in Fiscal Year Ended March 31, 2021



- MILEI GmbH
- Exports of probiotics and infant and toddler milk (non-consolidated)
- *TOFU* sales in the United States and others

Trends in Overseas Business Performance





Morinaga Milk Industry (Shanghai) Co., Ltd.
Established in Shanghai in 2011

Elovi Vietnam Joint Stock Company
A wholly owned subsidiary of Morinaga Milk since June 2021, the company manufactures and sells dairy products that include milk-based beverage and yogurt in Vietnam

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.

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

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

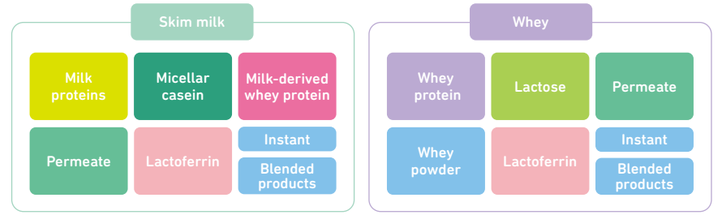
MILEI GmbH

MILEI GmbH is primarily involved in the dairy product ingredient manufacturing and sales business, such as whey protein, lactose, and lactoferrin. MILEI's business operations make a vital contribution to the Group, accounting for over half of sales in our Overseas Business segment (as of the fiscal year ended March 31, 2021). Since MILEI's acquisition as a wholly owned subsidiary in 2012, we have expanded its production facilities, implemented quality stabilization measures and other initiatives, and expanded the company's business. MILEI is a world leader in the manufacture[*2] of lactoferrin, for which demand is expected to expand over the long term. MILEI possesses the world's most advanced membrane filtration technology and equipment, allowing it to develop high-quality products.

*2 Absolute Reports, 2020 data

Products Manufactured by MILEI

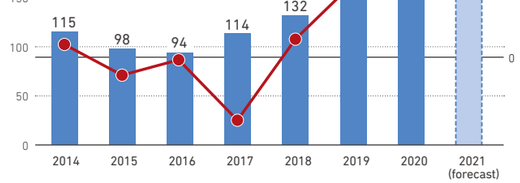
MILEI products are used by numerous customers as ingredients for infant and toddler milk, sports nutrition products, and many other products.



Trends in MILEI's Financial Performance

In 2014, MILEI commenced construction of a new plant. It subsequently faced a number of challenges, including manufacturing problems, that temporarily resulted in operating losses. Management restructuring and other initiatives brought a recovery, leading to a return to positive results in the fiscal year ended December 31, 2018[*3]. Since then, MILEI has focused on the improvement of quality and productivity for whey products, lactose, and other items. This has resulted in steadily improving financial performance, driven in part by volume growth in sales of lactoferrin.

MILEI's Net Sales and Operating Income



*3 MILEI's financial year is different from the accounting period used by the 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.

Exports and Joint Ventures in the Infant and Toddler Milk Business



Pakistan Indonesia Vietnam Malaysia

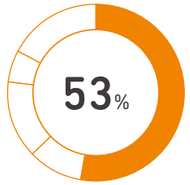
The global market for infant and toddler milk is expected to remain on a steady long-term growth trend due to population growth and urbanization in emerging countries, the shift of women into the paid workforce, and other factors. The Group is building its infant and toddler milk business through licensing, joint ventures, and exports. The Group brand is widely recognized in Indonesia, where we have a licensing agreement with Kalbe, the country's largest pharmaceutical manufacturer. Safety is an absolute requirement for infant and toddler milk, therefore the Group makes full use of R&D capabilities and advanced technology to ensure the continuing supply of high-quality products. In addition to expanding our existing market share, we will also take up the challenge of developing new markets.

Business Segment Trends and Strategies

B-to-C Business

Fiscal Year Ended March 31, 2021

Percentage of Net Sales



Net Sales

¥310 billion
(1.4% year-on-year increase)

Operating Income

¥16.1 billion
(¥3.5 billion year-on-year increase)



Perception of the Business Environment, Risk Analysis

- Our main channels in this segment are supermarkets and convenience stores. Our priorities are to strengthen our focus on consumer perspectives, and to respond quickly to the diversification of preferences and needs.
- There is growing demand for foods with function claims and other foods that support health and nutrition, in part because of the COVID-19 pandemic. However, competition in this market is intensifying, and we will need to step up our efforts to differentiate our products by further enhancing nutritional functionality. An increased focus on deliciousness and pleasure will also be vital, in part because of voluntary restrictions on activities due to the COVID-19 pandemic.
- Competition will intensify with the projected decline in Japan's population. We also face increased competition from imports due to the establishment of trade agreements, such as the Japan-EU Economic Partnership Agreement. Our priorities in this environment will be to expand our market shares and improve profits. We will expand our profit base by using Japanese dairy resources to manufacture products with high added value, and by strengthening our flagship brands. We will also use our original ingredients to create new demand.

Opportunities and Strengths

Opportunities

- Expanding health and nutrition needs
- Shift to at-home eating and accelerated growth of e-commerce during the COVID-19 pandemic
- Growing demand for products suitable for long-term storage for use as disaster supplies, and to prevent food losses
- Increasing consumer awareness of sustainability, expansion of consumer needs

Strengths

- Products for a wide range of age groups
- Market-leading brands
- Knowledge accumulated through over 50 years of bifidobacteria research
- Technology and quality management expertise for the production and supply of both chilled and long-life products

Strategic Directions

- Development of a structure to secure earnings by maximizing profits from our eight core brands
- Further expansion of our popular range of functional yogurt products
- Further deepening of the convergence between deliciousness and pleasure with health and nutrition
- Use of the Group's technology to overcome environmental problems, responses to the rising consumer awareness of sustainability

Overview of the Fiscal Year Ended March 31, 2021

Reduced demand for products for use in offices and other facilities had a major impact. However, revenue was higher thanks to firm demand for products to be consumed at home, including yogurt, ice cream, and cheese. Increased health-related demand enabled us to exceed our targets for sales of foods with function claims, such as *Triple Yogurt* and *Bifidus Yogurt Improves Bowel Movement*. This trend helped to improve our product mix. Profits were also higher, thanks to an improved product mix and cost reduction efforts, including the control of marketing activities.

Net Sales by Product Category (Non-consolidated; the Fiscal Year Ended March 31, 2021)

(¥ billions)

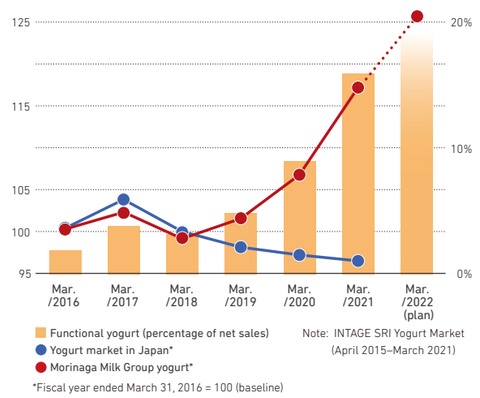
	Beverages	Yogurt	Ice cream	Cheese	Milk	Desserts	Commercial milk (home delivery, etc.)
Net sales	54.5	58.8	46.6	35.2	59.0	8.8	20.9
YoY change	-6%	+10%	+4%	+7%	-4%	0%	-3%

Developing Functional Yogurts as New Growth Products to Succeed Today's Flagship Brands

Outperforming the yogurt market



Functional Yogurt (Percentage of Net Sales)

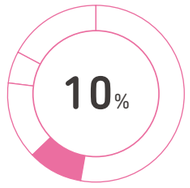


The Group's yogurt products significantly outperformed the total yogurt market. Over the past few years, we have prioritized the rollout of new products, especially functional yogurts, and the expansion of sales. Major hit products include *Triple Yogurt*, which displays functional claims relating to blood pressure, blood sugar, and neutral fat, and *Bifidus Yogurt Improves Bowel Movement*, which alleviates constipation. In addition to our emphasis on nutritional value, taste, and quality ingredients, we have also sought to encourage consumers to choose these products by making their benefits more obvious through their naming and packaging. Going forward, we will further expand promotional activities designed to encourage repeat purchasing. We will also continue to explore and discover new possibilities for functional ingredients, leading to the development of products that combine deliciousness and pleasure with health and nutrition.

Wellness Business

Fiscal Year Ended March 31, 2021

Percentage of Net Sales



Net Sales

¥55.5 billion
(0.3% year-on-year decrease)

Operating Income

¥3.5 billion
(¥700 million year-on-year decrease)



Perception of the Business Environment, Risk Analysis

- Japan's declining birthrate and demographic aging are accelerating. Because the infant formula market is expected to shrink as the birthrate falls, we will focus primarily on safety and reliability as we develop and implement our business strategies, while also closely monitoring changes in the number of children born and household expenditure per child.
- Our priority in relation to demographic aging is to help people to enjoy healthy longevity and improve their quality of life (QOL). We will expand the range of elderly care foods and liquid foods supplied by our subsidiary, CLINICO, as well as the *Milk Life* series of nutritional milk powder developed to support new healthy lifestyles for adults. At the same time, we will continue to contribute to the solution of social issues through educational activities and the dissemination of knowledge about health and nutrition.
- The use of e-commerce sites has expanded in recent years. We anticipate significant growth in this channel, including our own remote shopping business.

Opportunities and Strengths

Opportunities

- Expanding demand for products and services that contribute to healthy longevity
- Expansion of the drugstore business, and diversification of sales channels, including the expansion of e-commerce
- Diversification of needs with the shift from hospital care to home care for the elderly

Strengths

- More than a century of achievement in infant formula manufacturing and research
- An organizational culture that supports the development of new products with the potential to create new markets
- An extensive range of liquid foods and elderly care foods for use in hospitals, care facilities, and homes

Strategic Directions

- The use of bacteria and functional ingredients to develop new products that contribute to healthy longevity
- Increased promotion of the Group as a supplier of products that offer value for all generations, from newly born infants to the elderly
- Expansion of promotional activities focusing on the safety and reliability of our products, including their selection for use in medical facilities
- Expansion of e-commerce sites, enhancement of online communication through social media and other channels

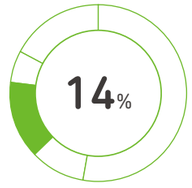
Overview of the Fiscal Year Ended March 31, 2021

We recorded strong sales in some product categories, notably the *Milk Life* series of nutritional milk powder for adults. However, sales of infant formula declined in the wake of a temporary demand surge at the end of the previous fiscal year, and total sales for this business segment were similar to the previous year's level. There were several new initiatives during the fiscal year, including the online launch of Japan's first yogurt product that can be stored at room temperature. Profit was lower because of reduced sales of infant formula, as well as the cost of launching the e-commerce business.

B-to-B Business

Fiscal Year Ended March 31, 2021

Percentage of Net Sales



Net Sales

¥78.9 billion
(18.4% year-on-year decrease)

Operating Income

¥2.6 billion
(¥2.7 billion year-on-year decrease)



Perception of the Business Environment, Risk Analysis

- Across society as a whole, COVID-19 has brought changes in the ways people consume food. This has had a major impact on the B-to-B Business, especially in the fiscal year ended March 31, 2021. Economic activity stagnated under the effects of restrictions and self-imposed restrictions on tourism and other activities, causing a decrease in demand for commercial dairy products for use in the restaurant and souvenir industries. Demand from inbound tourists also shrank. However, demand in these areas is expected to recover as the COVID-19 pandemic is brought under control. Going forward, we will concentrate our resources toward the channels and products that are likely to play a more prominent role in a changing economic environment. We will also intensify our efforts to create new demand.
- The B-to-B Business is responsible for outside sales of bacteria and functional ingredients, such as bifidobacteria, LAC-Shield™, lactoferrin, and peptides. These products were already attracting high levels of interest even before the COVID-19 pandemic because of their contributions to health and nutrition, and the market is expected to expand further. We will continue our efforts to respond to growing demand for products that support health and nutrition.

Opportunities and Strengths

Opportunities

- Growing interest in bacteria and functional ingredients with health and nutritional benefits
- A projected recovery in the restaurant industry, demand for souvenirs, and inbound tourism as the COVID-19 pandemic comes to an end
- A range of products that meet customers' needs to simplify their operations
- The potential to expand new sales channels for the B-to-B Business, including a shift to e-commerce

Strengths

- External sales of bacteria and functional ingredients with growth potential, including bifidobacteria, LAC-Shield™, and lactoferrin
- Human resources with expert knowledge of bacteria, functional ingredients, and commercial dairy products
- Our ability to develop products and offer solutions in response to changes in the market environment
- Contribution to the efficient utilization of domestically produced milk resources

Strategic Directions

- Improvement of the product mix through the expansion of bacteria and functional ingredients
- Accelerated response to environmental changes caused by the COVID-19 pandemic
- Strengthening of solutions and approaches leading to increased commercial use
- Enhanced training of personnel who can use their knowledge of bacteria and functional ingredients and commercial dairy products to achieve superior results

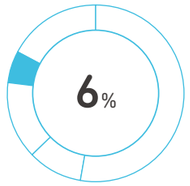
Overview of the Fiscal Year Ended March 31, 2021

The spread of COVID-19 caused a significant decline in demand in many markets, including the restaurant industry, hotels, the tourism industry, and souvenir industry. However, expanding health-related demand was reflected in increased inquiries about the Group's functional ingredients, such as bifidobacteria. Hygiene needs also intensified as a result of COVID-19, leading to increased sales of *PURESTER*, a device that generates slightly acidic electrolyzed water. Despite this, total sales and profits for this business segment were lower because of the significant decline in sales of commercial dairy products.

Overseas Business

Fiscal Year Ended March 31, 2021

Percentage of Net Sales



Net Sales

¥37.2 billion
(18.2% year-on-year increase)

Operating Income

¥5.5 billion
(¥2.7 billion year-on-year increase)



MILEI



Perception of the Business Environment, Risk Analysis

- The COVID-19 pandemic caused economic conditions in emerging countries to deteriorate. In addition to slower economic growth, a temporary decline in birthrates was also significant for the Group. This has affected our activities in our main export markets, including Pakistan, Vietnam, and Indonesia, and there is concern about a short-term impact on financial performance. However, we anticipate a return to economic growth and rising birthrates in the longer-term future after the COVID-19 pandemic is brought under control.
- Growing demand for health and nutrition products can be expected to increase business opportunities on a global scale for bacteria and functional ingredients. From a sustainability perspective, there is also likely to be expanding consumption of plant-based foods.
- We expect global demand for dairy ingredients to remain ahead of supply, in part because of increasing consumption in China and Southeast Asia. This tightening of the supply-demand environment is likely to drive a rising trend in prices for dairy ingredients in key countries and regions.

Opportunities and Strengths

Opportunities

- Expanding health and nutrition needs
- Global population growth over the medium- to long-term future
- Global expansion of e-commerce
- Increased focus on plant-based foods

Strengths

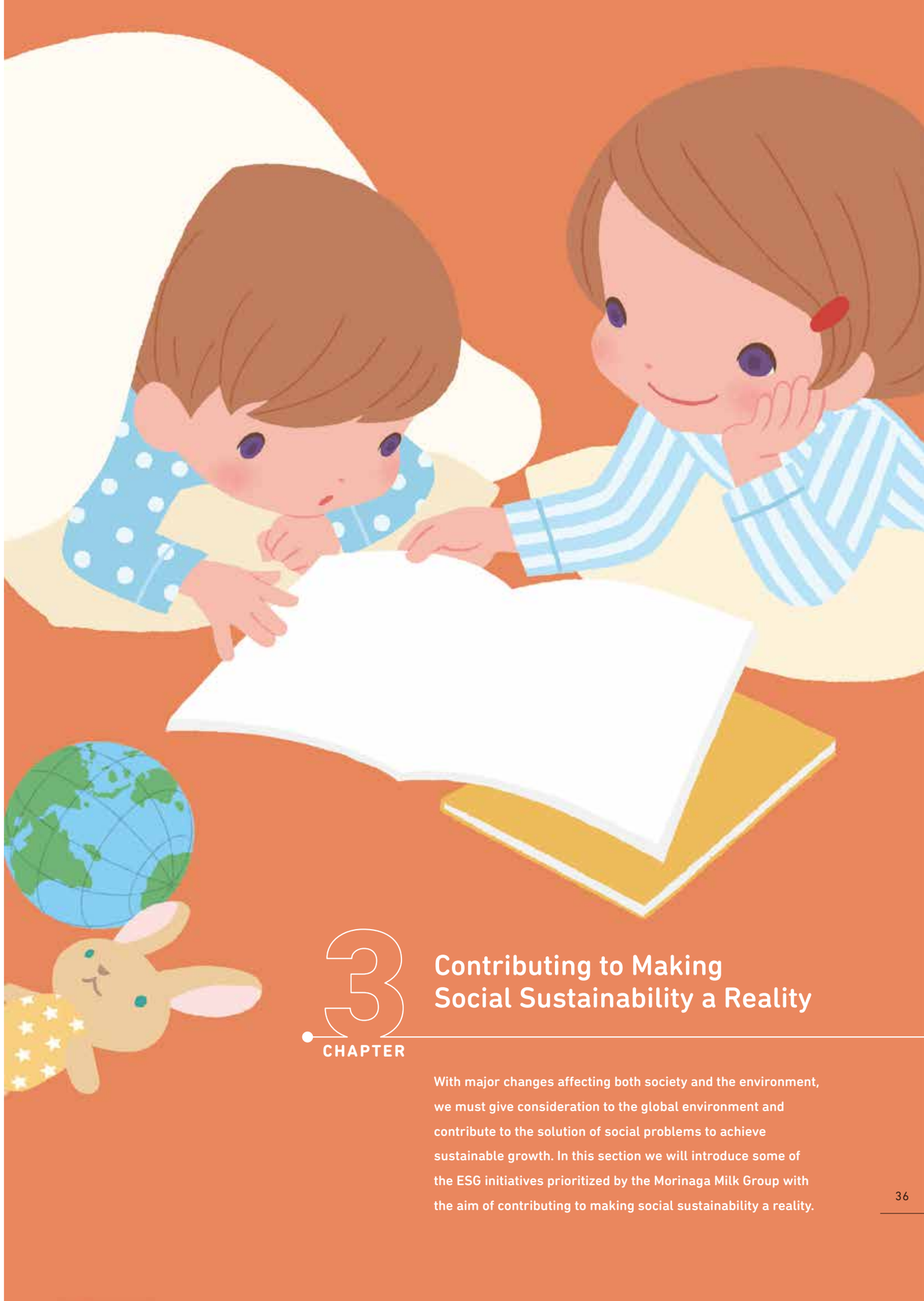
- Global rollout of our bacteria and functional ingredients in response to strong interest
- Reputation for quality and reliability
- Robust business base for the dairy product ingredient manufacturing business in Europe, the home of dairy farming
- Manufacturing knowledge for tofu as a plant-based food

Strategic Directions

- Global rollout and expansion of our range of bacteria and functional ingredients
- Development of a robust business base for MILEI, including further increases in the added value of products
- Establishment of a presence in Southeast Asia in the infant nutrition category through the expansion of infant and toddler milk exports
- Maximization of synergies and expansion of business areas in Vietnam following the addition of Elovi to the consolidated Group
- Responding to consumer needs and sustainability awareness

Overview of the Fiscal Year Ended March 31, 2021

MILEI, which manufactures and sells dairy ingredients, recorded sales growth driven in part by increased demand for infant and toddler milk. There was also a dramatic reactionary upswing in exports of infant and toddler milk and other products, compared with the previous fiscal year. Another area in which sales were higher was functional ingredients, including bacteria and lactoferrin. Profit was also higher, thanks to higher sales and the improvement of the product mix because of increased sales of high-margin functional ingredients.



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.

Message from the General Manager of the Sustainability Division

We aim to realize the Morinaga Milk Group 10-year Vision by working with a sense of urgency to strengthen our sustainability management initiatives.



Executive Managing Officer
General Manager,
Sustainability Division

Hiroko Kuno

Establishment of the Sustainability Division

The Morinaga Milk Group views promoting sustainability management as a key management priority. A review of our organizational structures for sustainability-related initiatives resulted in the establishment of the Sustainability Division in June 2021.

The Group has always placed great importance on the fulfillment of its social responsibilities, based on the belief that "fulfillment of CSR is the very essence of our business activities." We also recognize the importance of communication with our stakeholders, including customers, business partners, local communities, shareholders, investors, and employees. Communication allows us to learn about changes in society so we can identify the types of value that we can bring to society as well as devise and adopt strategic directions to create that value. However, recent changes in the social environment mean it is no longer enough for a company simply to meet its social responsibilities. That is why we are evolving and deepening our sustainability management.

Economic activities inevitably cause environmental and social impacts in some way. Manufacturing involves the procurement and processing of raw materials and the transporting and marketing of products. Our processes use resources as raw materials, and agricultural production also affects the environment. In addition, production and transportation operations utilize energy and water resources and emit greenhouse gases, including CO_2. Another challenge is the disposal of waste, including unsold products and used packaging. This has become a major problem that cannot be overcome solely through the self-cleansing processes of nature and CSR activities. Despite this situation, companies still need to generate economic added value. Our response was to establish the Sustainability Division to enhance and accelerate our efforts to address these issues.

The Morinaga Milk Group's Approach to Sustainability Management

Society's expectation that companies should consider the environmental and social impacts of their activities in the form of negative externalities will inevitably result in dramatic changes in the business environment, including the prerequisites for pursuing business, and the competitive environment. To adapt to these changes and ensure its continuing survival, the Morinaga Milk Group must devise alternate strategies. Rather than simply adding these new approaches to our existing management strategy, we will need to change the management strategy itself. In the past, we worked to fulfill our social responsibilities through separate initiatives in different areas, such as environmental countermeasures, R&D, product development, human resource development, and CSR activities. Going forward, we will base our pursuit of growth on a comprehensive approach, including the adoption of sustainability perspectives as part of our fundamental approach to business. There will be many challenges, and we will need to draw upon wide-ranging sources of wisdom and expertise within the Group, while also learning from the examples of progressive companies and seeking outside knowledge. Above all, we will foster a sense of commitment to these efforts across our entire organization.

Current Efforts and Progress

As part of the process of formulating the next Medium-term Business Plan, which we will launch in the fiscal year ending March 31, 2023, the Morinaga Milk Group has reexamined internal and external issues through the lens of sustainability management, updated our perception of the external environment, and commenced initiatives to adjust mindsets within the company. Under the current Medium-term Business Plan, we have been pursuing Basic Policy II ("Performing business with an ESG Focus aligned with our Corporate Philosophy"). Under that policy, we have worked to achieve KPIs that relate to the seven priority issues defined for our entire supply chain. However, society has continued to change since the launch of the plan, and a variety of problems have emerged, including the increasing difficulty of determining the order of priorities for our initiatives. For that reason, our work on the next Medium-term Business Plan in the current fiscal year will include the integration of these initiatives with business strategy. We will also address issues that are already apparent, while working to raise awareness of sustainability management within the Group. To achieve these goals, we have assembled a team of Sustainability Promotion Department staff and representatives of each division. Its tasks include the proposal of initiatives for the next Medium-term Business Plan, the exploration of potential solutions to various issues, and communication with each division.

First, we need to address climate change and other environmental problems, which are becoming increasingly serious with each passing year, as well as social issues, such as human rights. As we think about sustainability management, we also need to think deeply about the Morinaga Milk Group's role in society, and to ask ourselves why we should undertake these initiatives. For example, as a company that has identified "health and nutrition" as a priority area, we aim to accelerate our initiatives in that area while considering such questions as what we are trying to achieve, what kinds of value we can provide, and how we can link our efforts in this area to our business strategy. There is still a considerable distance between the present situation and our vision, but we believe there is significant scope for driving change by solving problems, and we are determined to move forward positively.

To All Stakeholders

Society is likely to continue changing at an even faster pace than it is now. To progress toward our vision in this environment, we must be fully aware of our mission and committed to achieving it. We also need to move forward after updating our plans based on an objective reassessment of our approach through dialogue with stakeholders. For example, in recent years, we have worked to increase the frequency and enhance the quality of our dialogue with shareholders and investors, and we are determined to continue these efforts.

The Morinaga Milk Group will continue to take up various challenges as we work to achieve sustained growth in our corporate value.

Sustainability of Morinaga Milk

Our Approach to Sustainability

One of the goals in the Morinaga Milk Group 10-Year Vision is evolution into a company that persistently helps make social sustainability a reality. To achieve this goal, the current Medium-term Business Plan calls for "Performing business with an ESG Focus aligned with our Corporate Philosophy" as one of its core policies. We have established seven priority issues under that policy and set KPIs for each.

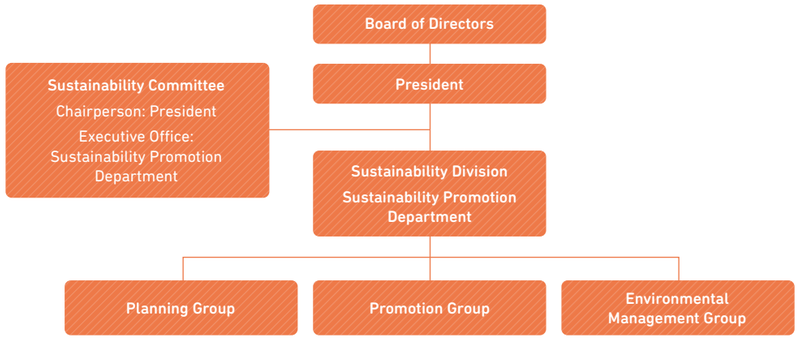
Sustainability Promotion System

In June 2021, we modified our sustainability-related organizational system to accelerate our implementation of sustainability management as the basis for contribution to a sustainable society, leading to continued development for the Morinaga Milk Group.

Specific changes included the establishment of the new Sustainability Division, which is under the direct control of the president. The former CSR Promotion Department was renamed the Sustainability Promotion Department and positioned under the new Sustainability Division.

The CSR Committee was also renamed as the Sustainability Committee. This committee was established as a special committee to reinforce the functions of the Board of Directors, which include discussing the support, progress, and confirmation of Morinaga Milk's seven priority issues.

Sustainability Promotion System



Communication with Stakeholders

We see continual dialogue with stakeholders as an essential part of our efforts to promote sustainability management and contribute to the creation of a sustainable society.

Stakeholders	Communication Methods and Results in the Fiscal Year Ended March 31, 2021
Consumers	(1) Consumer Service Office: Approx. 65,000 inquiries (2) Customer satisfaction questionnaire surveys (3) Angel 110 hotline: 9,941 calls (4) Social contribution activities (e.g., Kidzania, Expedition Team Exploring Forest and Food)
Shareholders and investors	(1) Number of voting rights exercised at the Annual General Meeting of Shareholders: 422,198 (2) Briefings for individual investors: 0*1 Financial results briefings: 4 Small meetings: 2 (3) Meetings with institutional investors and analysts: 393 (4) Briefings for institutional investors and analysts: 1
Business partners and suppliers	(1) Supplier audits: 16 factories (2) Sustainability (CSR) procurement questionnaires: once every three years*2 (3) Quality improvement seminars and distribution seminars: 0*1 (4) Supplier briefings: 0*1
Employees	(1) Energy Survey (employee satisfaction survey): 1 (2) Career survey: 1 (3) Dialogue through the "Co-Creation of Aspirations Forum": 166 participants (4) Internal newsletter: 4 issues
Local communities	(1) Plant tours: 0*1 (2) Participation in environmental cleanup activities and other events (3) Supplying goods in an emergency (4) Donation of products to food banks and children's cafeterias

*1 Suspended in the fiscal year ended March 31, 2021 to prevent COVID-19 infections.
*2 The survey was last conducted in 2019. The next one is scheduled for 2022.

Seven Priority Issues

We formulated priority issues in 2018 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 with our corporate slogan "For Ever Brighter Smiles" in mind, the seven priority issues were adopted and approved by the CSR Committee (now the Sustainability Committee).

Seven Priority Issues

	Stakeholders	Strategic Direction of Thoughts and Activities	Related SDGs
	**Health and Nutrition** We offer health and nutrition by developing and selling products that combine functionality and good taste to realize "Ever Brighter Smiles."	Contribute to the extension of healthy lifespans Contribute to the healthy growth of babies and infants	
	**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.	Reduce environmental impacts from manufacturing processes 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** Our business activities will be guided by consideration for human rights and respect for diversity. We will create environments in which all people can realize their full potential.	Identify ingredients and suppliers that affect company management Respond to the Group's foreign employees (including those working for cooperating companies)	
	**Supply Chains** We procure raw materials and manufacture products with an emphasis on safety and reliability, and consistently provide high-quality products.	Efficient supplier management corresponding to raw material risks Creating a system for providing safe and high-quality products	
	**Nurturing the Next Generation** We support the healthy growth of children as future contributors to the creation of a sustainable society.	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** We will focus on developing human resources who can realize the slogan "For Ever Brighter Smiles."	Develop employees who can perform in a global business environment. Encourage the independent growth of each individual employee by pursuing diversity and inclusion	
	**Corporate Governance** We will continue to work on establishing and augmenting a highly effective governance system to sustainable growth and improve corporate value.	Transparent, equitable, prompt, and bold decision-making based on diverse values in Board of Directors' meetings Strengthen the management system	

Sustainability of Morinaga Milk

Progress of Main KPIs

Priority Issue	Main KPIs	Progress in the Fiscal Year Ended March 31, 2021
Health and Nutrition	Launch of products incorporating nutritious functional ingredients	• Multiple products with functional claims and products to support health and nutrition brought to market, including *Bifidus Yogurt Improves Bowel Movement* • Continue to move forward with the next-generation healthcare business
	Provide Bifidobacterium breve M-16V; continue to provide to over 120 facilities in Japan and overseas	• Bifidobacterium breve M-16V is supplied to over 150 facilities in Japan and overseas, including newborn intensive care units (NICUs)
The Environment	Reduction of CO_2 emissions intensity: 20% reduction by the fiscal year ending March 31, 2031 compared with the level in fiscal year ended March 31, 2014 80% reduction by the fiscal year ending March 31, 2051 compared with the level in the fiscal year ended March 31, 2014	• 14.1% reduction since the fiscal year ended March 31, 2014
	Business sites with ISO 14001 certification: ensure that all consolidated company sites have earned this certification by the fiscal year ending March 31, 2031	• Number of certified sites: 34 (as of March 31, 2021)*1 • One site certified in the fiscal year ended March 31, 2021 (Order Control Center)
	Weight of plastic packaging covered by the Containers and Packaging Recycling Law: 10% reduction compared to the fiscal year ended March 31, 2014	• 15.4% reduction since the fiscal year ended March 31, 2014
Human Rights	Create a list of important suppliers	• We have started to explore checking and auditing schemes for important supply chains
	Set up working environments for the Group's foreign employees	• "Appropriate employment management for foreign employees" added to the checklist for operational audits for subsidiaries in Japan
Supply Chains	Strengthen mechanism for evaluating supplier management level depending on each raw material's risk	• Class-based supplier audits conducted at 16 factories in the fiscal year ended March 31, 2021
	Acquire FSSC 22000 certification at all of the Group's 23 plants*2 by the fiscal year ended March 31, 2021	• Number of factories certified in Japan: 24 (as of March 31, 2021) • Certification activities accelerated beyond the planned level
Nurturing the Next Generation	Total participants over three-year period starting in the fiscal year ended March 31, 2020: 300,000	• Continue to create opportunities to contribute to the development of future generations, including trial online events during the COVID-19 pandemic
	Provide ongoing consultation on infants through the Angel 110 hotline; handle calls from a total of 1 million people by the fiscal year ended March 31, 2021	• Advice provided to over 990,000 callers (as of March 31, 2021) • Fiscal year ended March 31, 2021: Online events implemented for the internal Angel 110 hotline for the first time
Human Resource Development	Implement programs for training global human resources	• Total of 148 participants (as of March 31, 2021) • 52 participants in the fiscal year ended March 31, 2021
	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	• Continue to implement training and interviews in an online environment
Health and Nutrition	Evaluation scores and comments in evaluation of the Board of Directors (diversity of the Board of Directors and substance of discussions)	• Proportion of independent external directors: 1/3 (six internal directors, three external, including one female external director)
	Augment regular committees (Personnel Remuneration Committee, Internal Control Committee, Sustainability Committee*3)	• Personnel Remuneration Committee: Changes to remuneration structure for officers: Ratio of fixed to performance-based remuneration changed from 2:1 to 1:1, ROE added as an evaluation indicator for performance-based remuneration • Internal Control Committee: Formulation of anti-corruption policy to prevent corrupt behavior • Sustainability Committee: Creation of the Sustainability Committee through the restructuring and expansion of the CSR Committee

*1 TOYO FERMENTED MILK CO., LTD. (dissolved in May 2020) and the Kinki Plant (production discontinued in March 2021) were excluded from the total number of certified sites.
*2 The number of factories certified changed from 29 to 23 in October 2020 due to production shutdowns and other factors.
*3 The CSR Committee became the Sustainability Committee in June 2021.

Priority Issues



Health and Nutrition

We see the development and supply of products that contribute to the extension of healthy lifespans and the healthy growth of babies and infants as the core business activity of the Morinaga Milk Group. We will continue to take up the challenge of increasing our contributions to health and nutrition for people everywhere.

Promotion of 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 provide services that can address health issues from a longer-term perspective.

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

Initiatives in the Fiscal Year Ended March 31, 2021

● Advance product launches on e-commerce sites

With consumer purchasing activity shifting increasingly to e-commerce, we are expanding our activities on major shopping sites and enhancing our own sites. Specific initiatives included the launch of a new yogurt drink that contains a day's supply of iron. For added convenience, the product can be stored at room temperature.

● Launch of foods with function claims

We launched several new foods with function claims, including *Bifidus Yogurt Improves Bowel Movement*. Developed to help people who suffer from constipation, this product has gained considerable support from consumers.



● Start of the health support nutritionist seminar business

In January 2021, the Group launched a health support seminar program designed to share ideas that help people to enjoy healthy and happy lives. The seminars are presented by leading nutritionists who undergo special training for at least six months. The content of the seminars covers a variety of themes, including healthy intestinal flora. Participants receive recipes, simple exercise programs, and other support to help them improve their lifestyles. Since the introduction of the service, it has been adopted by a number of companies seeking to implement health management policies.

https://www.morinagamilk.co.jp/learn_enjoy/kenko-support/ (Japanese only)

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.



The Environment

Most of the raw materials used in the Morinaga Milk Group's products are derived from the natural environment through agricultural production. We express our gratitude for these gifts of nature by working across our entire supply chains to protect the environment through initiatives that contribute to the development of a sustainable society. We will communicate closely with business partners as we work toward specific goals, including climate change prevention, the reduction of food losses and waste, and measures relating to plastic packaging.

Climate Change Mitigation

We regard climate change as a serious environmental issue for the Group. We are accelerating our efforts to reduce emissions of greenhouse gases, including CO_2, and also updating our targets.

Main Activities

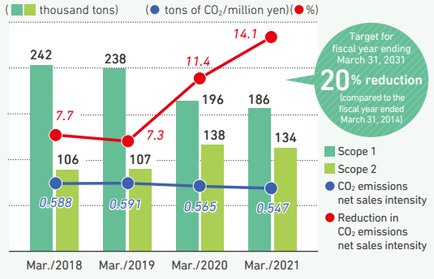
- Completion of fuel conversion from fuel oil to natural gas and city gas at all 11 Morinaga Milk Industry plants (February 2021)
- Utilization of natural energy, including the installation of solar panels at the Tone Plant, and the utilization of coffee grounds to generate energy within the Kobe Plant
- Installation of green electric power systems at the Tama site (Tokyo Tama Plant, Yamato Plant, Engineering Development Center*, Chilled Products Coordination Center-East Japan) in April 2021
- Continuing certification of the Tokyo Tama Plant under the Tokyo Cap-and-Trade Program as a top-level facility
- Declaration of support for the Task Force of Climate-related Disclosures (TCFD) Recommendations and membership of the TCFD Consortium

*Known as the Manufacturing Technology Center since June 2021

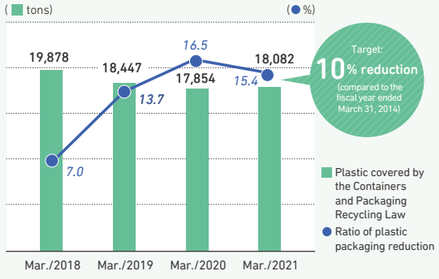
Reducing the use of Plastic Packaging

Large quantities of plastic packaging are used in the Group's products. We have prioritized a variety of initiatives to reduce the negative impact of plastic on the global environment, including the formulation and introduction of the "Eco-package Guide," a set of guidelines for environment-friendly packaging design. We are also implementing 3R (reduce, reuse, recycle) systems and developing and improving containers and packaging that are safe and easy to use. To enhance the effectiveness of our initiatives relating to the plastic problem, we are working not only with industry organizations, but also with the Clean Ocean Material Alliance (CLOMA), which was established by the Ministry of Economy, Trade and Industry, and the Plastic Smart Forum of the Ministry of the Environment. In July 2021, we also invested in R Plus Japan, Ltd., a plastic recycling joint venture.

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



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



Scope of data: See note on page 59



Human Rights

The Morinaga Milk Group respects the United Nations Guiding Principles on Business and Human Rights and strives to ensure respect for human rights throughout our supply chains. We disseminate the Morinaga Milk Group Human Rights Policy not only within the Group, but also to our suppliers and stakeholders.

Dialogue with Suppliers

The Group emphasizes dialogue in our relationships with suppliers. We conduct surveys that include checks on working environments at raw material production and processing sites. The questions in these surveys are based on the CSR Sustainable Procurement Self-Assessment Tool Set developed by the Global Compact Network Japan. Before initiating a survey, we hold briefings for suppliers to inform them about the purpose and significance of the process in relation to the Group's policies on human rights, procurement, and quality. The results are fed back to suppliers for use in the improvement of their activities.

Set Up a Working Environment for Foreign Employees

We believe it is important to not only recognize human rights and diversity, but to also encourage all employees to fully realize their own individuality and abilities while accepting each other's differences, and to promote corporate activities. The Group employs foreign nationals as well as Japanese nationals whose first language is not Japanese. We conduct regular internal surveys as part of our efforts to improve the working environments for these employees. In the fiscal year ended March 31, 2021, we added items relating to appropriate employment management for foreign employees to our operational audits of subsidiaries in Japan.



Supply Chains

The Group is continually focused on ways to ensure consumers are supplied with safe, reliable products in each of our supply chains through our product development, raw material procurement, and product manufacturing and distribution.

Supplier Audits

One of our initiatives to prevent various risk factors involves classification of raw materials based on multiple indicators. Our supplier audits are conducted under this classification system. Despite the various restrictions imposed by the COVID-19 pandemic, we have continued to conduct audits of raw material suppliers in Japan in line with our commitment to the supply of safe, reliable products to consumers. Because we also import raw materials from Europe, Oceania, and other locations, we also conduct audits of overseas suppliers as needed. We have established systems to ensure the procurement of high-quality raw materials from Japan and overseas, including briefings for suppliers about the quality policies of the Group.

FSSC 22000 Certification

In 2013, the Group began to acquire certification under FSSC 22000*, an international standard for food safety management systems, at our facilities. Our efforts since 2019 have focused on the Comprehensive Sanitation Management and Production Process certified factory of the Japanese Ministry of Health, Labour and Welfare. By March 2021 we had completed the certification of all 24 of our factories in Japan.

In addition to plant certification, we have also prioritized in-house education so employees understand FSSC 22000 correctly. In addition, FSSC 22000 internal auditor training courses were organized.

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

*FSSC 22000: A standard for food safety systems approved under the Global Food Safety Initiative (GFSI).



Nurturing the Next Generation

We provide a place to learn about nutrition to live healthy and enjoyable lifestyles, and to learn the techniques needed to utilize the gifts of nature. We will further accelerate the development and rollout of unique programs designed to nurture the qualities and abilities needed to build a sustainable society.

Main Activities

Main KPIs	Outline	2020: Initiatives During the COVID-19 Pandemic
M's Kitchen	Participants in this cookery training program learn about nutrition through original Morinaga Milk recipes that combine everyday ingredients with milk and other dairy products.	We implemented these programs online and developed as well as introduced programs more closely tailored to meet the needs of schools and other users.
Company visits	Through this interactive program, junior and senior high school students and other participants learn about the activities of the Group. They also learn about how our employees approach their work and what they studied when they were at school.	
Visiting classes	We provide classes for elementary school children. Themes include milk and dairy products, and the mechanisms of fermentation.	
Morinaga Little Angels Program Expedition Team Exploring Forest and Food	This outdoor educational experience is for elementary school students from grades four through six. The children spend time together exploring life in nature. They cooperate with their classmates in a series of eating, creating, and playing experiences such as harvesting vegetables, tending to animals at dairy farms, climbing trees, playing in rivers, building rudimentary structures, and taking plant tours. The program has the aim of discovering the essentials of living by one's own devices in nature.	We suspended outdoor activities, but we hosted an online roundtable meeting for participants over the past five years (2015–2019). We also launched a website where children can enjoy a virtual experience of activities in the natural environment through videos.

Updating Communication Programs

Starting in the fiscal year ending March 31, 2022, we are increasingly shifting our next-generation nurturing programs into an online environment. This change reflects the growing use of information technology in education and the emergence of new communication tools. Before the start of the COVID-19 pandemic, M's Kitchen, company visits, visiting classes, and the Morinaga Little Angels Program Expedition Team Exploring Forest and Food program were all based solely on face-to-face interaction. However, we have started to update these activities as online communication programs.



A visiting class session presented online

Angel 110 Hotline for Free Childrearing Consultations

In May of 1975, when the number of nuclear families was surging in an environment of rapid economic growth of the 1970s, we started a free childcare telephone consultation service. This service continues to welcome questions from mothers about their early stages of pregnancy, child-raising, and their children's early years up to elementary school. We also regularly issue "Angel 110 Reports" about trends in childrearing via our website.



Human Resource Development

Global Human Resource Development

One of the goals in our 10-year Vision is to build the Morinaga Milk Group into a global company that exerts a unique presence. That will require the development of human resources capable of working successfully in any business environment. We are approaching this task through a program for training global human resources, focusing on training and e-learning. We suspended overseas training in the fiscal year ended March 31, 2021 because of the COVID-19 pandemic, but we added new online programs, resulting in a substantial increase in the number of participants. We also improved the content of courses, including an increased focus on practical case studies, and accelerated our training initiatives.

	Mar./ 2018	Mar./ 2019	Mar./ 2020	Mar./ 2021
Number of participants in global human resource development programs	20	24	20	52

Promoting Diversity and Inclusion

A corporate culture in which diverse individuals can realize their potential is essential to continuing corporate growth in a changing external environment. The Morinaga Milk Group aims to foster such a corporate culture by promoting diversity and inclusion.

Promoting Career Development for Female Employees

We are implementing several initiatives to promote career development for female employees. Since the fiscal year ended March 31, 2013, we have provided ongoing training for female leaders. Many alumni of this career- and management-themed program, which is open to union members, are now working in executive roles and as specialists in various areas. We will continue to expand educational opportunities leading to career advancement.

	Mar./ 2018	Mar./ 2019	Mar./ 2020	Mar./ 2021
Participants in training for female leaders	29	24	23	17

LGBTQ

Initiatives relating to LGBTQ people include the formulation and dissemination of "Regarding the employment of LGBTQ human resources" guidelines, the establishment of an internal helpline, and the presentation of seminars. The voluntary organization work with Pride* recognized our efforts in 2020 by giving the Morinaga Milk Group a "Gold" ranking in its evaluation index PRIDE Index for 2020.

*A voluntary organization that supports the promotion and establishment of diversity management related to sexual minorities in organizations such as companies.

Professional Development for Young Employees

In addition to on-the-job training in the units to which they are assigned, young employees are continually trained and monitored in their first three years with the Group through interviews with the Human Resources Department and other programs. In the fiscal year ended March 31, 2021, we expanded our professional development support for all employees, including young workers. We also looked at approaches to professional development during the COVID-19 pandemic. Initiatives included the use of the Intranet, emails, and other channels to disseminate information on themes that included the use of communication to enhance remote management skills, and the maintenance of mental and physical health.

Health Management

In the fiscal year ended March 31, 2021, activities under the Morinaga Milk Health Management Program, which is based on the Morinaga Milk Health Declaration, included in-house seminars by specialist physicians on the theme of cancers that affect women, a self-care program focusing on ways to deal with stress during the COVID-19 pandemic, and employee seminars presented by health support nutritionists*. Our various initiatives from the perspective of both physical and mental health resulted in the designation of Morinaga Milk Industry as an "Outstanding Health and Productivity Management Organization" by the Japanese Ministry of Economy, Trade and Industry in both 2020 and 2021.

*See "Start of the health support nutritionist seminar business" on page 42.

Directors and Audit & Supervisory Board Members

(as of June 29, 2021)

Managing Director
Hitoshi Hyodo
(Sales and Marketing)

External Audit & Supervisory Board Member
Masahiko Ikaga

External Director
Takatomo Yoneda

Managing Director
Tsuyoshi Minato
(General Affairs, Human Resources, Special Affairs and Audit)

Full-time Audit & Supervisory Board Member
Mitsumasa Saito

Managing Director
Yasuhiko Yanagida
(Quality Assurance, Manufacturing, Dairy Farm Services and Distribution)

External Audit & Supervisory Board Member
Mayumi Yamamoto

External Director
Shoji Kawakami

Full-time Audit & Supervisory Board Member
Keiki Hirota



External Director
Yukari Tominaga

President and Representative Director
Yohichi Ohnuki
(General Management, Sustainability and Public Relations)

Chairman and Representative Director
Michio Miyahara

Executive Vice President and Representative Director
Teiichiro Okawa
(General Management, R&D and Overseas)

ROUNDTABLE DISCUSSION 2

INTERVIEW WITH EXTERNAL DIRECTORS

Accelerating Transformation Initiatives in the Fiscal Year Ended March 31, 2021

Q» How would you assess the performance of the Morinaga Milk Group in the fiscal year ended March 31, 2021?

Kawakami: The Group made significant progress on initiatives that span its businesses. These initiatives, which are linked to one of the core policies under the current Medium-term Business Plan, have been the focus of intensive discussions at various levels, including meetings of the Board of Directors, and my impression is that the entire company is permeated with a sense of commitment to achieving its goals. I see this invigoration within the organization as one of the factors that enabled the company to achieve its profit targets despite major changes in the business environment.

Yoneda: The Group set a new record for operating income for the fifth consecutive year, thanks to factors that included improvements to the product mix, the growing success of the functional ingredients business, and the expansion of the Overseas Business. The targets under the current Medium-term Business Plan are now within reach. Market assessments of and interest in the Group have also risen. In short, my impression is that the Group is on an upward trend.

In recent years, the Group's structural reforms and initiatives that span its businesses have started to bear fruit, and there are also signs of change in its management culture. Morinaga Milk Industry seems to have matured as a company.

Tominaga: The fiscal year ended March 31, 2021 was characterized throughout by continual efforts to cope with the COVID-19 pandemic. Despite this challenging and unpredictable situation, the Group was still able to carry out M&A and capital expenditure according to plan, including the acquisition of Elovi. In addition, the Group's manufacturing plants continued to provide a stable supply of products, while prioritizing safety and quality. As a result, the Group was able to enhance its profitability while still fulfilling its mission as a food manufacturer. It deserves credit for its success in balancing business development with the fulfillment of its social responsibilities.

Yoneda: Of course, there are still many management issues, and there is considerable room for further improvement. The key to successful business management going forward will be to commit to targets and plans and then see them through. In other words, the company will need to be as good as its word. I believe that by demonstrating a strong determination to overcome a challenging business environment and reforming its corporate culture, the Group can send a powerful message to the market.

Kawakami: To make further progress on the path to growth, the Group will need to combine a heightened sense of urgency with flexible thinking and a broad range of perspectives. To adapt to changes in the business environment, including the effects of the COVID-19 pandemic, the Group must not only address the current situation, but also develop plans for the next stage and the stage after that, while further enhancing its systems for anticipating and preparing for change. Once these changes are in place, the Group will be ready to advance to the next level, and its path to the realization of the 10-year Vision will become clearer.

Tominaga: Meetings tend to be extremely long, and I feel this may be slowing things down. It is excellent that management executives can engage in free and open-minded discussions, and that should continue, but I think there is a need to speed up decision-making processes by avoiding detailed explanations where possible and keeping the amount of meeting documents to a minimum.

Overcoming Corporate Governance Issues and Further Enhancing Management Culture

Q» In light of the recent rapid changes in the business environment, what are your thoughts on issues facing the Morinaga Milk Group from the perspective of corporate governance?

Kawakami: In the six years since I became an external director in 2015, there have been positive changes in the Group's management culture, and there is a real sense that its management capabilities have improved dramatically. The current positive trends should be seen as an opportunity to take the reforms further over a five- or ten-year timeframe.

I believe the following three questions will have a key bearing on management decision-making from a medium- to long-term perspective. First, how can the management and comprehensive strengths of the Group in Japan and overseas be enhanced, including the expansion of the Overseas Business operations? Second, how should management resources, such as human resources and funds, be allocated in the context of these changes? Third, how can the Group implement ESG and sustainability management, including contribution to the achievement of the SDGs? Going forward, I think we will need to look more closely at these three questions from a governance perspective.

Yoneda: As the Group expands overseas, it will need to cope with global market trends, legal systems in different countries, and issues relating to intellectual property, culture, and the environment. This will require advance preparations with increased flexibility and a far greater sense of urgency in areas such as staff management and human resource development. ESG issues also loom ahead as management challenges that cannot be avoided. The Group needs to work toward genuine sustainability management by capitalizing on its strengths and utilizing its social value, including its extensive range of ingredients and the broad scope of its product development activities, and by using innovation and new concepts to advance to a level at which it can combine profit growth with ESG management.

Tominaga: In the future, management decision-making will need to be based not only on past trends, but also on



External Director
Takatomo Yoneda

External Director
Shoji Kawakami

External Director
Yukari Tominaga

forecasts for future trends. It would be fair to say the Group still does not provide enough opportunities for people to develop hypotheses and share their aspirations. Of course, the future cannot be predicted with complete accuracy; however, it should be possible to advance the reform process further by moving forward with efforts to change mindsets Group-wide.

Q» What are your thoughts about the effectiveness of governance?

Kawakami: I believe that the Group's governance structures are extremely effective. As external directors, we provide active input, drawing upon our own experiences and knowledge to raise concerns or suggest alternative approaches. The management team is always ready to listen to our comments, and they take our input very seriously, to the extent that they sometimes change their strategic direction.

Tominaga: The Group has worked to improve and reinforce its corporate governance. For example, independent external directors now make up over one third of the Board of Directors. I believe the effectiveness of governance structures is improving. The annual evaluation of the Board of Directors is also functioning well, leading to debate and improvement in such areas as the composition of the Board, the management of its meetings, the quality of deliberations, and cooperation with the external directors.

High Expectations for Further Growth under the New Structure

Q» What are your expectations toward the new management structure established by the Morinaga Milk Group in June 2021?

Kawakami: We now have a clearer direction the Group needs to follow to realize its 10-year Vision. To achieve steady progress, the Group will need to drive growth by making optimal use of its excellent resources, including people, products, raw materials, and R&D capabilities. The process has reached a stage at which specific actions can be taken toward the realization of the 10-year Vision, in conjunction with the formulation of the next Medium-term Business Plan. I am hopeful that the new management structure will lead to further acceleration of the Group's initiatives.

Tominaga: In addition to a new President, there are also new directors in charge of quality, manufacturing, dairy farming, distribution, and sales and marketing. The creation of this new management team is an excellent opportunity to implement further reforms. When the business environment is highly volatile, we tend to think more about various risk factors and become more cautious. However, good returns are not achieved by focusing solely on the risks and becoming too timid. Active risk-taking and aggressive management strategies are an important part of efforts to improve corporate value.

Yoneda: One of the expectations that I have toward the new system is that it will enable the Group to ride the upward trend that is in front of it. I also hope they will tenaciously work to manage the Group from the dual perspectives of profit growth and prioritization of ESG. I believe the mission of the new management team should be to accelerate the Group's growth by building on its accumulated achievements to date. I also hope the new President will make full use of his talents, including his profound perceptiveness and his ability to communicate with the market.

Q» As an external director, how do you envision your role in the new management structure?

Kawakami: I think the role of external directors is to offer broad directions and concepts in relation to management strategies. I aim to support the autonomous evolution of the new management structure while playing a monitoring role based on the big picture.

Tominaga: I would like to support risk-taking in anticipation of sustainable growth and the improvement of medium- to long-term corporate value. Risk-taking is also extremely important when moving forward with strategies for overseas activities. I place a great deal of importance on this role, which I see as a way to help raise the Group's presence on a global scale.

Yoneda: I believe the Group has great potential, including its human resources, and there is enormous scope for further growth. I hope it will cultivate broad perspectives, high aspirations, and a clear vision, and that it will use these qualities to energize its corporate culture, strengthen its management culture, and enhance its capacity to move quickly, take up new challenges, and turn ideas into actions.

Our role as external directors is to contribute to sound management and effective supervision by offering opinions and advice, primarily through the Board of Directors. I am determined to work through this role to contribute to the Group's growth as an excellent company.

Corporate Governance

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	Apr.	Revision of the executive compensation scheme
	June	Number of external directors increased to three (Independent external directors now hold one-third of Board seats)
2021	June	Appointment of a majority of external directors to the Personnel Remuneration Committee

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 described below. 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.

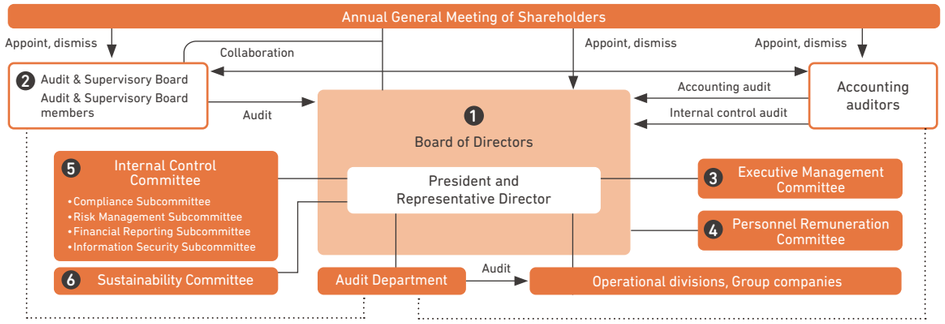
Morinaga Milk Group Corporate Governance Guidelines
https://www.morinagamilk.co.jp/english/ir/management/pdf_governance/guideline_e.pdf

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

Corporate Governance

Corporate Governance Organization



1 Board of Directors

Number of meetings held in fiscal year ended March 31, 2021: **14**

Approach to the Composition of the Board of Directors

As of June 29, 2021, the Board of Directors consists of nine directors, of whom three, or one-third, are independent external 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.

*The Articles of Incorporation stipulate that the Board of Directors should consist of a maximum of 12 directors and four Audit & Supervisory Board members.

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.

From the results of the evaluation for the fiscal year ended March 31, 2021, it was determined that the effectiveness of the Board of Directors generally showed improvement from last year and remained largely in place.

With respect to the issue identified in the evaluation from the fiscal year ended March 31, 2020 relating to "deepening of discussions at the Board of Directors' meetings based on reports by the Personnel Remuneration Committee," significant improvement was made with increased frequency of reports from the Personnel Remuneration Committee to the Board of Directors and increased engagement in discussions.

Issues for the future include further enhancement of deliberation by the Board of Directors on Group-wide management strategy from a medium- to long-term perspective. This is an ongoing issue from last year and while improvements are being made, the Company will continue its efforts to further enhance Board deliberation.

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.

2 Audit & Supervisory Board
Audit & Supervisory Board Members

Number of meetings held in fiscal year ended March 31, 2021: **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.

Internal audits are the responsibility of the Audit Department, which regularly provides Audit & Supervisory Board members with briefings and reports regarding audit plans, the status of audit activities, and audit results. In addition to ensuring a constant flow of information through the exchange of data, the Company is also endeavoring to improve cooperation in order to improve the reliability and validity of audits.

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

Committee name	Roles and responsibilities	Composition
3 Executive Management Committee Number of meetings held in fiscal year ended March 31, 2021: 19	Ensures efficient and reliable execution of important management issues through decisions, discussions, and verification of business execution based on its delegated authority	Representative directors (chairperson: President and Representative Director), internal directors, full-time Audit & Supervisory Board members, general managers
4 Personnel Remuneration Committee Number of meetings held in fiscal year ended March 31, 2021: 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 in response to inquiries from the Board. ▶ 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 ▶ Formulation and revision or repeal of succession plans for the President and Representative Director, selection and development of candidates under recent and future plans, and other matters related to plan implementation ▶ Matters related to executive directors' areas of responsibility ▶ Matters related to remuneration of directors, Audit & Supervisory Board members, and managing officers ▶ Proposals relating to the treatment of directors and Audit & Supervisory Board members after their retirement ▶ Other matters for which requests for advice are received from the Board of Directors	Representative directors (two, chairperson: President and Representative Director), outside directors (three)
5 Internal Control Committee Number of meetings held in fiscal year ended March 31, 2021: 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; full-time Audit & Supervisory Board members; managers of relevant departments, and others
6 Sustainability Committee (previously CSR Committee) Number of meetings held in fiscal year ended March 31, 2021: 1	The formulation of basic policies for the Group's sustainability activities, discussions regarding specific initiatives and the resolution of issues, and the implementation of various initiatives	Representative directors (chairperson: President and Representative Director); internal directors; full-time Audit & Supervisory Board members; general managers, and others

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.

Corporate Governance

Reasons for Appointment and Attendance Record

	Name	Independent officer	Reasons for appointment	Attendance record for the fiscal year ended March 31, 2021
External directors	Shoji Kawakami	○	Mr. Shoji Kawakami possesses a wealth of experience acquired both in Japan and overseas, having served as General Manager of an Affiliated Business Department in the Accounting Division of Toyota Motor Corporation. He has had a managerial role at AISAN INDUSTRY CO., LTD. He was also involved in an overseas business at Kuozui Motors, Ltd., and contributed to management as an external director since 2015. He was selected as a person with the ability to provide highly effective supervision from an objective position that is independent from business execution.	Board of Directors' meetings 14/14
	Takatomo Yoneda	○	Mr. Takatomo Yoneda was engaged in international operations for many years at the Industrial Bank of Japan, Limited, and also served at Nidec Group where he held such positions as the chief executive of Nidec Copal Corporation, and through which he has acquired high-level insight into corporate management and broad experience both in Japan and overseas. From 2015, Mr. Yoneda served as an external Audit & Supervisory Board member and provided effective management advice and recommendations from an objective position, and contributed to the management of the Group as an external director from 2019. He was selected as a person with the ability to provide highly effective supervision from an objective position that is independent from business execution.	Board of Directors' meetings 14/14
	Yukari Tominaga	○	Ms. Yukari Tominaga possesses extensive insight into corporate management and a wealth of experience, having served in key positions in various business fields at Hitachi Solutions, Ltd., where she served as Chief Diversity Officer, and she has contributed to the management as an external director since 2020. She was selected as a person with the ability to provide advice and recommendations from her wide insights, as well as highly effective supervision from an objective position that is independent from business execution.	Board of Directors' meetings 10/10
External Audit & Supervisory Board members	Masahiko Ikaga	○	Mr. Masahiko Ikaga has financial and accounting knowledge as a certified public accountant, in addition to a wealth of experience and wide-ranging knowledge as a corporate manager. The Company expects these to be reflected in the Company's audits, and so appointed him as an external Audit & Supervisory Board member in 2016.	Board of Directors' meetings 13/14 Audit & Supervisory Board meetings 14/14
	Mayumi Yamamoto	○	Although Ms. Mayumi Yamamoto has no experience of direct involvement in corporate management, she possesses a high level of expertise as an attorney at law and has extensive experience in commercial matters. The Company expects that she will perform audits of the Company's management from an objective and expert viewpoint, and so appointed her as an external Audit & Supervisory Board member in 2019.	Board of Directors' meetings 14/14 Audit & Supervisory Board meetings 14/14

Skills Matrix

Name	Roles	Area of responsibilities	Items						
			Management experience	Sales and marketing	Quality, production and R&D	Finance and accounting	General affairs, human resources, and legal affairs	IT	Global
Michio Miyahara	Chairman and Representative Director	General management	●	●	●				
Yohichi Ohnuki	President and Representative Director	General management, sustainability and public relations	●	●		●		●	
Teiichiro Okawa	Executive Vice President and Representative Director	General management, R&D and overseas	●		●				●
Tsuyoshi Minato	Managing Director	General affairs, human resources, special affairs and audit	●				●		
Yasuhiko Yanagida	Managing Director	Quality assurance, manufacturing, dairy farm services and distribution			●			●	
Hitoshi Hyodo	Managing Director	Sales and marketing		●					
Shoji Kawakami	External Director	General management	●			●	●		●
Takatomo Yoneda	External Director	General management	●			●	●		●
Yukari Tominaga	External Director	General management	●		●			●	
Keiki Hirota	Full-time Audit & Supervisory Board Member		●	●					
Mitsumasa Saito	Full-time Audit & Supervisory Board Member		●		●		●		
Masahiko Ikaga	External Audit & Supervisory Board Member		●			●	●		●
Mayumi Yamamoto	External Audit & Supervisory Board Member						●		

Note: Akihiro Nozaki, Executive Managing Officer and General Manager of Strategic Planning Division, is in charge of strategic planning, finances and information systems.

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 Annual General Meeting of Shareholders seeking the dismissal of the officer concerned from the position of representative director or executive director.

Management Executive Training Policy

The Company's policy is to provide corporate officers necessary training based on prior knowledge and experience, such as legal training on company management by attorneys, and briefings on the Company's management strategy, financial situation, and other important matters, etc. As a result, officers can appropriately perform their roles and responsibilities. It should be noted that, to foster officers' successors, the Company conducts education and training for acquiring necessary management knowledge depending on the relevant employee's position.

Support System for Outside Directors

Information is regularly provided by the General Affairs Department to outside directors, and a prior explanation on the matters to be deliberated is given when the Board of Directors' meetings are held.

External directors, external Audit & Supervisory Board members, and full-time Audit & Supervisory Board members periodically hold meetings of the Non-executive Officers Liaison Committee to share information and exchange opinions.

In addition, full-time Audit & Supervisory Board members and staff from the General Affairs Department regularly provide information to external Audit & Supervisory Board members.

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, 2021. 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.

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

Remuneration for Officers

On April 28, 2020, the Board of Directors passed a resolution changing the Company's basic policy on remuneration for executives, as well the method used to determine basic remuneration amounts. However, remuneration, etc., for the current fiscal year is being paid in accordance with the basic policy and method employed prior to the changes. For more information about the changes to the basic policy on remuneration for executives and the method used to determine basic remuneration, please see "Changes to Basic Policy on Executive Remuneration and Method for Determining Basic Compensation."

Total Remuneration for Directors and Corporate Audit & Supervisory Board Members

Category	Number of officers	Basic remuneration		Restricted stock-based compensation	Total remuneration amount
		Fixed remuneration	Performance-linked remuneration		
Directors (excluding external directors)	6	¥172 million	¥85 million	¥52 million	¥310 million
External directors	3	¥29 million	—	—	¥29 million
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	2	¥42 million	—	—	¥42 million
External Audit & Supervisory Board members	2	¥19 million	—	—	¥19 million
Total	13	¥263 million	¥85 million	¥52 million	¥402 million

Notes: 1. The above figures do not include basic remuneration of ¥19 million paid to two members of the Board of Directors and ¥6 million paid to one Audit & Supervisory Board member, who all retired effective June 26, 2020.
2. As restricted stock-based compensation, 10,700 shares of common stock of the Company were allocated to six directors, in accordance with the resolution of the Board of Directors passed at its meeting held on July 14, 2020.
3. There are no amounts representing compensation payable to important employees.

Matters Relating to Performance-linked Remuneration, etc.

Performance-linked remuneration is designed to contribute to the achievement of sustainable growth and the expansion of the Group's business base. The indicators used to reflect progress made toward the achievement of the Group's performance targets are consolidated net sales and consolidated operating income. Representative directors are evaluated solely on the basis of Group-wide performance. Other directors are evaluated based on both Group-wide performance and individual performance.

- **Targets for performance-linked remuneration:**
  consolidated net sales of ¥593.0 billion,
  consolidated operating income of ¥23.0 billion
  (targets for the fiscal year ended March 31, 2020)
- **Results used as the basis for performance-linked compensation:**
  consolidated net sales of ¥590.8 billion,
  consolidated operating income of ¥25.3 billion
  (results for the fiscal year ended March 31, 2020)

Non-monetary Remuneration, Etc.

The Company introduced restricted stock-based compensation for directors (excluding external directors) in order to promote sharing of the merits and risks of stock price fluctuations between the directors and shareholders and provide the directors with greater incentives to contribute to increasing the Company's stock price and enhancing corporate value.

Matters Relating to Resolutions at the Annual General Meeting of Shareholders Concerning Remuneration, etc. for Directors and Audit & Supervisory Board Members

	Type of remuneration		Maximum remuneration	Date of resolution at the Annual General Meeting of Shareholders	Number of officers as of the end of the Annual General Meeting of Shareholders
Directors	Basic remuneration	Fixed remuneration	Maximum of ¥36 million per month	80th Annual General Meeting of Shareholders (June 27, 2003)	Eight directors
		Performance-linked remuneration			
	Restricted stock-based compensation		Maximum of ¥120 million per year (or up to 15,000 shares)	95th Annual General Meeting of Shareholders (June 28, 2018)	Nine directors (excluding two external directors)
Audit & Supervisory Board members	Fixed remuneration		Maximum of ¥6 million per month	92nd Annual General Meeting of Shareholders (June 26, 2015)	Four Audit & Supervisory Board members (including two external Audit & Supervisory Board members)

Changes to Basic Policy on Executive Remuneration and Method for Determining Basic Compensation

Following a resolution of the Board of Directors on April 28, 2020, the Group changed its basic policy on remuneration and the method for determining basic compensation. The main effects of these changes are as follows.

● Basic Policy

The Company recognizes that executive remuneration is an important factor in achieving the goals of its corporate philosophy and has therefore adopted the following basic policy.

1. Remuneration will be used to provide strong incentives to contribute to sustainable growth and the enhancement of corporate value through the realization of the Company's medium- to long-term management strategies.
2. Remuneration will be provided at a level that allows the Company to recruit and retain human resources capable of realizing its corporate philosophy.
3. Remuneration will be used to build shared interests with shareholders and heighten management awareness regarding shareholder perspectives.
4. The functionality of the Personnel Remuneration Committee will be enhanced to ensure the objectivity and transparency of processes relating to the determination of remuneration.

● Composition of Remuneration

- Basic remuneration for directors will be determined on the basis of rank. There will be no additional payments based on years of service.
- Basic remuneration consists of fixed remuneration (50%) and performance-linked remuneration (50%).
- Performance-linked remuneration is linked to sustainable growth and the expansion of the Group's business base through the use of the evaluation indicators based on progress toward the achievement of Group-wide performance targets (consolidated net sales, consolidated operating income, ROE). Evaluation perspectives for individual directors will include their performance in their areas of responsibility, as well as their level of contribution to non-financial performance, such as ESG factors. The President and Representative Director will be evaluated solely on the basis of Group-wide performance.
- Restricted stock-based compensation is provided to directors (excluding external directors) according to their role within the Group.
- Remuneration for external directors and Audit & Supervisory Board members consists solely of fixed remuneration and does not include stock-based compensation or other performance-linked remuneration.
- The Personnel Remuneration Committee determines basic compensation for each director, while individual stock-based compensation decisions are made by the Board of Directors after fair consideration and advice from the Personnel Remuneration Committee.

Development of Systems to Ensure Appropriate Operation by the Group

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

In accordance with behavior norms by all directors and employees, compliance with laws and regulations, the Articles of Association, company rules, and social ethics 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.

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.

Information Security

The Group manages information appropriately and maintains and improves its information security by controlling, managing, and guiding the information security organization responsible for the management of information assets. The Information Security Subcommittee of the Internal Control Committee was established for this purpose. In addition to providing clarification regarding Group-wide information security issues, the Information Security Subcommittee is also working to develop structures to provide guidance on the proposal and implementation of information security countermeasures and audits.

Ensuring Reliability of Financial Reporting

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 is also working closely with the accounting auditors to develop a system that will ensure accurate financial reporting across the entire Morinaga Milk Group.

Ensuring Effectiveness of Audit & Supervisory Board Members

The Morinaga Milk Group maintains and strengthens the Group-wide internal reporting system, provides protection for people who report issues, and ensures effective information management. In addition, Audit & Supervisory Board members attend important meetings and can receive briefings from various stakeholders.

The Company also assigns employees to assist Audit & Supervisory Board members in the performance of their duties.

11-year Financial and Non-financial Summary

		Mar./2011	Mar./2012	Mar./2013	Mar./2014	Mar./2015	Mar./2016	Mar./2017	Mar./2018	Mar./2019	Mar./2020	Mar./2021
Net sales	(¥ millions)	583,019	578,299	591,197	599,273	594,834	601,499	592,617	592,087	583,582	590,892	583,550
Operating income	(¥ millions)	18,917	13,184	10,166	11,982	6,805	14,317	21,099	21,684	22,331	25,359	28,867
Ordinary income	(¥ millions)	18,746	13,187	10,551	12,395	8,232	14,959	21,960	22,355	23,174	25,867	30,109
Profit attributable to owners of parent	(¥ millions)	6,164	4,608	5,016	4,839	4,164	10,576	13,202	15,781	14,017	18,656	18,741
Comprehensive income	(¥ millions)	8,908	5,635	6,133	6,899	7,416	5,794	15,240	17,788	12,600	16,659	21,240
Net assets	(¥ millions)	110,310	113,935	116,750	120,959	125,286	129,370	142,846	159,102	169,167	183,142	202,503
Total assets	(¥ millions)	348,394	366,190	368,498	360,578	383,357	378,852	385,366	414,823	432,256	436,061	453,646
BPS (Net assets per share)	(¥)	434.37	449.35	469.07	486.84	502.36	518.61	2,870.80	3,184.08	3,384.81	3,663.73	4,028.36
EPS (Net income per share)	(¥)	24.57	18.39	20.04	19.60	16.86	42.80	267.02	319.01	283.35	377.11	378.73
EPS (Net income per share)—diluted	(¥)	24.52	18.34	19.98	19.54	16.81	42.67	266.27	318.27	282.70	376.36	378.01
Shareholders' equity ratio	(%)	31.3	30.8	31.4	33.3	32.4	33.8	36.9	38.0	38.7	41.6	43.9
ROE	(%)	5.9	4.2	4.4	4.1	3.4	8.4	9.8	10.5	8.6	10.7	9.8
PER	(Times)	12.1	17.7	14.3	16.9	27.0	14.1	15.5	13.6	13.3	11.1	15.4
Cash flows from operating activities	(¥ millions)	30,913	23,342	21,055	21,946	8,543	28,223	37,350	25,110	18,506	29,209	38,544
Cash flows from investing activities	(¥ millions)	(17,388)	(14,221)	(13,312)	(15,930)	(17,642)	(22,234)	(21,233)	(16,921)	(38,817)	(13,193)	(25,305)
Cash flows from financing activities	(¥ millions)	(15,959)	(2,889)	(6,859)	(18,211)	12,887	(10,449)	(15,243)	(5,774)	14,112	(10,843)	(2,627)
Cash and cash equivalents at end of period	(¥ millions)	10,101	16,336	17,305	7,080	11,105	6,203	7,077	9,838	3,384	8,505	19,138
Employees		5,627	5,639	5,712	5,664	5,649	5,602	5,771	5,987	6,157	6,303	6,871
[Temporary employees—average]		[2,844]	[2,751]	[2,617]	[2,435]	[2,244]	[2,266]	[2,285]	[2,364]	[2,339]	[2,298]	[2,377]

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.
3. From the beginning of the fiscal year ending March 31, 2022, "Accounting Standard for Revenue Recognition" is applied.
4. During the first quarter of the fiscal year ending March 31, 2022, the provisional accounting treatments for business combinations were finalized. Accordingly, those contents are reflected in the figures on the consolidated balance sheet as of March 31, 2021.

ENVIRONMENTAL DATA

CO_2 Emissions/CO_2 Emissions Net Sales Intensity

	Mar./2019	Mar./2020	Mar./2021
Scope 1 (1,000 tons CO_2)*1	238	196	186
Scope 2 (1,000 tons CO_2)	107	138	134
Intensity (t-CO_2/¥ million)	0.591	0.565	0.547

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

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

	Mar./2019	Mar./2020	Mar./2021
Water used	17,337	17,399	17,664
Wastewater	15,349	15,719	16,089

Energy Consumption/Energy Net Sales Consumption Intensity

	Mar./2019	Mar./2020	Mar./2021
Fuel (MWh)*2	1,215,452	1,031,964	994,813
Purchased electricity, steam, and heat (MWh)*2	198,663	311,267	296,321
Total	1,414,115	1,343,231	1,291,134
Intensity (MWh/¥ million)	2.423	2.273	2.213

*2 "Fuel" indicates fossil fuel consumption. "Electricity" is purchased electricity. Renewable energy, such as energy from biomass, is not included.

Data scope (fiscal year ended March 31, 2021):
Morinaga Milk Industry Co., Ltd. production sites, Tohoku Morinaga Milk Industry Co., Ltd. (Sendai Plant, Akita Plant), Furijiport Co., Ltd. (Kumamoto Plant, Okinawa Uruma 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. (April–May), Tokachi Urahoro Morinaga 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.

SOCIAL DATA

Employees (consolidated)*1

	March 2019	March 2020	March 2021
Men	4,743	4,834	5,152
Women	1,414	1,469	1,719
Total	6,157	6,303	6,871

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

	April 2019	April 2020	April 2021
Number of managers	43	46	47
Ratio of managers	4.7%	4.9%	4.9%

Turnover and Turnover Rate (Including Mandatory Retirement; Morinaga Milk Industry Only)*1

	March 2019	March 2020	March 2021
Turnover	85	100	96
Turnover rate	2.3%	2.7%	2.6%

GOVERNANCE DATA

Number of Directors/Ratio of External Directors*1

	June 2019	June 2020	June 2021
Number of persons	10	9	9
Ratio	20.0%	33.3%	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, 2021)

Note: Unless otherwise stated, all comparisons are with the previous fiscal year ended March 31, 2020. 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, 2021, the Company had 33 consolidated subsidiaries, and one subsidiary and one affiliated company both of which were accounted for by the equity method (together "the Group"). During the first quarter of the fiscal year ending March 31, 2022, the provisional accounting treatments for business combinations were finalized. Accordingly, those contents are reflected in the figures on the consolidated balance sheet as of March 31, 2021.

Operating Performance

Business Environment Overview

In the consolidated fiscal year under review, the global spread of COVID-19 became more serious, resulting in countries around the world imposing restrictions on people leaving their homes and traveling. Business activities were also severely limited in an effort to prevent the spread of the virus. In addition, consumer spending fell significantly, and the global economy deteriorated rapidly and stagnated. The trend in demand changed greatly over this period, with a significant decline in the demand for commercial dairy products for the restaurant industry, hotels, the tourism industry, and the souvenir industry; but solid demands for functional ingredients with health-promoting benefits and for products consumed by households, such as yogurt, ice cream, and cheese.

Consolidated Net Sales and Gross Profit

Under these circumstances, the Group has made every effort 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. The Group positioned the fiscal year under review as the key for achieving its Medium-term Business Plan covering three fiscal years ending March 2022, and worked to further strengthen its corporate structure and business while responding to the rapidly changing environment. Related initiatives included but were not limited to taking actions against COVID-19 involving a medium- to long-term perspective as well as immediate measures, providing and promoting the value of products that meet the needs of customers, and taking countermeasures against a rise in operating costs.

As a result of the above, consolidated net sales for the fiscal year under review amounted to ¥583,550 million, down by 1.2% from the previous fiscal year. Cost of sales resulted in ¥393,478 million, down by 2.0%, due to the improved product mix and the enhanced efficiency of manufacturing costs. Gross profit edged up by 0.4% year on year to ¥190,072 million, leading to a 0.6 percentage point rise in gross profit margin to 32.6%.

Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative ("SG&A") expenses for the fiscal year under review decreased by 1.7% year on year to ¥161,204 million, contributed by the effort to streamline sales promotion expenses. The ratio of SG&A expenses to net sales also declined by 0.2 percentage points to 27.6%.

As a result of the above, consolidated operating income rose by 13.8% compared with the previous fiscal year to ¥28,867 million. The ratio of operating income to net sales also rose by 0.6 percentage points to 4.9%.

Non-operating Income and Expenses

Overall non-operating income and expenses resulted in net income of ¥1,241 million, increasing from ¥508 million posted in the previous fiscal year. This increase was mainly due to ¥546 million foreign exchange gains posted this fiscal year, reversing the ¥261 million foreign exchange losses recorded in the previous fiscal year. 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 16.4% year on year to ¥30,109 million.

Extraordinary Income and Loss

Overall extraordinary income and loss resulted in a net loss of ¥4,111 million, reversing the previous fiscal year's net income of ¥639 million. This is due to gain on sales of non-current assets which decreased from ¥6,849 million posted in the previous fiscal year to ¥1,176 million in the fiscal year under review.

Profit before Income Taxes and Profit Attributable to Owners of Parent

While the increase in operating income and net non-operating income were posted, they were exceeded by net extraordinary loss, resulting in a 1.9% year-on-year decrease in profit before income taxes to ¥25,998 million. Total income taxes decreased by 7.7% to ¥7,095 million, to lower the effective tax rate by 1.7 percentage points to 27.3%. Profit attributable to non-controlling interests declined by 0.6% from the previous fiscal year to ¥161 million.

As a result, profit attributable to owners of parent amounted to ¥18,741 million, up by 0.5% compared with the previous fiscal year.

Performance by Business Segment

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

Food Industry Segment

This segment engages mainly in production and sales of commercial milk, dairy products, ice cream, and beverages. Net sales of the food industry segment decreased by 1.7% year on year to ¥559,752 million. Operating income, on the other hand, rose by 10.2% to ¥36,086 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 increased by 2.3% year on year to ¥33,915 million. Operating income contrarily declined by 6.8% to ¥3,085 million.

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

Performance by business field (before the elimination of transactions in the business field) is described as follows:

B-to-C Business

The solid household demand for products such as yogurt, ice cream, and cheese supported an increase in their sales, despite a sharp fall in the demand, mainly for beverages, from offices and facilities. Foods with function claims such as *Triple Yogurt* and *Bifidus Yogurt Improves Bowel Movement* benefited from a rise in health consciousness and sold better than planned, which greatly contributed to improving the product mix. As a result, overall sales of the business increased by 1.4% from the previous fiscal year to ¥309,995 million.

Operating income of the business grew by 28.1% year on year to ¥16,128 million, contributed by the improvement in product mix and the progress with cost curbs including the control of sales activities.

Wellness Business

Health supplement nutritional milk powder for adults *Milk Life* sold well, while sales of infant formula declined due to a fallback from anticipatory demand at the end of the previous fiscal year. The business has also started new initiatives, including the launch of Japan's first yogurt product that can be stored at room temperature through e-commerce channels in June 2020. As a result, overall sales of the business marked a slight decline of 0.3% year on year to ¥55,528 million.

Operating income of the business also dropped by 17.1% to ¥3,456 million, mainly due to the impact of declining sales of infant formula and the cost of launching the e-commerce business.

B-to-B Business

There was a significant decline in demand for commercial dairy products, which account for high net sales, for the restaurant industry, hotels, the tourism industry, and the souvenir industry. On the other hand, inquiries increased for the Group's bifidobacteria and other functional ingredients, due to growing health awareness. Sales of the slightly acidic electrolyzed water generator *PURESTER* also increased, reflecting the growing need for hygiene. However, overall sales of the business fell because of the significant decline in sales of commercial dairy products, and resulted in a 18.4% drop from the previous fiscal year to ¥78,904 million.

Operating income of the business also decreased by 51.0% to ¥2,614 million, reflecting the sharp drop in business sales.

Overseas Business

The higher demand for infant and toddler milk and other factors drove increased sales at MILEI GmbH, which manufactures and sells dairy ingredients. The exports of infant and toddler milk and other items also rebounded strongly from the previous fiscal year. In addition, sales of functional ingredients such as bacteria and lactoferrin increased. As a result, overall sales of the business rose by 18.2% year on year to ¥37,249 million.

Operating income of the business soared by 95.1% to ¥5,505 million, contributed by the higher business sales and the improvement in product mix driven by the expansion of high-margin functional ingredients.

Management's Discussion and Analysis (Fiscal Year Ended March 31, 2021)

Financial Position

Assets

Total assets as of March 31, 2021 amounted to ¥453,646 million, an increase of ¥17,584 million, or 4.0%, compared with that of the previous fiscal year-end. Current assets increased by ¥10,212 million, or 7.0%, to ¥155,615 million mainly due to the increase in cash and deposits. Non-current assets also increased by ¥7,372 million, or 2.5%, to ¥298,030 million reflecting the increase in property, plant and equipment as a result of capital expenditures.

Liabilities

Total liabilities as of March 31, 2021 stood at ¥251,142 million, a decrease of ¥1,776 million, or 0.7%, compared with that of the previous fiscal year-end. Current liabilities decreased by ¥4,983 million, or 3.3%, to ¥144,906 million mainly due to the decrease in short-term loans payable which exceeded the increase in commercial papers. Non-current liabilities by contrast increased by ¥3,207 million, or 3.1%, to ¥106,236 million, reflecting the increase in long-term loans payable.

Net Assets

Net assets as of March 31, 2021 amounted to ¥202,503 million, an increase of ¥19,361 million, or 10.6%, 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 41.6% at the previous fiscal year-end to 43.9%, and net assets per share also increased from ¥3,663.73 to ¥4,028.36.

Cash Flows

The balance of cash and cash equivalents as of March 31, 2021 amounted to ¥19,138 million, up by ¥10,632 million, or 125.0%, 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 ¥9,334 million, or 32.0%, to ¥38,544 million. This increase was mainly attributable to the decrease in gain on sales of non-current assets, and the increase in inventories recorded in the previous fiscal year, which turned into a decrease this fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities grew by ¥12,112 million, or 91.8%, from the previous fiscal year to ¥25,305 million. This increase was mainly due to the decrease in proceeds from sales of non-current assets.

As a result of the above, the free cash flow (a total of cash flows from operating activities and investing activities) was a ¥13,238 million cash inflow, down by ¥2,777 million from a ¥16,016 million cash inflow recorded in the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities declined by ¥8,215 million, or 75.8%, from the previous fiscal year to ¥2,627 million. Despite the turnaround in short-term loans payable from a net increase to a net decrease, a net increase in commercial papers was posted for which a net decrease was recorded in the previous fiscal year, in addition to the increase in proceeds from long-term loans payable.

Capital Expenditure

The Group's capital expenditure for property, plant and equipment during the fiscal year ended March 31, 2021 totaled ¥23,615 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 ¥23,114 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 the Annual General Meeting of Shareholders due to unforeseen situations such as a natural disaster, the profit can be distributed upon approval of the Board of Directors.

The dividend to shareholders for the fiscal year ended March 31, 2021 was resolved as ¥70.0 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 18.5% and 30.0%, respectively. The dividend for the fiscal year ending March 31, 2022 is planned to be ¥70.0 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, 2021 are as follows:

- *Triple Yogurt* series: Two sugar-free type products have been developed and added to the series, namely *Triple Yogurt Sugar-free Drink Type* and *Triple Yogurt Sugar-free*, maintaining the series' functional claims in three areas of blood pressure, blood sugar levels, and neutral fat.
- *Morinaga Chil-mil* powdered follow-up milk with bifidobacteria: Renewed follow-up infant formula containing two types of live bifidobacteria, which live in humans and are suitable for the intestinal environment of infants in their weaning period through to early childhood. (Obtained approval from the Ministry of Health, Labour and Welfare for the production of modified milk powder containing bacterial powder.)
- Bifidobacterium breve MCC1274: Investigated the effect of MCC1274 and observed improvements in cognitive functions of suspected mild cognitive impairment (MCI) population. The related research paper was published in the *Journal of Alzheimer's Disease*.
- Lactoferrin: Investigated the effect of lactoferrin and observed the suppression of acute gastrointestinal and respiratory symptoms in nursery school children in the winter. The related research paper was published in *Frontiers in Pediatrics*.

Consolidated R&D expenses for the fiscal year under review amounted to ¥4,779 million, down by 0.0% 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 Planning 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
- Health Care & Nutritional 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

- Manufacturing Technology Center: Research and development of manufacturing technologies with a focus on manufacturing equipment and systems

Outlook for Fiscal Year Ending March 31, 2022

The outlook of the business environment is extremely challenging given the unpredictable impact of the COVID-19 pandemic and other variables such as the status of vaccination and vaccine effectiveness. However, the Group will endeavor to continue supplying its products to the best extent possible, while giving the utmost consideration to the safety and health of its employees, in order to fulfill its mission as a company that manufactures foods that are essential to daily life. 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 its business continuity plan (BCP).

In such an environment, the coming fiscal year ending March 31, 2022 marks the final year of the three-year Medium-term Business Plan, and the Group will work to further strengthen its corporate structure and business. The Company forecasts its consolidated results for the fiscal year ending March 31, 2022 as net sales of ¥502,000 million (up 2.7% year on year), operating income of ¥31,000 million (up 7.4% year on year), ordinary income of ¥31,800 million (up 5.6% year on year), and profit attributable to owners of parent of ¥35,300 million (up 88.3% year on year). Due to the application of new accounting standards for revenue recognition (ASBJ Statement No. 29 "Accounting Standard for Revenue Recognition," revised March 31, 2020, and its related guidance) from the fiscal year ending March 31, 2022, the year-on-year comparisons stated above are calculated based on the comparison of the forecast for the fiscal year ending March 31, 2022 with the result for the fiscal year ended March 31, 2021 adjusted by applying the said accounting standards for revenue recognition.

Consolidated Balance Sheets

(¥ millions)

	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	8,680	19,262
Notes and accounts receivable—trade	61,729	61,573
Merchandise and finished goods	49,193	49,324
Work in process	3,453	828
Raw materials and supplies	16,171	16,439
Other	6,463	8,556
Allowance for doubtful accounts	(288)	(368)
Total current assets	145,403	155,615
Non-current assets		
Property, plant and equipment		
Buildings and structures	186,154	184,509
Accumulated depreciation	(99,559)	(96,779)
Buildings and structures, net	86,595	87,730
Machinery, equipment and vehicles	293,148	290,708
Accumulated depreciation	(209,381)	(197,017)
Machinery, equipment and vehicles, net	83,766	93,691
Land	57,927	57,185
Leased assets	5,783	5,078
Accumulated depreciation	(3,167)	(2,904)
Leased assets, net	2,615	2,174
Construction in progress	16,092	9,221
Other	14,981	15,474
Accumulated depreciation	(10,752)	(11,140)
Other, net	4,229	4,334
Total property, plant and equipment	251,226	254,336
Intangible assets		
Other	6,518	7,968
Total intangible assets	6,518	7,968
Investments and other assets		
Investment securities	19,586	21,193
Investments in capital	97	96
Long-term loans receivable	263	233
Net defined benefit asset	537	2,476
Deferred tax assets	7,150	6,646
Other	5,392	5,169
Allowance for doubtful accounts	(116)	(90)
Total investments and other assets	32,913	35,724
Total non-current assets	290,658	298,030
Total assets	436,061	453,646

(¥ millions)

	As of March 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable—trade	51,386	48,764
Electronically recorded obligations—operating	5,235	4,695
Short-term borrowings	11,644	3,292
Current portion of long-term borrowings	8,628	7,936
Commercial papers	—	10,000
Lease obligations	1,139	1,006
Income taxes payable	4,816	4,169
Accrued expenses	32,461	33,413
Deposits received	16,063	16,111
Other	18,514	15,518
Total current liabilities	149,890	144,906
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term borrowings	27,729	30,404
Lease obligations	2,017	1,650
Net defined benefit liability	20,639	20,985
Asset retirement obligations	292	—
Other	2,349	4,846
Total non-current liabilities	103,028	106,236
Total liabilities	252,918	251,142
Net assets		
Shareholders' equity		
Capital stock	21,760	21,787
Capital surplus	19,919	19,947
Retained earnings	137,767	153,540
Treasury stock	(690)	(708)
Total shareholders' equity	178,757	194,566
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,738	7,625
Deferred gains or losses on hedges	(13)	73
Foreign currency translation adjustment	(885)	(1,131)
Remeasurements of defined benefit plans	(3,312)	(1,779)
Total accumulated other comprehensive income	2,526	4,787
Subscription rights to shares	203	203
Non-controlling interests	1,655	2,945
Total net assets	183,142	202,503
Total liabilities and net assets	436,061	453,646

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated statements of income

(¥ millions)

	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	For the fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)
Net sales	590,892	583,550
Cost of sales	401,538	393,478
Gross profit	189,354	190,072
Selling, general and administrative expenses	163,995	161,204
Operating income	25,359	28,867
Non-operating income		
Interest income	40	27
Dividends income	752	1,017
House rent income	320	307
Share of profit of entities accounted for using equity method	—	51
Foreign exchange gains	—	546
Other	1,116	936
Total non-operating income	2,229	2,888
Non-operating expenses		
Interest expenses	743	707
Share of loss of entities accounted for using equity method	53	—
Loss on valuation of derivatives	—	424
Foreign exchange losses	261	—
Other	662	514
Total non-operating expenses	1,721	1,646
Ordinary income	25,867	30,109
Extraordinary income		
Gain on sales of noncurrent assets	6,849	1,176
Gain on sales of investment securities	126	221
Other	47	64
Total extraordinary income	7,023	1,462
Extraordinary loss		
Loss on disposal of noncurrent assets	802	643
Contributions to the public interest incorporated foundation Hikari Kyokai	1,680	1,635
Impairment loss	2,677	2,297
Plant reorganization expenses	597	924
Other	626	72
Total extraordinary losses	6,384	5,573
Profit before income taxes	26,506	25,998
Income taxes—current	9,214	7,616
Income taxes—deferred	(1,527)	(521)
Total income taxes	7,687	7,095
Profit	18,819	18,903
Profit attributable to non-controlling interests	162	161
Profit attributable to owners of parent	18,656	18,741

Consolidated statements of comprehensive income

(¥ millions)

	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	For the fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)
Profit	18,819	18,903
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,101)	899
Deferred gains or losses on hedges	(8)	150
Foreign currency translation adjustment	(185)	(253)
Remeasurements of defined benefit plans	(841)	1,533
Share of other comprehensive income of associates accounted for using equity method	(22)	7
Total other comprehensive income	(2,159)	2,337
Comprehensive income	16,659	21,240
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,521	21,003
Comprehensive income attributable to non-controlling interests	137	237

Consolidated Statement of Changes in Shareholders' Equity

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
Change in ownership interest of parent due to transactions with non-controlling interests					—
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					Subscription rights to shares	Minority interests	Total net assets
	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			
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
Change in ownership interest of parent due to transactions with non-controlling interests								—
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

For the fiscal year ended March 31, 2021 (April 1, 2020–March 31, 2021)

(¥ millions)

	Shareholders' equity				
	Capital Stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	21,760	19,919	137,767	(690)	178,757
Changes of items during period					
Issuance of new shares	26	26			52
Dividends of surplus			(2,968)		(2,968)
Profit attributable to owners of parent			18,741		18,741
Purchase of treasury shares				(17)	(17)
Disposal of treasury shares		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		1			1
Net changes of items other than shareholders' equity					
Total changes of items during period	26	27	15,772	(17)	15,809
Balance at end of current period	21,787	19,947	153,540	(708)	194,566

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	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			
Balance at beginning of current period	6,738	(13)	(885)	(3,312)	2,526	203	1,655	183,142
Changes of items during period								
Issuance of new shares								52
Dividends of surplus								(2,968)
Profit attributable to owners of parent								18,741
Purchase of treasury shares								(17)
Disposal of treasury shares								0
Change in ownership interest of parent due to transactions with non-controlling interests								1
Net changes of items other than shareholders' equity	887	86	(245)	1,533	2,261	—	705	2,967
Total changes of items during period	887	86	(245)	1,533	2,261	—	705	18,776
Balance at end of current period	7,625	73	(1,131)	(1,779)	4,787	203	2,361	201,918

Consolidated Statement of Cash Flows

(¥ millions)

	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	For the fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)
Cash flows from operating activities		
Income before income taxes and minority interests	26,506	25,998
Depreciation	18,469	20,484
Impairment loss	2,677	2,297
Amortization of goodwill	104	16
Amortization of negative goodwill	(132)	(114)
Increase (decrease) in net defined benefit liability	426	331
Increase (decrease) in allowance for doubtful accounts	(267)	52
Loss (gain) on valuation of investment securities	71	48
Interest and dividend income	(792)	(1,045)
Interest expenses	743	707
Foreign exchange losses (gains)	216	(449)
Share of (profit) loss of entities accounted for using equity method	53	(51)
Loss (gain) on sales of noncurrent assets	(6,849)	(1,176)
Loss (gain) on disposal of noncurrent assets	802	643
Loss (gain) on sales of investment securities	(123)	(221)
Decrease (increase) in notes and accounts receivable—trade	4,036	320
Decrease (increase) in inventories	(4,710)	2,566
Increase (decrease) in notes and accounts payable—trade	(2,875)	(3,352)
Increase (decrease) in accrued expenses	119	889
Increase (decrease) in deposits received	(4,379)	47
Other, net	2,397	(1,502)
Subtotal	36,495	46,490
Interest and dividend income received	822	1,046
Interest expenses paid	(768)	(705)
Income taxes refund (paid)	(7,340)	(8,287)
Cash flows from operating activities	29,209	38,544
Cash flows from investing activities		
Purchase of non-current assets	(32,781)	(28,181)
Proceeds from sale of non-current assets	19,474	3,950
Purchase of investment securities	(123)	(415)
Proceeds from sales of investment securities	181	300
Payments of loans receivable	(3,631)	(3,918)
Collection of loans receivable	3,746	3,994
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,088)
Other, net	(58)	52
Cash flows from investing activities	(13,193)	(25,305)

(¥ millions)

	For the fiscal year ended March 31, 2020 (April 1, 2019 – March 31, 2020)	For the fiscal year ended March 31, 2021 (April 1, 2020 – March 31, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,116	(8,855)
Net increase (decrease) in commercial papers	(5,000)	10,000
Proceeds from long-term borrowings	1,747	9,397
Repayments of long-term borrowings	(9,641)	(8,757)
Proceeds from issuance of bonds	9,942	—
Redemption of bonds	(5,000)	—
Proceeds from sales of treasury shares	0	0
Purchase of treasury shares	(9)	(17)
Cash dividends paid	(2,720)	(2,968)
Cash dividends paid to minority shareholders	(13)	(25)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(0)
Repayments of finance lease obligations	(1,264)	(1,400)
Net cash provided by (used in) financing activities	(10,843)	(2,627)
Effect of exchange rate change on cash and cash equivalents	(51)	19
Net increase (decrease) in cash and cash equivalents	5,121	10,630
Cash and cash equivalents at beginning of period	3,384	8,505
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	2
Cash and cash equivalents at end of period	8,505	19,138

Consolidated Subsidiary Companies (As of March 31, 2021: 33 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, Miyagi	¥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, Hiroshima	¥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.
MORINAGA MILK INDUSTRY BUSINESS SERVICE CO., LTD.	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, Hiroshima	¥90 million	100.0%	Manufacturer and seller of food-related machinery
MORINYU SUNWORLD CO., LTD.	Minato-ku, Tokyo	¥61 million	100.0%	Seller of feed, etc.
Chez Foret 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.*1	Nagoya City, Aichi	¥30 million	100.0%	Manufacturer and seller of dairy products, etc.
Morinaga Milk Industry Hokkaido Co., Ltd.	Sapporo City, Hokkaido	¥30 million	100.0%	Seller of dairy products, etc.
Morinaga Milk Industry Kyushu Co., Ltd.	Fukuoka City, Fukuoka	¥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.	Urahoro-cho, Tokachi-gun, 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, California, U.S.A.	$31 million	100.0%	Seller of tofu and other processed soybean products
Pacific Nutritional Foods, Inc.	Tualatin, Oregon, U.S.A.	$21 million	100.0%	Manufacturer of tofu and other processed soybean products
NIHON SEINYU	Takahata-machi, Higashiokitama-gun, Yamagata	¥140 million	99.2%	Manufacturer and seller of dairy products, etc.
FUJI MORINAGA MILK INDUSTRY CO., LTD.	Nagaizumi-cho, Sunto-gun, Shizuoka	¥50 million	98.9%	Manufacturer and seller of ice cream
OKINAWA MORINAGA MILK INDUSTRY. CO., LTD.	Nishihara-cho, Nakagami-gun, Okinawa	¥305 million	97.3%	Manufacturer and seller of dairy products, etc.
KUMAMOTO MORINAGA MILK INDUSTRY CO., LTD.	Kumamoto City, Kumamoto	¥50 million	97.1%	Manufacturer and seller of dairy products, etc.
YOKOHAMA MORINAGA 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.
Elovi Vietnam Joint Stock Company*2	Pho Yen District, Thai Nguyen Province, Vietnam	VND200 billion	51.0%*3	Manufacturer and seller of dairy products, etc.
SUNFCO CO., 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 Dissolved in May 2020
*2 Made a consolidated subsidiary in March 2021
*3 100.0% as of June 30, 2021

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

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/

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 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, 2021)

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*1)	—
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*1)	—
Central Japan Regional Office	15-30, Tokugawa 1-chome, Higashi-ku, Nagoya City, Aichi (Nagoya Rizan Building 4F)	—
Tokai Branch	15-30, Tokugawa 1-chome, Higashi-ku, Nagoya City, Aichi (Nagoya Rizan Building 4F)	—
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*2	3-7, Minamiyoshijima 2-chome, Naka-ku, Hiroshima City, Hiroshima	—
Shikoku Branch*2	4-18, Imazatocho, Takamatsu City, Kagawa	—
Saroma Plant	Nishitomi 123, Tokorogun Saromacho, Hokkaido	Powdered milk, concentrated milk, butter, and cream
Betsukai Plant	Nishishumbetsukiyokawacho 18, Notsukegumbetsukaicho, Hokkaido	Cheese, powdered milk, whey powder, and butter
Morioka Plant	3-14, Aoyama 2-chome, Morioka City, Iwate	Liquid foods
Fukushima Plant	Shimizuuchi 5, Fushiogami City, Fukushima	Powdered milk, butter, decorating whipped cream, and ice cream
Tone Plant	4013-1, Uchimoriyamachi, Joso City, Ibaraki	Dessert, LL soft mix, LL tofu, probiotic products, and yogurt
Tokyo Plant	29-1, Okudo 1-chome, Katsushika, Tokyo	(Production discontinued in March 2021)
Tokyo Tama Plant	515, Tateno 4-chome, Higashiyamato City, Tokyo	Milk, milk-based drinks, tea drinks, yogurt, and cream
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
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 Development Center*3	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 (Morinaga Milk Shin Yokohama Building 3F)	—

*1 The building's name changed to Sumitomo Fudosan Shinagawakonan Building in July 2021.
*2 The Chugoku Branch and Shikoku Branch integrated as the "Chugoku-Shikoku Branch" in June 2021.
*3 Renamed to Manufacturing Technology Center in June 2021.

Elovi Vietnam Joint Stock Company

Acquired 100% of its shares in 2021, the company is a wholly owned subsidiary of Morinaga Milk. The company manufactures and sells products that include milk-based beverage and yogurt.
http://www.elovi.com.vn/en

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, 2021)

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	¥21,787 million
Employees (Non-consolidated)	3,377
URL	https://www.morinagamilk.co.jp/english/

Partner Brands

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 is the main tea brand of Unilever, which is one of the world's biggest food and grocery manufacturers. With a history of over a century, it is a favorite of tea lovers worldwide.

Note: "Lipton" is a trademark of Unilever.

Sunkist

Sunkist is a leading fruit brand in the United States. In Japan, Morinaga Milk 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
- IR Calendar



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	49,487,828 shares (excluding 346,315 shares of treasury stock)
Shareholders	21,908
Shareholders' registry manager, management institution for special accounts	Mitsubishi UFJ Trust and Banking Corporation

Major Shareholders

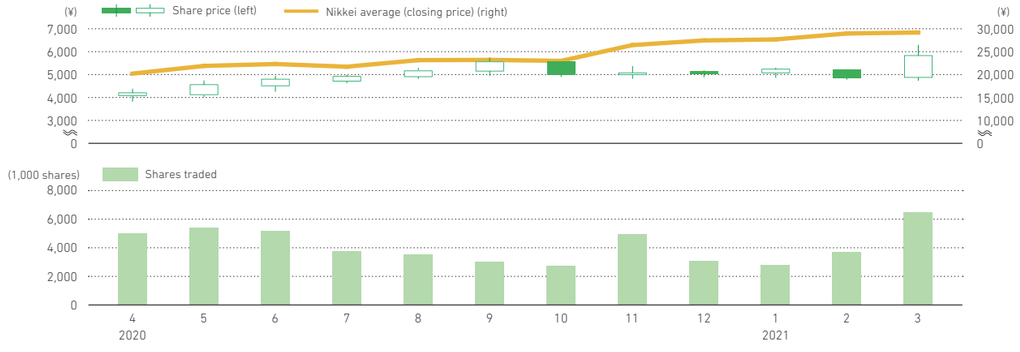
Shareholder	Shareholding (1,000 shares)	Percentage of shares held* (%)
Morinaga & Co., Ltd.	5,249	10.61
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,666	9.43
Custody Bank of Japan, Ltd. (Trust Account)	3,703	7.48
MUFG Bank, Ltd.	1,388	2.81
SMBC Trust Bank Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account)	1,328	2.69
Mizuho Bank, Ltd.	1,222	2.47
Morinaga Milk Employees' Shareholding Association	973	1.97
Mitsubishi UFJ Trust and Banking Corporation	923	1.87
The Norinchukin Bank	767	1.55
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Trust Account–Morinaga & Co., Ltd. Account)	600	1.21

*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)
- Certification under the Development Bank of Japan's BCM Rated Loan Program (March 2018)
- Highest ranking under the Development Bank of Japan's Environmentally Rated Loan Program (March 2019)
- Given an A- issuer rating by Rating and Investment Information, Inc. (R&I) (September 2020)
- Selected for inclusion in the SOMPO Sustainability Index (June 2018, 2019, 2020, and 2021)
- Selected as a constituent of the MSCI Japan Empowering Women Index (June 2020 and 2021)

Awards and Recognitions

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)
- *Thick Greek Yogurt PARTHENO Plain Flavor, Sugar Free/ Plain Flavor, Sugared* won a Two-Star Superior Taste Award from the ITI* (June 2018)
- *Morinaga Jelly* series awarded the 2019 Mothers' Selection Grand Prize (November 2019)
- 38th Japan Food Journal Blockbuster Food Award presented to *Triple Yogurt* (December 2019)



- The *MOW* series received a Three-Star Superior Taste Award from the ITI* (September 2020 and January 2021)

*Formerly ITQI



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 for its Achievement in Technological Research Award (April 2018)
- Infant Nutrition Ingredient of the Year at the NutraIngredients-Asia awards in Singapore presented to Bifidobacterium breve M-16V (September 2019)
- Research into Bifidobacterium longum BB536 selected for a Food Immunology Industry Award from the Japan Association for Food Immunology (October 2019)
- Peptide research selected for an Excellent Paper Award of the Society for Biotechnology, Japan (September 2020)
- Research into Bifidobacterium breve MCC1274 recognized with the Urakami Award at the 10th Annual Meeting of the Japan Society for Dementia Research (June 2021)

Environmental Activities

- 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 maintained its top-level facility certification as part of the Tokyo Metropolitan Government's Outstanding Global Warming Countermeasure Efforts Under the Tokyo Cap-and-Trade Program (April 2021)

Social Contribution Activities

- Morinaga Milk Industry has been certified as a business that supports parenting and received the "next generation certification mark" (known as Kurumin) in 2008, 2010, and 2012
- The Morinaga Milk Industry Annual Report has been recognized at the International ARC Awards for four consecutive years (October 2016, 2017, 2018, and 2019)
- 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)
- Morinaga Milk Industry certified as an Outstanding Health and Productivity Management Organization (large enterprise category) (March 2020 and 2021)
- Morinaga Milk Industry received the highest evaluation (Gold) in the PRIDE Index, an evaluation index for LGBTQ-related corporate efforts (November 2020)

Nutritional Milk Powder Morinaga Milk Life (Space) Certified as a Japanese Food for Use in Space

In 2017, the Group assembled a project team after learning from the Japan Aerospace Exploration Agency (JAXA) that there was a need to consume nutrients more efficiently in space. It was thought that the *Nutritional Milk Powder Morinaga Milk Life* series, which provides balanced nutrition to support adult health, could prove beneficial to astronauts. The project team's efforts were rewarded in June 2020 by an official certification from JAXA for *Nutritional Milk Powder Morinaga Milk Life (Space).*

