



making
more
smiles

ANNUAL REPORT 2016

Year Ended March 31, 2016

Profile

Established in 1917, Morinaga Milk Industry Co., Ltd. has always been involved primarily in business activities relating to production and sale of dairy products. The strength of our brand reflects our continuing efforts to make optimal use of the amazing power of milk by supplying safe, reliable, high-quality products backed by our unique product development capabilities. Our core business domain is the manufacture and sale of food products, especially dairy milk and dairy products. The Morinaga Milk Group employs 5,602 workers in its 30 consolidated subsidiaries and one equity method subsidiary in Japan and overseas. In addition to our 29 business sites in Japan, including our headquarters, research facilities, branch offices, factories, and other facilities, we also have overseas business sites in Europe, the U.S., and Asia. In 2017 we will celebrate the 100th anniversary of the founding of Morinaga Milk Industry with a renewed determination to achieve continuing growth and success as one of Japan's leading dairy manufacturers.

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<Editorial Policy>

In this Annual Report, besides providing financial data, we describe our income structure and market environment, as well as our vision for the future. The report was also designed to inform readers about the business activities of the Morinaga Milk Group, including our philosophy, social mission, and approach to relationships with stakeholders.

<Forward-looking Statements in this Report>

Forecasts and plans concerning the Company's business activities in fiscal 2016 are based on assumptions and economic forecasts as of May 16, 2016 and are not intended as a guarantee of the Company's future financial performance.



What the Morinaga Milk Group Wants to Share — Smiles for Every Day.

When people eat something delicious, their natural reaction is to smile. We cannot help but smile when we feel truly healthy or young. One of the most beautiful smiles is the one generated by the sense of achievement that comes when we reach our goals through hard work. Our heartfelt wish as human beings is that every smile, whether from a family member, a friend, a neighbor, or a work colleague, will inspire smiles in others.

Through research activities spanning almost a century, the Morinaga Milk Group has sought to bring smiles to the faces of as many people as possible by creating high-quality products with advanced functions.

By working to achieve sustainable corporate growth, we have shared our value and smiles with consumers, with local communities, and with the natural environment. We are producers of dairy products, but at the same time we are also consumers. That shared perspective also links us to our shareholders, employees, and suppliers.

This Annual Report will begin with an introduction of some of the Morinaga Milk Group's most important products, as well as products resulting from our unique technologies. We hope that these products will help readers to understand our approach to manufacturing, and the qualities that make Morinaga special.



For Healthy Growing Babies

Infant Formula Developed with Various Constitutions in Mind

Since the launch of our first infant formula product in 1921, we have continually sought to recreate the amazing strengths of breast milk in our products. In 1986, we introduced the world's first infant formula containing lactoferrin, which is vital to infant health and development.

Today, we offer a wide range of formula products, including products formulated for babies with milk allergies, for babies that frequently regurgitate milk, and for lactose-intolerant babies.



Enhancing Infection Defenses with Lactoferrin

Lactoferrin is a protein that is found in the milk of many mammals, including human breast milk. The concentration is especially high in colostrum. Lactoferrin is regarded as essential to the maintenance of good health in babies. Morinaga Milk Industry developed technology to extract and refine large quantities of lactoferrin from the trace amounts present in unpasteurized cow milk. This led in 1986 to the introduction of the world's first infant formula containing lactoferrin.



Morinaga
E-Akakan



Morinaga
Hagukumi



Morinaga
Non-Lacto

Enhancing the Deliciousness that Makes Morinaga the No.1 Brand



Mt. RAINIER— Best-Selling Chilled Cup-Type Coffee Brand

In 1993, Morinaga created chilled cup-type coffee as an easy way for coffee lovers to enjoy the full flavor of barista-made coffee anywhere, any time. We have continued to play a pioneering role in this market with these long-selling products for over 20 years. We took this commitment to quality, quantity, and manufacturing methods to a new level with *Mt. RAINIER Rich Caffé Latte* and *Mt. RAINIER Rich Caffé Latte Sugar Free*, which we launched in March 2016. We will continue to add new products to our line-up.

Total Commitment to Quality, Quantity, and Manufacturing Methods

Commitment to quality—Our coffee products are based on rich blends of the best beans selected by coffee appraisers certified by the Brazilian government. The flavor is further enhanced by the use of dairy raw material and milk-derived cream produced in Hokkaido.

Commitment to quantity—The current *Mt. RAINIER CAFFÉ LATTE* is produced with double the amount of beans that we used to make the previous version. The amount of milk used has also been increased.

Commitment to manufacturing methods—We use our own extraction method to create coffee with a rich flavor. Beans from various regions are blended to best bring out the unique flavor of each.



*Mt. RAINIER
CAFFÉ LATTE*



*Mt. RAINIER Rich
Caffé Latte*



*Mt. RAINIER Rich
Caffé Latte Sugar Free*



**Intense Mouthfeel,
Smooth Texture,
Creamy Taste**

Thick Greek Yogurt PARTHENO is the first yogurt made in Japan using the traditional Greek straining method. The result of three years of development efforts by Morinaga Milk Industry, this is Greek yogurt made only in Japan.

Sales began in selected regions in 2011. We have continued to add new categories to the Japanese yogurt market, and today we offer a wide range of varieties, including *PARTHENO with Honey* and *PARTHENO Plain*.

Japan's First Greek-Style Yogurt —Rich and Thick



High-Protein, Low-Calorie

The popularity of the *PARTHENO* range is not limited to the wonderful taste of these products. One serving of *PARTHENO Plain* contains 9.9g of the proteins needed for good health. This is almost triple the 3.5g found in ordinary yogurt. Containing just 100kcal, *PARTHENO Plain* contributes to beauty as well as health.



*Thick Greek Yogurt
PARTHENO with
Honey*



*Thick Greek Yogurt
PARTHENO
Plain*



*Thick Greek Yogurt
PARTHENO with
Blueberry Sauce*



*Thick Greek Yogurt
PARTHENO with
Raspberry Sauce*

A Hint of Luxury to Enhance those Relaxing Moments

Morinaga Ice Creams Provide Delicious Moments of Relaxation

The *PARM* range of ice cream bars have been carefully created to provide melt-in-your-mouth flavor delight, smooth texture, and rich taste. They combine simple elegance with a hint of luxury to satisfy grown-up ice cream lovers. This extremely popular series began with vanilla ice cream wrapped in chocolate, but it has expanded to include a variety of flavors. In the 10 years since its launch, the *PARM* range has built a new market based on great taste.

Commitment to the Ultimate in Smoothness

Our primary development concept for the *PARM* range was to achieve the ultimate in smoothness by creating a gourmet vanilla ice cream. The challenge was to achieve the optimal combination of vanilla and chocolate in a form that could be thoroughly enjoyed from start to finish. After 18 months of trial and error, we finally created an ice cream that fulfilled this vision.



PARM
Chocolate



PARM
Strawberry & White Chocolate



PARM
Vanilla and White Chocolate





Combining Great Taste with Health and Beauty

Functional Yogurt Promotes Beauty from Within

Aloesterol® is a beauty-enhancing food ingredient extracted from the leaves of the aloe vera plant. Its discovery was the culmination of 10 years of research by Morinaga Milk Industry.

Functional yogurts that promote health form the main product category in the Japanese yogurt market. *Aloesthe Yogurt*, which contains Aloesterol®, promotes beauty as well as health and has been extremely popular with female consumers.

Aloesthe Yogurt: **Easy to Eat and** **Always Delicious**

In addition to a fresh taste with just a hint of sweetness, this low-calorie fat-free yogurt is available in drink or solid varieties to suit every preference.

The Aloesterol® contained in *Aloesthe Yogurt* is an extremely rare substance, and 7.5 tons of aloe vera leaves are needed to produce a single gram. Morinaga Milk Industry has obtained over 10 Japanese patents covering various applications for this substance.



Aloesthe
Yogurt Drink



Aloesthe
Yogurt

Our Contributions to the Enjoyment of Food and Life

A Variety of Nutritional Foods and Supplements and Liquid Foods for People who have Developed Difficulty Eating

The eating of food brings pleasure to our lives. Morinaga Milk Industry aims to create products that help people to enjoy that human experience of eating. We have met the challenge of providing food's emotional uplift and helping every individual to enjoy a good quality of life by creating a range of nutritional food and supplements that are delicious, easy to eat, and contain essential nutritional elements.

Morinaga Milk Industry has maintained a large share of the Japanese market for liquid foods. We want our products to contribute to healthy aging in Japan.

Delicious Nutrition in 40g Servings

Locomotive syndrome has become a major issue over the past few years in Japan. This term is used to describe a situation in which a person requires—or is at risk of requiring—nursing care due to musculoskeletal disabilities. Balanced nutrition plays an important role in the prevention of locomotive syndrome by helping to maintain muscle and bone mass.

Enjoy *Chiisana High-Calorie Jelly* packs 100kcal of energy into a 40g serving. This is equivalent to 60g of cooked rice. Each serving also contains 5.0g of protein, which is the same amount as in approximately 150ml of milk. Available in delicious flavors like cheesecake and lemon, this easy-to-eat product is recommended for people who have lost their appetite or need to obtain nutrition efficiently.



*Enjoy Chiisana
High-Calorie Jelly,
cheesecake flavor*



*Enjoy Chiisana
High-Calorie Jelly,
lemon flavor*

Consolidated Financial and Non-Financial Highlights

	March 2014	March 2015	March 2016
Consolidated accounting years ended (¥ billions)			
Net sales	599.3	594.8	601.5
Operating income	12.0	6.8	14.3
Ordinary income	12.4	8.2	15.0
Profit attributable to owners of parent	4.8	4.2	10.6
Cash flows from operating activities	21.9	8.5	28.2
Consolidated, at year-end (¥ billions)			
Total assets	360.6	383.4	378.9
Net assets	121.0	125.3	129.4
Interest-bearing debt	90.5	107.3	100.4
Per share indicators (Yen)			
Net income	19.60	16.86	42.80
Dividend	7.00	7.00	7.00
Net assets	486.84	502.36	518.61
Financial indicators (%)			
Net sales/operating income ratio	2.0	1.1	2.4
Shareholders' equity ratio	33.3	32.4	33.8
ROA (Total assets divided by operating income)	3.3	1.8	3.8
ROE	4.1	3.4	8.4
Non-financial data			
Employees	5,664	5,649	5,602
Employees (male)	4,469	4,441	4,395
Employees (female)	1,195	1,208	1,207
CO ₂ emissions (1,000 tons)	382	367	364
Waste emissions (1,000 tons)	47	45	44
Recycling ratio (%)	96.6	98.1	98.6
In-house power generation ratio (%)	51.2	52.2	51.4

Note: Ordinary income is the sum of operating income and net non-operating income or expenses.

To Our Shareholders and Stakeholders

We want to deliver delicious products that contribute to various forms of value, including health and beauty, and enhancement of day-to-day life. We have pushed the boundaries of dairy-related research for decades. But, it only counts when it means something to stakeholders.

So, while progress can be measured in many ways—one of course being financial—the best measure is the smiles on the faces of those we touch.

Michio Miyahara

President and
Representative Director



Major Income Growth in the Year Ended March 2016

As in the previous fiscal year, we faced challenging business conditions in the year ended March 2016. Those challenges included soaring prices for imported raw materials because of the weakness of the yen, as well as increases in the price of milk in Japan. One of the ways in which we adapted to this environment was to adjust the prices and quantities of some of our products.

“We achieved sales and income growth despite difficult business conditions.”

Our products, including *Thick Greek Yogurt PARTHENO* and *MOW* ice cream, continued to benefit from strong consumer support. We also made steady progress with our continuing efforts to reduce operating costs.

Despite the challenges in our business environment, we achieved substantial income growth. Consolidated net sales increased by 1.1% year on year to ¥601.5 billion, and operating income by 110.4% to ¥14.3 billion. Profit attributable to owners of parent was 154.0% higher at ¥10.6 billion.

Double-Digit Growth in Operating Income Predicted for Year Ahead

Early in 2016, the yen began to strengthen, while share prices shifted to a downward trend, leading to growing uncertainty about the economic outlook. By spring, consumers were again becoming increasingly focused on reducing expenditure.

In the year ending March 2017, we are projecting net sales of ¥590.0 billion, a year on year decline of 1.9%. We expect operating income to increase by 14.5% to ¥16.4 billion and profit attribut-

able to owners of parent to decline by 22.5% to ¥8.2 billion.

The projected decline in net sales reflects the sale of our household frozen food wholesaling business in the previous fiscal year. The lower profit attributable to owners of parent forecast is the result of a reactionary downturn after the inclusion of gains on the sale of fixed assets in the result for the previous fiscal year. Without these factors, we would be forecasting year on year increases in both net sales and profit attributable to owners of parent.

Thanks to the strong-yen trend, we should be able to avoid the substantial increases in raw material costs that have affected us over the past two years. Demand for health-related products continues to expand, as evidenced by strong sales of yogurt at present. We are therefore aiming for a double-digit increase in operating income.

Strong Start under the Medium-Term Management Plan—Results Exceed Forecasts

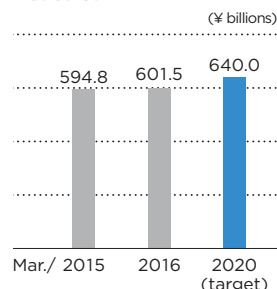
Our five-year medium-term management plan covers the period to the year ending March 2020. Our targets for the plan’s final year are net sales of ¥640 billion, operating income of ¥22.5 billion, and profit attributable to owners of parent of ¥12 billion.

The year ended March 2016 was the first year under the plan. We made an excellent start, with results exceeding our forecasts. If possible, we want to achieve our targets for the final year ahead of schedule. To do that, we will focus our energies toward the creation of an improved business structure with strong earning potential through the implementation of four core management policies. First, we will rebuild our business domains for growth. Second, we will improve asset efficiency and promote rationalization. Third, we will strengthen our business base. Fourth, we will make a difference to society.

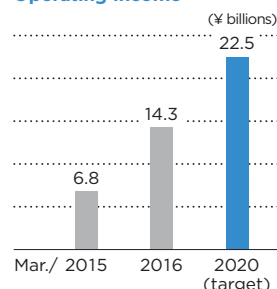
We began to work in these directions in the previous fiscal year by strengthening our functional and food

Numerical Targets and Progress under the Medium-Term Management Plan

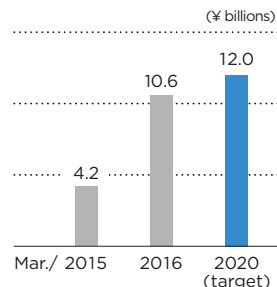
Net Sales



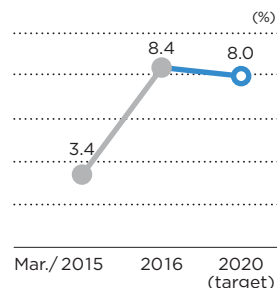
Operating Income



Profit Attributable to Owners of Parent



ROE



ingredients business (B-to-B), by developing our international business (globalization), by developing our health and nutritional foods business, and by improving the profitability of our B-to-C business activities.

“We will remain focused on the early achievement of our medium-term plan goals.”

Functional and Food Ingredients Business (B-to-B)

Previously we had one organization, the Food Service & Institutional Food Products Department, which supplied cream-based dairy ingredients to a wide range of businesses, and another, the Functional Food Materials Department, which supplied functional ingredients developed by Morinaga, such as Bifidobacteria, lactoferrin, and lactulose. In July 2015, we strengthened our organization by merging these two divisions into the Food Ingredients Department.

The market for functional foods and health and nutritional products is expected to grow steadily as people become increasingly focused on health. We will continue to work actively to expand our sales of dairy ingredients and functional ingredients in this growth market. We also established a new research and development organization, the Food Ingredients & Technology Institute. Its mission is to provide raw materials and ingredients, and to work with our corporate customers to develop new products using our dairy materials and functional ingredients.

Our plan calls for the expansion of operating income from our highly profitable B-to-B business to ¥10 billion by the year ending March 2020. This is double the result for the year ended March 2016.

International Business

Since 2014, we have been investing in a new plant for our German subsidiary, Milei GmbH. This new facility will become operational in the fall of 2016. Dairy product ingredients produced at the new plant will be supplied to major European and North American manufacturers for use primarily as raw materials for infant formula.

According to the United Nations “World Population Prospects” (2015), the world’s population will increase from 7.3 billion in 2015 to over 8.1 billion in 2025. This means that world demand for infant formula can be expected to expand substantially. All major European and North American food manufacturers are especially focused on the potential for growth in Asia, where the middle class population is expanding rapidly. Most of these companies have established bases in Singapore.

We responded to this situation by establishing a new sales company in Singapore with the aim of expanding our sales in Asia. Since April 2016, this company has moved quickly to create an organization to support negotiations with European and North American manufacturers.



“We will undertake forward-looking investment in anticipation of global growth in the market for infant formula.”

Our infant formula business continues to register double-digit yearly growth. The Morinaga Milk Industry brand is firmly established in Indonesia, where our joint venture has built a market share of around 10%, while our products have gained the biggest share of Pakistan’s market for imported products.

We aim to increase operating income from our international business to ¥2 billion by the year ending 2020, by capturing the impetus of economic growth in Asia.

Health and Nutritional Food Business

We supply a wide variety of products to meet health and nutritional needs at all life stages from infancy to old age. In April 2016, we merged the Nutritional Food products Department, which was involved primarily with infant formula and liquid diet foods, and the Health Food Department, which focused primarily on health foods, to create the new Wellness Business Department.

Japan has higher life expectancies than most other countries. However, there is increasing public interest in the extent to which healthy longevity can be extended. The government has also identified the achievement of healthy longevity as one of its most important priorities.

From this perspective, there are extremely large potential needs in areas to which Morinaga ingredients and technologies can contribute, with products to do such things as supplement protein intake in order to maintain motor functions, products that help to prevent lifestyle diseases, and products with anti-aging effects.

The Wellness Business Department is leading our efforts to discover new needs in these areas. Our aim is to achieve

operating income of ¥2.5 billion from the health and nutritional food business by the year ending March 2020.

B-to-C Business

Our B-to-C business centers mainly on milk and dairy products. While this segment accounts for almost 60% of net sales, we regard the improvement of its profit ratio as our most important priority. We will take decisive action to revise our product mix and narrow our line-up, so that we can concentrate our management resources into high-growth, high-income products.

Sales of *Thick Greek Yogurt PARTHENO* have expanded steadily since its launch in 2011. Initiatives in the year ended March 2016, including the expansion of the product range, were very successful, and sales doubled year on year. The launch of similar products by other manufacturers has further raised awareness of Greek yogurt, creating a virtuous circle that will lead to further growth.

In November 2015, we increased our supply capacity by expanding our production facilities. We pioneered Greek yogurt in Japan, and we aim to achieve further sales growth.

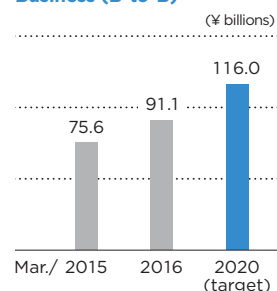
We have gradually expanded our production lines for *PARM* ice cream in step with demand growth. In the summer of 2016 we added another line to ensure that we can maintain reliable supplies during the peak demand season.

We have gained a dominant share of the domestic market with our chilled cup-type coffee products. In March 2016 we launched a new core product, *Mt. RAINIER Rich Caffé Latte*. We aim to build a high-added-value market for products that are backed by our commitment to quality, quantity, and manufacturing methods for both coffee and milk. We will also accelerate the introduction of B-to-C products to which our functional ingredients have been added.

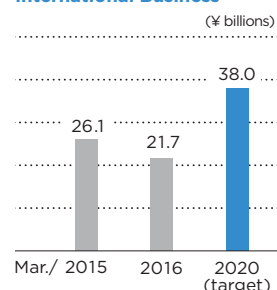
In April 2016, we launched the new *Aloesthe Yogurt* range containing Aloesterol®, a beauty-enhancing food ingredient extracted from the aloe vera plant. We will continue to target increased recognition of these products from this

Core Business Domains in the Medium-Term Management Plan

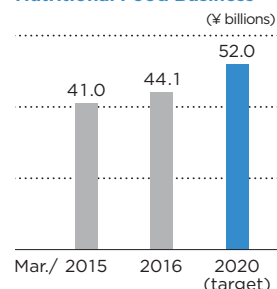
Net Sales from Functional and Food Ingredients Business (B-to-B)



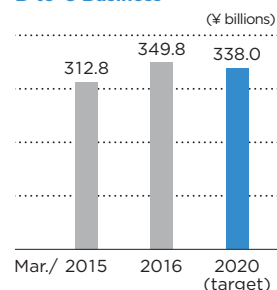
Net Sales from International Business



Net Sales from Health and Nutritional Food Business



Net Sales from B-to-C Business



new beauty perspective in the expanding market for functional yogurt.

“We will continue to supply products that meet customer needs, products that are recognized for their value.”

By concentrating our management resources into highly original products with high added value, we aim to increase the operating income of our B-to-C business from ¥5.9 billion in the year ended March 2016 to ¥8 billion in the year ending March 2020.

Asset Efficiency and Rationalization

We will also take comprehensive steps to build a sound financial base by improving our asset efficiency and rationalizing our activities.

In November 2015 we took one such important step toward the concentration of our management assets by selling the household frozen wholesale business of our subsidiary, Daily Foods Co., Ltd. This will reduce our consolidated net sales by approximately ¥14 billion in the year ending March 2017, but we anticipate a 0.1–0.2% improvement in the operating income ratio.

We are also applying a selection and concentration policy to our products, including the reduction of product ranges. The number of new products launched in the spring of 2016 was about 30% down on the previous year's total. Other moves to concentrate resources into growth products and profitable products include a plan to reduce our total product line-up by about 100 items.

We are also reviewing and restructuring our organizational structures in the areas of sales, production and research to improve efficiency and productivity. For example, in 2016 we have restruc-

tured our sales organization in Kyushu and merged the organizations of the Yamato and Murayama Plants in the Tokyo Metropolitan Area.

Over the past few years, we have been reorganizing our production facilities, especially in the area of commercial milk. Going forward, we plan to improve productivity in various ways, including the conversion of plants that mainly produce milk to the production of yogurt and health and nutritional foods, and the development of composite manufacturing systems to allow the production of multiple product categories in a single plant.

In the previous fiscal year, the disposal of idle assets yielded sales proceeds amounting to ¥5.5 billion. If assets become idle as a result of factory restructuring and other measures, our basic policy is to improve asset efficiency by selling them. From the current year onwards, we plan to generate cash flows from operating activities amounting to around ¥30 billion each year during the period covered by the medium-term management plan. However, we plan to continue investing in plant and facilities within that framework. We aim to strengthen our production structures further through strategies that will include the consolidation of production facilities in Japan and overseas.

To Our Shareholders and Stakeholders

Management Policies for the Next 100 Years

In 2017 we will celebrate the 100th anniversary of the founding of Morinaga Milk Industry. A company cannot survive without the trust of its many stakeholders, including shareholders, investors, customers, and suppliers. As we have in the past 100 years, we will work steadily and with humility to contribute to the creation of a society in which people can enjoy health and fulfillment so that we will continue to be recognized as a company that is needed and trusted by our stakeholders over the next 100 years.

Among our most important stakeholders are the dairy farmers who produce our milk. Milk and dairy products now play an essential role in our lives as delicious food products that enable us to obtain nutrition easily. However, raw milk production is declining in Japan as more and more people leave the farming industry. The solution of this problem needs to be approached as a national priority. We are committed to growing in partnership with dairy farmers so that we can move forward together to stabilize the raw milk production infrastructure for high-quality Japanese milk.

“As a dairy product manufacturer, we have an important social mission to support the dairy farming industry.”

To achieve sustainable growth, we must be always ready to respond to new challenges. One of the areas in which we continually take up such challenges is research and development, which is the source of our competitive advantage.

For example, the various bacteria that coexist in the intestines, known as the “intestinal flora,” have become the focus of intense interest over the past few years. Rapid advances in DNA analy-

sis technology have revealed that there are close relationships between these intestinal flora and conditions that affect our bodies and brains, such as obesity, high blood pressure, and stress.

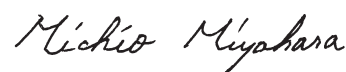
One of the fields in which we have particular expertise is research relating to the role of lactobacteria and Bifidobacteria in the intestines. We were among the first to recognize the role of Bifidobacteria in immunity, and we have continued to carry out research in this area. This work looks ahead to the development of commercial products, which after a few years can start to make a real contribution to society. By continually taking up challenges such as these, we aim to build our path to the next 100 years.

To Our Stakeholders

Our fundamental commitment to shareholder returns is reflected in our efforts to maximize returns while also maintaining a balance among all of our various stakeholders. Our basic policy on shareholder returns emphasizes dividend stability, combined with a flexible approach in step with income growth.

Since our founding in 1917, Morinaga Milk Industry has continued to provide a multiplicity of value to consumers, including delicious taste experiences, enjoyment, health, and new lifestyle ideas. We are determined to achieve growth over the next 100 years by continuing to create new value for the times ahead. We look forward to the continuing support and guidance of our stakeholders.

June 29, 2016
Michio Miyahara,
President and
Representative Director



**Special Feature:
Research and Development at Morinaga Milk Industry**

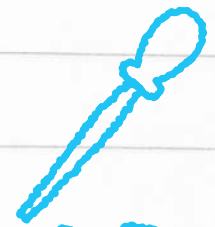
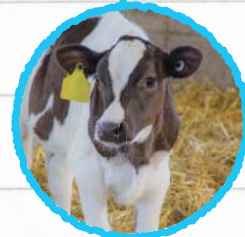


**Research and
development is central
to our successful
creation of new value**

Every day we explore the wonderful potential of milk and try to make optimal use of that potential. Our continuing progress reflects a commitment to our mission, which is to help people throughout the world to enjoy healthy and energetic lives by creating exciting new products that deliver in the high-value areas of taste, nutrition, health, and safety. At the same time, we also look far over the horizon to create innovative technologies for the future. Originality and foresight will be more important than ever in the new era created by advances in information technology. We will continue to take up new challenges and explore the unknown in areas of research and development for which Morinaga Milk Industry is uniquely equipped because of its long history of creativity and accumulated technology and expertise.

Morinaga Milk Industry— A Growth Story that Began with R&D

Morinaga Milk Industry has a history of growth driven by new discoveries from R&D. Our research into bovine and human milk led to the discovery of *Bifidobacterium longum* BB536 and lactoferrin, a lactoprotein in breast milk that plays a vital role in immunity. Other new discoveries resulting from our innovative R&D activities include Aloesterol[®], a substance that promotes skin beauty. In each of these cases, we have overcome numerous challenges to establish our own production technologies. Our R&D results have been applied in forms ranging from everyday dairy products to supplements and medical foods. Our achievements in these areas are recognized in Japan and internationally.



Bifidobacteria Research

Morinaga Bifidobacteria products, contributing worldwide

Morinaga Milk Industry recognized the importance of Bifidobacteria in maintaining infant health many years ago, and we have continued to carry out research in this field for around 50 years. In 1969 we discovered *Bifidobacterium longum* BB536, which has a high live-cell count and can reach the large intestine alive. This was an important turning point that marked the start of research into applications for this active ingredient. In 1977 we launched *Morinaga Bifidus*, a drink containing Bifidobacteria.

The next step was to use Bifidobacteria in yogurt. Bifidobacteria are vulnerable to oxygen, and it was difficult to maintain an acceptable cell count in yogurt using the technology available at that time. Because Bifidobacteria produce acetic acid, we also needed to overcome challenges related to the taste of the product. We therefore began an extensive search for a combination of Bifidobacteria and lactobacteria that would be highly compatible with yogurt. This work bore fruit, resulting in the creation of *Morinaga Bifidus Yogurt* in 1978.

—During the same period, we also began development of a powder form of Bifidobacteria made by drying the

bacteria. One obstacle was the fact that Bifidobacteria die immediately when stored at room temperature. We overcame this challenge by originating revolutionary manufacturing technology. The technology and expertise accumulated at this time gave Morinaga Milk Industry important advantages, including the capacity to start production of bacteria in a dedicated plant.

Since the turn of the century, the increasing importance of the probiotics concept has led to wide-ranging research into Bifidobacteria. However, we have remained one step ahead of other researchers because of our pioneering role in this field. Today Morinaga Milk Industry Bifidobacteria are finding applications in markets throughout the world, including the United States, Europe, and Southeast Asia.





Lactoferrin Research

A symbol of the secret powers of milk

Why does breast milk alone ensure healthy growth in infants, and why are breast-fed infants more resistant to disease than those raised on formula milk? These questions have been a constant focus for our continuing efforts to create nutritional elements and functions that are as close as possible to those of breast milk. This work led us to look closely at a substance found in breast milk, especially in colostrum. That substance, one of the constituents in breast milk that helps to protect infants from infections, was lactoferrin.

Many aspects of the functions of lactoferrin were still unknown at that time, and our work literally started from nothing. We began by investigating whether lactoferrin added to formula milk would still function properly. This led to confirmation that the defensive effect against harmful bacteria depended on the coexistence of lactoferrin with the protein lysozyme. Our technology development team overcame various challenges relating to the feasibility of manufacturing milk containing lactoferrin,

and the stability of this substance in powdered milk, and in 1986, we launched *Morinaga Dry Milk BF-L*, the world's first infant formula containing lactoferrin.

We continued to deepen our lactoferrin research. Normally, proteins lose their original functions as they are broken down into peptides during digestion in the stomach and intestines. However, we discovered that when lactoferrin is broken down into peptides by pepsin, the digestive enzyme in the stomach, its antibacterial properties are strengthened by several orders of magnitude. We obtained international patents for this active peptide, which we named "lactoferricin."

Our lactoferrin research began with research into breast milk. Today, the scope of that research has expanded to include adults and the aged. We are proud that Morinaga Milk Industry has played an important role in the accumulation of knowledge about the health benefits provided by lactoferrin.



Peptide Research

Wide-ranging applications for technology created through the battle against milk allergy

Morinaga Milk Industry's peptide research, which began in the mid-1970s, reflects a strong sense of mission to develop milk for babies with milk allergy.

The fact that milk allergy is in most cases triggered by milk proteins led us to select a methodology based on products containing peptides, which are produced when milk proteins are broken down by enzymes. One challenge on the path to commercialization was the bitter taste of peptides. That challenge was overcome through the addition of lactobacteria containing enzymes with the ability to eliminate the bitterness. In 1977 we launched *MA-1*, Japan's first formula milk for infants with milk allergy. The technology developed for that product later led to the development of *Morinaga Peptide Milk E-Akachan*. First sold in 1994, this product represents a

totally new concept in milk resulting from the convergence of Morinaga Milk Industry's original peptide manufacturing technology with knowledge accumulated through the development of infant formula over a period of more than half-a-century. By reducing the allergenicity of cow milk protein, which was a serious problem with infant formula, the new product was welcomed by mothers who were concerned about allergies but were unable to breast-feed their babies.

In 2005, our continuing efforts to develop hypoallergenic infant formula with enhanced flavor resulted in the launch of *MA-mi* as a highly palatable alternative for infants affected by milk allergy.

Today the scope of our peptide research has expanded to encompass a wide range of fields, including sports nutrition and medical foods. Morinaga Milk Industry will continue to use its unique technology and research perspectives to help people enjoy good health and a better quality of life.

**Morinaga Milk Industry—
A Growth Story that Began with R&D**



Aloesterol® Research

**Revealing the unknown health
and beauty benefits of Aloesterol®,
an effective ingredient discovered
in aloe vera**

In 1994, Morinaga Milk Industry launched Japan's first yogurt containing aloe. Strong consumer support for this product inspired us to initiate research to explore new possibilities for aloe vera in addition to its pleasant taste. After finding an initial clue in a scientific paper about folk remedies for diabetes, we verified that consumption of aloe vera mesophyll alleviated hyperglycemia. We then decided to search for effective ingredients that could be taken orally to fight diabetes. However, we found that aloe vera mesophyll contained more substances than we had expected, and it was not easy to isolate the active ingredients. It took three years to identify five effective ingredients.

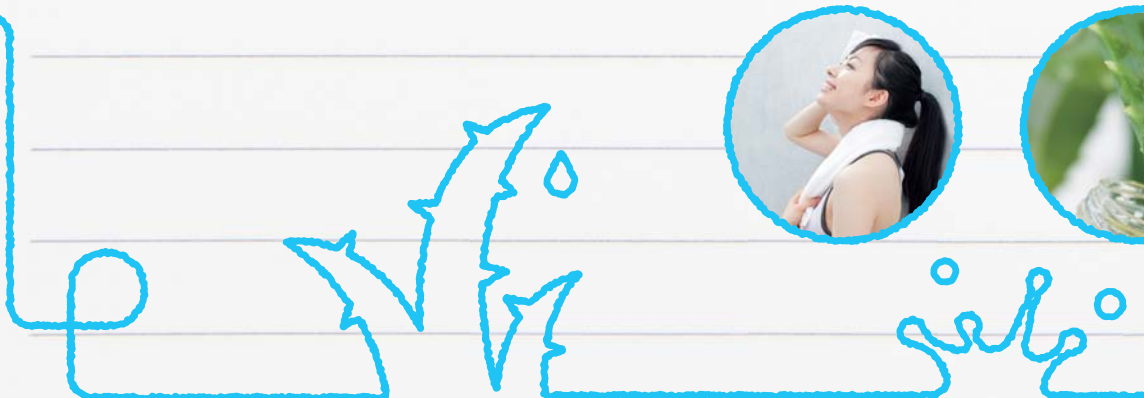
The name that we gave this group of effective ingredients was Aloesterol®. Further investigation of the properties of Aloesterol® revealed that it is effective in preventing obesity and diabetes, and that it also helps to promote beautiful skin. The latest research has further confirmed that Aloesterol® stimulates the fibroblastic cells in the dermis to produce more collagen and hyaluronic acid, and that it also works on liver and fat cells to stimulate sugar and fat metabolism. We have obtained Japanese patents for over 10 uses for this technology. At the same time, we have focused on the development of products based on these research findings. In 2014, we launched a yogurt drink containing Aloesterol®, which enhances skin beauty from within.

We have barely scratched the surface of Aloesterol® research. Our goal going forward is to increase our understanding of the ability of this substance to enhance health and beauty, and to create products that will help a wide range of people.

Aloesterol®

**Timeline of Aloesterol® Research
by Morinaga Milk Industry**

- 2006** Publication of paper identifying Aloesterol® as the effective anti-diabetic constituent in aloe vera gel
- 2008** Confirmation of the anti-obesity effects of Aloesterol®
- 2010** Presentation of research at the Japan Oil Chemists' Society confirming that Aloesterol® is carried through the bloodstream after ingestion (joint research with Professor Ikuo Ikeda of Tohoku University)
- 2011** Confirmation of the PPAR ligand activation property of Aloesterol® in relation to the adjustment of sugar and fat metabolism (joint research with Professor Teruo Kawada of Kyoto University)
- 2012** Study concerning the benefits to skin when women with dry skin consume aloe vera gel powder (AVGP) tablet candy containing Aloesterol®, confirmation that Aloesterol® stimulates fibroblastic cells in the dermis to produce more collagen and hyaluronic acid
- 2016** Publication of research confirming that consumption of yogurt containing Aloesterol® enhances skin moisture and elasticity (joint research with the Dermatology Department of Wakayama Medical University)





Lactulose Research

A treasure trove of potential: Research leading to the discovery of many new benefits in lactulose

Lactulose is an oligosaccharide produced from lactose found in cow's milk. It is also known as "milk oligosaccharide." By the late 19th century, it was known that breast-fed infants were healthier than those fed on infant formula milk, and that their feces contained more Bifidobacteria. Half-a-century later, in 1957, a paper was published showing that the concentration of Bifidobacteria in feces from infants fed on infant formula containing lactulose increased to almost the same level as breast-fed infants. Three years later, in 1960, Morinaga Milk Industry introduced *Morinaga G Dry Milk*, an infant formula containing lactulose. Since then, we have included lactulose in all of our infant formula products.

Lactulose was commonly distributed in syrup form, but Morinaga Milk Industry quickly began to work on the development of a powdered version for both ease of transportation, and also for compatibility with Bifidobacteria. Conventional powdering methods were found to be

completely unsuitable, but after six years of struggle, Morinaga Milk Industry developed original manufacturing technology for the production of powdered lactulose.

Further research showed that in addition to its use in infant formula to increase the presence of Bifidobacteria in babies, lactulose could also increase the amount of Bifidobacteria in adults. Today this property is also used in pharmaceutical products, such as laxatives.

Reports have been published indicating that in addition to its role in preventing diseases directly linked to the intestinal environment, lactulose may offer benefits in relation to allergies, colds, influenza, calcium absorption, and body fat reduction. As we learn more and more about the wide-ranging potential of this substance, expectations increase for its role as a next-generation functional ingredient.



Milk Protein Research

Innovative approaches to dietary needs: Anticipating a time when the power of milk is used to maintain good health among seniors

Demographic aging continues to accelerate in Japan. In the fall of 2012, Morinaga Milk Industry responded to this trend by launching a project to develop products to meet the changing needs of the senior generation. Two key concepts emerged from a survey on the diets of active seniors. The first is the prevention of locomotive deficits. The maintenance of mobility is an important part of healthy aging, and there is growing awareness of the importance of muscles as well as bones. This awareness is expected to generate increasing demand for foods that

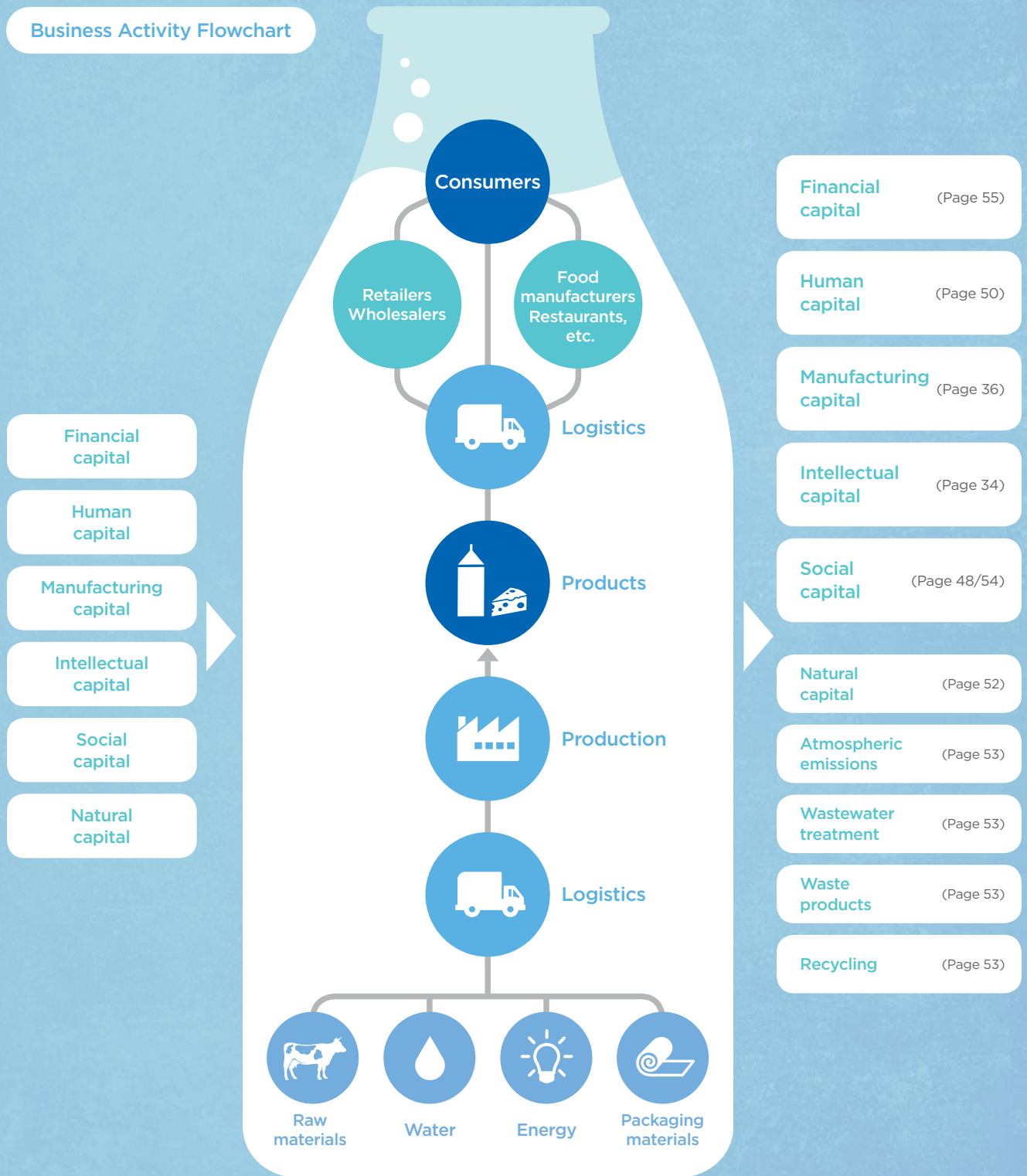
supplement the intake of proteins as the building blocks for muscles. The second concept is new-type malnutrition. Research has highlighted the existence of a growing number of aged people who are consuming sufficient calories but are suffering from inadequate intakes of proteins, vitamins, and minerals. We have responded by initiating the development of high-protein products, including drinks and yogurts, which anyone can buy over the counter.

Milk protein is vulnerable to heating and tends to coagulate at certain pH levels. These characteristics made the development of commercial products difficult. However, Morinaga Milk Industry took up this challenge as part of its corporate mission, and eventually it succeeded in the development of products.

working for their smiles

We strive to meet the needs of society by turning the gifts of nature into products that we hope will bring joy to customers' daily lives. The Morinaga Milk Group manufactures these products in advanced factories using our own, original knowledge and technical expertise. Throughout our production activities, we strive to use raw materials and energy with optimal efficiency, while continually reducing environmental loads, such as CO₂, wastewater, and waste products. We are always working to make better, more delicious products in a more sustainable way.

Business Activity Flowchart



Business Segment Information and Four Business Domains

(Consolidated basis)

Overview of Business Segments

Soaring raw material costs due to the weak yen continued to create a challenging business environment for Morinaga Milk Industry in the year ended March 2016. Despite this, we were able to achieve growth in both revenue and income thanks to the adjustment of sales prices, and the emergence of a strong-yen trend in the second half of the year. Consolidated net sales were 1.1% higher year on year at ¥601.5 billion, while consolidated operating income increased by 110.4% to ¥14.3 billion.

The food industry segment contributes over 90% of net sales. For this reason, we divide net sales and operating income statistics between the food industry segment and the other business segment.

In the year ended March 2016, net sales from the food

industry segment, which consists of the manufacture and sales of commercial milk, dairy products, ice cream, beverages, and other products, increased by 1.1% year on year to ¥581.0 billion. Segment operating income was 55.7% higher at ¥21.9 billion.

Our main activities in the other industries segment are the manufacture and sales of livestock feed, and the design and construction of plant equipment. In the year ended March 2016, net sales from this segment were 4.7% higher year on year at ¥27.4 billion, while operating income increased by 25.6% to ¥1.7 billion.

Non-consolidated net sales for Morinaga Milk Industry amounted to ¥453.9 billion, a year on year increase of 2.1%. Operating income was ¥6.9 billion higher year on year at ¥6.7 billion.

Four-Business Domain Structure Based on the Medium-Term Management Plan

One of the key policies in the Morinaga Milk Group's new medium-term management plan, which was launched in the year ended March 2016, calls for the restructuring of our business domains to establish a growth-focused structure. This has resulted in the creation of four new core business domains: the functional and food ingredients business (B-to-B), the international business, the health and nutritional food business, and the B-to-C business.

Functional and Food Ingredients Business (B-to-B)

	Net sales	Operating income
Year ended March 2016	91.1	4.9
Year ending March 2017 (targets)	91.8	5.1
Year ending March 2020 (targets)	116.0	10.0

In addition to growth in the core area commercial food products, such as fresh cream, we are also strengthening the marketing of milk alternatives and milk-flavored ingredients. One notable success was an increase in the use of Shield Lactobacteria M-1® in other companies' B-to-C products.

Net sales amounted to ¥91.1 billion in the year ended March 2016, and operating income reached ¥4.9 billion. Our targets for the year ending March 2017 are net sales of ¥91.8 billion and operating income of ¥5.1 billion.

International Business

	Net sales	Operating income
Year ended March 2016	21.7	0
Year ending March 2017 (targets)	22.2	0.3
Year ending March 2020 (targets)	38.0	2.0

In the international business domain, we are investing in plant and facilities in anticipation of demand growth over the medium- to long-term future. A new plant built for our German subsidiary Milei will become operational in fall 2016, leading to increased B-to-B sales of high-value-added milk ingredients. We are also strengthening our marketing of infant formula in Indonesia and Pakistan. In December 2015 we established a sales company in Singapore, a market currently the focus of many major infant formula manufacturers and raw material suppliers. The new company is expected to achieve sales of ¥1.7 billion in its first year.

In the year ended March 2016, net sales amounted to ¥21.7 billion, and operating income was essentially zero rounded to the nearest billion yen. Our targets for the year ending March 2017 are net sales of ¥22.2 billion and operating income of ¥0.3 billion.

Net Sales by Segment

	(¥ billions)		
(Years ended)	March 2014	March 2015	March 2016
Food business	576.4	574.9	581.0
Other business	29.4	26.2	27.4
Adjustments	(6.5)	(6.2)	(6.9)
Total	599.3	594.8	601.5

Operating Income by Segment

	(¥ billions)		
(Years ended)	March 2014	March 2015	March 2016
Food business	18.2	14.1	21.9
Other business	2.5	1.3	1.7
Subtotal	20.7	15.4	23.6
Adjustments	(8.7)	(8.6)	(9.2)
Total	12.0	6.8	14.3

Health and Nutritional Food Business

	(¥ billions)	
	Net sales	Operating income
Year ended March 2016	44.1	1.9
Year ending March 2017 (targets)	44.9	2.1
Year ending March 2020 (targets)	52.0	2.5

Activities in this domain include mail-order sales of nutritional food products, especially infant formula, as well as supplements. We also sell liquid diet foods through our subsidiary, CLINICO.

Our priority in this area is to strengthen our product development and marketing so that we can respond effectively to new needs generated by demographic changes, such as aging, and by an increasing social emphasis on health. In addition to hospital marketing channels, which are a key area of strength for Morinaga Milk Industry, we have steadily expanded our sales through a variety of other channels, including drugstores, home delivery, and mail-order.

Net sales in the year ended March 2016 amounted to ¥44.1 billion, and operating income was ¥1.9 billion. Our targets for the year ending March 2017 are net sales of ¥44.9 billion, and operating income of ¥2.1 billion.

B-to-C Business

	(¥ billions)	
	Net sales	Operating income
Year ended March 2016	349.8	5.9
Year ending March 2017 (targets)	336.7	6.9
Year ending March 2020 (targets)	338.0	8.0

In this business domain, we concentrate our resources into growth markets, so that we can expand sales of our unique products and respond to changing needs. In response to strong sales of *Thick Greek Yogurt PARTHENO*, we have doubled our supply capacity through investment in plant and facilities. We will also invest in new facilities to expand our production capacity for *PARM* ice cream bars. We have added *Mt. RAINIER Rich Caffé Latte*, the most luxurious latte ever, as a new key product in our popular *Mt. RAINIER* range, with a first-year sales target of ¥2.5 billion.

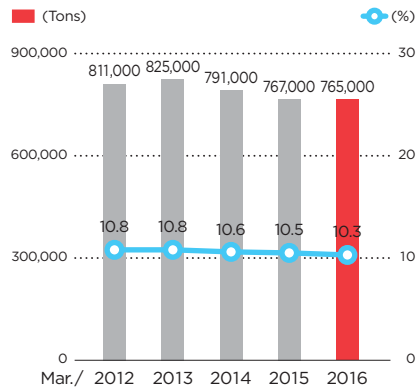
Net sales in the year ended March 2016 amounted to ¥349.8 billion, while operating income reached ¥5.9 billion. Our targets for the year ending March 2017 are net sales of ¥336.7 billion, and operating income of ¥6.9 billion.

Sales by Product Category (Non-Consolidated) (¥ billions)

	Chilled cup drinks	Chilled tea	Ice cream	Yogurt	Cheese
Year ended March 2016	44.0	16.8	45.9	50.2	31.7
Year ending March 2017 (targets)	45.0	16.8	45.5	51.1	32.2
Year ending March 2020 (targets)	48.0	19.0	47.0	60.0	40.0

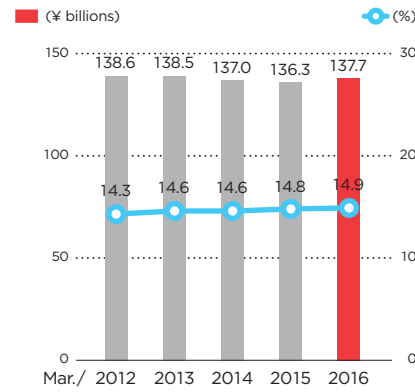
Domestic Markets for Key Products and Morinaga Share

Milk Collection



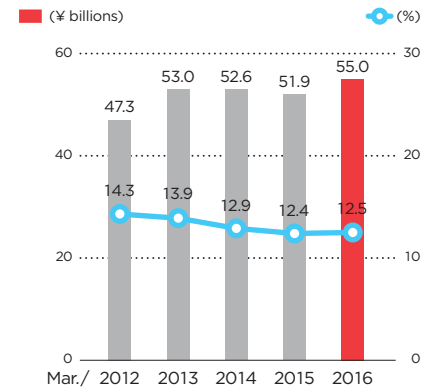
Dairy Milk—Beverage

(value of sales)



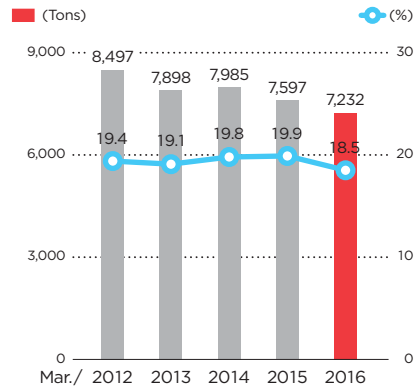
Dairy Milk—Fermented Products

(value of sales)



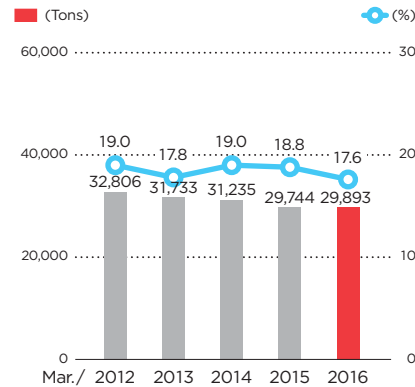
Dairy Products—Condensed Milk

(quantity sold)



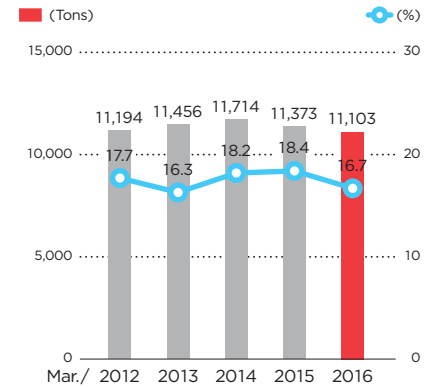
Dairy Products—Powdered Milk

(quantity sold)



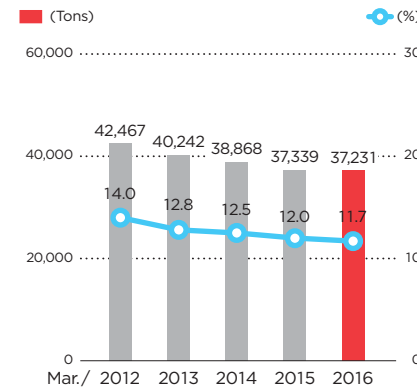
Dairy Products—Butter

(quantity sold)



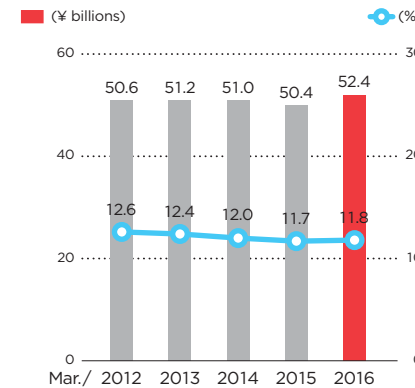
Dairy Products—Cheese

(quantity sold)



Ice Cream

(value of sales)



Sources

Condensed milk, powdered milk:
Ministry of Agriculture, Forestry and Fisheries
Beverage milk, fermented milk, cheese, ice cream:
Fuji-Keizai (latest editions, partially estimated)

Milk collection quantities:
Based on actual statistics compiled
by Morinaga Milk Industry Co., Ltd.

Shares:
Based on actual statistics compiled by Morinaga Milk



*Morinaga
Oishii Gyunyu Milk*



*PREMIL for
Everyday Health*



*Bifidus
Plain Yogurt*



*Thick Greek Yogurt
PARTHENO*



*Aloethe
Yogurt*



*Lactoferrin
Yogurt*



*Morinaga
Sweetened
Condensed Milk*



Creap



Skim Milk



*Morinaga
Chil-mil*



*Morinaga
E-Akachan*



*Morinaga
Hokkaido Butter*



*Kraft
100% Parmesan
Grated Cheese*



*Kraft
Kireteru Cheese*



*Kraft
Slice Cheese*



MOW



Pino



PARM



International business has significant potential as a future growth driver for the Morinaga Milk Group. Steady expansion in this area will be an important priority going forward.

Overview of International Business

Our international business first took tangible form in 1972, when we established a joint venture in Germany to manufacture milk product ingredients. We have also actively formed alliances with overseas brands, and we signed licensing agreements with Kraft in 1970, Sunkist in 1971, and Lipton in 1984. The German company Milei, which became a wholly owned subsidiary in 2012, currently manufactures and sells dairy product ingredients, mainly for European markets. In Asia, we manufacture and sell infant formula in Indonesia through a joint venture with Kalbe Farma, that country's largest manufacturer of pharmaceutical products. In Singapore, we established a sales company in December 2015. Our American subsidiary supplies long-life TOFU throughout the United States.

Priority Measures

— Reinforcement of global supply capacity for milk product ingredients, expansion of sales in emerging markets

Expansion of Production Capacity in Germany

We are investing over ¥20 billion in the expansion of production capacity at Milei with the aim of establishing a global supply structure for milk product ingredients. The factory will become partially operational in mid-2016, and we plan to commence full production operations in 2020. When the new plant becomes fully operational, production capacity will increase by 25% to 100,000 tons, and sales are expected to increase by 50% as compared to 2013. By expanding the markets for milk product ingredients manufactured by Milei, especially in Europe and North America, but also in Asia, we plan to lay the foundation for the reliable supply of high-quality products.

Expansion of Indonesian Joint Venture

Our Indonesian joint venture, PT. Kalbe Morinaga Indonesia ("Kalbe Morinaga"), is achieving excellent financial results. We are expanding our product line-up to meet diversifying needs. Our product sales in Indonesia are increasing steadily by around 10% per year.

“ We aim to achieve international sales of ¥38 billion in the year ending March 2020.”

New Business Expansion in Growth Markets

A new production facility for powdered Bifidobacteria became operational in 2014, and exports of that product and other functional ingredients are now expanding steadily. We have established a sales company in Singapore to strengthen marketing capabilities for our B-to-B business, including sales to infant formula manufacturers, in Southeast Asia and the Pacific. In April 2016, this company commenced active marketing of functional ingredients including powdered Bifidobacteria. In Pakistan, we have gained the largest share of the market for imported infant formula, and our sales continue to show double-figure yearly growth.

Future Policy

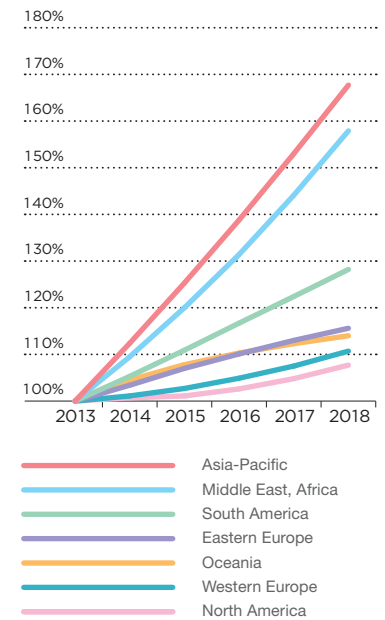
Focus on Expanding Role as Growth Driver

We see the expansion of our international business as a vital priority for the future growth of the Morinaga Milk Group. Contribution to the solution of future food

problems will also be a major focus from a global social perspective. With its many fine products, the Morinaga Milk Group enjoys a reputation for quality in Japan. This is reflected in our international business. In the area of infant formula, for example, our joint venture in Indonesia has been very successful, and we are also steadily expanding our exports to other markets, such as Pakistan and Vietnam.

Health has become an important focus for consumers, not only in developed countries, but also in emerging countries, especially in Asia. The goal of the Morinaga Milk Group is to supply countries worldwide with high-quality infant formula and products that offer delicious taste experiences. We are also committed to the global supply of functional ingredients, including Bifidobacteria, which help people to achieve good health.

Forecast for the Global Infant Formula Market (2013=100%)



Note: Other companies' logos represent our partner brands.

Research and Development



Our continuing challenge is to explore the amazing potential of milk and apply that knowledge to future products, as interest continues to grow in health-supporting functional ingredients.

Research and Development Organization

The Morinaga Milk Group has built a research and development organization consisting of five laboratories and two centers. In June 2016, we restructured the Research Division to strengthen organic cooperation between research assets and human resources.

Food Research & Development Institute

The Food Research & Development Institute combines original technologies developed by the Morinaga Milk Group to develop high-quality products with enhanced flavors. It focuses mainly on milk-based items, such as yogurt, milk drinks, and ice cream.

Wellness & Nutrition Science Institute

This facility specializes in R&D relating to nutritional products that contribute to health at every life stage. These range from various types of infant formula designed to promote healthy growth and development in babies, to liquid diet foods and other food products used in medical care and care for the aged and infirm.

Food Ingredients & Technology Institute

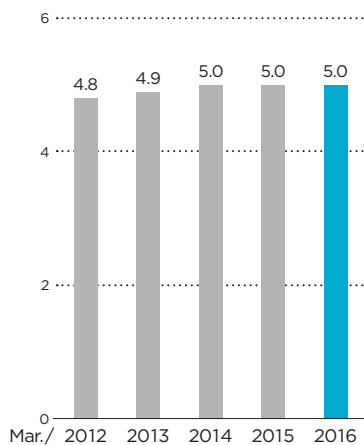
The role of the Food Ingredients & Technology Institute is to provide value by creating differentiated, high-added-value products through the development of technology for functional ingredients, such as Bifidobacteria, lactoferrin, and aloe, and through the exploration of health-related functions.

Next Generation Science Institute

The Next Generation Science Institute explores new ingredients and discovers new functions using advanced research methods. Its mission is to create new value and build a business base for the future by investigating the relationships

Research and Development Expenditure

(¥ billions)



Basic Policy on Research and Development

The research and development activities of the Morinaga Milk Group are driven by a fundamental goal: to explore the amazing potential of milk, and to make optimal use of that potential. Our past research into bovine and human milk has resulted in the establishment of manufacturing technologies and product applications for many milk-derived materials. These include Bifidobacterium longum BB536, which was found to be present in healthy babies, and the immunity factor lactoferrin from human milk, as well as functional protein, and peptides developed to help people with allergies. We will continue to help people to achieve good health and enrich their lives by exploring the unique values of milk and using those values in our wide-ranging products. This basic policy guides the research and development activities of the Morinaga Milk Group.

“Research relating to ingredients and foods with health functions is the key to our ability to supply original products with high added value.”

between internal environments, such as intestinal flora, and life phenomena.

Engineering Research Laboratory

This facility carries out wide-ranging R&D activities relating to production technology, especially equipment and systems. Its research areas extend from basic food engineering research to production process technology, manufacturing technology for new products, and applied research in various advanced fields.

Analytical Research Center

The Analytical Research Center uses advanced analysis equipment to identify trace amounts of nutritional elements, such as minerals and vitamins. It also analyzes substances that could affect food hygiene, such as food-poisoning bacteria or agricultural chemical residues.

Product Evaluation Center

This facility develops a variety of home-cooking recipes based on the products of the Morinaga Milk Group. It also helps consumers to discover more ways to enjoy our products through its website and cooking courses.

Future Policy

— Accumulate Intellectual Capital for Novel Product Development

A major priority for the future growth of the Morinaga Milk Group will be the expansion of our activities in the area of health foods, nutritional food products, and functional foods. We will concentrate our resources into research and development concerning food products with the nutritional functions needed in a super-aging society. We will base this work on knowledge accumulated through the development of original functional ingredients, such as Bifidobacteria and Aloesterol®.

Our most important priorities will be the continuing accumulation of intellectual assets, and the use of these functional ingredients in the development and establishment of products with the potential to become core income sources.

TOPICS



Recently we investigated the effectiveness of Aloesterol® against skin damage caused by ultraviolet rays, using a three-dimensional human skin model consisting of fibroblasts and keratinocytes derived from human skin. In the model, Aloesterol® was found to work through the dermis to inhibit increases in the production of

inflammatory cytokines and collagen degradation enzymes due to ultraviolet exposure. This suggests that Aloesterol® may reduce skin damage resulting from ultraviolet exposure.

Production



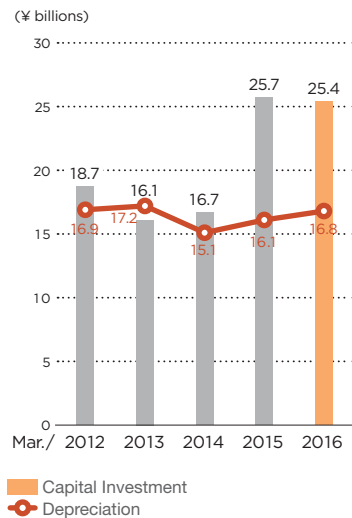
Our production activities reflect our commitment to the reliable supply of safe and dependable products through constant improvement of production efficiency and the harmonization of our activities with the environment.

The three items are 1) recognition and control of quality factors, such as flavor and labeling, as health hazards, 2) prioritization of internal auditing, and 3) hazard analysis training for all factory employees.

Establishing Efficient Production Systems Geared toward Market Needs

We are constantly adapting to market trends, such as the maturation of the Japanese market and a growing consumer focus on health. We also prepare for future increases in production costs, including the prices of raw materials and energy, by restructuring our domestic production systems to improve efficiency. In 2013, we consolidated operations at three plants that were used primarily to produce commercial milk, which has low profit margins. At the same time, we opened a new manufacturing wing at Urahoro Milk Industry Co., Ltd. to enhance our capacity to maintain reliable supplies of cream. In 2014, a new Bifidus powder production facility became operational at the Fukui Plant of Morinaga-Hokuriku Milk Industry Co., Ltd. As of March 31, 2016, our group-wide domestic production network consists of 27 production sites, including 13 belonging to the parent company.

Capital Investment and Depreciation (Consolidated)



Notes:

1. The straight-line depreciation method has been used for all tangible fixed assets since the year ended March 2014.
2. Depreciation is applied only to fixed assets.

Producing Safe and Reliable Products

The Morinaga Milk Group reliably supplies milk, powdered milk, cheese, yogurt, and other products that are essential to a healthy and enjoyable diet. We supply those products reliably 365 days a year. As a food manufacturer, we give first priority to the supply of high-quality products that can be consumed safely and with confidence.

We ensure product safety and prevent health hazards at every key point in every process from the acceptance of raw materials to the manufacture and shipment of food products through constant monitoring and recording under the HACCP* system, which is the global standard for food hygiene.

The Morinaga Milk Group has combined the HACCP system with three additional items to create an even more stringent quality management system.

* Hazard Analysis and Critical Control Point: The purpose of this hygiene control system is to prevent hazards through continuous monitoring and recording at critical points in all processes from the acceptance of food raw materials to manufacturing and shipment.

“Our production facilities and technology are already world-class, but we remain committed to continuing innovation.”

Advanced Production Facilities Based on Environment-Friendly Technology

The Morinaga Milk Group uses extremely large quantities of water, and we take particular care with the wastewater emitted as a result of our production activities. To ensure that our wastewater emissions are as clean as possible, we manage our wastewater treatment facilities with the same level of care that we apply to the products that we offer for sale to consumers.

Our energy conservation initiatives include the installation of cogeneration systems, biomass heat utilization systems, solar power systems, and other equipment at our main domestic facilities. We plan to expand these initiatives as required.

We are working to reduce waste through recycling. Our goal is to achieve zero-emission status across the entire Morinaga Milk Group. In fiscal 2015, the recycling ratio for plants operated by the Morinaga Milk Group in Japan rose from 98.1% to 98.6%. We supply products that offer value based on natural raw materials. For this reason, effective environmental measures rank alongside product safety as one of the most important basic policies guiding our production activities.

Future Policy

— **Maintain and Expand Manufacturing Capital**

We have restructured our production facilities over the past few years, focusing in particular on the commercial milk business. We have also invested in projects targeted toward growth markets, such as the expansion of manufacturing capacity for milk-based ingredients at Milei in Germany. We will continue to maintain and expand the value of our production capital. Within Japan, we will continue to raise the level of our manufacturing operations while improving efficiency through the elimination of duplicated activities. Initiatives include the organizational integration of the Yamato and Murayama Plants.

We have improved the Morinaga Milk Group's recycling ratio to 98.6%.



Marketing



We regard the Morinaga Milk Industry brand as our most valuable business asset. It has become a familiar part of the day-to-day lives of consumers.

Brand

The Morinaga Milk Industry brand is a powerful presence in Japan. We attribute the strength of our brand to the trust that we have earned over many years as a company dedicated to safety, reliability and the creation of delicious products. That is why we are so determined to protect the brand that Morinaga Milk Industry has built over a period of almost 100 years.

Channels

Most Morinaga Milk Group products reach consumers through retail outlets, especially supermarkets and convenience stores. For this reason, point-of-sale information from retailers is an extremely important resource, and we place great value on cooperation with our business partners in the retail sector. Our sales channels for commercial prod-

ucts include restaurants and fast-food chains, and we also supply functional ingredients to other food manufacturers.

Sales Promotion and Advertising

Competition within the Japanese food industry is intense, and it is very important to inform consumers about product quality and characteristics. We must continually work to tell consumers about the value and attractiveness of our products through sales promotion activities in retail outlets, and through effective TV advertising.

Future Policy

— Timely Restructuring of Our Business Domain

Our medium-term management plan for the period to the year ending March 2020 identifies four new core business segments: functional and food ingredients business (B-to-B), international business, health and nutritional food business, and B-to-C business. In July 2015, we restructured our organization with the aim of expanding our B-to-B business. We also made progress toward overall optimization through the reorganization of our B-to-C (retail) segment in April 2016. In addition, we established the Materials Strategy Department and the Wellness Business Department.

A person wearing a white lab coat is holding a white plate with a teal rim. The person's hands are visible, and the plate is held horizontally. The background is a soft, out-of-focus light color.

smiles for the future

In 2017, we will celebrate the 100th anniversary of the founding of the Morinaga Milk Group. However, the end of one century also marks the beginning of another. To maintain our growth into the future, we must continue to enhance the transparency of our corporate management structure, share value with all stakeholders, and provide new value.

Morinaga Milk Group employees are proud supporters of our management philosophy and of our mission as a milk manufacturer under that philosophy. We will continue to work with our stakeholders to contribute to human health and the creation of an enriching social environment.

Corporate Governance Organization

Current State of Corporate Governance

Basic Approach to Corporate Governance

Our corporate philosophy calls for the creation of a new food culture based on the excellent power of milk, making a difference in people's health and society in general. Our efforts to realize this philosophy are guided by a corporate vision consisting of four elements. First, we will supply products and services that provide customers with real value: a shared sense of satisfaction and enjoyment. Second, we will work hard for change and create our own values. Third, we will always be a company that society can trust. Fourth, we will foster a vibrant corporate culture.

We are continually working to develop and improve highly effective corporate governance structures under the concepts outlined below to achieve sustainable growth and increase corporate value. They form a framework by which the Morinaga Milk Group may contribute to society by conducting its business activities in accordance with its corporate philosophy and vision.

- ① We will respect shareholders' rights and ensure equal treatment.
- ② We will build proper relationships with various stakeholders, including our shareholders, customers, business partners, local communities, and employees, while respecting their perspectives and rights.
- ③ We will disclose corporate information appropriately and ensure transparency.
- ④ We will build a structure in which each of the bodies comprising the corporate governance system can work together organically, while ensuring the effectiveness of the systems used to supervise the performance of duties by the Board of Directors.
- ⑤ We will aim to achieve sustainable growth and improvement in corporate value, while maintaining constructive dialogue with shareholders concerning their expectations about the achievement of these goals and the realization of medium- to long-term profits.

Overview of Corporate Governance Systems

Morinaga Milk Industry Co., Ltd. is structured as a company with Audit & Supervisory Board members. The relationships among our corporate organizations and internal

control systems are shown in the diagram on the facing page.

Reasons for the Adoption of Our Present Corporate Governance Structure

In addition to our Board of Directors, we also have an Executive Management Committee consisting of directors and executive officers. At meetings of this committee, directors and executive officers share views about the state of business operations in their respective areas of responsibility and strive to manage the company's business activities as efficiently as possible. The Board of Directors and the Executive Management Committee work independently of each other to perform their respective functions under this structure. The former is the supreme decision-making organ under this structure, while the latter is a forum for discussion, communication, and consultation about business operations. We will maintain a structure under which we can continually strengthen our corporate governance.

Development of Internal Control Systems, etc.

- ① Basic Philosophy on Internal Control Systems
The policy of the Morinaga Milk Group requires the implementation of internal control systems with the aim of ensuring the security and efficiency of its business activities. These systems are used to manage compliance risk and ensure the reliability of financial reporting. Specifically, the internal control systems created by Morinaga Milk Group require the establishment of control criteria for the performance of its business operations, and consultation and information sharing about internal control systems among organizational units, and the efficient dissemination of directives and requests. To ensure the effectiveness of audits by the Audit & Supervisory Board members, the Group is also developing a structure to support audit activities.
- ② Internal Control and Risk Management Structures, Structures to Ensure the Appropriate Performance of Operations by Subsidiaries
Responsibility for the development of internal control systems within the Morinaga Milk Group rests with the Internal Control System Committee. The organizational unit responsi-

ble for this work is the General Affairs Department. The internal control systems of group companies are overseen by the supervising divisions for those companies. The Internal Control System Committee regularly receives and examines reports about the state of control systems within the Group and issues directives when necessary.

As stipulated in our Code of Conduct, all directors and employees are required to comply fully and consistently with laws and regulations, the Company articles, company regulations and social ethics. They are also required to work toward the realization of our corporate philosophy through the performance of their duties. A Compliance Subcommittee has been established within the Internal Control System Committee to promote compliance activities and raise and consolidate compliance awareness throughout the Morinaga Milk Group. We have also established an internal reporting system. In addition to in-house contact points for reporting and advice, we also operate the Morinaga Help Line, through which information can be reported directly to outside legal advisors.

Risk management is based on the identification of specific risk factors, the designation of persons responsible for the management of those risks, and the development of risk management structures. To ensure that these tasks are carried out appropriately, we have established a Risk Management Subcommittee under the Internal Control System Committee, which is developing structures for reporting and cooperation. If an unexpected

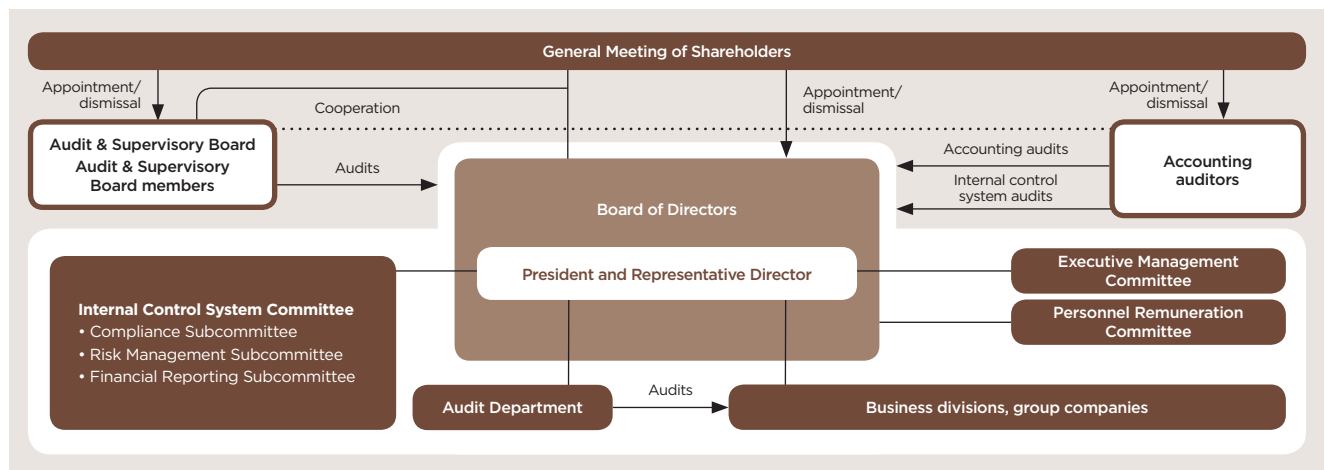
contingency arises, we respond promptly in accordance with our risk management regulations to minimize the effects of the situation and prevent further expansion of any damages caused.

Under our information management system, documents and other information relating to the performance of directors' duties are appropriately stored and controlled by the divisions in charge in accordance with the information security policy and other corporate regulations. Directors are able to view documents and other information whenever necessary. Directors and other officers of subsidiaries are required to report important information about the performance of their duties to Morinaga Milk Industry Co., Ltd. at regular intervals. We issue criteria for this reporting process, and we are continually improving related systems.

To ensure the reliability of financial reporting, we carefully control all aspects of the operational processes involved in the preparation of financial reports. As part of this control system, we document the related procedures. This work is carried out by the Financial Reporting Subcommittee of the Internal Control System Committee. We also work closely with the accounting auditors to maintain systems that ensure the reliability of financial reporting throughout the Morinaga Milk Group.

To ensure the effectiveness of audits by the Audit & Supervisory Board members, we continually maintain and strengthen group-

Corporate Governance Organization



Corporate Governance Organization

wide reporting systems, provide full protection for those who report issues, and enforce rigorous management of information. Our systems also allow the Audit & Supervisory Board members to attend important meetings and seek reports from company officers and staff. We also provide staff to assist Audit & Supervisory Board members in the performance of their duties.

③ Basic Policy on the Exclusion of Antisocial Forces

The Morinaga Milk Group has established systems to block any form of interaction with antisocial forces, including business transactions, and to reject unlawful demands. We respond resolutely to any such approaches by organizational and legal means, while cooperating closely with specialist organizations.

④ Progress on Exclusion of Antisocial Forces

The coordinating unit in this area implements a variety of countermeasures in cooperation with police stations and other specialist organizations. In other aspects of our comprehensive approach to this issue, we accumulate information about antisocial forces, create response manuals, and provide staff training at head office divisions.

■ Roles and Responsibilities of the Board of Directors

1. The Board of Directors is responsible for maintaining the Group's sustainable growth and maximizing corporate value over the medium to long term through efficient and effective corporate governance.
2. The Board of Directors fulfills these responsibilities by carrying out the following duties.
 - Determination of Group strategies based on the corporate philosophy
 - Formulation of medium- to long-term management plans based on the perspectives of stakeholders, monitoring the progress of those plans, evaluation of executives and decisions on personnel matters using fair and transparent procedures
 - Establishment of effective internal control systems in the Group, guarantee of sound management through regularly verifying

the operational status

- Multifaceted examination of factors to ensure the best decision-making possible when making important decisions on execution of operations
 - Appropriate supervision of the fostering of successors for important management positions to ensure smooth succession to those positions
 - Appropriate monitoring to ensure that there are opportunities for constructive dialogue with shareholders
3. The Board of Directors is responsible for the establishment of systems to enable the Audit & Supervisory Board, accounting auditors and the Audit Department to carry out full and proper audits.
 4. The Board of Directors is responsible for the establishment of response systems for situations in which Audit & Supervisory Board members or accounting auditors request appropriate measures on discovery of an irregularity, or indicate that there are deficiencies or problems.

■ Internal Audits, Audits by Audit & Supervisory Board Members, Accounting Audits

Organizations, Personnel and Procedures for Internal Audits and Audits by Audit & Supervisory Board Members

We have established an Audit Department to carry out internal audits. It systematically conducts audits concerning the legality and appropriateness of activities by corporate divisions and group companies.

Audits by Audit & Supervisory Board members are carried out in accordance with audit policies, plans and methods established by the Audit & Supervisory Board.

To ensure that the Company always has the legally mandated number of Audit & Supervisory Board members, we appoint a deputy Audit & Supervisory Board member to fill any vacancy that may arise.

One of our external Audit & Supervisory Board members is Mr. Takatomo Yoneda, who has spent many years working for a financial institution and has extensive knowledge of finance and accounting. The other is Mr. Masahiko Ikaga, who has financial and accounting expertise as a certified public

accountant, extensive experience in business management, and wide-ranging knowledge.

Accounting Audits

The Company has entered into an audit agreement with Ernst & Young ShinNihon LLC, to audit consolidated and non-consolidated accounting statements and other documents as required under the Companies Act. It also audits financial documents under the Financial Instruments and Exchange Act. The following certified public accountants and assistant auditors carried out the accounting audits for the current year:

Certified public accountants
Designated and Engagement Partner
Mitsuo Cho and Shunji Ichinose
Assistant auditors

Five certified public accountants, four persons who have passed the certified public account examination, eleven other persons

Cooperation between Internal Audits and Audits by Full-time and External Audit & Supervisory Board Members and Accounting Audits, Relationship between these Audits and Internal Control Units

The Audit & Supervisory Board members regularly receive briefings and reports from the accounting auditors concerning audit plans, progress and results. They also exchange and share information from time to time during the fiscal year. In addition, by attending inspections of cash, deposits and securities and being present at on-site inventories of assets by the accounting auditors, the Audit & Supervisory Board members help to ensure the reliability and appropriateness of audits and strengthen cooperation.

The Audit & Supervisory Board members are also regularly briefed and receive reports from the Audit Department, the organization responsible for internal audits, about audit plans, progress, and results. They also exchange and share information from time to time. Through these activities, the Audit & Supervisory Board members help to ensure the reliability and appropriateness of audits and strengthen cooperation.

One Audit & Supervisory Board member is appointed as a special member of the Internal Control System Committee to facilitate information sharing between the Audit & Supervisory Board members and the Committee. As the unit responsible for internal

audits, the Internal Audit Division provides the Internal Control Committee with briefings and reports concerning audit plans, progress and results. It also shares information with the Audit & Supervisory Board members from time to time as part of its efforts to ensure the reliability and appropriateness of audits and strengthen cooperation.

External Officers

Number, etc., of External Officers

The Company appoints two external directors and two external Audit & Supervisory Board members. The external directors fulfill the requirements under Article 2 Item 15 of the Companies Act with regard to their relationship with the Company and have no special interests. The external directors fulfill the requirements under Article 2 Item 16 of the Companies Act with regard to their relationship with the Company and have no special interests.

Functions and Roles of External Officers, Appointments

Currently the 11-member Board of Directors includes two external directors, and two of the four Audit & Supervisory Board members are external. The purpose of these appointments is to create a management structure that will be as fair as possible. None of the two external directors and two external Audit & Supervisory Board members has previously had careers with the Morinaga Milk Group. All four external officers have been reported as independent officers.

Independence Standards for External Officers

External directors and external Audit & Supervisory Board members and candidates for these positions are deemed by the Company to be sufficiently independent if they meet the conditions stipulated in the following items.

- (1) The person concerned must not be, and must never have been, an executive director, etc., of the Morinaga Milk Group. In addition, an external Audit & Supervisory Board member must never have been a non-executive director of the Morinaga Milk Group.

Corporate Governance Organization

(2) The person concerned must not have been in any of the situations stipulated in the following items in the current fiscal year or any of the three previous fiscal years.

- ① A party for which the Morinaga Milk Group is a major supplier, or an executive director of a company for which the Morinaga Milk Group is a major supplier
- ② A major supplier to the Morinaga Milk Group, or an executive director of a company that is a major supplier to the Morinaga Milk Group
- ③ A consultant, an accounting professional, or a legal professional who has received substantial amounts of money or other assets from the Morinaga Milk Group in addition to compensation as an officer, or a person affiliated to a corporation, partnership or other organization that has received such assets
- ④ A person who is currently a major shareholder in Morinaga Milk Industry, or a person who is an executive director of such a major shareholder
- ⑤ A person formerly affiliated with an organization, such as a corporation or partnership, which has received donations or grants above a specified amount from the Morinaga Milk Group

(3) The person concerned must not be the spouse or a relative of the second degree or closer of any of the persons stipulated in the following items.

- ① An executive director, etc., or a non-executive director of the Morinaga Milk Group (Proviso: In the case of an executive director, etc., who is also an employee, this applies only to persons who are important employees.)
- ② Any significant person to whom Items (2) ① or (2)⑤ apply

(4) The person must not be a director, corporate auditor, executive officer, executive director, or employee of a company that currently exchanges directors, corporate auditors, executive officers or executive directors with the Morinaga Milk Group.

(5) The person concerned must not be in any of the situations stipulated in the following items.

- ① A person who has conflicts of interest with general shareholders of the company

- ② A person who has held office for an aggregated period in excess of eight years

Visit the website below for additional information about the corporate governance.
<http://morinagamilk.co.jp/english/ir/governance.html>

■ Officers' Remuneration

Policies Concerning Officers' Remuneration, etc., and the Calculation Methods Used, and the Methods Used to Determine Such Policies

- ① Method used to Determine Basic Remuneration for Directors and Audit & Supervisory Board Members
As detailed below, the total remuneration for directors and Audit & Supervisory Board members is set within the maximum amounts approved at the previous general meeting of shareholders (directors: ¥36 million, Audit & Supervisory Board members: ¥6 million, per month).
 - The basic remuneration is set according to rank, and in principle there is no additional payment based on years of service.
 - The basic remuneration structure for directors is based on a monthly amount consisting of a basic salary (fixed remuneration), plus performance-based remuneration. The basic remuneration for Audit & Supervisory Board members consists entirely of the basic salary (fixed remuneration). Audit & Supervisory Board members are not eligible for performance-based remuneration.
 - Performance-based remuneration is reviewed every July and adjusted if necessary, based on a review of performance in the previous year. The fixed remuneration portion is adjusted as required based on comparisons with going rates, etc.
 - The performance-based remuneration for representative directors will reflect consolidated and non-consolidated business performance. That for other directors will reflect assessments based on both consolidated and non-consolidated business performance and personal performance.
- ② Method for Granting Stock Options to Directors
 - The company has abolished retirement bonuses for directors and instead allocates stock options in the form of stock acquisition rights that when exercised

allow the holder to receive ordinary shares of the company for a paid-in amount of one yen per share.

- The total number of options and the total amount of remuneration are determined within limits approved at a previous general meeting of shareholders (maximum stock acquisition rights issued per year: 120, each exercisable for 1,000 ordinary shares, total remuneration, etc., per year: ¥60 million). The number of stock acquisition rights issued is based on rank.

Personnel Remuneration Committee

The company has established a Personnel Remuneration Committee to strengthen the functions of the Board of Directors.

- ① The Personnel Remuneration Committee carries out the following tasks to enhance the transparency and objectivity when determining the election of officer candidates and their remuneration.
 - The committee examines the content of proposals for the election and dismissal of officers before decisions are made on those proposals, and reports to the Board of Directors.
 - The committee reports to the Board of Directors in cases where it is necessary to revise the independence standards.
 - The committee examines policies relating to remuneration for directors and the content of remuneration, etc., for each individual and reports to the Board of Directors.

- ② The Personnel Remuneration Committee takes particular care when examining the appropriateness of reappointing an external officer whose total term of office would exceed eight years at the time of reappointment.
- ③ The Personnel Remuneration Committee consists of a representative director, an independent external director, the director responsible for human resource management, and the Chairperson of the Audit & Supervisory Board.
- ④ The chairperson of the Personnel Remuneration Committee is the President and Representative Director, who is responsible for the management of proceedings.
- ⑤ The administration of the Personnel Remuneration Committee is governed by the Personnel Remuneration Committee Regulations.

Listed below are the total amount of remuneration, etc., the total amount of each type of remuneration, etc., paid to each category of officers, and the numbers of officers receiving this remuneration, etc., in the year ended March 2016.

Category	Number of officers	Basic remuneration	Stock options	Total remuneration, etc.
Directors (excluding external directors)	8	¥127 million	¥52 million	¥180 million
External directors	2	¥15 million	—	¥15 million
Audit & Supervisory Board members (excluding external members)	2	¥47 million	—	¥47 million
External Audit & Supervisory Board members	2	¥13 million	—	¥13 million
Total	14	¥204 million	¥52 million	¥256 million

Notes: 1. The amounts in the above table do not include basic remuneration of ¥30 million and final retirement allowances of ¥203 million (based on a resolution of the General Meeting of Shareholders held on June 29, 2005) paid to three directors who retired on June 26, 2015, and basic remuneration of ¥1 million paid to an external Audit & Supervisory Board member who retired on the same date.

2. A total of 104 stock options (stock-based remuneration) were allocated to eight directors pursuant to a resolution of the Board of Directors on July 10, 2015.

3. In addition to the amounts shown above, the company paid ¥138 million to the six directors who are also employees as the equivalent of employee salaries.

Board of Directors and Audit & Supervisory Board Members

(As of June 29, 2016)

Full-time
Audit & Supervisory
Board Member,
Koji Kimura

Director,
Kenichi Ohara
responsible for
sales and marketing

Director,
Shigemi Kusano
responsible for
production

Executive Vice
President and
Representative Director,
Junichi Noguchi
responsible for
sales and marketing



External Director,
Shoji Kawakami

External Director,
Kyoko Okumiya

President and
Representative
Director,
Michio Miyahara

Senior
Managing Director,
Kazuo Aoyama

responsible for
production,
quality control,
dairy farms and
logistics

Managing Director,
Teiichiro Okawa

responsible for
R&D and international
business

Director,
Yoichi Onuki

responsible for
planning,
public relations,
finances and
information system

Director,
Mitsumasa Saito

responsible for
human resources and
general management



Managing Director,
Tsuyoshi Minato

responsible for
special and
general affairs

External Audit &
Supervisory
Board Member,
Takatomo Yoneda

Full-time Audit &
Supervisory
Board Member,
Nobuo Iijima

External Audit &
Supervisory
Board Member,
Masahiko Ikaga

The Mission of the Morinaga Milk Group

The Morinaga Milk Group continually strives to create new product value.



Our Mission as a Milk Company

As a food manufacturer, Morinaga Milk Industry has a natural obligation to supply products that are both safe and manufactured to a high standard of quality. We also place great importance on deliciousness, health benefits, functionality, and care for the environment.

Our goal is to realize our corporate philosophy: *To create a new food culture based on the excellent power of milk, making a difference in people's health and society in general.*

The progress made by Morinaga Milk Industry since its founding in 1917 has been driven by our continuing efforts to

discover the amazing power of milk and develop the technology needed to utilize that power. This continuing commitment to the development of milk-related technology is part of our mission as a milk company, and we take great pride in our world-class achievements in this field.

As a milk company, we are determined to create original value that cannot be matched by other food manufacturers.



Morinaga Milk Industry has supported the healthy development of infants for almost a century through the sale of infant formula and other activities.

Creating and Sharing Value

One of the basic values that we aim to provide is the sense of shared experience that comes from the enjoyment of delicious foods with friends and family. The values that we offer, however, are not limited to great tastes. For example, we have introduced a total of four products, including a supplement, containing the Bifidobacterium BB536, which we discovered. Our continuing efforts to provide new value also include the launch of the new *Aloesthe* range of products containing Aloesterol®.

In addition to product value, the Morinaga Milk Group also aims to provide its

various stakeholders with other forms of value. Seven types of stakeholders are vital to our business activities. Not only do we recognize consumers, shareholders/investors, and suppliers as stakeholders, along with the employees who sustain our day-to-day business activities, we also regard the environment, local communities and science/research as our stakeholders, too.

Our goal is to create and share value by fostering deeper understanding among these stakeholders.



With confidence in the safety and scientifically proven health claims made for these products, we released PREMIL for Everyday Health, Bifidus Drinkable Yogurt, Fat-Free Bifidus Drinkable Yogurt, and Bifidus BB536 Supplement.

Learning from Our Customers

Morinaga Milk Industry established a Customer Service Center in 1972. Since then, we have sought to build two-way communication with consumers by responding to comments, questions, and requests for advice. We ask customers who use the Customer Service Center to participate in a satisfaction survey about our handling of their inquiries, and to share their opinions about our products and services. Findings from this research are used to improve our products and services.

Customer input is a valuable management resource for the Morinaga Milk Group. We are always ready to listen to and learn from our customers.



Morinaga Milk Industry has earned considerable acclaim for creating a new yogurt market. *Thick Greek Yogurt PARTHENO* won the Grand Prize in the 34th Hit Product Awards organized by the Nippon Shokuryo Shinbun (Japan Food Industry News) in fiscal 2015.

Creating Infrastructure for Sustainable Business Systems

The Morinaga Milk Group began to obtain ISO 14001 certification in 1999. In 2008, we achieved multi-site certification covering our head office and all plants. Starting in fiscal 2012, we have been progressively adding the affiliated production companies to our multi-site certification.

By March 31, 2016, 30 business sites were covered. We aim to include all group business sites in the multi-site certificate

as part of our efforts to develop group infrastructure to support our ability to provide sustainable value.



Chilled products that are delivered on a daily basis have short shelf lives and require fine-tuned management of supply to the demand. Besides maintaining ample production capacity for normal conditions, we also have reserve capacity for emergency production.

Respect for People

We respect the diverse values of our individual employees, and we aim to achieve growth based on partnership between the company and people.



Emphasis on Human Resource Development — Shared Growth

Our goals are to supply products that are of consistently high quality, and to create new value. Our ability to achieve these goals depends not only on advanced R&D and manufacturing capabilities, but also on the knowledge, skills, and motivation of every individual employee.

Our training programs focus on the development of people who are independent and capable of thinking and acting for themselves. We achieve this by combining a wide range of programs, including on-the-job training in workplaces, group training, overseas scholarship programs, MBA programs, correspondence

education, and e-learning. The Morinaga Milk Group believes that corporate evolution is driven by the power of people who are valued and trained well. In line with this basic philosophy, our training activities are targeted toward the creation of win-win relationships that enable both the company and individual employees to achieve growth.



The Morinaga Milk Group provides a variety of educational programs designed to develop independent people who can achieve growth in partnership with the company.

Creating a Vibrant Corporate Culture — Realizing Our Management Vision

A key element in our management vision is the creation of a vibrant corporate culture in which people can work with a sense of motivation and fulfillment. Morinaga Milk Industry implements a variety of initiatives to build a culture in which people will be able to work with confidence and a sense of cohesion and will be inspired to take up new challenges. For example, one of our latest initiatives designed to break down organizational barriers is the recreational expenditure system, which supports socialization programs within and between our business sites.

In 2015, Morinaga Milk Industry received the top ranking in the health management rating system administered by the Development Bank of Japan Inc. (DBJ). Under this program, the first of its type in the world, the DBJ sets loan terms according to assessments of companies' commitment to health management and

employee health. Morinaga Milk Industry views health management as a management priority and is working to maintain and improve employee health, improve productivity, and reduce medical expenses through health management initiatives. This is another example of our commitment to the creation of a vibrant and motivational corporate culture.



Morinaga Milk Industry received the top ranking under the health management rating system administered by the Development Bank of Japan (DBJ). Under this program, the first of its type in the world, the DBJ sets loan terms based on health management assessments. It uses its own scoring system to rate companies according to their commitment to health management and employee health.

Respect for Diverse Values — Realizing Diversity

Each individual has his or her own values. We believe that Morinaga Milk Industry needs people with diverse values to maintain its ability to create new value for society.

Our employees also come to work from diverse living environments. Morinaga Milk Industry provides systems and training programs that allow employees with diverse values and living environments to realize their full potential.

For example, we have recently established a spousal maternity leave system that allows male employees to participate in childcare activities after their spouses give birth. Other support for employees with children includes training to help employees balance work and childcare. We have also established mechanisms to allow people with wide-ranging values and backgrounds to play an active role in Morinaga Milk Industry. This includes the employment of foreign nationals and

people with disabilities, and reemployment systems for people who have left the company or retired.

We also encourage employees to maintain a healthy work-life balance through programs that include the “no overtime day” system. In addition, we have established the “My Holiday” system, which allows employees to book leave dates with their supervisors so that back-ups can be put in place, allowing them to take their leave without worrying about workplace responsibilities. Individual sites have also introduced flexible working systems, including flex-time and staggered working hours.



Morinaga Milk Group employees have a wide range of value systems and come from various living environments. Respect for diversity is one of our core values.

Harmony with Nature

As a dairy manufacturer, our main raw materials are milk and water. That is why the maintenance of natural capital is one of our fundamental goals.



Products Created from the Gifts of Nature

Every product that we supply to consumers is made from milk using large quantities of water. These raw materials are gifts of nature. For this reason, we regard the maintenance of a healthy natural environment, including the climate, as vitally important to the continuity of our business activities.

The Morinaga Milk Group is working on various levels to minimize the environmental loads at the production and distribution stages by using raw materials, including milk and water, packaging materials, and energy resources, such as fuel and electricity, as efficiently as possi-

ble. We will continue to contribute to global sustainability and the protection of our beautiful planet by maintaining a sense of gratitude toward nature, and by showing consideration for the natural environment.



Maintaining a healthy natural environment is a vital part of the business activities and infrastructure of the Morinaga Milk Group. This is reflected in our basic commitment to consideration for natural capital.

Reducing Environmental Loads

Reducing Atmospheric Emissions

The Morinaga Milk Group has installed cogeneration systems at its main plants in Japan. In addition to producing electricity using engine-driven generators, these highly efficient energy systems also utilize waste heat. In addition, we are progressively changing the fuel used in our facilities from fuel oil to city gas, which emits less carbon dioxide.

Reducing and Recycling Waste

Our approach to waste reduction is based on close coordination between marketing and production, and among different facilities. We aim to bring excess production and rejects as close to zero as possible. Food waste is supplied to farmers as livestock feed, while plastic waste is processed into pellets that will become supermarket bags and clothes hangers. In the year ended March 2016, the recycling ratio for the entire Morinaga

Milk Group in Japan reached 98.6%. We also participate actively in cooperation with consumers in industry activities targeting the improvement of recycling ratios for paper and other product packaging materials.

Wastewater Treatment

Prior to its release, we purify wastewater using the activated sludge treatment method, which uses microorganisms to digest organic material. We also use a small-scale hydroelectric generator to produce electric power from the water as it is released.



Liquid food pouches and plastic cup-type coffee containers are pulverized. After the removal of aluminum and other non-plastic materials, the plastic is processed into pellets and made into hangers and other plastic products.



A solar power project was initiated at the Kobe Plant in October 2014. The electricity produced will be sold to an electric power company at a fixed price for 20 years.

Environmental Conservation Support Activities

Morinaga Milk Industry uses high-quality coffee beans and tea grown in plantations certified by the Rainforest Alliance. Since 2000, we have been using high-quality coffee beans from the Daterra Coffee Farm in Brazil as part of the ingredients in our popular *Mt. RAINIER CAFFÉ LATTE* series. In 2003, the Daterra Coffee Farm was certified by the Rainforest Alliance after meeting rigorous criteria relating to environmental protection and working conditions. Morinaga Milk Industry continues to use Daterra coffee beans as part of its commitment to environmentally harmonious products.

Established in 1987, the Rainforest Alliance is an international non-profit environmental protection organization dedicated to the achievement of lifestyles that are sustainable for people and the Earth. Another environmental support

activity by the Morinaga Milk Group is the Forest and Food Expedition Project. This initiative provides children with opportunities to think about the relationships between the environment and food, and between society and the individual, by spending time living in a forest.



Morinaga Milk Industry hosts summer camps to help children achieve healthy physical and mental development. Activities include outdoor experiences, nature observation, farm experiences, and visits to Morinaga Milk Industry plants on the way home. Through these activities, the children are encouraged to think about the relationships between the environment and food, and between themselves and society. These camps provide opportunities for children to make their own discoveries about the power of life through play, eating, cooperation, and communal living.

The Importance of Communication

Speaking with and listening to stakeholders is essential to the continuing improvement of our corporate value.

Mutual Understanding with Stakeholders

We see mutual understanding and harmonious coexistence with stakeholders as a vital requirement for the achievement of sustainable growth of the Morinaga Milk Group in its second century. We also believe that two-way communication will be more important than ever to the realization of this goal.

We will continue to strengthen efforts to foster reciprocal understanding,

including direct dialogue with stakeholders, as well as information disclosure via the publication of reports and the Internet.



Morinaga Milk Industry supplies products used by a wide range of consumers at all life stages from infancy to old age. For this reason, we run activities designed to help small children to understand food and its importance.

Strengthening Stakeholder Communication

The Consumer Service Department maintains contact points for communication with consumers. These include toll-free telephone lines for consumers seeking information about allergens in our products, the production methods used in our plants, and other aspects of our activities. We have also established the “Angel 110” hotline, which provides free advice about childcare.

Employee communication activities include offsite meetings, at which employees are free to express their views and hear the views of other employees who work in different parts of the Company.

Our three main plants (Tokyo-Tama, Chukyo, Kobe) offer factory tours so that the general public can gain a first-hand understanding of our commitment to safety. Over 30,000 people take these tours every year. At all of our facilities, we place great importance on links with local communities. We participate actively in community events, and we use our products for cooking courses and other activ-

ities designed to build relationships among friends and family based on the shared experience of delicious food.

Farmers are important stakeholders for the Morinaga Milk Group. As producers of the raw milk from which our products are made, they are vital to our business activities. We sell them livestock feed and other production materials and also provide management advice.

Because we have a wide variety of shareholders and investors in Japan and overseas, including both individuals and institutions, we recognize the need for the highest quality of communications. Our main forum for communication at present is the general meeting of shareholders. We also hold briefings and private meetings twice each year to inform shareholders and investors about our financial results, in addition to information disclosure via our website. We plan to strengthen our investor relations activities going forward.



Morinaga Milk Industry is continually working to improve its consumer response activities in accordance with the JISQ10002:2015 guidelines for quality management, consumer satisfaction and complaints handling.

financial section

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10-year Financial Summary

(Years ended)		March 2007	March 2008	March 2009
Net sales	(¥ millions)	578,257	586,848	583,910
Operating income	(¥ millions)	10,623	7,810	11,524
Ordinary income	(¥ millions)	12,535	8,409	11,235
Profit attributable to owners of parent	(¥ millions)	5,329	2,064	4,254
Comprehensive income	(¥ millions)	—	—	—
Net assets	(¥ millions)	101,806	97,747	97,497
Total assets	(¥ millions)	342,972	353,474	348,111
Net assets per share	(Yen)	393.98	378.07	378.61
Net income per share	(Yen)	21.06	8.16	16.83
Net income per share—diluted	(Yen)	21.05	8.15	16.81
Shareholders' equity ratio	(%)	29.1	27.1	27.5
ROE	(%)	5.4	2.1	4.4
PER	(Times)	27.6	37.4	17.5
Cash flows from operating activities	(¥ millions)	27,832	18,216	31,333
Cash flows from investing activities	(¥ millions)	(35,390)	(23,641)	(26,023)
Cash flows from financing activities	(¥ millions)	(166)	1,927	(5,987)
Cash and cash equivalents at end of period	(¥ millions)	3,759	3,974	3,411
Employees		5,718	5,799	5,739
[Temporary employed—average]		[2,048]	[1,985]	[1,971]

March 2010	March 2011	March 2012	March 2013	March 2014	March 2015	March 2016
585,116	583,019	578,299	591,197	599,273	594,834	601,499
17,102	18,917	13,184	10,166	11,982	6,805	14,317
17,018	18,746	13,187	10,551	12,395	8,232	14,959
8,017	6,164	4,608	5,016	4,839	4,164	10,576
—	8,908	5,635	6,133	6,899	7,416	5,794
103,635	110,310	113,935	116,750	120,959	125,286	129,370
357,880	348,394	366,190	368,498	360,578	383,357	378,852
405.26	434.37	449.35	469.07	486.84	502.36	518.61
31.78	24.57	18.39	20.04	19.60	16.86	42.80
31.72	24.52	18.34	19.98	19.54	16.81	42.67
28.4	31.3	30.8	31.4	33.3	32.4	33.8
8.1	5.9	4.2	4.4	4.1	3.4	8.4
11.6	12.1	17.7	14.3	16.9	27.0	14.1
29,497	30,913	23,342	21,055	21,946	8,543	28,223
(15,587)	(17,388)	(14,221)	(13,312)	(15,930)	(17,642)	(22,234)
(4,762)	(15,959)	(2,889)	(6,859)	(18,211)	12,887	(10,449)
12,555	10,101	16,336	17,305	7,080	11,105	6,203
5,653	5,627	5,639	5,712	5,664	5,649	5,602
[2,087]	[2,844]	[2,751]	[2,617]	[2,435]	[2,244]	[2,266]

Management's Discussion and Analysis

Note: Unless otherwise stated, all comparisons are with the previous fiscal year ended March 31, 2015. 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, 2016, the Company had 30 consolidated subsidiaries and one subsidiary accounted for by the equity method (together "the Group").

OPERATING PERFORMANCE

Business Environment Overview

During the fiscal year ended March 31, 2016, the Japanese economy on the whole remained on a gradual path to recovery, partly due to the government and Bank of Japan's economic and monetary policies, and showed continuing signs of improvement in corporate results and the employment situation. However, there are also concerns that a slowdown in overseas economies, such as those of China and other emerging Asian nations, will impact the Japanese economy, and as such conditions continue to be unclear.

In the food industry, there were signs of steady consumption backed by sales of high value-added products in some sectors. This was in the midst of moderately rising consumer prices as factors such as the weakening yen led to a steep rise in raw material costs and price revisions in a wide range of fields. Within the dairy and milk sector, despite a rise in the raw milk market price in April 2015, the previous continually shrinking domestic raw milk production began to experience slight volume growth. Furthermore, the general consensus reached on

the Trans Pacific Strategic Economic Partnership (TPP), and the decision to introduce a trial bidding system for raw milk market prices, hinted at upcoming changes in the dairy industry.

Consolidated Net Sales and Gross Profit

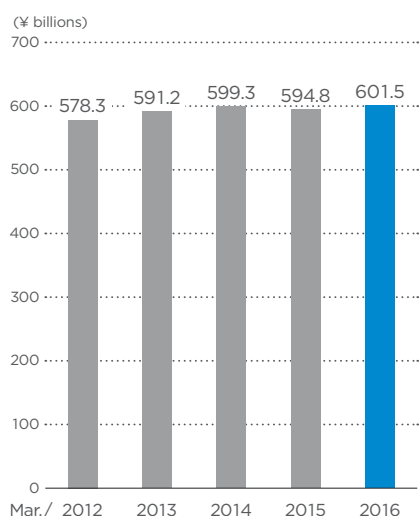
In such a business environment, the Group has continued to strive to develop and refine products to meet the needs of customers, while also revising prices and working to achieve better market penetration for selected products. As a result, consolidated net sales for the fiscal year under review rose by 1.1% compared with the previous fiscal year to ¥601,499 million.

Cost of sales, on the other hand, slightly decreased by 0.7% year on year to ¥419,454 million, due to the improvement of product mix and low-cost operations. As a result, gross profit increased by 5.5% to ¥182,045 million. Gross profit margin, as well, improved by 1.3 percentage points to 30.3%.

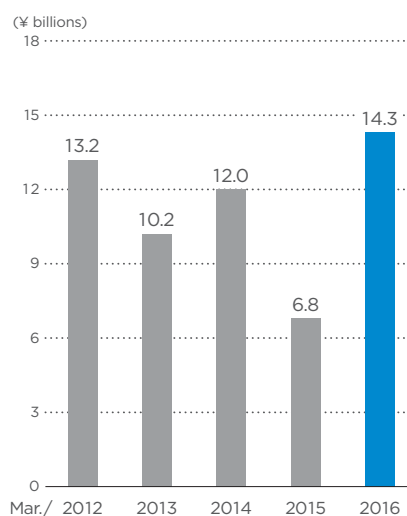
Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative ("SG&A") expenses

Net Sales



Operating Income



increased by 1.2% from the previous fiscal year to ¥167,728 million. While the Group worked to ensure the efficient outlay of sales promotion expenses, we proactively advertised new and mainstay products in media such as TV commercials and transit advertisements primarily in the fourth quarter to boost sales in the fiscal year ending March 31, 2017. Reflecting the rises in SG&A expenses, as well as net sales, the ratio of SG&A expenses to net sales remained at 27.9%, the same level as in the previous fiscal year.

Consolidated research and development (“R&D”) expenses amounted to ¥4,965 million, up by 0.1% year on year, accounting for 0.8% of consolidated net sales.

As a result, consolidated operating income surged by 110.4% compared with the previous fiscal year to ¥14,317 million. The ratio of operating income to net sales also rose by 1.3 percentage points to 2.4%.

Non-operating Income and Expenses

Overall non-operating income and expenses resulted in net income of ¥642 million, decreasing from ¥1,427 million recorded in the previous fiscal year. This decrease was mainly due to a 48.9% year-on-year decrease in dividend income to ¥555 million, and a 69.7% decrease in amortization of negative goodwill to ¥141 million. As a result of recording net non-operating income in addition to a significant increase in operating income, consolidated ordinary income (a sum of operating income and net non-operating income or expenses) rose by 81.7% compared with the previous fiscal year to ¥14,959 million.

Extraordinary Income and Loss

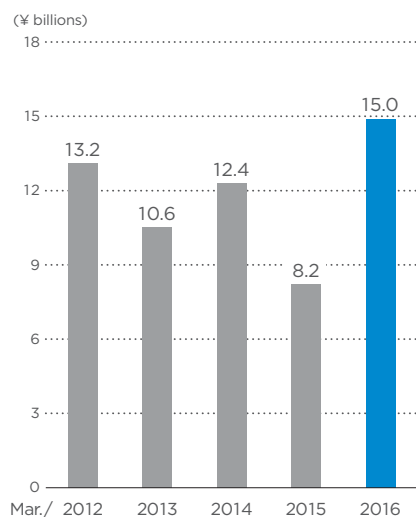
Major extraordinary income items included a ¥5,451 million gain on sales of non-current assets. On the other hand, the major extraordinary loss items were a ¥1,520 million loss on disposal of non-current assets, a ¥1,667 million contribution to the public interest incorporated foundation Hikari Kyokai, and a ¥1,586 million impairment loss. Reflecting a ¥4,464 million increase in gain on sales of non-current assets, which offset a ¥648 million and a ¥1,329 million increase in loss on disposal of non-current assets and an impairment loss, respectively, overall extraordinary income and loss resulted in a net income of ¥825 million, reversing the previous fiscal year’s net loss of ¥2,137 million.

Income before Income Taxes and Profit Attributable to Owners of Parent

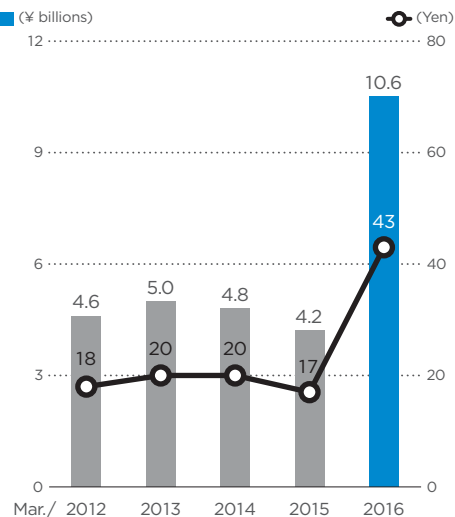
Recording net extraordinary income, in addition to a sizable rise in operating income, led to a 158.9% year-on-year increase in income before income taxes to ¥15,784 million. Total income taxes accordingly increased by 180.0% to ¥5,129 million, resulting in a 2.5 percentage point rise in the effective tax rate to 32.5%. Profit attributable to non-controlling interests dropped by 21.3% to ¥79 million.

As a result of the above, profit attributable to owners of parent amounted to ¥10,576 million, a 154.0% increase compared with the previous fiscal year.

Ordinary Income



Profit Attributable to Owners of Parent/ Net Income per Share



PERFORMANCE BY BUSINESS SEGMENT

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

Food Industry Segment

This segment engages mainly in production and sales of commercial milk, dairy products, ice cream, and beverages. Net sales of the food industry segment increased by 1.1% year on year to ¥580,973 million. Operating income also rose by 55.7% to ¥21,888 million.

Other Business Segment

This segment engages mainly in production and sales of feed, the design and construction of plant equipment, and real estate leases. Net sales of the other business segment rose by 4.7% year on year to ¥27,418 million. Operating income, as well, increased by 25.6% to ¥1,663 million.

OVERVIEW OF NON-CONSOLIDATED RESULTS OF MORINAGA MILK INDUSTRY CO., LTD.

The non-consolidated results of the Company for the year ended March 31, 2016 saw a 2.1% year-on-year increase in net sales to ¥453,865 million. The Company posted operating income of ¥6,654 million, reversing a ¥267 million operating loss recorded in the previous fiscal year, and net income, as well, soared by 369.5% to ¥7,834 million. Sales by products are described as follows:

Commercial Milk

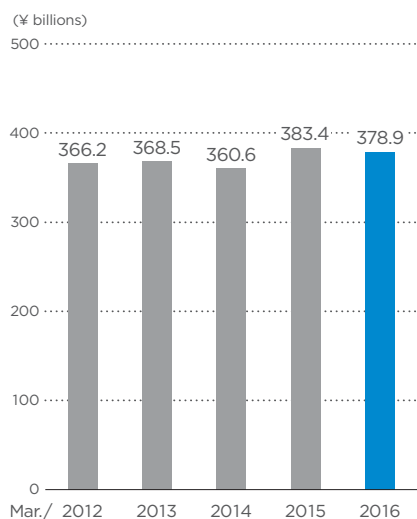
- In fluid milk products, sales of *Morinaga Ajiwai Dayori* and other white milk beverages, as well as *Makiba no Sora* and other homogenized milk, surpassed the previous fiscal year's levels, boosting overall sales year on year.
- In milk-based drinks, although sales of *Lipton Milk Tea* exceeded the previous fiscal year's level, sales of the *Mt. RAINIER CAFFÉ LATTE* series fell, resulting in a year-on-year decline in overall sales.
- In yogurt products, in addition to a substantial increase in sales of the *Thick Greek Yogurt PARTHENO* from the previous fiscal year, sales of *Bifidus Yogurt* also grew, which pushed up overall sales year on year.

As a result of the above, aggregate net sales of commercial milk products increased to ¥206,779 million, up by 1.9% compared with the previous fiscal year.

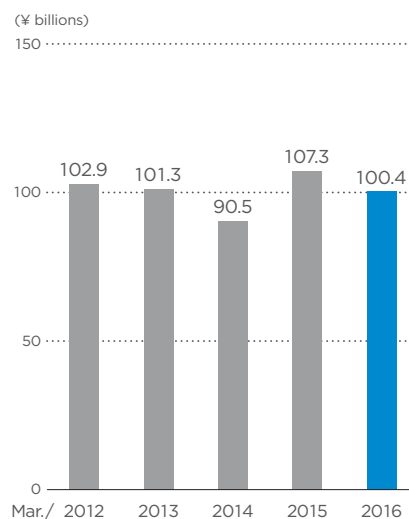
Dairy Products

- In powdered milk, sales of the infant formula *Morinaga E-Akachan* and *Morinaga Hagukumi* rose over the previous fiscal year, resulting in a year-on-year increase in overall sales.
- In butter products, sales of both household-use and food service and institutional-use butter surpassed that of the previous fiscal year, boosting overall sales year on year.
- In cheese products, sales of the Kraft brand *6P Cheese* and *Fresh Mozzarella* exceeded the previous fiscal year's levels, which raised overall sales year on year.

Total Assets



Interest Bearing Debt



As a result of the above, aggregate net sales of dairy products increased to ¥96,588 million, up by 3.2% compared with the previous fiscal year.

Ice Cream

- In ice cream products, in addition to the growth in sales of *Pino* from the previous fiscal year, a substantial rise in sales of *MOW* resulted in a year-on-year increase in overall sales. As a result, aggregate net sales of ice cream products increased to ¥52,396 million, up by 4.0% compared with the previous fiscal year.

Other

- Although sales of Lipton fruit teas fell below the previous fiscal year's levels, sales of *Daimanzoku Gohan* and other baby food and liquid food surpassed last year's levels, resulting in a marginal increase in overall sales year on year. As a result, aggregate net sales of other products increased to ¥98,100 million, up by 0.7% compared with the previous fiscal year.

FINANCIAL POSITION

Assets

Total assets as of March 31, 2016 amounted to ¥378,852 million, a decrease of ¥4,504 million, or 1.2%, compared with that of the previous fiscal year-end. Current assets dropped by ¥3,950 million, or 3.1%, to ¥124,828 million mainly due to the decrease

in cash and deposits. Non-current assets slightly decreased by ¥554 million, or 0.2%, to ¥254,023 million reflecting the decreases in investment securities and net defined benefit assets, which offset the increase in property, plant and equipment resulting from capital expenditures.

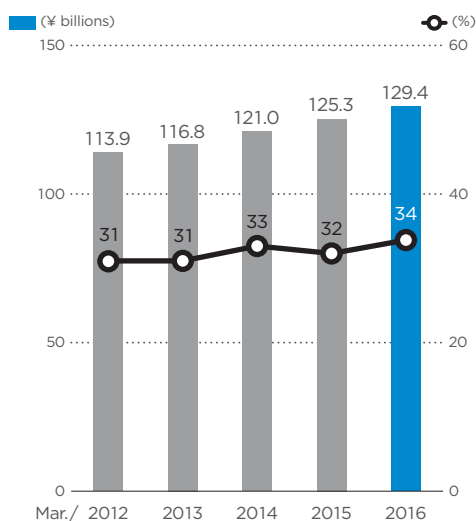
Liabilities

Total liabilities as of March 31, 2016 stood at ¥249,481 million, a decrease of ¥8,588 million, or 3.3%, compared with that of the previous fiscal year-end. Current liabilities declined by ¥15,157 million, or 9.3%, to ¥147,804 million mainly due to the decrease in commercial paper. Non-current liabilities, on the other hand, rose by ¥6,569 million, or 6.9%, to ¥101,677 million reflecting the increases in long-term loans payable and net defined benefit liability.

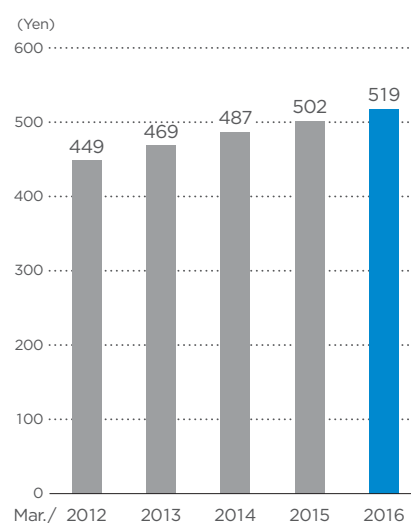
Net Assets

Net assets as of March 31, 2016 amounted to ¥129,370 million, an increase of ¥4,083 million, or 3.3%, compared with the previous fiscal year-end. The increase in retained earnings surpassed the decreases in the remeasurements of defined benefit plans and other items. As a result, the shareholders' equity ratio rose from 32.4% at the previous fiscal year-end to 33.8%, and net assets per share also increased from ¥502.36 to ¥518.61.

Net assets/Shareholders' Equity Ratio



Net Assets per Share



CASH FLOWS

The balance of cash and cash equivalents as of March 31, 2016 amounted to ¥6,203 million, down by ¥4,902 million, or 44.1%, compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review boosted by ¥19,680 million, or 230.4%, to ¥28,223 million. In addition to an increase in net income before income taxes, this increase was also attributable to a relatively minor increase in inventories compared with the previous fiscal year.

Cash Flows from Investing Activities

Net cash used in investing activities rose by ¥4,592 million, or 26.0%, year on year to ¥22,234 million. This increase was attributable mainly to an increase in purchase of non-current assets.

As a result, the free cash flow (a total of cash flows from operating activities and investing activities) was a ¥5,989 million cash inflow, reversing a ¥9,099 million cash outflow in the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥10,449 million, compared to ¥12,887 million in net cash inflow in the previous fiscal year. This turnaround was attributable mainly to the aggregate amount of repayments of loans payable and redemption of bonds, which surpassed the aggregate proceeds from loans payable and issuance of bonds.

CAPITAL EXPENDITURE

The Group's capital expenditure for property, plant and equipment during the fiscal year ended March 31, 2016 totaled ¥25,429 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 ¥24,083 million.

PROFIT DISTRIBUTION

In distributing its profits, the Company will earmark retained earnings for maintaining and enhancing its corporate structure, and will continue its policy of providing stable dividends while also placing due consideration on the Company's operating performance and dividend payout ratio. The Company basically distributes its profit once a year at the fiscal year-end, upon approval at the general shareholders' meeting.

The dividend to shareholders for the fiscal year ended March 31, 2016 was resolved as ¥7 per share, in accordance with the Company's policy described above. As a result, the dividend payout ratio for the fiscal year under review was 22.1%. The dividend for the fiscal year ending March 31, 2017 will also be of the same level.

RESEARCH AND DEVELOPMENT

Our R&D consists of five research institutes and two research centers under the supervising system of the Group R&D Division, reorganized in June 2016. These research organizations are the Food Research & Development Institute, Wellness & Nutrition Science Institute, Food Ingredients & Technology Institute, Next Generation Science Institute, Engineering Research Laboratory, Analytical Research Center, and Product Evaluation Center. Under the corporate philosophy "To create a new food culture based on the excellent power of milk, making a difference in people's health and society in general," the Group conducts its R&D activities to deliver customers products that contribute to healthy living, are always safe and high quality, are tasty and easy to use, and provide delight and peace-of-mind in people's lives.

The Food Research & Development Institute, Wellness & Nutrition Science Institute and Food Ingredients & Technology Institute, by collaborating with other related divisions and departments, research and develop various products, aiming to improve both product development competence and R&D pace. These three Institutes also cooperate with each other to conduct research on and develop various products based on their own research outcomes.

The Next Generation Science Institute accelerates the research on intestinal flora and on new ingredients, providing other divisions and departments with research information and disseminating its research results in academia, as well.

The Engineering Research Laboratory develops and improves manufacturing processes and hardware. The Analytical Research Center researches analytical techniques for product safety and quality enhancement. The Product Evaluation Center develops food recipes and evaluates products and merchandise, in order to enhance customer value of the Group's products, as well as milk and dairy materials.

OUTLOOK FOR FISCAL YEAR ENDING MARCH 2017

The Company forecasts its consolidated results for the fiscal year ending March 2017 as: Net sales of ¥590,000 million (down by 1.9% year on year), operating income of ¥16,400 million (up by 14.5% year on year), ordinary income of ¥17,000 million (up

by 13.6% year on year), and profit attributable to owners of parent of ¥8,200 million (down by 22.5% year on year).

The Japanese economy in the fiscal year ending March 31, 2017 is expected to continue on a gradual recovery, as employment and income continue to improve. However, the outlook for economic conditions remains uncertain due to concerns over the risk of a downturn in overseas economies and other factors.

In the food industry, the possibility of falling product prices is anticipated, as the steep rise in raw material prices has come full circle, leading to a continued tough competitive environment.

In the dairy and milk industry, amidst the serious issue of the deteriorating production base for raw milk, the industry is seeing sweeping changes such as the effect of the general consensus reached on the Trans Pacific Strategic Economic Partnership (TPP) in October 2015, and government consideration to revise the law governing the raw milk trading system.

In such a business environment, the Group will review its less profitable businesses and focus management resources in its core businesses, while also working on improving profitability by developing and promoting products with high added value.

BUSINESS AND OTHER RISK FACTORS

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

Dairy and Milk Industry

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

The producers of raw milk, which is the raw material in dairy products produced by the Group, are paid a subsidy based on the Act on Temporary Measures concerning Compensation Price for Producers of Milk for Manufacturing Use. However, in the event that this Act is substantially modified or abolished in the future and the level of subsidies changes, there is the possibility of such changes having an impact on the purchase price of raw materials for the Group.

Safety of Food Products

The Group applies its own stringent quality control standards, which go beyond those required by law, in the manufacture of its food products. The Group also takes every measure to ensure

the safety and quality of these products. However, in the event that an unforeseen situation occurs that is linked to product liability compensation or a large-scale product recall, there is the possibility of such an event having a substantial impact on the operating results and financial position of the Group.

Market Price and Exchange Rate Effects

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

Unseasonable Weather

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

Natural Disasters

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

Information Security

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

Consolidated Balance Sheets

(¥ millions)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	11,409	6,506
Notes and accounts receivable—trade	52,357	53,511
Merchandise and finished goods	36,577	37,218
Work in process	982	572
Raw materials and supplies	13,457	14,559
Deferred tax assets	4,303	4,003
Other	10,194	8,923
Allowance for doubtful accounts	(503)	(467)
Total current assets	128,779	124,828
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	158,741	162,564
Accumulated depreciation	(89,281)	(92,225)
Buildings and structures, net	69,459	70,339
Machinery, equipment and vehicles	257,915	254,157
Accumulated depreciation	(200,220)	(196,556)
Machinery, equipment and vehicles, net	57,694	57,600
Land	72,485	70,478
Leased assets	7,991	8,001
Accumulated depreciation	(4,076)	(4,252)
Leased assets, net	3,914	3,748
Construction in progress	14,220	18,652
Other	14,237	13,927
Accumulated depreciation	(11,066)	(10,619)
Other, net	3,171	3,307
Total property, plant and equipment	220,946	224,127
Intangible assets		
Other	6,829	6,719
Total intangible assets	6,829	6,719
Investments and other assets		
Investment securities	17,136	15,468
Investments in capital	76	101
Long-term loans receivable	388	369
Net defined benefit asset	3,083	1,147
Deferred tax assets	1,049	1,143
Other	5,225	5,070
Allowance for doubtful accounts	(157)	(124)
Total investments and other assets	26,801	23,176
Total noncurrent assets	254,578	254,023
Total assets	383,357	378,852

(¥ millions)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable—trade	54,317	52,852
Electronically recorded obligations—operating	5,063	4,516
Short-term loans payable	5,049	6,433
Current portion of long-term loans payable	5,056	4,810
Commercial papers	15,800	2,000
Current portion of bonds	10,000	10,000
Lease obligations	1,959	1,893
Income taxes payable	186	3,082
Accrued expenses	29,578	31,736
Deposits received	19,315	18,468
Other	16,636	12,009
Total current liabilities	162,962	147,804
Noncurrent liabilities		
Bonds payable	35,000	35,000
Long-term loans payable	36,425	42,142
Lease obligations	3,419	3,024
Net defined benefit liability	15,541	18,011
Asset retirement obligations	260	273
Other	4,462	3,225
Total noncurrent liabilities	95,108	101,677
Total liabilities	258,070	249,481
Net assets		
Shareholders' equity		
Capital stock	21,704	21,704
Capital surplus	19,442	19,518
Retained earnings	76,442	85,280
Treasury stock	(621)	(585)
Total shareholders' equity	116,967	125,918
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,936	5,127
Deferred gains or losses on hedges	(8)	(43)
Foreign currency translation adjustment	767	(321)
Remeasurements of defined benefit plans	461	(2,475)
Total accumulated other comprehensive income	7,157	2,287
Subscription rights to shares	196	204
Non-controlling interests	965	959
Total net assets	125,286	129,370
Total liabilities and net assets	383,357	378,852

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(¥ millions)

	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)	For the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
Net sales	594,834	601,499
Cost of sales	422,281	419,454
Gross profit	172,552	182,045
Selling, general and administrative expenses	165,746	167,728
Operating income	6,805	14,317
Non-operating income		
Interest income	49	48
Dividends income	1,087	555
House rent income	462	451
Amortization of negative goodwill	466	141
Equity in earnings of affiliates	125	103
Other	1,007	1,018
Total non-operating income	3,198	2,319
Non-operating expenses		
Interest expenses	1,108	1,024
Interest on commercial papers	5	6
Other	657	646
Total non-operating expenses	1,771	1,677
Ordinary income	8,232	14,959
Extraordinary income		
Gain on sales of noncurrent assets	987	5,451
Gain on sales of investment securities	131	248
Gain on bargain purchase	1	—
Total extraordinary income	1,119	5,699
Extraordinary loss		
Loss on disposal of noncurrent assets	872	1,520
Contributions to the public interest incorporated foundation Hikari Kyokai	1,614	1,667
Impairment loss	257	1,586
Factory reorganization expenses	340	55
Other	171	43
Total extraordinary losses	3,256	4,874
Income before income taxes	6,096	15,784
Income taxes—current	1,996	4,095
Income taxes—deferred	(165)	1,034
Total income taxes	1,831	5,129
Profit	4,265	10,655
Profit attributable to non-controlling interests	100	79
Profit attributable to owners of parent	4,164	10,576

(Consolidated Statements of Comprehensive Income)

(¥ millions)

	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)	For the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
Profit	4,265	10,655
Other comprehensive income		
Valuation difference on available-for-sale securities	1,581	(801)
Deferred gains or losses on hedges	(78)	(33)
Foreign currency translation adjustment	297	(1,088)
Remeasurements of defined benefit plans, net of tax	1,350	(2,936)
Share of other comprehensive income of associates accounted for using equity method	0	0
Total other comprehensive income	3,151	(4,860)
Comprehensive income	7,416	5,794
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,314	5,706
Comprehensive income attributable to non-controlling interests	101	87

Consolidated Statement of Changes in Shareholders' Equity

For the fiscal year ended March 31, 2015 (April 1, 2014 - March 31, 2015)

(¥ millions)

	Shareholders' Equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at end of current period	21,704	19,442	77,377	(2,285)	116,238
Cumulative impact of changes in the accounting policy			(1,723)		(1,723)
Balance at the beginning of the current year reflecting changes in the accounting policy	21,704	19,442	75,654	(2,285)	114,515
Changes of items during period					
Dividends of surplus			(1,728)		(1,728)
Net income			4,164		4,164
Purchase of treasury shares				(15)	(15)
Disposal of treasury shares		(10)		42	32
Cancellation of treasury stock		(1,636)		1,636	—
Transfer to capital surplus from retained earnings		1,646	(1,646)		—
Change in scope of consolidation					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	788	1,663	2,452
Balance at end of current period	21,704	19,442	76,442	(621)	116,967

	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	4,357	69	469	(889)	4,007	197	516	120,959
Cumulative impact of changes in the accounting policy								(1,723)
Balance at the beginning of the current year reflecting changes in the accounting policy	4,357	69	469	(889)	4,007	197	516	119,235
Changes of items during period								
Dividends of surplus								(1,728)
Net income								4,164
Purchase of treasury shares								(15)
Disposal of treasury shares								32
Cancellation of treasury stock								—
Transfer to capital surplus from retained earnings								—
Change in scope of consolidation								—
Net changes of items other than shareholders' equity	1,579	(77)	297	1,350	3,149	(0)	449	3,598
Total changes of items during period	1,579	(77)	297	1,350	3,149	(0)	449	6,050
Balance at end of current period	5,936	(8)	767	461	7,157	196	965	125,286

For the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

(¥ millions)

	Shareholders' Equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at end of current period	21,704	19,442	76,442	(621)	116,967
Cumulative impact of changes in the accounting policy					—
Balance at the beginning of the current year reflecting changes in the accounting policy	21,704	19,442	76,442	(621)	116,967
Changes of items during period					
Dividends of surplus			(1,729)		(1,729)
Net income			10,576		10,576
Purchase of treasury shares				(16)	(16)
Disposal of treasury shares		(8)		52	44
Cancellation of treasury stock					—
Transfer to capital surplus from retained earnings		8	(8)		—
Change in scope of consolidation		75			75
Net changes of items other than shareholders' equity					
Total changes of items during period	—	75	8,837	36	8,950
Balance at end of current period	21,704	19,518	85,280	(585)	125,918

	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	5,936	(8)	767	461	7,157	196	965	125,286
Cumulative impact of changes in the accounting policy								—
Balance at the beginning of the current year reflecting changes in the accounting policy	5,936	(8)	767	461	7,157	196	965	125,286
Changes of items during period								
Dividends of surplus								(1,729)
Net income								10,576
Purchase of treasury shares								(16)
Disposal of treasury shares								44
Cancellation of treasury stock								—
Transfer to capital surplus from retained earnings								—
Change in scope of consolidation								75
Net changes of items other than shareholders' equity	(809)	(34)	(1,088)	(2,936)	(4,869)	8	(5)	(4,866)
Total changes of items during period	(809)	(34)	(1,088)	(2,936)	(4,869)	8	(5)	4,083
Balance at end of current period	5,127	(43)	(321)	(2,475)	2,287	204	959	129,370

Consolidated Statement of Cash Flows

(¥ millions)

	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)	For the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
Cash flows from operating activities		
Income before income taxes	6,096	15,784
Depreciation	16,810	17,561
Impairment loss	257	1,586
Amortization of goodwill	132	133
Amortization of negative goodwill	(466)	(141)
Gain on bargain purchase	(1)	—
Increase (decrease) in net defined benefit liability	3,082	2,483
Increase (decrease) in allowance for doubtful accounts	(96)	(67)
Loss (gain) on valuation of investment securities	9	3
Interest and dividend income	(1,136)	(603)
Interest expenses	1,108	1,024
Foreign exchange losses (gains)	34	(127)
Share of (profit) loss of entities accounted for using equity method	(125)	(103)
Loss (gain) on sales of non-current assets	(987)	(5,451)
Loss (gain) on disposal of non-current assets	872	1,520
Loss (gain) on sales of investment securities	(131)	(247)
Decrease (increase) in notes and accounts receivable—trade	(487)	(1,195)
Decrease (increase) in inventories	(8,589)	(1,584)
Increase (decrease) in notes and accounts payable—trade	(4,581)	(1,864)
Increase (decrease) in accrued expenses	(256)	2,129
Increase (decrease) in deposits received	(418)	(846)
Other	1,094	(460)
Subtotal	12,220	29,532
Interest and dividend income received	1,188	1,077
Interest expenses paid	(1,109)	(1,002)
Income taxes paid	(3,757)	(1,383)
Cash flows from operating activities	8,543	28,223
Cash flows from investing activities		
Purchase of non-current assets	(20,221)	(29,175)
Proceeds from sales of non-current assets	2,419	6,793
Purchase of investment securities	(367)	(201)
Proceeds from sales of investment securities	407	336
Payments of loans receivable	(7,723)	(7,098)
Collection of loans receivable	7,845	7,135
Other	(3)	(24)
Cash flows from investing activities	(17,642)	(22,234)

(¥ millions)

	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)	For the fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,184)	1,651
Increase (decrease) in commercial papers	10,800	(13,800)
Proceeds from long-term loans payable	12,400	13,397
Repayments of long-term loans payable	(5,220)	(7,778)
Proceeds from issuance of bonds	15,000	9,929
Redemption of bonds	(15,040)	(10,000)
Purchase of treasury shares	(15)	(16)
Cash dividends paid	(1,728)	(1,729)
Dividends paid to non-controlling interests	(13)	(16)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(0)
Repayments of finance lease obligations	(2,109)	(2,086)
Net cash provided by (used in) financing activities	12,887	(10,449)
Effect of exchange rate change on cash and cash equivalents	207	(442)
Net increase (decrease) in cash and cash equivalents	3,995	(4,902)
Cash and cash equivalents at beginning of period	7,080	11,105
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	30	—
Cash and cash equivalents at end of period	11,105	6,203

Subsidiary Companies

Name	Capital or equity (¥ millions)	Main business area	Voting rights held (%)		Activities
(Consolidated subsidiaries)					
Daily Foods Co., Ltd. (Notes 2, 5)	497	Food	100.0	(10.0)	Seller of commercial milk, dairy products, etc.
TOHOKU MORINAGA MILK INDUSTRY CO., LTD.	470	Food	100.0	(12.0)	Manufacturer of products supplied to Morinaga
FURUIPORT CO., LTD.	310	Food	100.0	(5.7)	Seller of dairy products, etc.
TOYO MILK INDUSTRY CO., LTD.	215	Food	100.0		Manufacturer of products supplied to Morinaga
MK CHEESE CO., LTD.	200	Food	100.0		Manufacturer of products supplied to Morinaga
CLINICO Co., Ltd.	200	Food and Other activities	100.0		Seller of nutritional products, pharmaceuticals, etc.
TOKYO DAIRY CO., LTD.	121	Food	100.0		Seller of cheese, etc.
RIZAN CORPORATION	100	Other activities	100.0	(7.6)	Leasing of real estate and commercial vehicles, etc.
Morinaga-Hokuriku Milk Industry Co., Ltd.	90	Food	100.0		Manufacturer of products supplied to Morinaga
TOWA TECHNO CO., LTD.	90	Other activities	100.0	(16.9)	Manufacturing/sales of food-related machinery
MORINYU SUNWORLD CO., LTD.	61	Other activities	100.0		Seller of feed, etc.
Chez Foret Co., Ltd.	60	Food	100.0	(33.4)	Manufacturer of handmade desserts
Morinaga Dairy Service Co., Ltd.	42	Other activities	100.0	(20.1)	Seller of feed, etc.
TOYO FERMENTEDMILK CO., LTD.	30	Food	100.0		Manufacturer of products supplied to Morinaga
Hokkaido Morinaga Milk Industry Sales Co., Ltd.	30	Food	100.0	(49.0)	Seller of commercial milk, dairy products, etc.
Morinaga Milk Industry Kyushu Co., Ltd.	30	Food	100.0	(20.0)	Seller of commercial milk, dairy products, etc.
Napoli Ice Cream Co., Ltd.	20	Food	100.0		Manufacturing and sales of ice cream
URAHORO MILK INDUSTRY CO., LTD.	20	Food	100.0		Manufacturer of products supplied to Morinaga
FDSservice Co., Ltd.	10	Food	100.0	(100.0)	Logistics contracting and management
Milei GmbH (Note 2)	EUR90 million	Food	100.0		Manufacturing and sales of dairy food ingredients
Morinaga Nutritional Foods, Inc. (Note 2)	US\$21 million	Food	100.0		Seller of tofu and other processed soybean products
NIHON SEINYU	140	Food	99.1		Manufacturer of products supplied to Morinaga
FUJI MILK COMPANY LTD.	50	Food	98.9		Manufacturer of products supplied to Morinaga
OKINAWA MORINAGA MILK INDUSTRY CO., LTD	305	Food	97.3		Manufacturing and sales of commercial milk products, etc.
Kumamoto Milk Corporation	50	Food	97.1		Manufacturer of products supplied to Morinaga
YOKOHAMA MILK INDUSTRY CO., LTD.	60	Food	96.5	(11.7)	Manufacturer of products supplied to Morinaga
MORINAGA ENGINEERING CO., LTD.	200	Other activities	90.0		Plant design and engineering, equipment manufacturer
HOKKAIDO HOSHO MILK PLANT Co., Ltd.	97	Food	87.2		Manufacturer of products supplied to Morinaga
Pacific Nutritional Foods, Inc. (Note 2)	US\$21 million	Food	80.0	(80.0)	Manufacturer of tofu and other processed soybean products
MM Property Funding Corp. (Note 3)	10	Other activities	—		A filing company investing in silent partnerships under its agreement with this company.

Notes 1. Segment names are shown in the “main business area” column.

2. This company is classed as a specified subsidiary.

3. Although the shareholding is less than 50%, it is effectively controlled by the Morinaga Milk Industry Co., Ltd. and is therefore treated as a subsidiary.

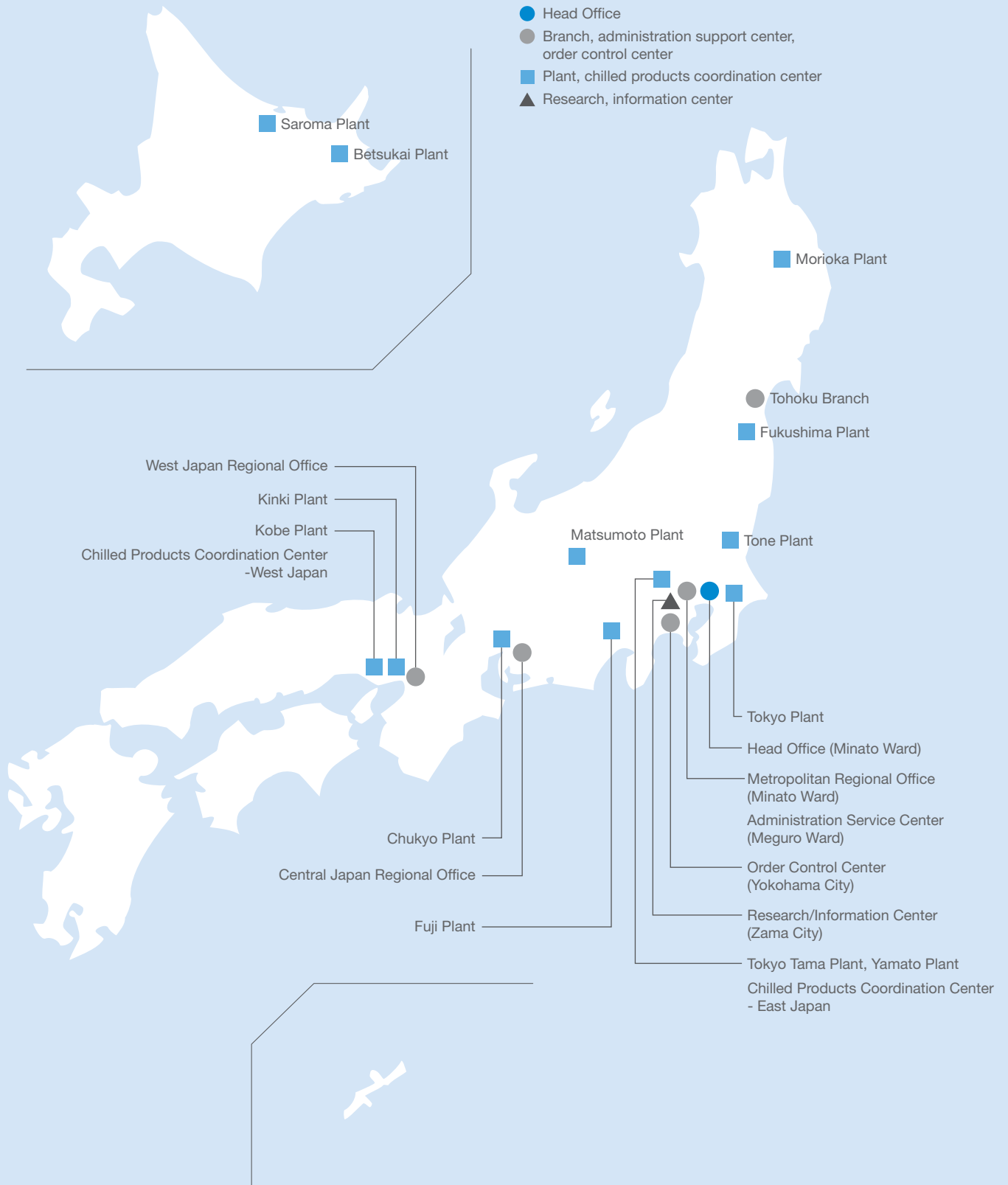
4. None of the companies listed above file securities registration statements or financial statements.

5. The net sales of Daily Foods Co., Ltd. (excluding internal sales) account for over 10% of consolidated net sales.

Main income indicators	(1) Net sales	¥96,676 million
	(2) Ordinary income	¥526 million
	(3) Net income	¥256 million
	(4) Net assets	¥9,372 million
	(5) Total assets	¥24,016 million

6. Figures in parentheses in the “voting rights held” column represent indirect holdings.

Business Sites









Corporate Data




Corporate Profile (As of March 31, 2016)

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	¥21,704 million
Employees (Non-consolidated)	3,023
URL	http://www.morinagamilk.co.jp/english/

Overseas Subsidiaries and Joint Ventures

	Morinaga Nutritional Foods, Inc.	Established in Los Angeles in 1985, this company supplies long-life <i>TOFU</i> made possible by Morinaga technology throughout the United States. http://www.morinu.com/
	Morinaga Milk Holland B.V.	Established in Amsterdam, the Netherlands, this company supplies <i>TOFU</i> under trading rights taken over from Morinaga Nutritional Foods Deutschland GmbH in 2011.
	Milei GmbH	Now a wholly owned subsidiary, this company was established in 1972 as a Japanese-German joint venture. Production and sales of items including whey protein concentrate, lactose, and lactoferrin. http://www.milei.de/
	Morinaga Milk Industry (Shanghai) Co., Ltd.	This wholly owned subsidiary was established in Shanghai in 2011 to sell Morinaga brand products in China. http://www.morinaga-milk.com.cn/
	Morinaga Nutritional Foods (Asia Pacific) Pte., Ltd.	Established in Singapore in 2015, this company markets dairy raw materials, such as whey protein concentrate and lactose, and Bifidobacteria, to infant formula manufacturers and other users in Southeast Asia and the Pacific region.
	PT. Kalbe Morinaga Indonesia	This infant formula manufacturing company is a joint venture with Kalbe, Indonesia's biggest pharmaceutical manufacturer.

Partner Brands

	KRAFT	Kraft Foods is the biggest food company in North America. Morinaga and Kraft have been technology partners since 1970 in the area of cheese and cheese-related products. Note: "KRAFT" is a trademark of Kraft Foods.
	Sunkist	Sunkist is a leading fruit brand in the United States. In Japan, Morinaga sells a wide range of Sunkist fruit juices and desserts. http://www.sunkist.com Note: "Sunkist" is a trademark of Sunkist Growers Inc., USA.
	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.

Stock Information

Securities code	2264
Business year	From April 1 to March 31 in the following year
Regular 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	720,000,000 shares
Shares issued and outstanding	247,210,011 shares (excluding 1,767,207 shares of treasury stock)
Shareholders	27,263
Shareholders' registry manager, management institution for special accounts	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Major Shareholders

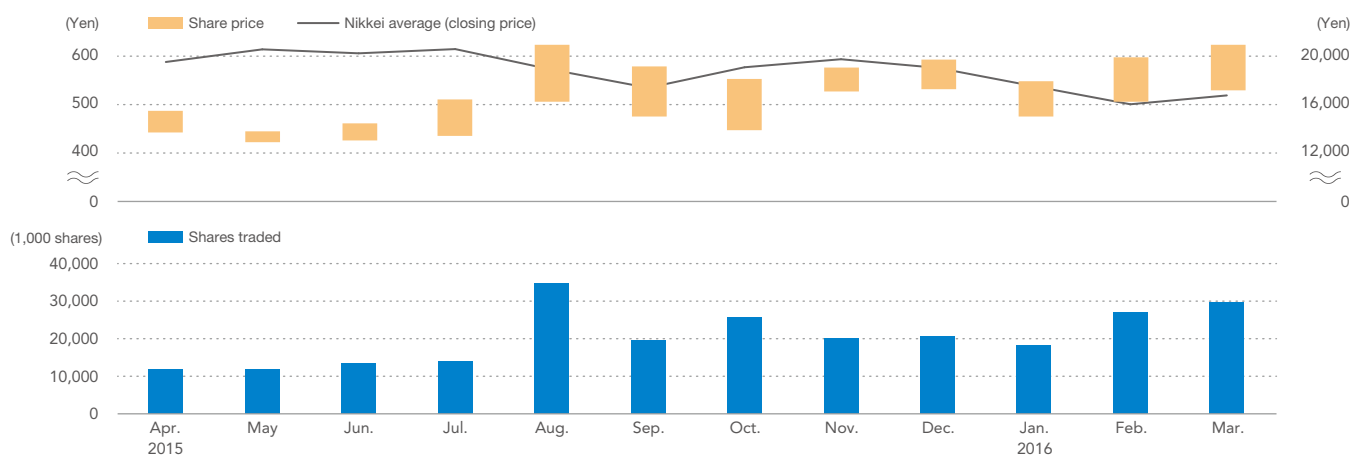
Shareholder	Shareholding (1,000 shares)	Percentage of shares held
(1) Morinaga & Co., Ltd.	26,248	10.62%
(2) The Master Trust Bank of Japan, Ltd. (Trust Account)	13,209	5.34%
(3) Mizuho Bank, Ltd.	12,228	4.95%
(4) Japan Trustee Services Bank, Ltd. (Trust Account)	11,434	4.63%
(5) The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,942	2.81%
(6) Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited.)	6,644	2.69%
(7) Morinaga Milk Employees' Shareholding Association	5,281	2.14%
(8) Japan Trustee Services Bank, Ltd. (Trust Account 9)	5,224	2.11%
(9) Mitsubishi UFJ Trust and Banking Corporation	4,617	1.87%
(10) The Norinchukin Bank	3,837	1.55%

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

Distribution of Shares



Share Price, Turnover





For more information:

Morinaga Milk Industry Co., Ltd.
Public Relations Department Investor Relations Section
TEL: +81-3-3798-0126
URL: <http://www.morinagamilk.co.jp/english/>

