

# **Fiscal 2006 Earnings Presentation**

**May 24, 2007**

**MORINAGA MILK INDUSTRY CO., LTD.**



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1. FY2006 Overview
  2. Sales Trends by Product Category
  3. Elements of Business Plan for Next Middle Term
  4. Outlook for FY2007

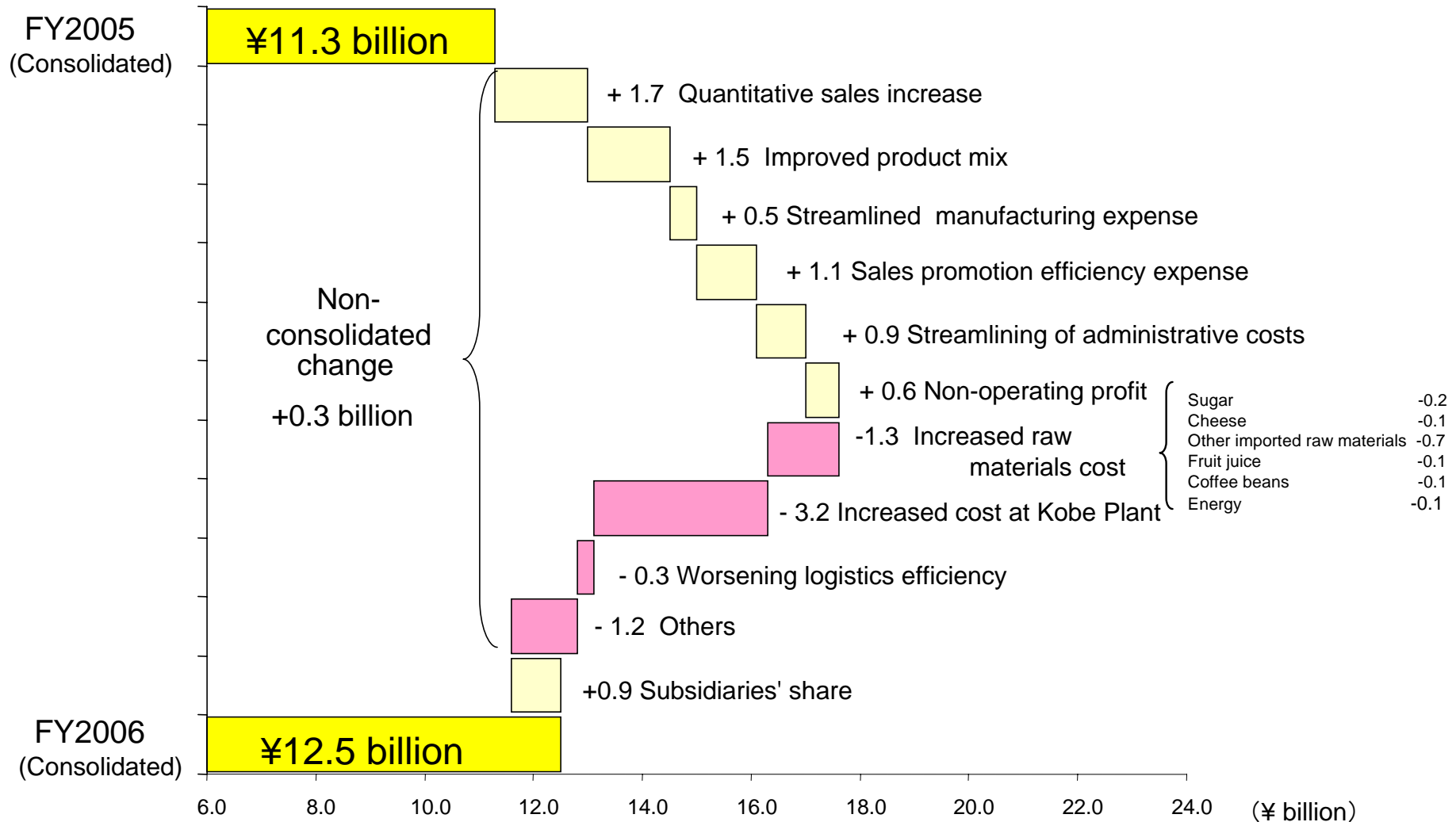


# Business Results (FY 2006 )

- Total sales rose 4.7% from the preceding term.
- Increased sales and streamlining of various costs absorbed increased raw materials cost and increased production expenses at Kobe Plant resulting in increased operating and ordinary profits.

<Consolidated>	(¥ billion)		Change	
	FY2005	FY2006		
Sales	552.2	578.2	104.7%	
Operating profit	9.1	10.6	116.4%	
Ordinary profit	11.3	12.5	110.9%	
Net profit	3.8	5.3	139.7%	
Ratio of ordinary profit to sales	2.0%	2.2%		
< Non-consolidated >				
	FY2005	FY2006	Change	Change excluding animal feed
Sales	428.6	440.0	102.7%	105.5%
Operating profit	4.8	5.0	104.2%	
Ordinary profit	7.3	7.6	103.9%	
Net profit	2.7	3.0	111.4%	
Ratio of ordinary profit to sales	1.7%	1.7%		

# Change in Ordinary Profit (Results of FY2006)



# Sales Results by Product Category

## Results in FY2006

(¥ billion)	FY2005 Result	FY2006 Result	Change
Company as a whole	428.6	440.0	103%
Seven high-priority products	426.9	254.3	107%
Improved-profitability products	125.3	130.6	104%
Stable-profitability products	12.4	12.4	100%

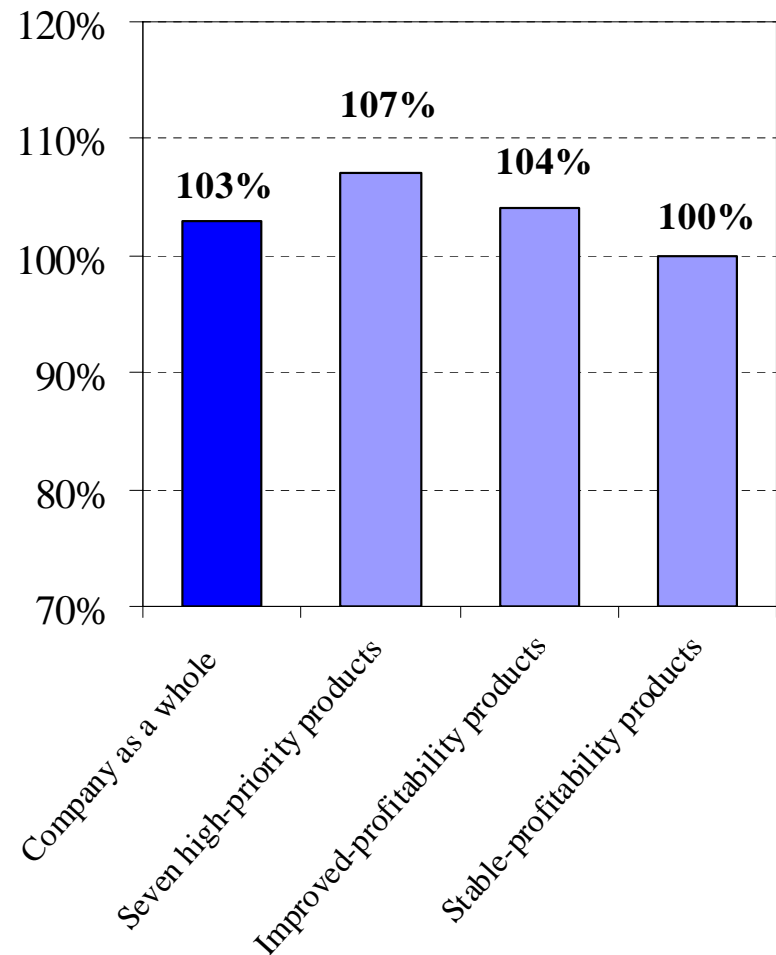
- Seven high-priority products rose to 107% compared to the same term of last year.

Flavored milk/tea, cheese, and dessert achieved good results.

- Improved profitability products rose to 104% compared to the same term of last year.

Sales of Ice Cream and Morinaga no Oishii Gyunyu are going well.

## Change



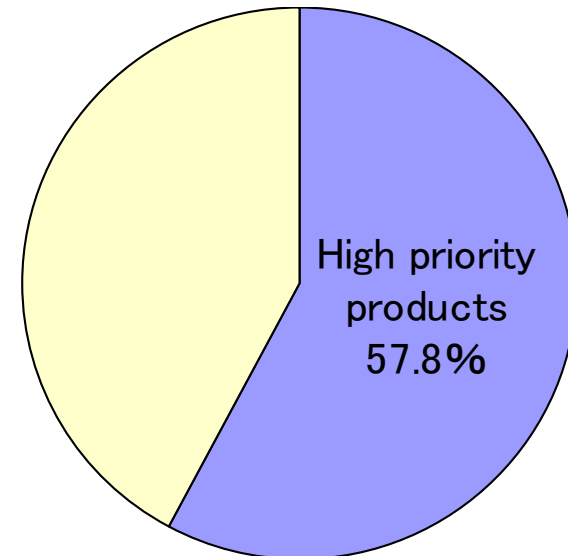
# Sales of High Priority Products

## <High priority products>

	Sales (¥ billion)	Change (%)
Flavored milk/Tea	71.5	116%
Yogurt	52.8	101%
Dessert	23.7	107%
Cheese	34.3	110%
Nutritional food products	19.4	100%
Food service and institutional food products	47.9	106%
Industrial products	4.8	99%

<b>Total</b>	<b>254.3</b>	<b>107%</b>
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## Sales ratio



(For FY2006)

## Change in the sales ratio

53.3% => 57.8%  
(FY2005) (FY2006)

# Flavored Milk and Tea

## ➤ Mt.Rainier

- Sales of “PREMIA”, produced at Kobe Plant from Oct.2006, increased ¥ 3 billion in the latter half of FY2006.
- The market for chilled coffee in cups expanded, the Mt. Rainier brand was well received by the consumer, and the brand power improved.

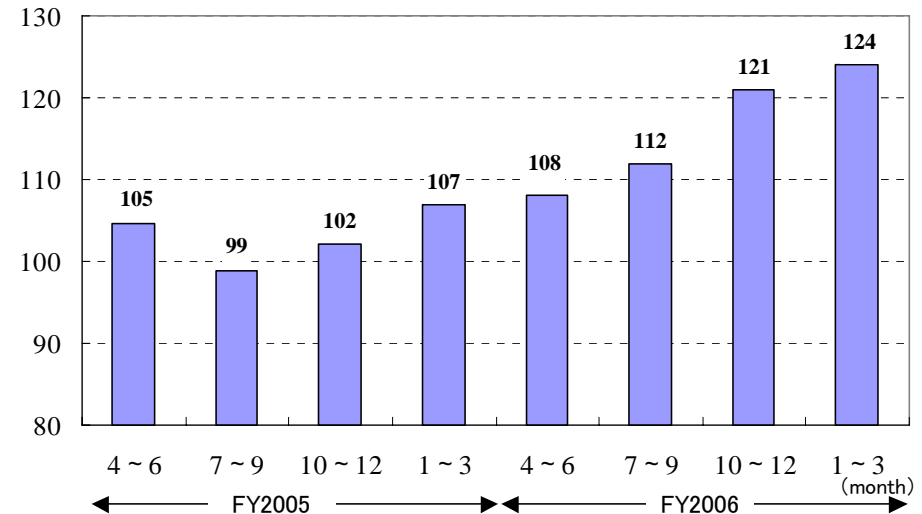
## ➤ Lipton Tea

- Sales increased with new additions, such as fruit tea, to the lineup.
- The “LIPTON Loves SPRING & SUMMER !” campaign was launched along with seasonal packaging for the Lipton brand.

### Sales by Brand

	FY2006 result (¥ billion)	Change	FY2007 forecast (¥ billion)	Change
Mt.Rainier	31.0	130%	38.6	124%
Lipton Tea	21.3	114%	22.5	107%

Quarterly year-on-year comparison (%) of flavored milk and tea sales



Mt.Rainier  
PREMIA

Lipton  
Straight Tea (New)



# Yogurt

## ➤ Sales remained stable (101%)

- Sales in the latter half of the year recovered thereby ensuring overall stable performance.
- TVCMs and sales campaign for Aloe yogurt and new fruit yogurt contributed to the sales recovery.

## ➤ New products

“Red Aloe Yogurt” stimulated the Aloe Yogurt line.



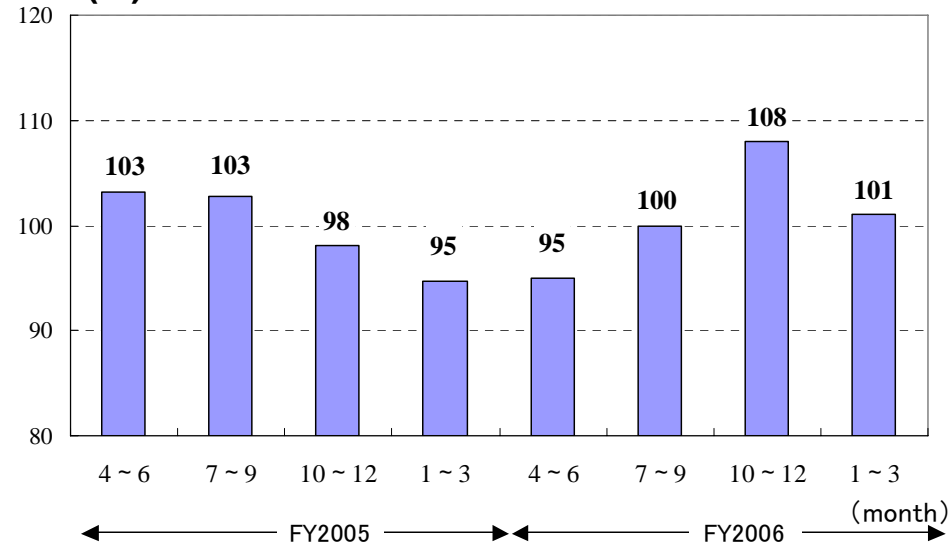
“Nameraka Bifidus Plain Yogurt” – new production at Kobe plant



New fruit yogurt products



Yogurt – Quarterly year-on-year comparison (% of sales)



## Sales by Brand

	FY2006 result (¥ billion)	Change	FY2007 forecast (¥ billion)	Change
Aloe	18.2	87%	20.7	114%
Bifidus	16.0	108%	16.8	105%
Lactoferrin	3.3	89%	3.8	115%



# Cheese

- Cheese for household use did well, with increased sales and greater market share.
- Sales of cheese for the food service and institutional sector also expanded steadily as new users were secured.

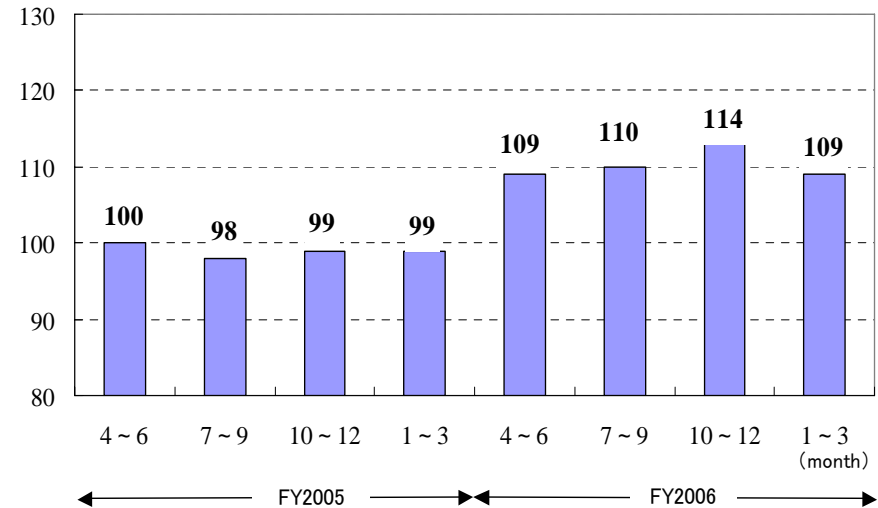
## Latest data on cheese for household consumption

- FY 2006 Year-on-year comparison (%) of sales 115.5%
- Market share (Source: Morinaga Milk Industry Co., Ltd.)  
FY2005 13.9%    FY2006 14.5% (+0.6%)

## ➤ New facility under construction at Bekkai Plant in Hokkaido

- Construction started in November 2006 on a new cheese production facility.
- Operation is scheduled to start in spring 2008; domestic natural cheese production to double to 15,000 tons.

## Cheese – Quarterly year-on-year comparison (%) of sales



## New cheese products for household use in FY2006



# Dessert

## ➤ Sales of desserts rallied

- Premium desserts and unique, new products pushed up dessert sales.
- Premium desserts rose to 125% compared to the previous term.

### Marketing history of premium desserts

- **Tetsujin Series** by Chefs Michiba and Ishinabe (2000 – 2004)



- Collaboration with popular stores **Meiten no Kodawari** (2004)



- **Petit Pot Toro-fuwa pudding**, the dessert of TV champions

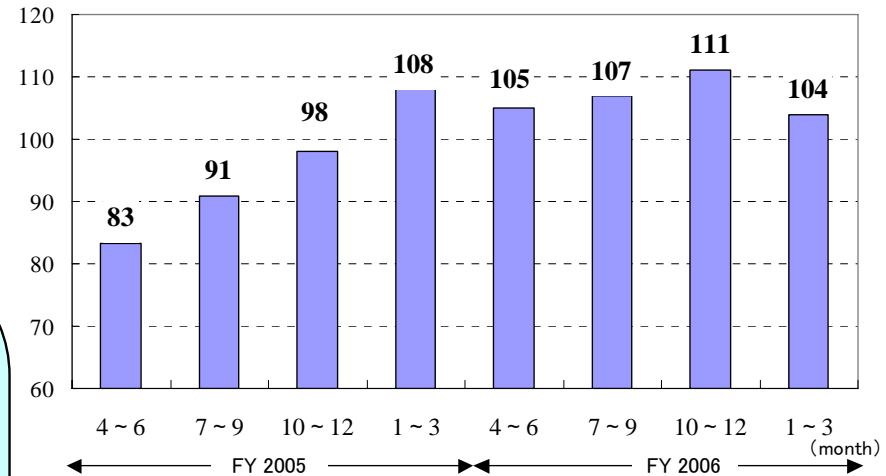
**Sora Sweets**, jointly developed with All Nippon Airways (2005)



- Introduction of unique, new brands (2006)

**Sozai no Shigotonin**, Japanese style pudding,  
**Asian style pudding**

## Dessert – Quarterly year-on-year comparison (%) of sales



### New premium desserts



Morinaga Milk Industry Co.,Ltd.

# MILK

## ➤ Morinaga no Oishii Gyunyu

FY 2006 sales stood at ¥10.7 billion (or 145% of the previous term).



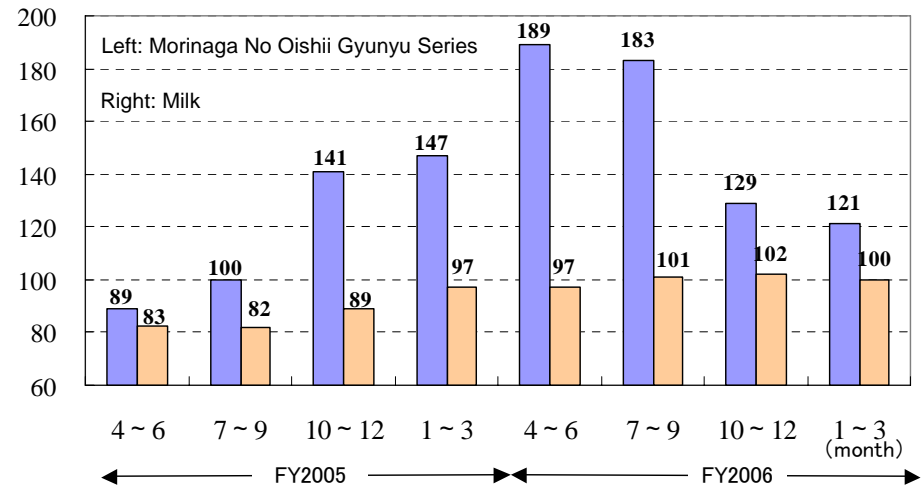
## ➤ NB ratio increasing

With Morinaga no Oishi Gyunyu generating brisk sales, the National Brand (NB) ratio has further increased (from 31% in March 2006 to 36% in March 2007).

## ➤ Status of Home Delivery

- Sales in FY2006 remained stable (¥27.6 billion).
- FY 2007 sales target of ¥28.4 billion (up 3%) is to be achieved by creating and marketing products that are unique due to use of improved raw materials developed by Morinaga. Guidance to retailers and strong sales efforts will give critical support.

## Milk – Quarterly year-on-year comparison (%) of sales



## Line up of Morinaga no Oishii Gyunyu

## New products for home delivery



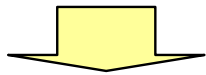
# Ice Cream

## ➤ Sales of ice cream increased 11%

- Morinaga's revenues increased as Pino, MOW and PARM, our mainstay in ice creams, performed well.

## ➤ Improvement of brand "Eskimo"

- Pino and MOW sales were stimulated by introducing new flavors every season.
- TV advertising pushed up awareness of PARM.



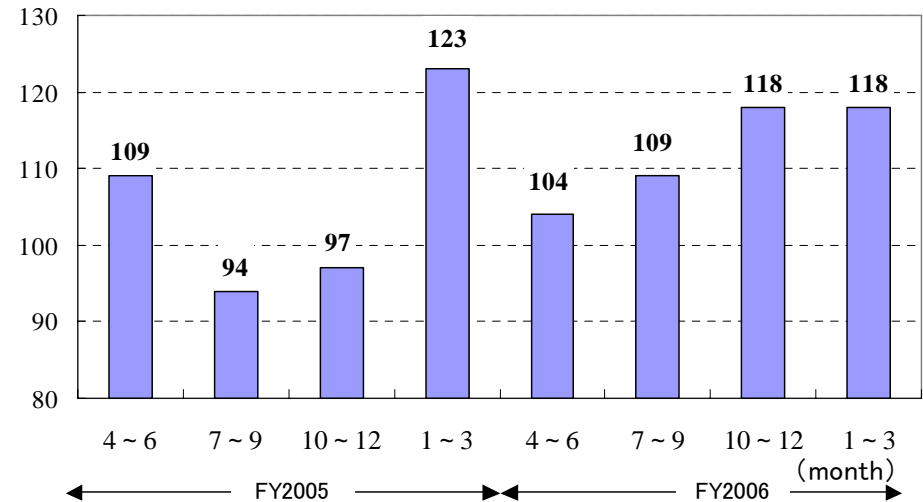
**Morinaga ice cream products held the top market position in FY2006.**

Pino and MOW products



- Introduction of unique, new items are expected to increase ice cream sales by 2% in FY 2007.

## Ice Cream -- Quarterly year-on-year comparison (% of sales)



New line up of ice cream products



Morinaga Milk Industry Co.,Ltd.

# Performance of Subsidiaries

## ➤ Sales of subsidiary companies

- Subsidiaries engaged in production, sales, and production & sales generated a larger proportion of consolidated earnings.
- Clinico and other subsidiaries performed well.

Category	FY2006 Results (¥ billion)	Year-on-year comparison	Number of subsidiaries	Major subsidiaries
Production and production & sales subsidiaries	122.0	104%	18	Yokohama Milk, MK Cheese
Sales subsidiaries	130.8	103%	3	Daily Foods
Other subsidiaries	95.2	121%	9	Clinico, Morinaga Dairy Service
Total	348.1	108%	30	

Note: The total is a simple combined value.

# Tasks and Targets of Middle Term Business Plan

## Main Management Tasks

Define clear business strategies

Create system for developing  
unique products

Achieve low cost operation

Minimize assets and improve  
financial standing

Promote human resource  
management

Improve management quality



## FY 2009 Targets

Sales	¥600.0 billion
Operating profit	¥ 18.5 billion
Ordinary profit	¥ 20.0 billion
Net profit	¥ 9.0 billion
Ratio of ordinary profit to sales	3.3%
ROE	7.8%

## Management Tasks in FY 2007 - first year of medium term business plan

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1. Expand of earning power through increased sales
  - Concentrate on products with high earning potential
  - Increase output of Kobe factory
2. Increase volume of value-added products
3. Achieve of lower cost operation
4. Strengthen earning power of subsidiaries

**The first year of medium term business plan**

**Increase emphasis on high-profit products**

# Change Business Portfolio

(FY2006 Result)

## Categories for expansion

### (Unique, value-added product lines)

	Sales (¥ billion)	Change (%)
Flavored milk/tea	70.6	116%
Yogurt	52.8	101%
Dessert	23.7	107%
Cheese	34.3	110%
Ice cream	44.4	111%
<b>Total</b>	<b>225.7</b>	<b>109%</b>

### (New areas of development)

Home delivery	27.6	99%
Food service & institutional food products	39.3	106%
Industrial products	4.8	99%
<b>Total (except for Liquid diet)</b>	<b>71.7</b>	<b>102%</b>
Liquid diet (Clinico)	(19.6)	(114%)

## Categories for improved profitability

	Sales (¥ billion)	Change (%)
Milk	53.4	103%
Fruit juice	13.0	113%
Creap	9.2	95%
Nutritional food products	19.4	100%
<b>Total</b>	<b>95.0</b>	<b>103%</b>

## Identification of key investment areas for management resources

Note: New categories are Home delivery and Liquid diet. A portion of bottled products are sold through home delivery instead of traditional channels. Liquid diet is sold by Clinico Co., Ltd., a Morinaga subsidiary. Starting in FY2007 sales of Food service & institutional food products exclude raw materials.



# Sales Outlook for FY2007 for selected categories

## <Unique, value-added product lines>

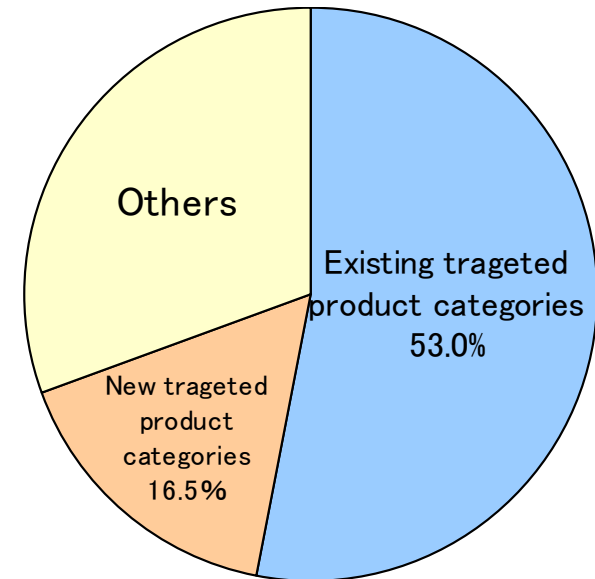
	Sales (¥ billion)	Change (%)
Flavored milk/tea	76.2	108%
Yogurt	55.5	105%
Dessert	25.6	108%
Cheese	36.2	106%
Ice cream	45.2	102%
<b>Total</b>	<b>238.7</b>	<b>106%</b>

## <New areas of development>

Home delivery	28.4	103%
Food service & institutional food products	41.0	104%
Industrial products	5.0	104%
<b>Total ( except for Liquid diet )</b>	<b>74.4</b>	<b>104%</b>

Liquid diet(Clinico)	(21.7)	(111%)
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## Sales ratio



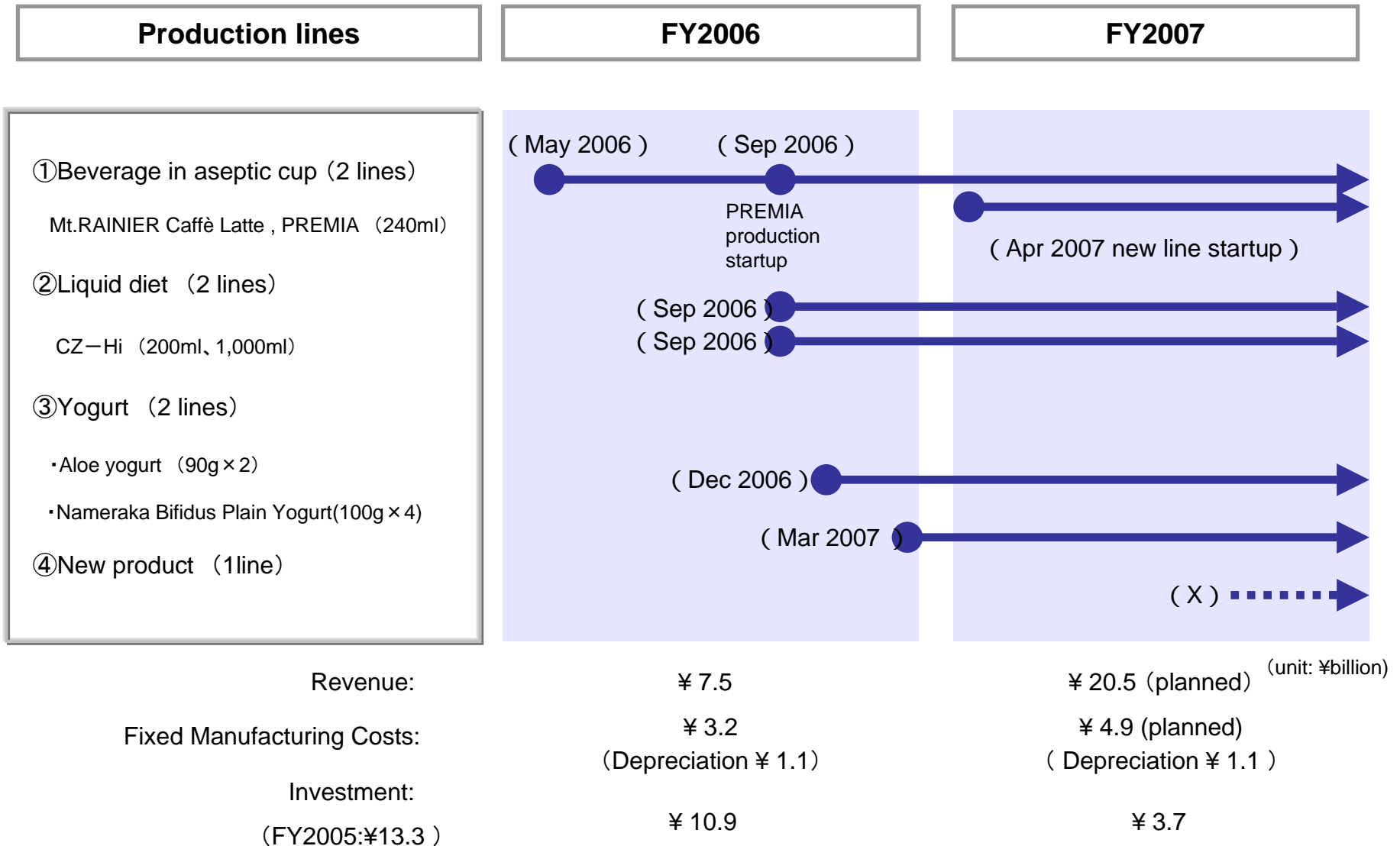
( FY2007 )

## Change in the sales ratio

67.3%	69.5%
( FY2006 )	( FY2007 )

Note: Sales of New targeted product categories excludes sales of Liquid diet.

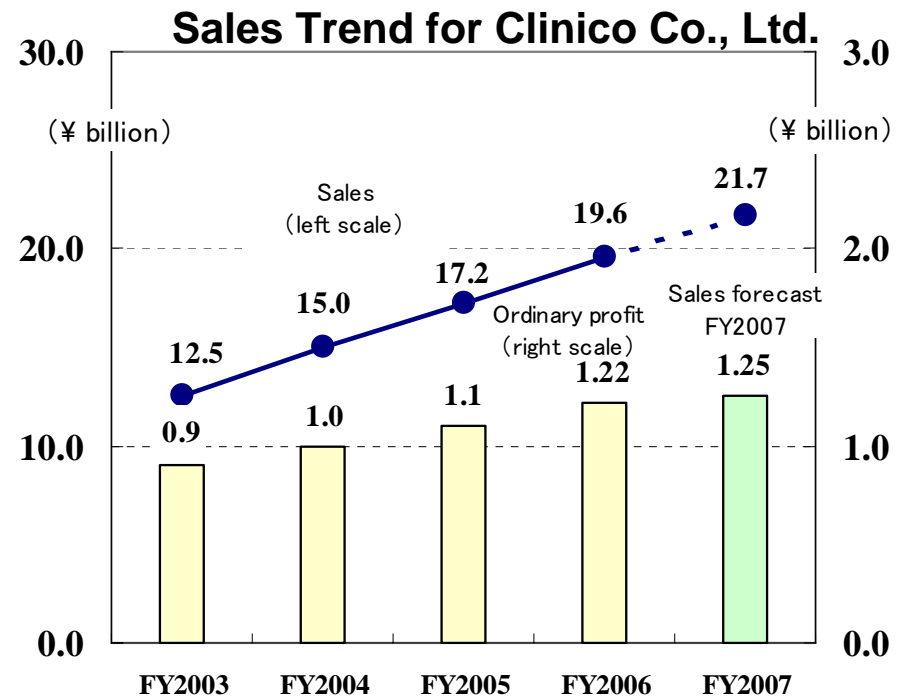
# Expansion of Output at Kobe plant



# Liquid Diet ( Clinico Co., Ltd )

## Clinico Co., Ltd.

- distributes clinical foods, supplements and related product lines.
- holds No. 1 position with a 40% share of the market for clinical diets (clinical foods, liquid diets and clinical supplements) for the elderly and inpatients.
- occupies position for new product development from FY2007.
- strengthens supply capacity through use of two production lines at Kobe Plant.
- develops clinical foods for specific illnesses; invests in efficient management practices.



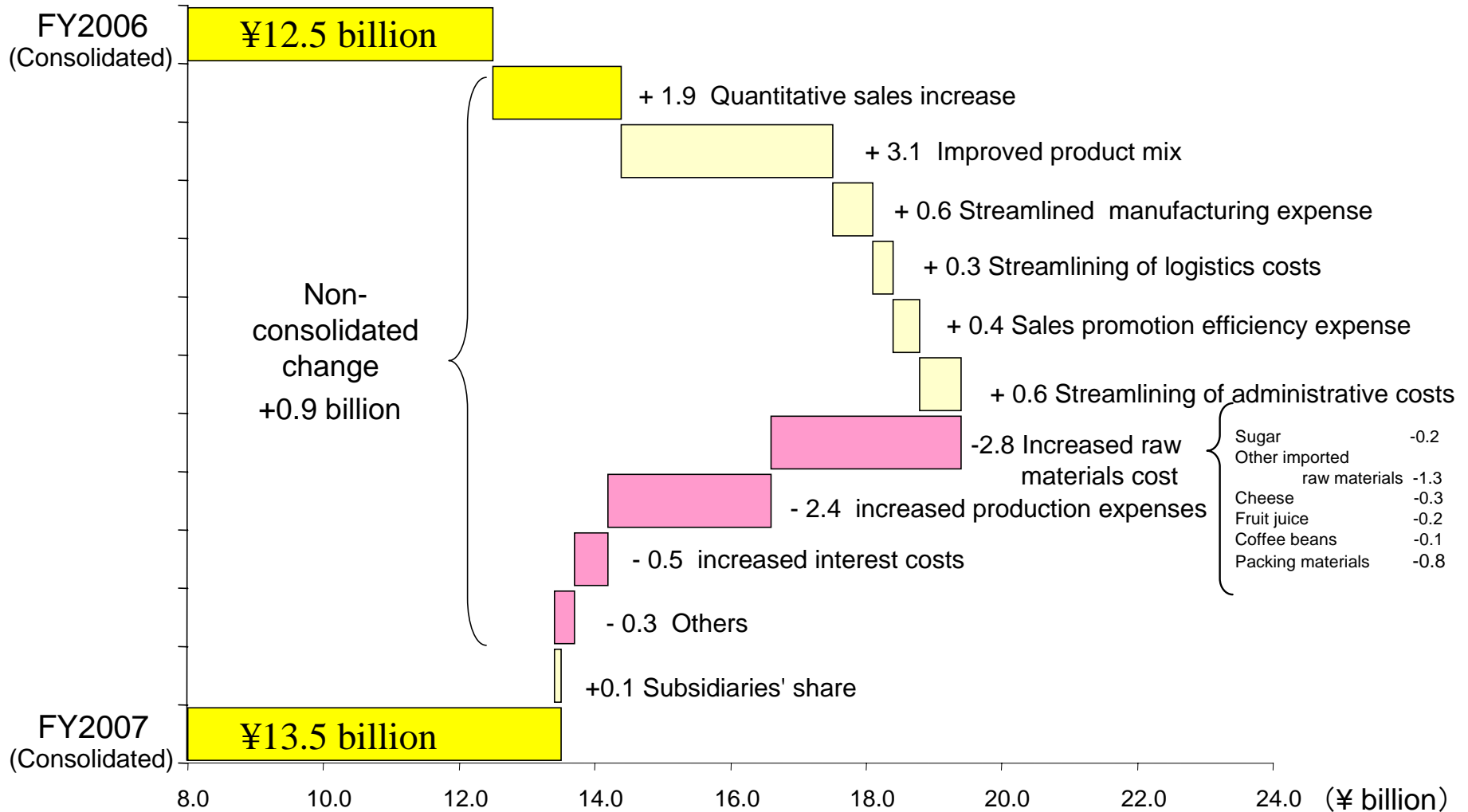
## Financial Forecast for FY2007 (Consolidated)

<b>(¥ billion)</b>	<b>FY2007</b>	<b>FY2006</b>	<b>Change</b>
<b>Sales</b>	<b>595.0</b>	<b>578.2</b>	<b>102.0%</b>
<b>Operating profit</b>	<b>11.9</b>	<b>10.6</b>	<b>112.0%</b>
<b>Ordinary profit</b>	<b>13.5</b>	<b>12.5</b>	<b>107.7%</b>
<b>Net profit</b>	<b>5.1</b>	<b>5.3</b>	<b>95.7%</b>

## Financial Forecast for FY2007 (Non-consolidated)

(¥ billion)	FY 2007	FY 2006	Change
<b>Sales</b>	<b>450.0</b>	<b>440.0</b>	<b>102.3%</b>
<b>Operating profit</b>	<b>6.4</b>	<b>5.0</b>	<b>129.2%</b>
<b>Ordinary profit</b>	<b>8.5</b>	<b>7.6</b>	<b>111.8%</b>
<b>Net profit</b>	<b>2.9</b>	<b>3.0</b>	<b>96.0%</b>

# Change in Ordinary Profit (Outlook for FY 2007)



# Plan for Growth in Investment

Plants	Investment (¥ billion)	Start of operation
Kobe Plant (establish more lines)	3.7	2007
Tohoku Plant ( Miyaraku Milk Industry Co., Ltd.)	4.0	September 2007
Bekkai Plant ( New cheese production facility )	7.0	Spring 2008
Okinawa Morinaga Milk Plant	3.2	Summer 2008

Tohoku Plant (artist's conception)



- Aug.2006:Construction start
- Sep.2007:Scheduled startup
- Investment:approx: ¥4.0 billion
- Equipment:1 line – bottled milk;  
3 lines - aseptic drinks
- Main plant in Tohoku area

Okinawa Morinaga Milk Plant (artist's conception)



- April 2007: Construction start
- Summer 2008: Scheduled startup
- Investment: ¥3.2 billion (approx.)
- Equipment: 4 lines – aseptic drinks

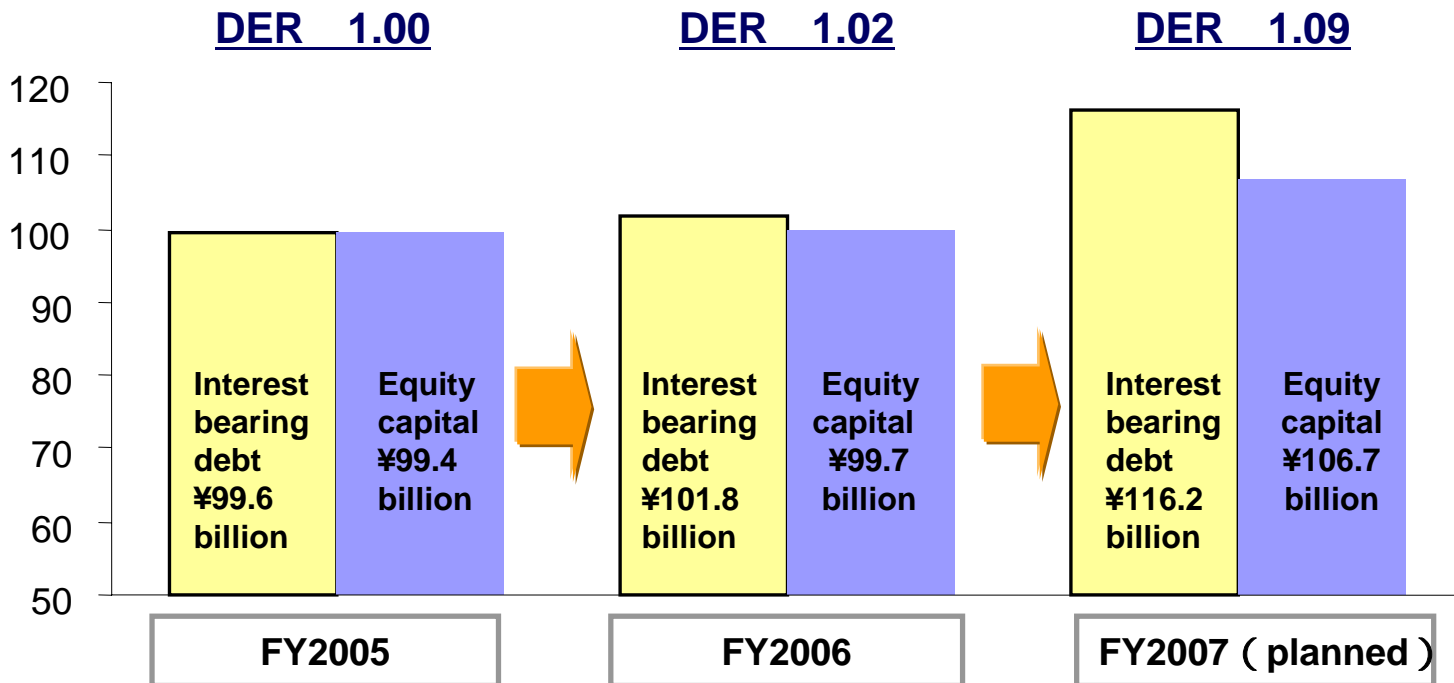
# Financial Planning (Consolidated)

<u>FY 2006 results</u>		<u>FY 2007 plan</u>
Sales cash flow (CF)	+27.8	+24.3
Capital investment	-29.0	-29.5
Loans and investment	-2.0	-3.0
Dividends, etc.	-1.5	-1.5

(¥ Billion)

As a result of payments on capital investment in future, interest-bearing debt will peak in FY2008.

In FY2009, sales cash flow (CF) will exceed capital investment, etc. and interest-bearing debt is expected to decrease.





### Important Notice

Aside from historical facts cited in this document, statements and numerical data regarding the future performance of Morinaga Milk and its subsidiaries are based on information available at the time this material was prepared. Risks and uncertainties have been taken into account when formulating projections of business operations, however actual business performance may differ from those projections due to a variety of factors including, but not limited to, changes in economic conditions in major markets, product demand, foreign currency exchange rates, domestic and international laws and regulations, and accounting rules and practices.



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