



Financial Results Presentation

- First Half of the Fiscal Year Ending March 31, 2017 -

- I. Overview of 1H of FYE March 2017 Financial Results**
- II. Outlook of Financial Results for the Year Ending March 2017**
- III. Initiatives to Achieve the Business Plan for the Medium Term**

November 2016

MORINAGA MILK INDUSTRY CO., LTD.

I. Overview of 1H of FYE March 2017 Financial Results

Financial Results for 1H of FYE March 2017



(Unit: billion yen)

	1H of FYE March 2016	1H of FYE March 2017	Year-on-Year Change	Year on Year (%)	Change from Initial Forecast
Net Sales	323.3	315.7	-7.6	-2.4%	+3.7
Operating Income	10.1	15.6	+5.5	+54.6%	+4.1
Ordinary Income	10.6	16.1	+5.4	+51.0%	+4.0
Profit attributable to owners of parent	5.7	10.1	+4.3	+75.2%	+3.6
ROS (Operating Income / Net Sales)	3.1%	5.0%			

Net Sales & Operating Income by Business Field



(Unit: billion yen)

1H of FYE March 2017	Net Sales				Operating Income			
	1Q Results		1H Results		1Q Results		1H Results	
	Net Sales	Year on Year	Net Sales	Year on Year	Operating Income	Year-on-Year Change	Operating Income	Year-on-Year Change
B-to-B Business	22.8	-2%	45.5	-2%	1.3	+0.2	2.8	+0.4
International Business	5.6	-10%	10.2	-19%	0.2	-0.2	0.4	±0
Health and Nutritional Food Business	11.5	+8%	23.3	+8%	0.8	+0.4	1.5	+0.7
B-to-C Business	88.1	-6%	178.5	-6%	4.4	+2.2	9.5	+3.8
Other / Deleted	25.5	+10%	58.2	+12%	0.6	+0.2	1.4	+0.6
Total	153.5	-2%	315.7	-2%	7.3	+2.8	15.6	+5.5

Net Sales by Product Field in B-to-C Business (Non-consolidated)



*Adjusted for change (%) is the % change after adjusting for the effect of transferring sales to subsidiaries in Kyushu.

(Unit: billion yen)

1H of FYE March 2017	1Q Results			1H Results		
	Net Sales	Year on Year	*Adjusted for Change (%)	Net Sales	Year on Year	*Adjusted for Change (%)
Chilled cup-type drinks	11.8	±0%	+2%	24.1	-2%	±0%
Chilled tea	3.9	-11%	-9%	8.3	-10%	-8%
Ice cream	13.3	+3%	+6%	30.2	+5%	+8%
Yogurt	14.0	+4%	+5%	27.0	+6%	+7%
Cheese	8.1	+4%	+7%	15.7	+1%	+4%
Milk	15.3	-4%	-2%	31.3	-3%	-2%
Chilled desserts	3.8	-20%	-19%	7.4	-21%	-21%
Commercial milk (home deliveries, etc.)	5.7	-2%	+1%	11.2	-2%	+2%

[Operating income] Year-on-year change of +5.5 billion yen

<Change from initial forecast of +4.1 billion yen>

- **Increased sales volume (year-on-year change of +1.0 billion yen)**

<Change from initial forecast of +0.7 billion yen>

Increase in sales volume of yogurt, ice cream, and cheese

- **Improved product mix (PM) (year-on-year change of +0.9 billion yen)**

<Change from initial forecast of +0.6 billion yen>

Contributions from increase in yogurt (PARTHENO) and ice cream (PARM) and reduction in number of products
Increasing sales of new products and mainstay products is an issue.

- **Low-cost operation (year-on-year change of +0.3 billion yen)**

<Change from initial forecast of +0.3 billion yen>

Initiatives to reduce cost of sales ratio through greater manufacturing efficiency

- **Streamlined sales promotion expenses (year-on-year change of +0.2 billion yen)**

<Change from initial forecast of +0.6 billion yen>

While we endeavored to effectively deploy sales promotion funds, we also proactively invested in advertising with an eye on the future.

- **Decreased raw material prices (year-on-year change of +3.3 billion yen)**

<Change from initial forecast of +1.9 billion yen>

Despite lower costs due to unexpectedly strong yen, market conditions are now bottoming out and reversing.

- **Increased fixed cost of production (depreciation)(year-on-year change of -0.4 billion yen)**

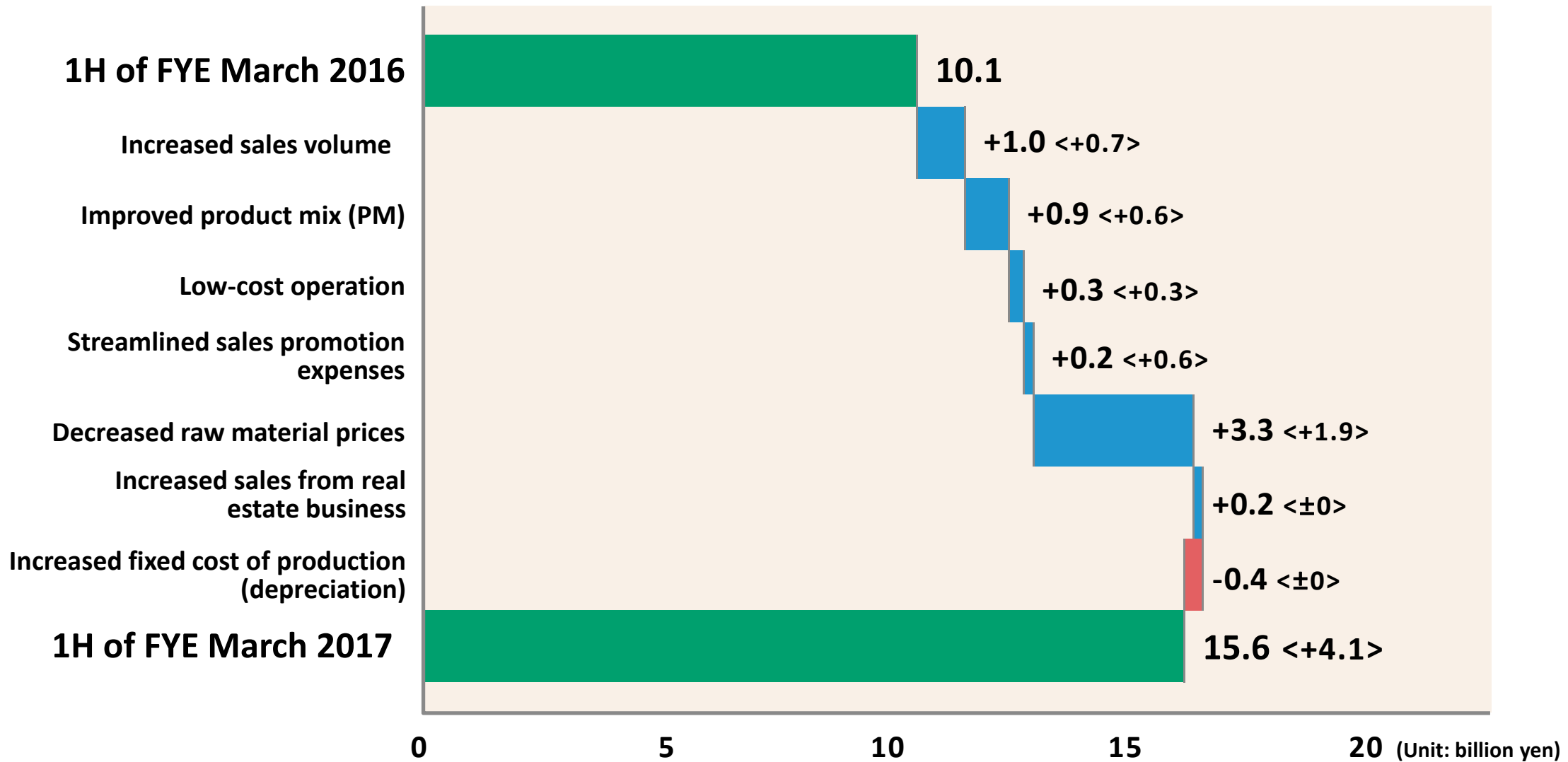
<Change from initial forecast of ±0 billion yen>

Investments in new ventures (yogurt, ice cream)

Factors Attributable to Increases and Decreases in Operating Income



Figures in the < > are changes from initial forecast figures.



II. Outlook of Financial Results for the Year Ending March 2017

FYE March 2017 Full-Year Business Forecasts



(Unit: billion yen)

	FYE March 2016	FYE March 2017	Year-on-Year Change	Year on Year (%)	Change from Initial Forecast
Net Sales	601.5	593.0	-8.5	-1.4%	+3.0
Operating Income	14.3	20.5	+6.2	+43.2%	+4.1
Ordinary Income	15.0	21.0	+6.0	+40.4%	+4.0
Profit attributable to owners of parent	10.6	12.0	+1.4	+13.5%	+3.8
ROS (Operating income / Net Sales)	2.4%	3.5%			
ROA (Operating Income / Total Assets)	3.8%	5.4%			
ROE (Net Income / Equity Capital)	8.4%	9.1%			

Target Net Sales & Operating Income by Business Field



(Unit: billion yen)

FYE March 2017	Net Sales				Operating Income			
	1H Results		Full-year Target		1H Results		Full-year Target	
	Net Sales	Year on Year	Net Sales	Year on Year	Operating Income	Year-on-Year Change	Operating Income	Year-on-Year Change
B-to-B Business	45.5	-2%	91.0	±0%	2.8	+0.4	5.5	+0.6
International Business	10.2	-19%	19.0	-13%	0.4	±0	0.3	+0.3
Health and Nutritional Food Business	23.3	+8%	46.5	+6%	1.5	+0.7	2.7	+0.8
B-to-C Business	178.5	-6%	336.0	-4%	9.5	+3.8	10.0	+4.1
Other / Deleted	58.2	+12%	100.5	+6%	1.4	+0.6	2.0	+0.4
Total	315.7	-2%	593.0	-1%	15.6	+5.5	20.5	+6.2

Target Net Sales by Product Field in B-to-C Business (Non-consolidated)



*Adjusted for change (%) is the % change after adjusting for the effect of transferring sales to subsidiaries in Kyushu.

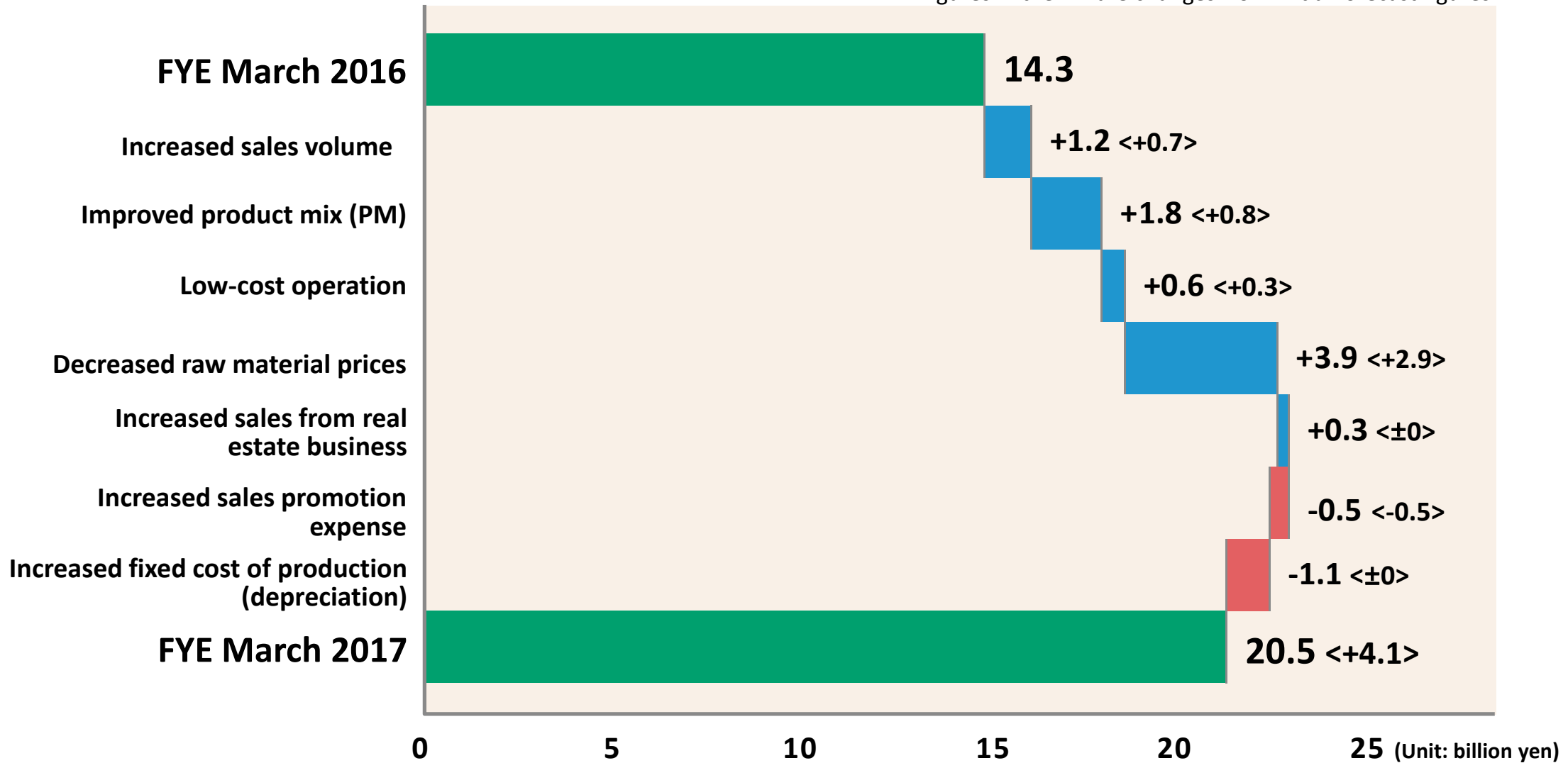
(Unit: billion yen)

FYE March 2017	1H			Full year		
	Net Sales	Year on Year	*Adjusted for Change (%)	Net Sales	Year on Year	*Adjusted for Change (%)
Chilled cup-type drinks	24.1	-2%	±0%	43.7	-1%	+2%
Chilled tea	8.3	-10%	-8%	15.1	-10%	-8%
Ice cream	30.2	+5%	+8%	47.5	+3%	+6%
Yogurt	27.0	+6%	+7%	53.0	+6%	+7%
Cheese	15.7	+1%	+4%	31.9	+1%	+3%
Milk	31.3	-3%	-2%	60.0	-3%	-2%
Chilled desserts	7.4	-21%	-21%	14.0	-20%	-19%
Commercial milk (home deliveries, etc.)	11.2	-2%	+2%	22.3	-2%	+1%

Outlook of Increases/Decreases in Consolidated Operating Income (FYE March 2017)



Figures in the < > are changes from initial forecast figures.



III. Initiatives to Achieve the Business Plan for the Medium Term

Morinaga Milk Industry Business Plan for the Medium Term (FYE March 2016 - FYE March 2020)

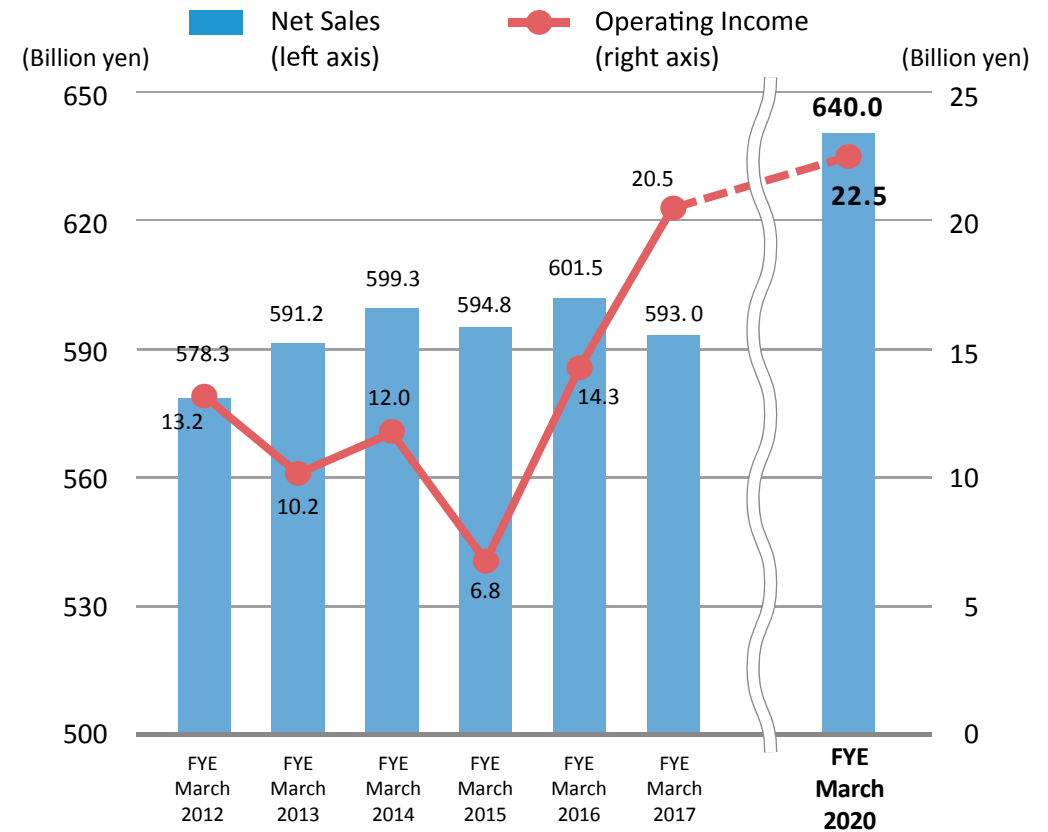


● Numerical target

(Unit: billion yen)

	FYE March 2020
Net Sales	640.0
Operating Income	22.5
Ordinary Income	23.0
Profit attributable to owners of parent	12.0
ROS (Operating Income / Net Sales)	3.5%
ROE (Net Income / Equity Capital)	8.0%

● Trends in sales and operating income



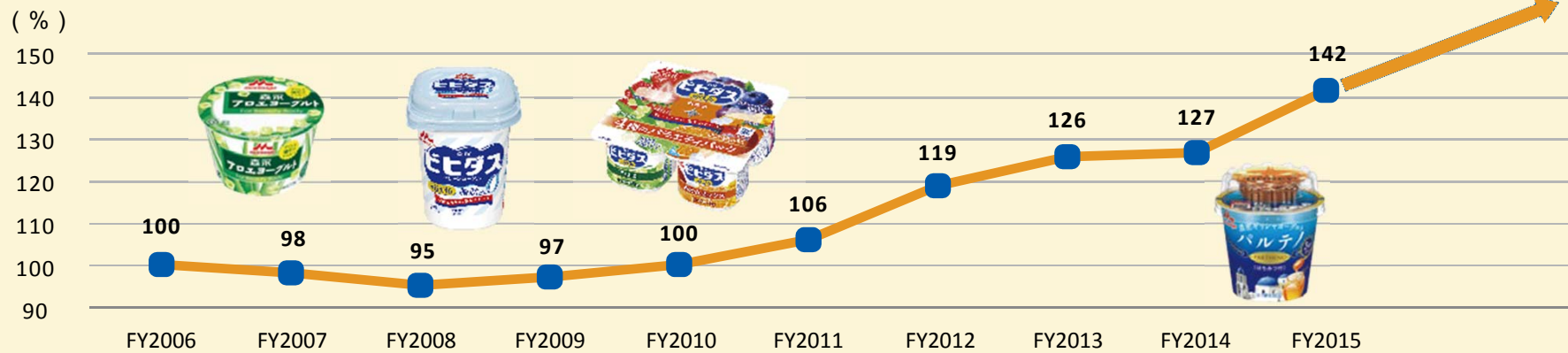
Initiatives to Achieve the Business Plan for the Medium Term (1)



Topics (strengthen yogurt business)

Strengthen initiatives addressing the yogurt business

- Yogurt market continues to expand (sales amount; fiscal year 2006 set at 100)



*FY2006-2015: Prepared by Company using INTAGE Inc.'s SRI data; figures for subsequent dates are based on Company's forecasts

- Develop products for the next generation

- Shift from focus on fruit yogurt to reinforcement of functional yogurt
- Expand sales of the Thick Greek Yogurt **PARTHENO**



More than half a century of research results
"Lactoferrin" strengthens the body
"Lactoferrin yogurt series"

"Aloesthe yogurt series"
containing "Aloesterol®"



Products commemorating fifth anniversary of product release
"PARTHENO with caramel sauce"

Initiatives to Achieve the Business Plan for the Medium Term (1)










Topics (capital investment projects)

- **Augmentation of functional yogurt production line**
Total investments of about 28.2 billion yen, announced on October 28
- **New building for yogurt production to be built at Tone Plant**
Amount invested: About 21.7 billion yen
Tentative date for start of operations: June 2019
- **Expansion of yogurt production line at Kobe Plant**
Amount invested: About 6.5 billion yen
Tentative date for start of operations: April 2018

Yogurt business sales
Fiscal 2020
Compared to fiscal 2015
50% increase
(about 76.0 billion yen)
planned

- **Develop and expand functional yogurt products using unique ingredients**

(List of Morinaga Milk's functional ingredients)

<p>Bifidobacteria BB536 Bifidobacteria, a type that lives in people's stomachs</p> 	<p>Bifidobacterium breve M-16V Bifidobacteria, which lives in baby's stomachs</p> 	<p>Bifidobacterium breve B-3® Bifidobacteria, effective in curbing obesity</p> 
<p>Lactulose Cultivate more bifidobacteria. Oligosaccharide, effective in controlling intestinal functions</p> 	<p>Lactoferrin Revitalize immune cells, which are highly concentrated in breast milk</p> 	<p>Shield Lactobacillus® Lactobacillus derived from humans to raise immunity</p> 
<p>Aloesterol® Improve skin conditions from within the body</p> 	<p>?</p>	

Initiatives to Achieve the Business Plan for the Medium Term (2)



Reconstruction of business domain for growth

Expand the B-to-B materials business and functional products

- Increase use of Shield Lactobacillus®, Bifidobacterium longum BB536 and others in other companies' B-to-C products

(Some examples of use)



Tablets containing Shield Lactobacillus



Sandwiches containing Shield Lactobacillus



Miso soup containing Shield Lactobacillus



Dressing containing Shield Lactobacillus



Chocolate containing Bifidobacterium longum BB536

Initiatives to Achieve the Business Plan for the Medium Term (2)



Redevelopment of business domain to achieve growth

Pursuit of globalization

- **Start of operations at new plant at Milei GmbH**

Supply of raw materials for infant formula and sports drinks such as whey protein concentrate (WPC), lactose, lactoferrin and others, to global milk manufacturers and food manufacturers, among others

New plant will gradually begin operating in October, and will efficiently manufacture high-quality raw materials

- **Expand overseas powdered milk business**

Strengthen initiatives related to exports and local production

- **Proactive expansion at Singapore sales company**

Promote sales activities targeting emerging markets in southeast Asia



Milei's new plant in Leutkirch, Germany

Initiatives to Achieve the Business Plan for the Medium Term (3)



Improve asset efficiency and streamline

Concentrate management resources in key areas
- pull out of unprofitable businesses and refine product lines-

- **Reduce variations of product lines**

Cut 100 products in plan for current fiscal year ⇒ Progress of more than 80% in 1H

Narrow down products to focus on chilled desserts, drinks, and ice cream; prioritize improvements to profitability

- **Efficiently utilize sales promotion expense**

Expand advertising for functional materials, curb sales promotion funds to maintain unit prices

- **Transfer of household frozen food wholesale business**

Revenue was down 12.5 billion yen in 1H of the fiscal year (impact over full year will be 14.0 billion yen)



Lactoferrin TV commercial

Initiatives to Achieve the Business Plan for the Medium Term (4)



Contributing to society

Activities support children, who represent the future of Japan

- LEGOLAND® Japan's first official marketing partner



A theme park ride integrating the Morinaga brand will be developed for a theme park to open in April 2017

- KidZania Koshien "Milk House" Pavilion



Following KidZania Tokyo located in eastern Japan, the "Milk House" Pavilion will be opened in western Japan

- "Forest and Food Expedition Team" to cultivate Morinaga Little Angels



Learn about our relationship with society and the environment through food and discover new aspects of yourself!

- Support female junior high school students "Morinaga Milk Cup Tour of Volleyball"



Co-sponsorship of event that provides instruction by Olympians previously on the All-Japan women's team

- **Won silver in the Annual Report ARC Awards**

Morinaga Milk Group's annual report for 2015 won the Silver Award in the overall category for Food & Consumer Packaged Goods in the Traditional Annual Report division of the International ARC Awards 2016.



- **Updates to IR site**

Initiatives aimed at expanding information disclosed and providing information that is easy to understand



Expand information available to individual investors



Morinaga Milk Annual Report 2015
- Making Life More Delicious -

(Reference Materials)

(Ref.) Shares (1H of FYE March 2017)



Share	FYE March 2016 April - September	FYE March 2017 April - September	Rank
Chilled cup-type coffee	45%	44%	1
Chilled tea	71%	62%	1
Yogurt	12%	11%	3
Chilled desserts	21%	16%	1
Cheese	13%	13%	3
Ice cream	13%	12%	3

Note: Shares of home-use products by monetary amount

Source: INTAGE Inc.'s SRI (share of sales amounts in Apr 2015-Sep 2015 and Apr 2016-Sep 2016)



MORINAGA MILK INDUSTRY CO., LTD.

Cautionary Note Regarding Business Forecasts

Figures for plans, policies and other figures included in this report other than actual past results are forecasts of future business performance, and are calculated based on management's estimates and understanding of the information available to the Company at the time this presentation was prepared.

Accordingly, these forward-looking figures contain elements of risk and uncertainty, and actual results may differ from these forecasts for a variety of reasons. These elements of potential risk and uncertainty include economic conditions in the Company's major markets, trends in demand for the Company's products, exchange rate movements, and regulatory changes and changes in accounting standards and business practices in Japan and other countries.

Monetary amounts in this presentation are shown in billions of yen, with amounts of less than 0.1 billion yen rounded to the nearest 0.1 billion yen, and as a result, total figures may differ from the sum of the corresponding breakdown figures.