



Making
Life
More
Delicious

ANNUAL
REPORT
2015

Year ended March 31, 2015

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<Editorial Policy>

In this Annual Report, we have used financial data as the basis for analyzing our income structure and market environment, as well as for describing 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 2015 are based on assumptions and economic forecasts as of May 14, 2015 and are not intended as a guarantee of the Company's future financial performance.

Profile

Since its establishment in 1917, Morinaga Milk Industry Co., Ltd. has been involved primarily in business activities relating to the production and sale of dairy products. Our consistent goal has been to make optimal use of the amazing power of milk. The strength of our brand is a reflection of unique product development capabilities and our commitment to the supply of safe, reliable, high-quality food products. In the fiscal year ended March 31, 2015, the Company achieved consolidated net sales of ¥594.8 billion, mainly through its core business activities relating to the manufacture and sale of food products, and especially dairy products. Morinaga Milk Group employs 5,649 workers and has 29 consolidated subsidiaries and two eq- in Japan and overseas. We have 31 business sites in Japan, including our headquarters, re- search facilities, branch offices, factories and other facilities, as well as six overseas sites in Europe, the U.S. and Asia. We look forward to the founding of Morinaga Milk Industry in 2017 with a renewed determination to achieve further growth and success as one of Japan's leading dairy manufacturers.



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Corporate Philosophy and Corporate Vision

“Making Life More Delicious”

We believe that the Morinaga Milk Group exists to meet the needs of consumers by continually supplying them with our unique products and services.

Our mission as a food manufacturer is not only to supply safe products manufactured to consistently high quality standards, but also to enrich life by using the wonderful potential of milk to create products that not only fulfill expectations of health and deliciousness, but also provide new lifestyle ideas. The highly motivated employees of the Morinaga Milk Group are pledged to do their part in creating a welcoming and harmonious social environment and a bright future for the Earth, by contributing to a common circle of friendship that embraces families, friends, business partners and local communities.

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.

Corporate Vision

Delivering products and services with value that offer customers a shared sense of satisfaction

Working hard for change, creating our own values

Fostering a vibrant corporate culture

Being a company that society can trust



Through delicious products, we can expand the circle of shared experiences among families and friends across the world.

**“Delicious”
Promise**
(High-quality ingredients)

**“Delicious”
Science**
(Health functionality)

**“Delicious”
Inspiration**
(New lifestyle ideas)

The Morinaga Milk Group is determined to help everyone enjoy delicious tastes, good health and new lifestyles.



Characteristics and Strengths

The Power of the Morinaga Milk Brand

Our powerful brand is a vital business asset. Products supplied by the Morinaga Milk Group are well known to consumers at every life stage, from infant formula for newborn babies, to care foods and liquid diet foods for people with special needs. In addition to products sold under our brand, including milk, milk drinks, yogurt, chilled desserts, ice cream, butter and cheese, the Group also offers trusted branded products in partnership with

leading overseas companies, including Kraft, Sunkist and Lipton. These products have become familiar and essential parts of everyday life, and we earn the confidence of consumers by supplying them reliably and maintaining high quality standards. This is how we have built the strength of the Morinaga Milk brand over the past century.



Defining Product Value

Consumers today take product safety and quality for granted, and we place great importance on providing additional values, such as good taste, health benefits, functionality, and environment-friendliness.



Market Shares in Japan for Key Products

(Years ended)

	Share		
	March 2014	March 2015	Rank
Chilled cup-type coffee	52%	51%	1
Chilled tea drinks	70%	71%	1
Yogurt	12%	11%	2
Chilled desserts	24%	24%	1
Cheese	13%	13%	3
Ice cream	13%	13%	3
Liquid diets	36%	34%	1

Source: Intage SRI (April 2013–March 2014, April 2014–March 2015, sales shares by value), liquid diets estimated by Morinaga Milk Industry Co., Ltd.



The Many Top Brands
Handled by Morinaga Milk Industry



Our Technology Legacy

Infant milk formula manufactured by Morinaga Milk Industry first went on sale in 1920. Since then our scientists have contributed to the healthy growth of infants by continually enhancing the product. In the early days of formula feeding, people noticed that breast-fed babies were less prone to illnesses than those fed with formula. After years of research into the differences between breast milk and formula milk, Morinaga Milk Industry discovered that breast milk contains lactoferrin, a lactoprotein that prevents infection, and that the *Bifidobacterium longum* BB536 was present in infants' intestines. The Company successfully

commercialized these discoveries. Morinaga Milk Industry has since created a variety of high-added value products based on its original technologies, including manufacturing technologies for milk-derived materials, and applied technologies for products. One example of the many successes to emerge from over 90 years of continual technology development efforts is the use of peptides derived from lactoproteins to develop products that are suitable for infants affected by milk allergies.



Lessons from Breast Milk Reflected in Milk-Derived Materials

Discovered in breast milk, the lactoprotein lactoferrin is believed to play an important role in protecting babies, who have limited resistance, from germs and viruses. In 1986, Morinaga Milk Industry became the first manufacturer in the world to introduce infant formula containing lactoferrin to ensure the healthy development of babies. Today lactoferrin is included in various health foods, such as yogurt. Our German subsidiary, Milei, is one of the world's biggest producers of this substance.

The Amazing Potential of Milk: Our Continuing Challenge



Steady Innovation in Production Technology

Production facilities are the backbone of a manufacturer's activities. To ensure that consumers can use our products safely and with confidence, all Morinaga Milk Group production facilities operate under stringent quality management standards that exceed the Hazard Analysis and Critical Control Point (HACCP) system, which is the global standard for food hygiene. We have also taken steps to protect the environment through innovation and the development of new ideas. For example, our plants feature advanced energy-saving systems, such as cogeneration power systems and the use of biomass heat, as well as advanced wastewater treatment technology. We are also working toward zero-emission status at our facilities.

Future Growth Areas

Strengthening Global Activities as Future Growth Drivers

Morinaga Milk began to expand globally over 40 years ago with the establishment in 1972 of its German subsidiary, Milei, which manufactures and sells dairy product raw materials.

Other overseas initiatives include the establishment of a company in the United States to sell long shelf-life tofu. We have also signed licensing agreements with some of the world's leading manufacturers, including Kraft in 1970, Sunkist in 1971 and Lipton in 1984, allowing us to sell their products in Japan and introduce their technologies.

Today we are accelerating our globalization in response to a major shift in the global economy toward economic growth in emerging and developing countries. We are also preparing for a predicted global shortage of dairy raw materials.



Sharing Unique Product Values with the World

We are steadily expanding our exports of infant milk formula to Asian markets. In 2005, we established the infant milk formula manufacturing Company Kalbe Morinaga Indonesia, as a joint venture with Kalbe Farma, Indonesia's largest manufacturer of pharmaceutical products. The company continues to achieve excellent financial results and is considering further expansion of its production capacity to keep pace with market growth. It is also increasing imports from Japan. In addition, Morinaga Milk Industry is actively expanding exports of its functional materials, such as lactoferrin and Bifidobacterium longum BB536.



Morinaga Milk Industry will continue to share its unique product values with the world.



Global Supply Structures for Dairy Raw Materials

Medium- and long-term forecasts indicate that there will be a global shortage of dairy raw materials. The German company Milei, which became a wholly owned subsidiary of Morinaga Milk Industry in May 2012, has been expanding its production capacity for whey protein and other dairy products since 2014. Milei aims for a 25% increase by 2020, allowing it to supply more high-quality raw materials. We also plan to expand our capacity to supply unique Morinaga Milk Industry products to global markets by establishing a new production facility for powdered Bifidobacteria in Japan.

The Aspirations of the Morinaga Milk Group

Aiming as a corporate group to continue creating the “delicious life”

We take great pride in the achievements of the Morinaga Milk Group as a supplier of products that support human health. Our exhaustive research into the composition of breast milk and its role in the healthy development and growth of babies has allowed us to supply infant formula that is very similar to breast milk. As a by-product of this research we have identified a wide range of functional ingredients for use in products that contribute to health, the realization of new lifestyles, and the enjoyment of delicious flavors. We want the Morinaga Milk Group to continue growing with pride over the next 50 or 100 years through this unchanging commitment, and through the continuing development of new technology.



Morinaga Milk Industry helps people to achieve good health and cement friendships through the shared experience of good food.

Morinaga Milk Industry began as a company dedicated to the supply of food products to support human health. Today, we also develop and manufacture functional ingredients that can help to build good health from the inside, products that are highly effective in the development of beautiful skin, and functional ingredients used by athletes to build strength. We will take this commitment to health and the “delicious life” forward as our contribution to future generations.

Working to achieve sustainable growth within a sustainable society

Harmonious Coexistence of Individuals, Society and Nature

Our business activities are based on the supply of products made mainly from raw materials obtained from nature. Those products are manufactured, distributed, and sold through the efforts of our many employees. These processes would not be possible without also the cooperation of our business partners and the understanding of local communities. Above all, our activities depend on the creation of working environments in which our employees will feel energized and motivated. Every member of the Morinaga Milk Group is asked to share the same commitment toward consumers, and toward good communication with business partners and local communities. We are also united by a sense of gratitude to nature. The Morinaga Milk Group will continue to place great importance on interaction and harmonious relationships with people, communities, and nature based on the sharing of value.



Consolidated Financial and Non-Financial Highlights

	March 2013	March 2014	March 2015
Consolidated accounting years ended (¥ billions)			
Net sales	591.2	599.3	594.8
Operating income	10.2	12.0	6.8
Ordinary income	10.6	12.4	8.2
Net income	5.0	4.8	4.2
Cash flows from operating activities	21.1	22.0	8.5
Consolidated, at year-end (¥ billions)			
Total assets	368.5	360.6	383.4
Net assets	116.8	121.0	125.3
Interest-bearing debt	101.3	90.5	107.3
Per share indicators (Yen)			
Net income	20.04	19.60	16.86
Dividend	7.00	7.00	7.00
Net assets	469.07	486.84	502.36
Financial indicators (%)			
Net sales/operating income ratio	1.7	2.0	1.1
Shareholders' equity ratio	31.4	33.3	32.4
ROA (Total assets divided by ordinary income)	2.9	3.4	2.2
ROE	4.4	4.1	3.4
Non-financial data			
Employees	5,712	5,664	5,649
Employees (male)	4,489	4,469	4,441
Employees (female)	1,223	1,195	1,208
CO ₂ emissions (1,000 tons)	380	382	367
Waste emissions (1,000 tons)	49	47	45
Recycling ratio (%)	96.6	96.6	98.1
In-house power generation ratio (%)	48.1	51.2	52.2

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

Growth Vision for the Morinaga Milk Group (Medium-Term Management Plan)

In 2017 we will celebrate the 100th anniversary of the founding of Morinaga Milk Industry. However, the end of one century also marks the beginning of another. The Morinaga Milk Group is currently working toward its goals under a five-year plan based on medium- and long-term perspectives.

Management Priorities Going Forward

- Strengthening our B-to-B business through the appropriate allocation and effective use of limited dairy ingredients
- Securing a global competitive advantage in meeting the needs of expanding emerging markets
- Responding to the increasing focus on health, nutrition and functionality in Japan and overseas
- Creating high added value to satisfy changes in consumer preferences

Basic Policies in the Medium-Term Management Plan (April 2015–March 2020)

1. Rebuilding our business domains for growth
2. Improving asset efficiency and promoting rationalization
3. Strengthening the business base
4. Making a difference in society

Priority Policies in the Growth Strategy (Business Domain Restructuring)

1. Strengthening the Functional and Food Ingredients Business (B-to-B)

- As the tight demand and supply for dairy ingredients continues, we will actively expand our sales into key markets such as the food industry and medical and health food industry, while ensuring a steady supply of resources.

2. Facilitating Globalization (International Business)

- We will actively invest our management resources, including the know-how we have accumulated in functional food materials and dairy products, and aim to raise brand awareness while boosting profits.

3. Developing the Health and Nutritional Food Business

- Promote the development of products that will meet projected future needs based on population trends and the growing trend in being health-conscious.
- Establish this area as a pillar of business by combining the existing health and nutritional food business with newly developed products.

4. Improving the Profitability of Our Existing Businesses (B-to-C)

- Focus on our highly original products and aim to improve profitability.
- Create high-added-value products by developing new products and improving existing ones, such as by enhancing functionality and flavor and reviewing container shapes, etc.
- Further strengthen our product brands.

Numerical Targets under the Medium-Term Plan

(Years ended)	March 2015	March 2020
Net sales	¥594.8 billion	¥640 billion
Ordinary income	¥8.2 billion	¥23 billion
Net income	¥4.2 billion	¥12 billion
ROE	3.4%	8%

To Our Shareholders and Stakeholders

On behalf of the Morinaga Milk Group, I would like to express our gratitude to our shareholders, investors and other stakeholders for the continuing support. In the following pages, I would like to share my ideas and outline our strategies for the future of the Morinaga Milk Group.



My Responsibilities as President

In 2017 we celebrate the 100th anniversary of the founding of Morinaga Milk Industry, which is today one of Japan's leading milk manufacturers. Our corporate philosophy is to contribute to human health and the enrichment of society through the creation of a new food culture based on the amazing power of milk. For almost a century, we have worked under that philosophy to build a legacy of knowledge relating to our business operations, including the raw materials, products, production technology, and marketing. We are very proud of our world-class research and technology development capabilities, manufacturing technology and product quality.

As a dairy manufacturer, we take great pride in our world-class technology and product quality.

Our business is not without issues, however. For example, some observers have commented that our corporate culture is too “family-like,” that our growth strategies are not aggressive enough, and that our management plans lack ambition. We certainly do not believe that Morinaga Milk Industry Co., Ltd. is a perfect company.

Like people, companies have both positive and negative characteristics. By seeking out our weaknesses as well as our strengths, we can work determinedly to remedy our weaknesses while preserving our strengths. As President,

I am ready to do everything necessary to fortify the Morinaga Milk Group so that we can adapt to the global community and start our second century with a solid foundation for sustained corporate growth.

Net Income Down 14% in the Year Ended March 2015

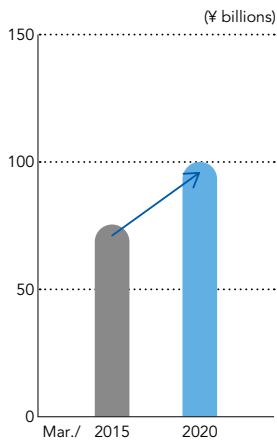
I would next like to discuss our latest financial results. In the year ended March 2015, consolidated net sales declined by 1% year on year to ¥594.8 billion, while operating income was 43% lower at ¥6.8 billion, and ordinary income was 34% lower at ¥8.2 billion. As a result, net income fell by 14% year on year to ¥4.2 billion. Our business environment was strongly impacted by a number of negative factors, including consumers' efforts to economize after the consumption tax rate was raised to 8%, as well as price increases for raw materials including raw milk, in part because of the weak yen. These effects were compounded by unseasonal summer weather. We responded by adjusting product prices and quantities, reducing operating costs, and improving the efficiency of our marketing expenditure.

In the year ending March 2016, we aim to reverse this downtrend, into expansion.

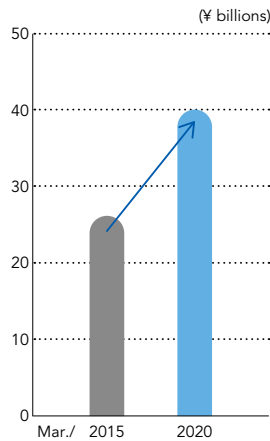
However, these measures were not sufficient to offset the impact on our income. In the year ending March 31, 2016,

Growth Drivers under the Medium-Term Management Plan

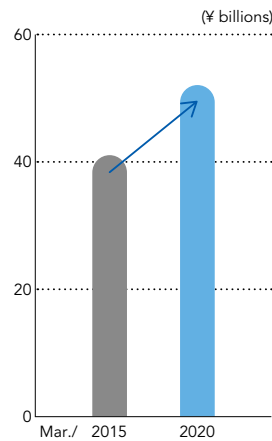
Net sales from Functional and Food Ingredients Business (B-to-B)



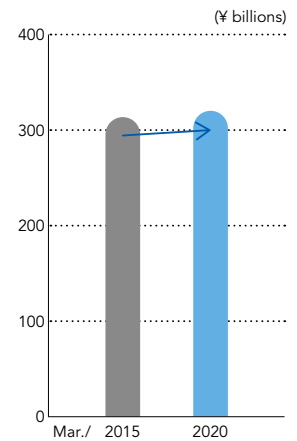
Net sales from International Business



Net sales from Health and Nutritional Food Business



Net sales from B-to-C Business



we will work steadily to reverse these declines, into an expansionary trend.

Our dividend policy emphasizes consistency and stability. In accordance with this policy, we again set the annual dividend at ¥7 per share, as in the previous fiscal year. Because of the decline in income, the dividend payout ratio increased to 41.5%.

Major Changes to Income Structure under the New Plan

In May 2015, we announced our Medium-Term Management Plan for the next five years. A summary of the plan can be found on Page 13. My comments will focus in particular on major changes to our existing income structure. The plan calls for the growth-oriented restructuring of our business domains, which will require a shift away from our existing organizational structure, and the creation of new business segments.

We are firmly committed to business restructuring for growth.

—Four Core Business Domains—

Going forward, there will be four core business domains: Functional and Food Ingredients Business (B-to-B), International Business, Health and Nutritional Food Business, and B-to-C Business.

Functional and Food Ingredients Business (B-to-B): We aim

to achieve growth over the medium- to long-term future by bringing together expertise based on decades of experience with functional materials and a unique ability as a milk manufacturer to propose a variety of milk-based materials and ingredients, and, further, by carefully identifying opportunities in expanding markets. Our target in this area is to increase net sales by over 30% from the present level by the year ending March 2020, and to expand high-income activities based on high-added-value products.

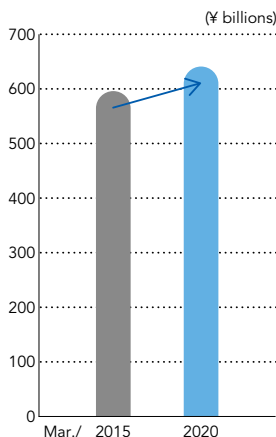
International Business: We are currently implementing a project to expand production capacity at our German subsidiary, Milei GmbH, which manufactures and sells milk-derived raw materials. Through this project, we will invest over ¥20 billion in future growth by building new production facilities, which will become operational progressively from fiscal 2016 onwards.

We aim to increase net sales from International Business to at least 1.5 times the present level by the year ending March 2020. Strategies to achieve this include the expansion of exports of Bifidobacteria and other functional materials, especially to Europe and North America, and the development of infant formula markets in emerging countries.

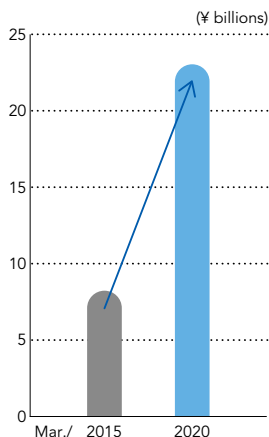
Health and Nutritional Food Business: This is our third priority segment. Consumers are expected to become increasingly focused on health in the future. We will develop and deploy new products to meet emerging needs, including those resulting from demographic changes. Our goal is to grow this business by almost 30% from its present level by the year ending fiscal 2020.

Numerical Targets for the Medium-Term Management Plan

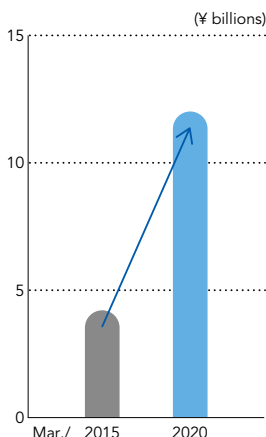
Net sales



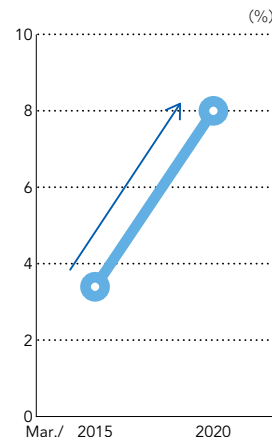
Ordinary income



Net income



ROE



B-to-C Business: This segment currently accounts for over 50% of group net sales and remains our core business area. From a market share perspective, we will further strengthen the positioning of this segment as an income base, with an emphasis on profitability, through the prioritized allocation of management resources to top brands. We also will review less profitable products.

Strengthening Compliance with Global Standards under the Medium-Term Management Plan

Our growth targets for the year ending March 2020 call for overall net sales to increase by 8% compared with the year ended 2015 to ¥640 billion, for ordinary income to almost triple to ¥23 billion, and also for net income to almost triple to ¥12 billion, and for ROE to increase by 4.6 points to 8%.

We aim to increase ROE to 8% by improving earning power and asset efficiency.

—Improving Asset Efficiency—

Developing ways to generate more revenue with fewer assets, including the disposal of unused assets, is a basic target under the Medium-Term Management Plan along with company-wide rationalization, efficiency improvement, and the reduction of operating costs. We aim to strengthen our earning power, implement structural reforms, and achieve an ROE of 8% in the year

ending March 2020. We anticipate that free cash flows will exceed ¥30 billion during the period covered by the plan. We plan to use these resources to invest in future growth.

We have strengthened corporate governance.

—Strengthening the Business Base—

We see the reinforcement of internal structures, the development of human resources, and the reinforcement of our financial base as essential to the continuing growth of the Morinaga Milk Group. At the general meeting of shareholders on June 26, 2015, we strengthened corporate governance by introducing a new leadership structure that includes two external directors and two external Audit & Supervisory Board members. We also brought fresh faces into our management team.

We will continue to consolidate a corporate culture in which people are valued and treated fairly and are able to achieve personal growth through their work. We will achieve this by optimizing our organization to support our four new core business segments. While maintaining a stable financial base and emphasizing other priorities, such as human resource development and diversity, we will create structures to support timely decision-making with high levels of transparency and originality.

—Making a Difference in Society—

Our main raw materials are milk and water. That is why the

The Morinaga Milk Group will achieve growth over the medium- to long-term future by steadily expanding the value of its various business assets, and by managing its resources to create future income streams.

Morinaga Milk Group has always made use of the most advanced environmental protection technology in its business activities.

We foster dialog with local communities, especially through plant tours. We also engage in various charitable and social contribution activities as a good corporate citizen as part of our efforts to achieve harmonious coexistence with nature and society. These efforts are inconsistent with the pursuit of short-term gains.

We will continue to enhance value by considering the long view.

A Management Stance Based on a Long-Term Perspective

The Morinaga Milk Group has been growing for almost a century as a milk manufacturer. Throughout that time, we have sought to contribute to society through research activities that had the potential to benefit consumers and society. Because of this commitment to research, we are today able to supply our customers with valuable functional materials, such as Bifidobacterium longum BB536, lactoferrin and peptides.

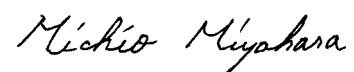
The strength of the Morinaga Milk Industry brand is a legacy built on a century of efforts to earn the trust of consumers. We want all of our customers to share the happiness that we gain by consistently supplying high-quality products with unique

value. That is why we are determined to approach technology development and human resource development as asset cultivation, rather than as operational responses to external pressures. They are a part of maintaining sound management policies based on long-term perspectives.

We are also committed to the expansion of shareholder value. In March 2013, we bought back 3.7 million shares, and in October 2014, we cancelled 5 million shares of treasury stock. The enhancement of shareholder value will continue to be a key priority as we seek an optimal balance with capital investment to expand the value of existing manufacturing capital, and investment in future growth.

We look forward to your continuing support as we take the Morinaga Milk Group forward into its second century.

June 26, 2015
Michio Miyahara,
President and Representative Director



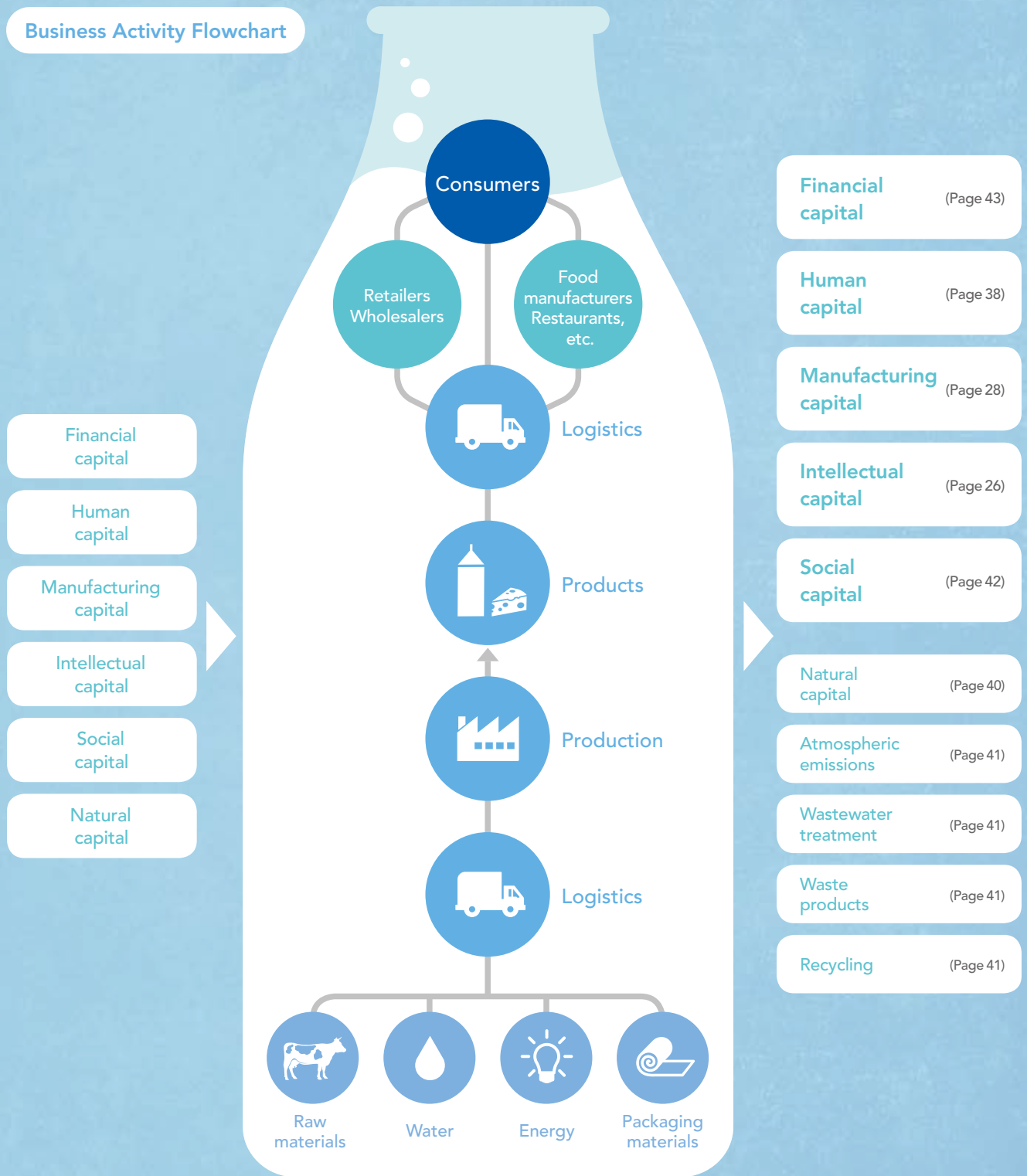
We seek to grow sustainably by creating delicious products for consumers.

The Morinaga Milk Group uses milk and water, the gifts of nature, as the main ingredients in its fine products. We manufacture those products in technologically advanced factories using our own, original knowledge and technical expertise. We help to meet the needs of society by turning precious gifts of nature into products that bring a variety of benefits to day-to-day living.

In 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.

Business Activities ▶▶▶▶▶

Business Activity Flowchart



Business Segment Information

Overview of Business Segments

Consolidated net sales for the year ended March 2015 were similar to the previous year's level at ¥594.8 billion. However, consolidated net income was 43.2% lower year on year at ¥6.8 billion because of increases in the prices of raw materials, energy and raw milk.

Income was substantially lower in the first half of the year due to the combined impact of the consumption tax increase and abnormal weather patterns. In the second half, we were able to offset increased raw material costs by adjusting prices and quantities. Cost-cutting measures, including improvements in the efficiency of marketing expenditure, also began to yield results, and both net sales and operating income recovered to approximately the same level as in the previous year.

Food-related business accounts for over 90% of the Morinaga Milk Group's net sales. For this reason, we divide our consolidated net sales and consolidated operating income between the food business segment and the other business segment.

Net sales from the food business segment, which encompasses manufacturing and sales of commercial milk, dairy products, ice cream, drinks and other items, were marginally lower with a 0.2% year-on-year decline to ¥574.5 billion. Operating income declined by 22.7% to ¥14.1 billion.

Our main activities in the other business segment are the manufacture and sale of livestock feed, and the design and installation of industrial plant and equipment. Segment net sales were 13.2% lower year on year at ¥20.3 billion, while operating income declined by 46.6% to ¥1.3 billion.

Non-consolidated net sales for Morinaga Milk Industry Co., Ltd. in the year ended March 2015 totaled ¥444.4 billion, a year-on-year increase of 0.2%.

Consolidated Net Sales

	(¥ billions)		
(Years ended)	March 2013	March 2014	March 2015
Food business	568.8	575.9	574.5
Other business	22.4	23.4	20.3
Total	591.2	599.3	594.8

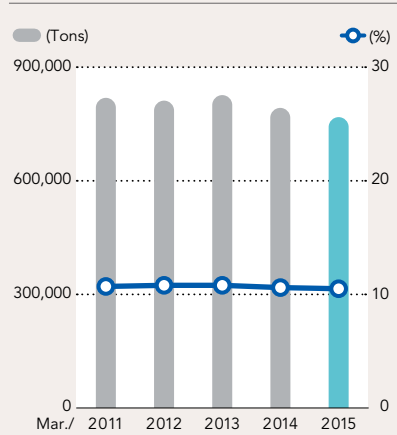
Note: The numbers are before adjustments

Consolidated Operating Income

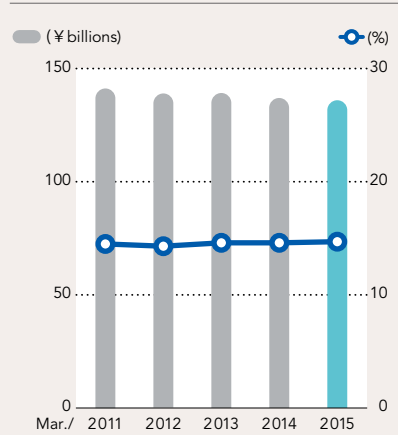
	(¥ billions)		
(Years ended)	March 2013	March 2014	March 2015
Food business	15.4	18.2	14.1
Other business	3.6	2.5	1.3
Subtotal	19.0	20.7	15.4
Adjustments	(8.8)	(8.7)	(8.6)
Total	10.2	12.0	6.8

< Domestic Markets for Key Products and Morinaga Share >

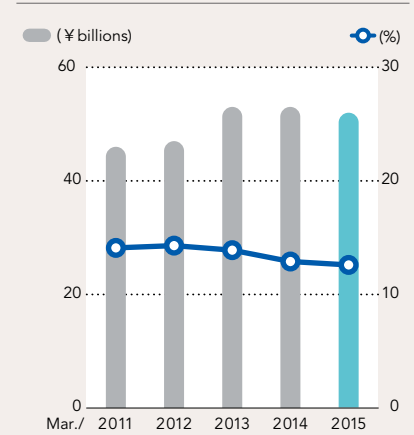
Milk collection



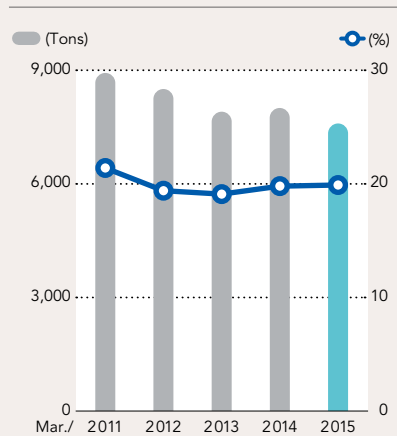
Dairy milk—Beverage (value of sales)



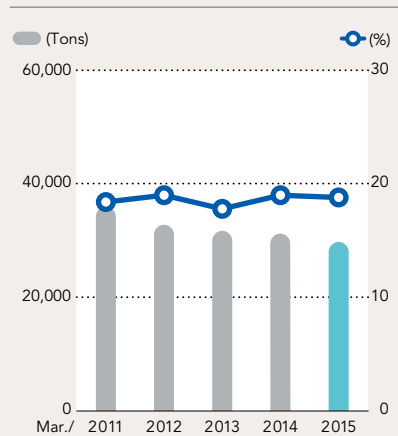
Dairy milk—Fermented products (value of sales)



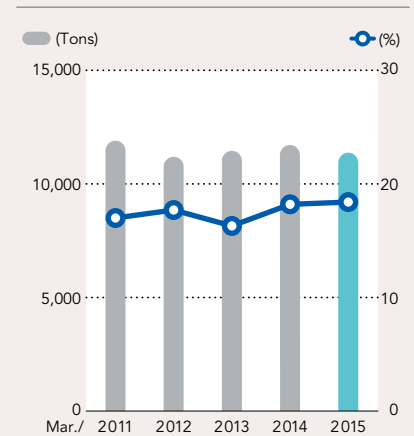
Dairy products—Condensed milk (quantity sold)



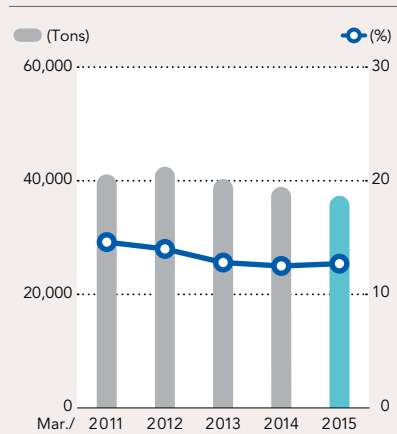
Dairy products—Powdered milk (quantity sold)



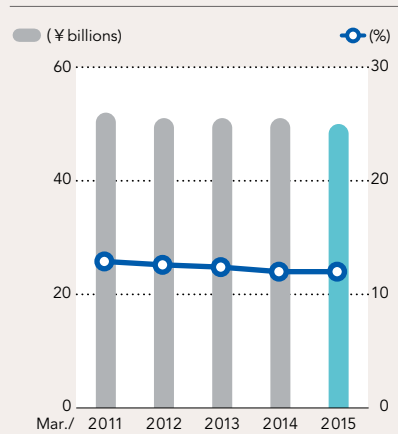
Dairy products—Butter (quantity sold)



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

Four New Business Domains—Focus on Growth

Four Business Domains Based on the Medium-Term Management Plan

One of the basic policies contained in the Morinaga Milk Group's new Medium-Term Management Plan, which was launched in the year ending March 2016, calls for the restructuring of our business domains with the emphasis on growth.

Our four new core business domains are Functional and Food Ingredients Business (B-to-B), International Business, Health and Nutritional Food Business, and the B-to-C Business.

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

Year ended March 2015	Net sales (¥ billions)	
	Net sales	YoY
B-to-B Business	75.6	101%
Food service & institutional food products	70.3	101%
Functional ingredients	5.2	103%

TARGETS

▶ Year ending March 2016: **¥77 billion (+2%)**

▶ Year ending March 2020: **¥100 billion (+32%)**

Our B-to-B business involves the use of cream and various other milk materials to manufacture products such as food service & institutional food products, Bifidobacteria, lactoferrin and dairy ingredients for a wide range of businesses. We have spent many years studying functional and food ingredients. Using our capabilities as a dairy manufacturer, we have also proposed and supplied a wide variety of dairy raw materials and ingredients. We will dynamically expand our sales by combining these strengths, and by exploring new channels for sales to pharmaceutical and health food manufacturers as well as general food manufacturers.

Our net sales target for the Functional and Food Ingredients Business in the year ending March 2016 is a 2% year-on-year increase to ¥77 billion.

Note 1: Figures for the Functional and Food Ingredients Business were calculated before the elimination of intra-company transactions.

International Business

Year ended March 2015	Net sales (¥ billions)	
	Net sales	YoY
International Business	26.1	102%

TARGETS

▶ Year ending March 2016: **¥27 billion (+4%)**

▶ Year ending March 2020: **¥40 billion (+53%)**

Our goals for our International Business are to raise overseas awareness of our brand and expand income by applying our accumulated knowledge about functional raw materials and dairy products, and by dynamically investing management resources.

Our German subsidiary, Milei, has commenced production in a new plant and is now expanding its sales of high-added-value B-to-B products made from milk. It has also stepped up marketing of infant formula in Indonesia and Pakistan.

We also plan to establish overseas sales offices with the aim of expanding exports of functional ingredients, such as Bifidobacteria and lactoferrin, and flagship products, including *Pino* and *Mt. Rainier Caffè Latte*.

Our target for the International Business in the year ending March 2016 is net sales of ¥27 billion, a year-on-year increase of 4%.



Health and Nutritional Food Business

	(¥ billions)	
Year ended March 2015	Net sales	YoY
Health and Nutritional Food Business	41.0	97%
Nutritional food products	12.3	97%
(CLINICO)	28.2	97%

TARGETS

▶ Year ending March 2016: **¥ 42 billion (+2%)**

▶ Year ending March 2020: **¥ 52 billion (+27%)**

The Health and Nutritional Food Business segment includes mail-order sales of nutritional food products and supplements, especially infant formula, as well as liquid diet foods sold by our subsidiary, CLINICO.

Demographic changes, especially aging and an increased emphasis on health, are creating new needs. We will continue to accelerate our product development and sales efforts, based on careful monitoring of those new needs. Our competitiveness in the hospital market will play a key role in sales expansion, but we will also focus on other channels, including home delivery, mail order and drugstores.

In the year ending March 2016, we aim to increase net sales of the Health and Nutritional Food Business by 2% year on year to ¥42 billion.

Note 2: "CLINICO" indicates figures for the consolidated subsidiary CLINICO.

B-to-C Business

	(¥ billions)	
Year ended March 2015	Net sales	YoY
B-to-C Business	312.8	99%
Chilled cup drinks	45.4	102%
Chilled tea	17.6	96%
Ice cream	43.7	99%
Yogurt	47.6	97%
Cheese	31.1	108%
Milk	59.4	101%
Chilled desserts	18.5	98%
Commercial milk (home delivery, etc.)	22.4	98%

TARGETS

▶ Year ending March 2016: **¥ 316.5 billion (+1%)**

▶ Year ending March 2020: **¥ 320 billion (+2%)**

The B-to-C Business is our core segment and accounts for the majority of our net sales. Because of its size, it is affected more than the other three business domains by negative factors in the Japanese market, such as aging, the falling birth-rate and population decline.

Our strategy for improving earning performance in this business environment is based on bold measures to optimize efficiency. We will concentrate our management resources on highly original products and products in areas with the potential for market expansion, while reducing product ranges in other areas.

In the year ending March 2016, we aim to increase net sales of the B-to-C segment by 1% over the previous year's level to ¥316.5 billion.

Note 3: Statistics for the B-to-C segment consist solely of non-consolidated sales of household products.



Global Business Activities



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 joint venture, Milei, which became a wholly owned subsidiary in 2012 now manufactures and supplies milk product ingredients primarily for European markets. In Asia, we manufacture and sell infant formula through a joint venture with Kalbe Farma, Indonesia's biggest manufacturer of pharmaceutical products. Our American subsidiary supplies long-life tofu throughout the United States. Our exports from Japan consist mainly of infant formula supplied to Asian markets.

Priority Policy

— 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% over the present level. 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.



“We aim to achieve international sales of ¥40 billion in the year ending March 2020.”

Expansion of Indonesian Joint Venture

Our Indonesian joint venture, PT. Kalbe Morinaga Indonesia (“Kalbe Morinaga”), is achieving excellent financial results, including double-digit yearly growth in sales, thanks to the continuing expansion of Indonesia’s infant formula market. Because of this healthy growth trend, we are now considering an increase in the company’s production capacity.

Because Morinaga Milk Industry supplies Kalbe Morinaga with powdered milk, any increase in the company’s output will result in increased exports of raw materials.

Business Expansion in China and Southeast Asia

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 also started to export *Mt. Rainier Caffè Latte* to Thailand and *Pino* and *MOW* ice cream products to China. We have also formed a partnership with the Want Want Group in the area of yogurt and chilled desserts.

Future Policy

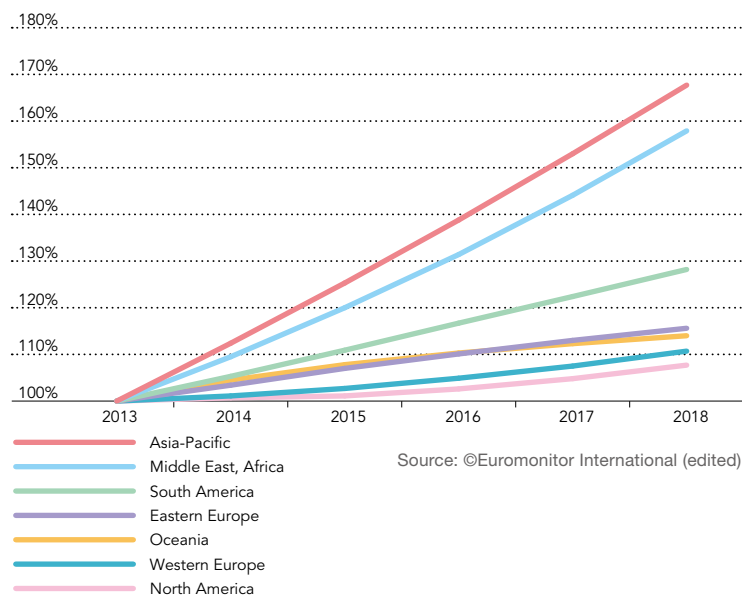
Focus on Expanding Role as Growth Driver

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 Morinaga Milk Group will continue to build global markets for its products, including high-quality infant formula, delicious products that can be enjoyed by consumers everywhere, and functional food ingredients that provide health benefits, such as Bifidobacteria.



Global Market Forecasts for Milk Powder Sales
(2013=100%)

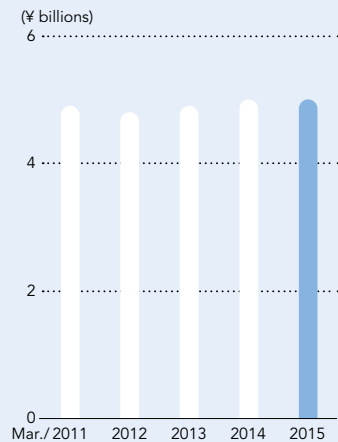


Research and Development



Our continuing challenge is to explore the amazing potential of milk and apply that knowledge to our products.

Research and Development Expenditure



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. Our basic research and development policy is to help people to enjoy better health and better lives by exploring the unique values of milk and using those values in a wide variety of products.

Research and Development Organization

The Morinaga Milk Group has built a research and development organization consisting of five laboratories and two centers.

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.

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.

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

Nutritional Science Institute

This facility specializes in R&D relating to nutritional products that contribute to health at every life stage. These range from 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.

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 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.

Achievements in the Year Ended March 2015

Skin Beautification Effect of Aloesterol® Confirmed

We confirmed that after oral ingestion and absorption, the special ingredient Aloesterol® is carried through the bloodstream, and that it acts directly on dermal fibroblast cells, causing them to increase their output of collagen and hyaluronic acid. Aloesterol® is used in *Aloebene*, which went on sale in the current year. In May 2015, we announced the results of research concerning the role of Aloesterol® in the prevention of skin photoaging in women with reduced estrogen levels.

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.



Topic

We investigated the potential of Bifidobacterium longum BB536 to prevent disruption of the intestinal environment due to dietary anomalies, such as excessive consumption of meat. Findings from this work showed consumption of *Bifidus BB536 Plain Yogurt* helped to maintain the level of probiotic Bifidobacteria and curb the proliferation of harmful Bilophila bacteria. We also confirmed that consumption of *Bifidus BB536 Plain Yogurt* accelerated the recovery of the intestinal environment after it had become imbalanced due to excess meat consumption.

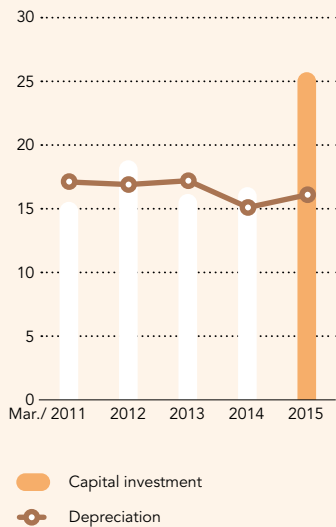
Production



Our production activities reflect our commitment to the reliable supply of safe, dependable products, and to harmony with the natural environment.

Capital Investment and Depreciation (Consolidated)

(¥ billions)



Note: The straight-line depreciation method has been used for all tangible fixed assets since the year ended March 2014.

Milk, powdered milk, cheese, yogurt and other products manufactured by the Morinaga Milk Group are essential to good health and the enjoyment of life. We supply those products reliably every day of the year. As a food manufacturer, we give first priority to the supply of high-quality products that can be consumed safely and with confidence.

Producing Safe, Reliable Products

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. 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 Urahoru 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, 2015, our groupwide domestic production network consists of 28 production sites, including 14 operated by Morinaga Milk Industry Co., Ltd.

* 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 facilities and solar power equipment. We plan to expand these systems to keep pace with future requirements.

We are working to reduce waste through recycling. Our goal is to achieve zero-emission status across the entire Morinaga Milk Group. In fiscal 2014, we improved the recycling ratio for all of our plants in Japan to 98.1%, compared with 96.6% in the previous fiscal year. 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.

“The Morinaga Milk Group takes great care over the quality of wastewater from its production operations.”



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 products 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 the B-to-B segment. We will continue to develop sales channels in response to environmental changes in each of our business domains.

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.



Sustainable Management ▶▶▶▶▶

Corporate Governance Organization

Current State of Corporate Governance

1. Basic Approach to Corporate Governance

We aim to enhance the corporate value of the Morinaga Milk Group by building organizational structures and management mechanisms that allow us to adapt quickly and effectively in a rapidly changing business environment, by improving management transparency and soundness, by ensuring consistent compliance with laws and regulations, and by building harmonious relationships with our shareholders and other stakeholders.

2. 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.

3. 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 discuss the state of activities in their respective areas of responsibility and work to develop the most efficient approaches for Morinaga Milk Industry.

4. 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 Development of Internal Control Systems

Responsibility for the development of internal control systems within the Morinaga Milk Group rests with the Internal Control System Committee. The organizational unit responsible 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-wide reporting systems and provide full protection for those who report issues and effective management of information. Our systems also allow the Audit & Supervisory Board members to attend important meetings and seek reports from company officers and staff.

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.

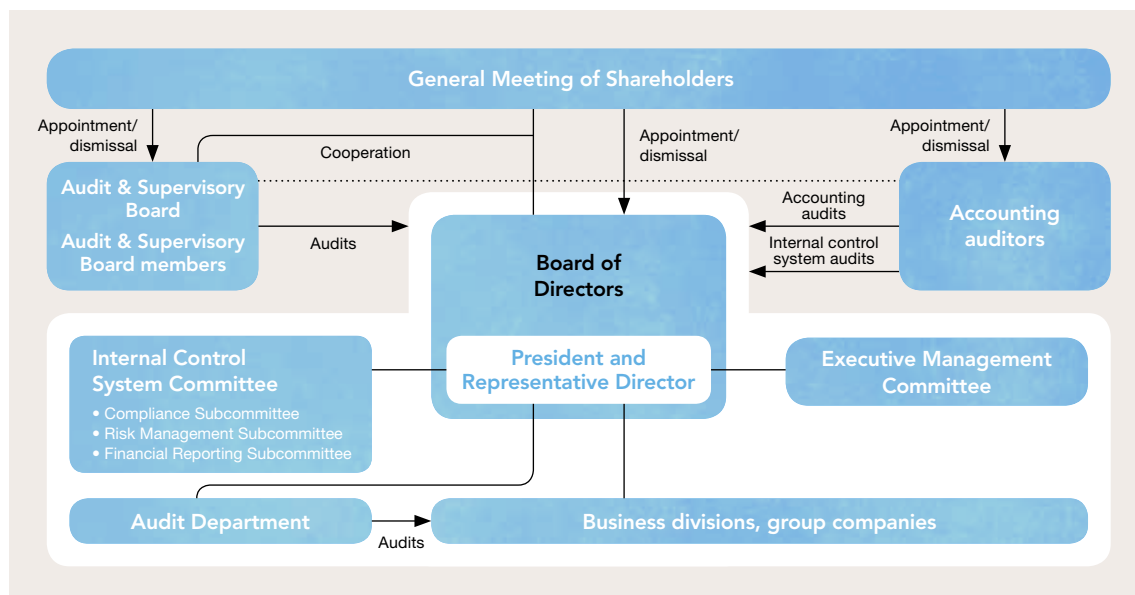
Internal Audits, Audits by Audit & Supervisory Board Members, Accounting Audits

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

We have established an eight-member 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.

Corporate Governance Organization



Corporate Governance Organization

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

One of our external Audit & Supervisory Board members is Ms. Mieko Tomita, who has specialized knowledge as an attorney. The other is Mr. Takatomo Yoneda, who has spent many years working for a financial institution and has extensive financial management and accounting knowledge.

2. 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

Takashi Osakaya and Shunji Ichinose

Assistant auditors

Seven certified public accountants, three persons who have passed the certified public account examination, eight other persons

3. 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

1. 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.

2. Functions and Roles of External Officers, Appointments

Currently the 10-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.

The Company does not currently have criteria or policies concerning independence in relation to the selection of external officers. However, we refer to the criteria of financial instrument exchanges with regard to independent officers.

Board of Directors

(As of June 26, 2015)



Michio Miyahara

President and Representative Director, responsible for general management



Junichi Noguchi

Executive Vice President and Representative Director, responsible for sales and marketing
Executive Vice President and General Manager, Sales & Marketing Division



Hachiro Kobayashi

Executive Vice President and Representative Director, responsible for financial management and international business
Executive Vice President and General Manager, Special Affairs Division



Kazuo Aoyama

Managing Director, responsible for production and quality
Executive Managing Officer, General Manager, Manufacturing Division



Teiichiro Okawa

Managing Director, responsible for research and development
Executive Managing Officer, General Manager, Food Research & Development Institute



Masaru Tamura

Director, responsible for dairy farms and logistics
Executive Managing Officer, General Manager, Dairy Farm Services Department



Yoichi Onuki

Director, responsible for planning, public relations, management, etc.
Executive Managing Officer, General Manager, Corporate Strategic Planning Department



Tsuyoshi Minato

Director, responsible for Special Affairs
Executive Managing Officer, Deputy General Manager, Special Affairs Division, General Manager, Special Affairs Department



Kyoko Okumiya

External Director, responsible for general management



Shoji Kawakami

External Director, responsible for general management

Audit & Supervisory Board Members

(As of June 26, 2015)



Sadao Bunya

Full-time Audit & Supervisory Board Member



Nobuo Iijima

Full-time Audit & Supervisory Board Member



Mieko Tomita

External Audit & Supervisory Board Member



Takatomo Yoneda

External Audit & Supervisory Board Member

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 been selling infant formula since 1920. We have supported the healthy growth and development of babies for almost a century, and we are still working to provide value to society through our role as a milk company.

Creating and Sharing Value

One of the basic elements of value that we strive to provide is symbolized in the circle of smiles that forms when people enjoy delicious foods together. However, we are not content simply to supply products that taste great. We are continually working to provide new value.

Achievements in the current fiscal year include confirmation that *Bifidus BB536 Yogurt* helps to improve the intestinal environment, and the launch of a new product, *Aloebene* containing Aloesterol®.

In addition to product value, the Morinaga Milk Group also aims to provide its various stakeholders with other

forms of value in addition to product value. Seven types of stakeholders are vital to our business activities. Not only do we recognize consumers, shareholders and 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 and research as our stakeholders, too.

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



Lactoferrin is a multifunctional protein discovered through research into breast milk. We have developed technology to separate and refine large quantities of lactoferrin from whey, which was previously discarded as a waste product from cheese manufacturing. As a result, the Morinaga Milk Industry is now one of the world's top producers of lactoferrin.

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.



MOW ice cream. In April 2015, we responded to consumer needs by introducing major changes to our flagship ice cream products, creating products that are priced for everyday enjoyment, but still retain the traditional sense of luxury associated with *MOW* ice cream.

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 2015, 26 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



Our efforts to enhance the value of our human capital are based on respect for the diverse values of individual employees.

Our Commitment to Human Resource Development

Our goal is to supply the world with products that offer dependable quality, to create new value. Our ability to achieve this goal depends not only on our research and development capabilities and production technology, but also on the ability of every individual employee to understand his or her work, and on their motivation.

The Morinaga Milk Group needs people who can think for themselves, express their views and achieve results by taking action to solve problems. Our human resource development activities focus on the training of independent

people with these qualities. We provide a variety of educational programs for our employees, including group training courses in which people participate at regular intervals, as well as on-the-job training. We also offer support for overseas study, enrollment in MBA programs, and participation in correspondence courses. These efforts to maximize the value of our human capital are a reflection of our basic philosophy of caring for people and helping them to grow, and of using the potential of people to bring about innovation in society.



The Morinaga Milk Group aims to improve the value of its human capital by providing a variety of educational programs designed to foster the development of independent, self-driven people.

Creating a Vibrant Corporate Culture

A key element of our management vision is the creation of a vibrant corporate culture in which employees can enjoy their work. Since 2008, we have implemented employee opinion surveys with the aim of raising employee satisfaction levels. Each year, we implement a PDCA cycle leading to action on issues identified through the analysis of survey results. Under this program, employees participate in discussions about the basic meaning of key concepts, such as “vibrant,” and about the qualities that create a “vibrant working environment” and a “vibrant company.” Each individual thinks about these questions and tries to find answers.

Activities include offsite meetings. The purpose of these meetings is to improve workplace communication by providing an informal setting for serious discussion. The aim of these low-key activities is to create workplace environments in which individuals can work together everyday in the spirit of acceptance. By helping employees to recognize differences in each other’s value systems, that they can respect each other’s ideas and share common values.



Offsite meetings for employees from different sections are an important part of our efforts to create vibrant working environments. These meetings provide opportunities for employees working in different situations to share their ideas and views.

Respect for Diverse Value Systems

All individuals have their own value systems. Morinaga Milk Industry needs people with diverse values to support its continuing efforts to provide the world with new value.

Every employee comes to work from a different living environment. We offer a variety of work-life balance systems to suit the different value systems and work-life approaches of individual employees. An example of these systems is our childcare support program. This program helps employees to balance their work and childcare responsibilities by reducing working hours. Currently over 50 employees are using this program. Other systems designed to promote a healthy work-life balance include the “No Overtime Day” program, the “My Holiday” program, the “Voluntary Activity Leave” program, and health improvement activities. These systems are designed to accommodate

a variety of value systems. We want Morinaga Milk Industry to be a company based on respect for individuals, a company in which individual employees can accept differences in nationality, gender and value systems while focusing on good teamwork toward our common goal of ensuring that every product supplied to every customer meets our stringent quality standards.



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 possible.

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.

During the year ended March 2015, we commenced our first solar power project at the Kobe Plant. The new facility will produce an estimated 500,000 kWh of power per year.

Reducing and Recycling Waste

We are working toward our zero-emission target through a variety of recycling initiatives. 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 2015,

the Morinaga Milk Group in Japan achieved a recycling ratio of 98.1%.

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.



We reduce waste through careful coordination based on close communications among business units, plants and other facilities. We aim to bring excess production and defective products as close to zero as possible.



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. 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.

We are recognized as a company that fulfills its responsibility to the sustainable society by working to harmonize its products with the environment. In May 2014, Morinaga Milk Industry received the Sustainable Standard-Setter Award in recognition of these efforts.

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.



In December 2014, the Tama Plant in Tokyo received the 2014 Environment Ministers Award for Global Warming Prevention Activity. This award was based on a comprehensive assessment of the plant's environmental activities.

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 dialog with stakeholders, as well as information disclosure via the publication of reports and the Internet.

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 in Japan provide tours for the general public to enable people to see for themselves the extent of our efforts to ensure that our products are safe and can be consumed with confidence. Every year, over 30,000 people take part in these tours. Every business site works to maintain good communication with local communities, including regular participation in

community events. Activities designed to help people experience and share the pleasure of good food also include cooking courses using our products.

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 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.



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.

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Financial Section ▶▶▶▶▶

5-year Financial Summary

(Years ended)		March 2011	March 2012	March 2013	March 2014	March 2015
Net sales	(¥ millions)	583,019	578,299	591,197	599,273	594,834
Operating income	(¥ millions)	18,917	13,184	10,166	11,982	6,805
Ordinary income	(¥ millions)	18,746	13,187	10,551	12,395	8,232
Net income	(¥ millions)	6,164	4,608	5,016	4,839	4,164
Comprehensive income	(¥ millions)	8,908	5,635	6,133	6,899	7,416
Net assets	(¥ millions)	110,310	113,935	116,750	120,959	125,286
Total assets	(¥ millions)	348,394	366,190	368,498	360,578	383,357
Net assets per share	(Yen)	434.37	449.35	469.07	486.84	502.36
Net income per share	(Yen)	24.57	18.39	20.04	19.60	16.86
Net income per share—diluted	(Yen)	24.52	18.34	19.98	19.54	16.81
Shareholders' equity ratio	(%)	31.3	30.8	31.4	33.3	32.4
ROE	(%)	5.9	4.2	4.4	4.1	3.4
PER	(Times)	12.1	17.7	14.3	16.9	27.0
Cash flows from operating activities	(¥ millions)	30,913	23,342	21,055	21,946	8,543
Cash flows from investing activities	(¥ millions)	(17,388)	(14,221)	(13,312)	(15,930)	(17,642)
Cash flows from financing activities	(¥ millions)	(15,959)	(2,889)	(6,859)	(18,211)	12,887
Cash and Cash equivalents at end of period	(¥ millions)	10,101	16,336	17,305	7,080	11,105
Employees		5,627	5,639	5,712	5,664	5,649
(Temporary employed—average)		[2,844]	[2,751]	[2,617]	[2,435]	[2,244]

Management's Discussion and Analysis

Note: Unless otherwise stated, all comparisons are with the previous fiscal year ended March 31, 2014. 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, 2015, the Company had 29 consolidated subsidiaries and two unconsolidated subsidiaries accounted for by the equity method (together "the Group").

OPERATING PERFORMANCE

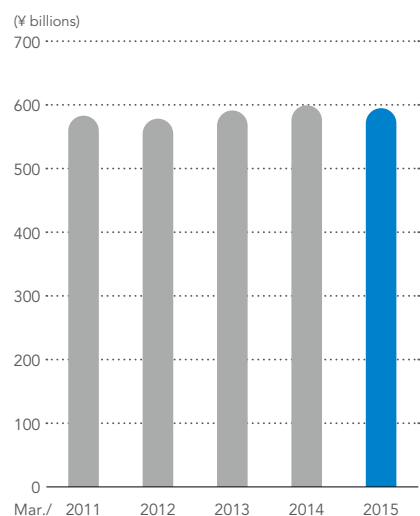
Business Environment Overview

During the fiscal year ended March 31, 2015, despite the effects of a backlash in rush demand from the consumption tax rate hike in the first quarter, the Japanese economy began to show signs of improvement in corporate results and the employment situation in general, on the back of the government and the Bank of Japan's economic and monetary policies. However, in addition to a stagnant domestic consumption, concerns over the impact on the Japanese

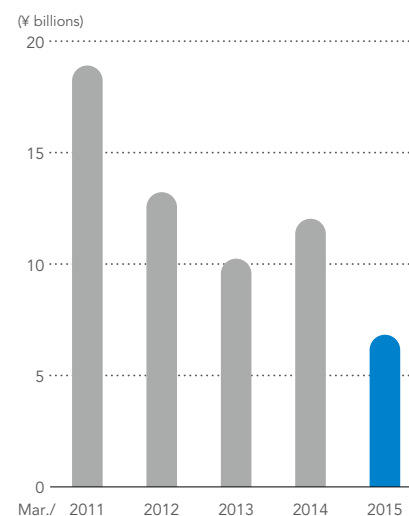
economy of a slowdown in overseas economies and other factors have continued to keep business conditions in a state of uncertainty.

In the food industry, conditions remained difficult amidst the ongoing thriftiness of consumers, with modest exceptions for high-value-added products in certain sectors, as factors such as the continuing high prices of raw materials and unseasonal summer weather impacted business. In the dairy and milk industry, the skyrocketing prices of feed have led to the raw milk trading price being increased for the second fiscal year in a row.

Net sales



Operating income



Consolidated Net Sales and Gross Profit

In such a business environment, although the Group has continued to develop and improve its products to meet the needs of customers and strengthen its sales system, consolidated net sales slightly decreased by 0.7% compared with the previous fiscal year to ¥594,834 million.

Cost of sales edged up by 0.1% to ¥422,281 million mainly due to the substantial impact of rising prices of raw materials, despite the measures to absorb the cost increases by optimizing raw material procurement and working on smarter combinations of ingredients, as well as streamlining both production and distribution. As a result, gross profit decreased by 2.7% year on year to ¥172,552 million. Gross profit margin as well dropped by 0.6 percentage points to 29.0%.

Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative (“SG&A”) expenses rose slightly by 0.2% compared with the previous fiscal year to ¥165,746 million, despite the efforts to ensure more effective expenditure on sales promotion expenses. Reflecting this rise against the drop in net sales, the ratio of SG&A expenses to net sales increased by 0.3 percentage points to 27.9%.

Consolidated research and development (“R&D”) expenses

amounted to ¥4,958 million, down by 0.7% year on year, accounting for 0.8% of consolidated net sales.

As a result, consolidated operating income dropped by 43.2% compared with the previous fiscal year to ¥6,805 million. The ratio of operating income to net sales also declined by 0.9 percentage points to 1.1%.

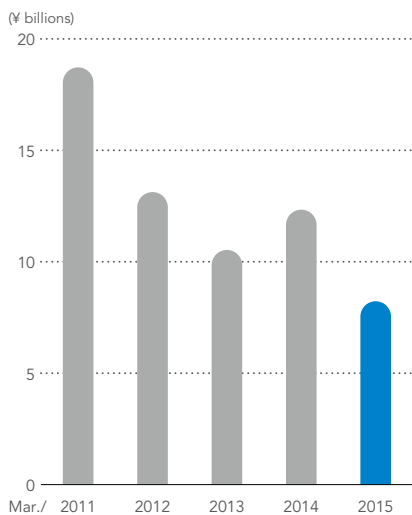
Non-operating Income and Expenses

Overall non-operating income and expenses resulted in net income of ¥1,427 million, increasing from ¥413 million net income recorded in the previous fiscal year. This increase was mainly attributable to a 112.3% year-on-year increase in dividend income to ¥1,087 million against an 18.8% decrease in interest expenses to ¥1,108 million. However, since the decrease in operating income exceeded the increase in net non-operating income, consolidated ordinary income (a sum of operating income and net non-operating income or expenses) decreased by 33.6% compared with the previous fiscal year to ¥8,232 million.

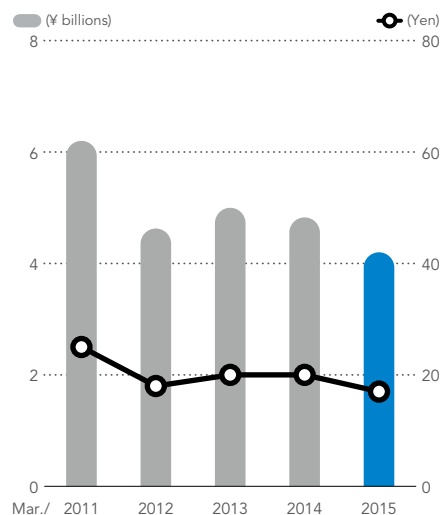
Extraordinary Income and Loss

Major extraordinary income items included a ¥987 million gain on sales of non-current assets. On the other hand, the major extraordinary loss items were a ¥872 million loss on disposal of

Ordinary income



Net income/Net income per share



non-current assets, and ¥1,614 million contributions to the public interest incorporated foundation Hikari Kyokai. Reflecting a ¥792 million increase in gain on sales of non-current assets and a ¥727 million decrease in impairment loss, overall extraordinary income and loss resulted in a net loss of ¥2,137 million, substantially improving from the previous fiscal year's ¥3,735 million net loss.

Income before Income Taxes and Minority Interests and Consolidated Net Income

While net extraordinary loss declined from that of the previous fiscal year, the decrease in operating income and ordinary income exceeded it, and as a result income before income taxes and minority interests stood at ¥6,096 million, down by 29.6% compared with the previous fiscal year. Total income taxes decreased by 51.7% to ¥1,831 million, marking a 13.8 percentage point drop in the effective tax rate to 30.0%. Minority interests soared by 270.4% to ¥100 million.

As a result of the above, consolidated net income for the fiscal year under review amounted to ¥4,164 million, a 14.0% drop from the previous fiscal year.

PERFORMANCE BY BUSINESS SEGMENT

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

Food Industry Segment

This segment engages mainly in production and sales of commercial milk, dairy products, ice cream and beverages. Net sales of the food industry segment decreased by 0.3% year on year to ¥574,886 million. Operating income as well decreased by 22.7% to ¥14,057 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 dropped by 10.8% year on year to ¥26,193 million. Operating income also declined by 46.6% to ¥1,324 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, 2015 saw a 0.2% year-on-year increase in net sales to ¥444,371 million. On the profit and loss front, the Company posted operating loss of ¥267 million, reversing ¥2,941 million operating income recorded in the previous fiscal year, and net income as well declined by 49.9% to ¥1,668 million. Sales by products are described as follows:

Commercial Milk

- In fluid milk products, although sales of the whole standardized milk *Makiba no Sora* were down compared with the previous fiscal year, sales of white milk drinks such as *Ajiwai Dayori* grew substantially, and sales of *Morinaga Oishii Gyunyu Milk* also rose slightly. As a result, overall net sales marked a marginal rise compared with the previous fiscal year.
- In milk-based drinks, sales of the *Mt. Rainier Caffé Latte* series grew over the previous fiscal year. However, a decline in sales of *Lipton Milk Tea* and the *Piknik* series resulted in a decrease in overall net sales.
- In yogurt products, although sales of *Thick Greek Yogurt PARTHENO* and *Lactoferrin Yogurt* rose substantially year on year, a fall in sales of *Aloe Yogurt* and the *Bifidus Yogurt 4 Pot* series resulted in a fall in overall net sales.

As a result of the above, aggregate net sales of commercial milk products decreased to ¥202,989 million, down by 0.7% compared with the previous fiscal year.

Dairy Products

- In powdered milk, sales of the modified powdered milk products *Morinaga Dry Milk Hagukumi* and *Creap* creaming powder were down compared with the previous fiscal year, resulting in a decrease in overall net sales.
- In butter products, sales of butter for household use declined, while butter for commercial use rose, resulting in a marginal increase in overall net sales.
- In cheese products, sales of the Kraft brand *6P Cheese*, *Kireteru Cheese*, and *Mozzarella Cheese* grew substantially over the previous fiscal year, resulting in an increase in overall net sales.

As a result of the above, aggregate net sales of dairy products increased to ¥93,572 million, up by 1.8% compared with the previous fiscal year.

Ice Cream

- In ice cream products, although sales of *Pino* and *PARM* grew compared with the previous fiscal year, a fall in sales of frozen sweets and *MOW* resulted in a decline in overall net sales.

As a result, aggregate net sales of ice cream products decreased to ¥50,392 million, down by 1.3% compared with the previous fiscal year.

Other

- The discontinuation of coffee cream for household use negatively impacted overall sales, and sales of jelly products were also down compared with the previous fiscal year. However, sales of cream for commercial use and the slightly acidic electrolyzed water generator *PURESTER* grew substantially.

As a result, aggregate net sales of other products increased to ¥97,416 million, up by 1.3% compared with the previous fiscal year.

RESEARCH AND DEVELOPMENT

The R&D division of the Group, reorganized in July 2015 after the close of the fiscal year under review, consisted of five research institutes and two research centers, namely Food

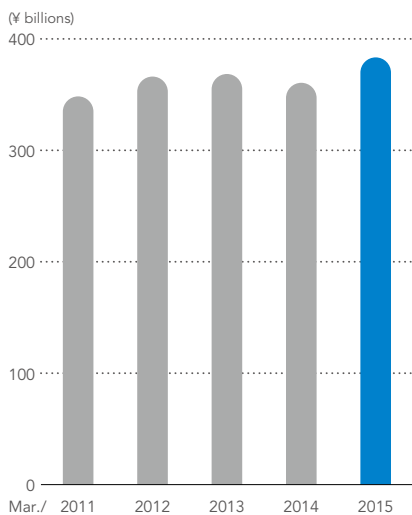
Research & Development Institute, Food Ingredients & Technology Institute, Nutritional Science Institute, Next Generation Science Institute, Engineering Research Laboratory, Analytical Research Center, and Product Evaluation Center. Under the corporate philosophy “To create a new food culture based on 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 people’s health, ensure safety and high quality, are tasty and easy to use, and provide delight and peace in life.

The Food Research & Development Institute and Nutritional Science Institute, by collaborating with other related divisions and departments, research on and develop various products, aiming at the enhancement of product development competence and R&D pace.

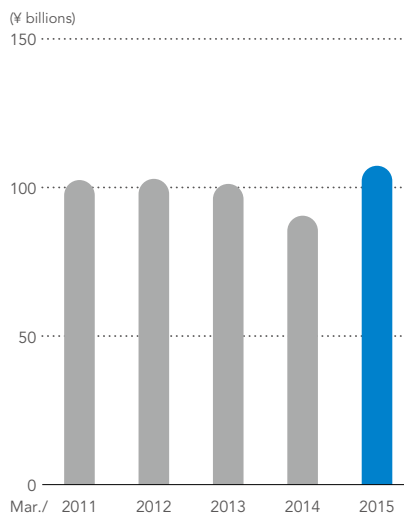
The Food Ingredients & Technology Institute promotes research on functions of food materials and functional food ingredients such as Bifidobacteria, lactoferrin, milk peptides, and aloe-based materials. It also develops new technologies, which differentiate our products in the marketplace, as well as medium- and long-term research themes that the Group will need in the future. In addition, in cooperation with the Food Research & Development Institute, it conducts research on and develops various products based on research outcomes on health functional food ingredients.

The Next Generation Science Institute applies the most

Total assets



Interest bearing debt



advanced technologies to lay the foundation of future business and to create original value through exploring new ingredients and their unknown functions. It also investigates interactions between life phenomena and the body's internal environment such as the intestinal microbiota.

The Engineering Research Laboratory is in charge of development and improvement of 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.

FINANCIAL POSITION

Assets

Total assets as of March 31, 2015 stood at ¥383,357 million, an increase of ¥22,778 million or 6.3% compared with that of the previous fiscal year-end. Current assets increased by ¥14,055 million or 12.3% to ¥128,779 million, reflecting a significant increase in merchandise and finished goods, as well as an increase in cash and deposits due to the funding for capital expenditures at overseas subsidiaries. Non-current assets also

increased by ¥8,723 million or 3.5% to ¥254,578 million, mainly due to the said capital expenditures, which raised the year-end balance of construction in progress.

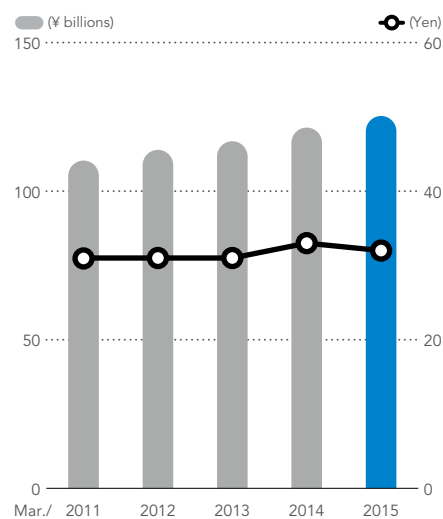
Liabilities

Total liabilities as of March 31, 2015 amounted to ¥258,070 million, a year-on-year increase of ¥18,451 million or 7.7%. The said capital expenditures contributed to raising the aggregate amount of interest-bearing debt. Current liabilities increased by ¥4,274 million or 2.7% to ¥162,962 million reflecting an increase in commercial paper. Non-current liabilities also rose by ¥14,176 million or 17.5% to ¥95,108 million due to increases in bonds payable and long-term loans payable.

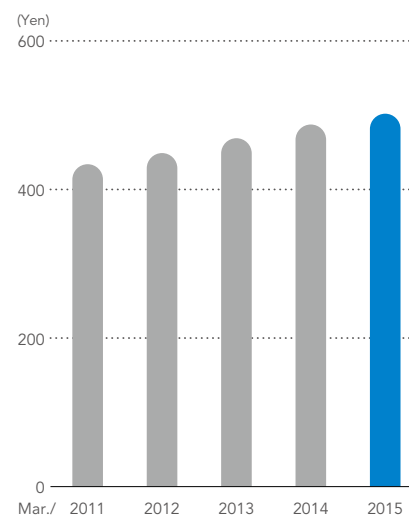
Net Assets

Net assets as of March 31, 2015 stood at ¥125,286 million, an increase of ¥4,327 million or 3.6% compared with the previous fiscal year-end. This rise was mainly attributable to cancellation of treasury stock, and increases in valuation difference on available-for-sale securities and adjustments for remeasurement of defined benefit plans. As a result, the shareholders' equity ratio fell from 33.3% at the previous fiscal year-end to 32.4%, and net assets per share rose from ¥486.84 to ¥502.36.

Net assets/Shareholders' equity ratio



Net assets per share



CASH FLOWS

The balance of cash and cash equivalents as of March 31, 2015 amounted to ¥11,105 million, up by ¥4,025 million or 56.9% compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review was ¥8,543 million, a decrease of ¥13,403 million or 61.1% compared with the previous fiscal year. This decrease was mainly attributable to larger adjustments for increase in notes and accounts receivable—trade, increase in inventories, and decrease in notes and accounts payable—trade, in addition to a fall in income before income taxes and minority interests.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥17,642 million, a rise of ¥1,711 million or 10.7% compared with the previous fiscal year. This increase was mainly due 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 ¥9,099 million cash outflow, reversing a ¥6,016 million cash inflow in the previous fiscal year.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥12,887 million, reversing ¥18,211 million in net cash used in the previous fiscal year. This upturn was attributable mainly to increases in proceeds from issuance of bonds and from long-term loans payable.

CAPITAL EXPENDITURE

The Group's capital expenditure for property, plant and equipment during the fiscal year ended March 31, 2015 totaled ¥25,679 million. The major purposes of the capital expenditure were installment, renewal and rationalization of manufacturing facilities, as well as reinforcement of the sales structure. Out of the total capital expenditure, that in the food industry segment accounted for ¥23,430 million, or 91.2%.

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, 2015 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 103.7%. The dividend for the fiscal year ending March 31, 2016 will also be of the same level.

OUTLOOK FOR FISCAL YEAR ENDING MARCH 2016

The Company forecasts its consolidated results for the fiscal year ending March 2016 as: Net sales of ¥600,000 million (up by 0.9% year on year), operating income of ¥10,300 million (up by 51.3% year on year), ordinary income of ¥11,000 million (up by 33.6% year on year), and net income attributable to parent company shareholders of ¥5,000 million (up by 20.1% year on year).

The Japanese economy in the fiscal year ending March 2016 is expected to continue on its gradual recovery, as employment and income continue to improve. However, the outlook for economic conditions remains uncertain due to factors such as the effect of rising consumer prices on consumption, and concerns over the risk of a downturn in overseas economies.

In the food industry as well, the anticipated impact of factors such as revised product prices, due to the continuing rise in raw material prices, are expected to see business conditions remain challenging.

The dairy and milk industry is seeing a declining trend in raw milk production, along with the need to keep a close watch on demand and supply trends for milk raw materials and milk products. Therefore, the urgent issues are the strengthening of the dairy production base and ensuring an adequate supply of dairy products, centering on the Trans Pacific Strategic Economic Partnership Agreement (TPP) and other measures.

The forecast for the fiscal year ending March 2016 is for an ongoing rise in the cost of raw materials. In order to absorb these costs, the Group will focus on expanding profitable sales, price revisions, adjusting sales volumes, and promoting measures for dealing with rising costs, such as streamlining sales promotion expenses, as key issues.

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 depending on 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 or other disgrace.

Consolidated Balance Sheets

(¥ millions)

	As of March 31, 2014	As of March 31, 2015
Assets		
Current assets		
Cash and deposits	7,383	11,409
Notes and accounts receivable—trade	51,813	52,357
Merchandise and finished goods	29,834	36,577
Work in process	910	982
Raw materials and supplies	11,647	13,457
Deferred tax assets	4,048	4,303
Other	9,685	10,194
Allowance for doubtful accounts	(600)	(503)
Total current assets	114,723	128,779
Non-current assets		
Property, plant and equipment		
Buildings and structures	154,351	158,741
Accumulated depreciation	(85,857)	(89,281)
Buildings and structures, net	68,494	69,459
Machinery, equipment and vehicles	255,729	257,915
Accumulated depreciation	(197,080)	(200,220)
Machinery, equipment and vehicles, net	58,648	57,694
Land	72,987	72,485
Leased assets	7,589	7,991
Accumulated depreciation	(3,891)	(4,076)
Leased assets, net	3,697	3,914
Construction in progress	6,903	14,220
Other	15,727	14,237
Accumulated depreciation	(12,757)	(11,066)
Other, net	2,969	3,171
Total property, plant and equipment	213,701	220,946
Intangible assets		
Other	6,730	6,829
Total intangible assets	6,730	6,829
Investments and other assets		
Investment securities	16,024	17,136
Investments in capital	88	76
Long-term loans receivable	458	388
Net defined benefit asset	1,367	3,083
Deferred tax assets	1,989	1,049
Other	5,651	5,225
Allowance for doubtful accounts	(156)	(157)
Total investments and other assets	25,422	26,801
Total non-current assets	245,855	254,578
Total assets	360,578	383,357

(¥ millions)

	As of March 31, 2014	As of March 31, 2015
Liabilities		
Current liabilities		
Notes and accounts payable—trade	59,068	54,317
Electronically recorded obligations—operating	4,868	5,063
Short-term loans payable	6,194	5,049
Current portion of long-term loans payable	5,189	5,056
Commercial papers	5,000	15,800
Current portion of bonds	15,040	10,000
Lease obligations	1,950	1,959
Income taxes payable	1,853	186
Accrued expenses	29,817	29,578
Deposits received	19,733	19,315
Other	9,972	16,636
Total current liabilities	158,687	162,962
Non-current liabilities		
Bonds payable	30,000	35,000
Long-term loans payable	29,109	36,425
Lease obligations	3,466	3,419
Net defined benefit liability	12,458	15,541
Asset retirement obligations	273	260
Other	5,622	4,462
Total non-current liabilities	80,931	95,108
Total liabilities	239,619	258,070
Net assets		
Shareholders' equity		
Capital stock	21,704	21,704
Capital surplus	19,442	19,442
Retained earnings	77,377	76,442
Treasury stock	(2,285)	(621)
Total shareholders' equity	116,238	116,967
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,357	5,936
Deferred gains or losses on hedges	69	(8)
Foreign currency translation adjustment	469	767
Remeasurements of defined benefit plans	(889)	461
Total accumulated other comprehensive income	4,007	7,157
Subscription rights to shares	197	196
Minority interests	516	965
Total net assets	120,959	125,286
Total liabilities and net assets	360,578	383,357

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

	(¥ millions)	
	For the fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)
Net sales	599,273	594,834
Cost of sales	421,844	422,281
Gross profit	177,428	172,552
Selling, general and administrative expenses	165,446	165,746
Operating income	11,982	6,805
Non-operating income		
Interest income	65	49
Dividends income	512	1,087
House rent income	533	462
Amortization of negative goodwill	186	466
Equity in earnings of affiliates	122	125
Other	1,064	1,007
Total non-operating income	2,484	3,198
Non-operating expenses		
Interest expenses	1,366	1,108
Interest on commercial papers	3	5
Other	701	657
Total non-operating expenses	2,071	1,771
Ordinary income	12,395	8,232
Extraordinary income		
Gain on sales of non-current assets	195	987
Gain on sales of investment securities	1	131
Gain on bargain purchase	194	1
Compensation income	361	—
Gain on sales of investments in capital	83	—
Total extraordinary income	837	1,119
Extraordinary loss		
Loss on disposal of non-current assets	635	872
Contributions to the public interest incorporated foundation Hikari Kyokai	1,678	1,614
Impairment loss	984	257
Factory reorganization expenses	824	340
Other	448	171
Total extraordinary losses	4,572	3,256
Income before income taxes and minority interests	8,660	6,096
Income taxes—current	3,555	1,996
Income taxes—deferred	238	(165)
Total income taxes	3,793	1,831
Income before minority interests	4,867	4,265
Minority interests	27	100
Net income	4,839	4,164

(Consolidated Statements of Comprehensive Income)

(¥ millions)

	For the fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)
Income before minority interests	4,867	4,265
Other comprehensive income		
Valuation difference on available-for-sale securities	1,267	1,581
Deferred gains or losses on hedges	70	(78)
Foreign currency translation adjustment	735	297
Remeasurements of defined benefit plans, net of tax	—	1,350
Share of other comprehensive income of associates accounted for using equity method	(40)	0
Total other comprehensive income	2,032	3,151
Comprehensive income	6,899	7,416
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,871	7,314
Comprehensive income attributable to minority interests	28	101

Consolidated Statement of Cash Flows

(¥ millions)

	For the fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)
Cash flows from operating activities		
Income before income taxes and minority interests	8,660	6,096
Depreciation	15,631	16,810
Impairment loss	984	257
Amortization of goodwill	128	132
Amortization of negative goodwill	(186)	(466)
Gain on bargain purchase	(194)	(1)
Increase (decrease) in provision for retirement benefits	(11,555)	—
Increase (decrease) in net defined benefit liability	12,458	3,082
Increase (decrease) in allowance for doubtful accounts	(80)	(96)
Loss (gain) on valuation of investment securities	381	9
Interest and dividend income	(577)	(1,136)
Interest expenses	1,366	1,108
Foreign exchange losses (gains)	(53)	34
Share of (profit) loss of entities accounted for using equity method	(122)	(125)
Loss (gain) on sales of non-current assets	(195)	(987)
Loss (gain) on disposal of non-current assets	635	872
Loss (gain) on sales of investment securities	(1)	(131)
Decrease (increase) in notes and accounts receivable—trade	5,462	(487)
Decrease (increase) in inventories	(2,881)	(8,589)
Increase (decrease) in notes and accounts payable—trade	(1,448)	(4,581)
Increase (decrease) in accrued expenses	(103)	(256)
Increase (decrease) in deposits received	(2,859)	(418)
Other	(22)	1,094
Subtotal	25,429	12,220
Interest and dividend income received	608	1,188
Interest expenses paid	(1,502)	(1,109)
Income taxes paid	(2,588)	(3,757)
Cash flows from operating activities	21,946	8,543
Cash flows from investing activities		
Purchase of non-current assets	(16,346)	(20,221)
Proceeds from sales of non-current assets	590	2,419
Purchase of investment securities	(157)	(367)
Proceeds from sales of investment securities	20	407
Payments of loans receivable	(7,789)	(7,723)
Collection of loans receivable	7,743	7,845
Other	8	(3)
Cash flows from investing activities	(15,930)	(17,642)

(¥ millions)

	For the fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)	For the fiscal year ended March 31, 2015 (April 1, 2014 – March 31, 2015)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	762	(1,184)
Increase (decrease) in commercial papers	5,000	10,800
Proceeds from long-term loans payable	6,800	12,400
Repayments of long-term loans payable	(11,801)	(5,220)
Proceeds from issuance of bonds	—	15,000
Redemption of bonds	(15,100)	(15,040)
Proceeds from sales of treasury shares	0	—
Purchase of treasury shares	(12)	(15)
Cash dividends paid	(1,728)	(1,728)
Cash dividends paid to minority shareholders	(12)	(13)
Repayments of finance lease obligations	(2,119)	(2,109)
Net cash provided by (used in) financing activities	(18,211)	12,887
Effect of exchange rate change on cash and cash equivalents	181	207
Net increase (decrease) in cash and cash equivalents	(12,014)	3,995
Cash and cash equivalents at beginning of period	17,305	7,080
Increase in cash and cash equivalents from newly consolidated subsidiary	1,783	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	6	30
Cash and cash equivalents at end of period	7,080	11,105

Affiliated 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
FURUJIPORT CO., LTD.	310	Food	100.0 (7.7)	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	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	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.
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.

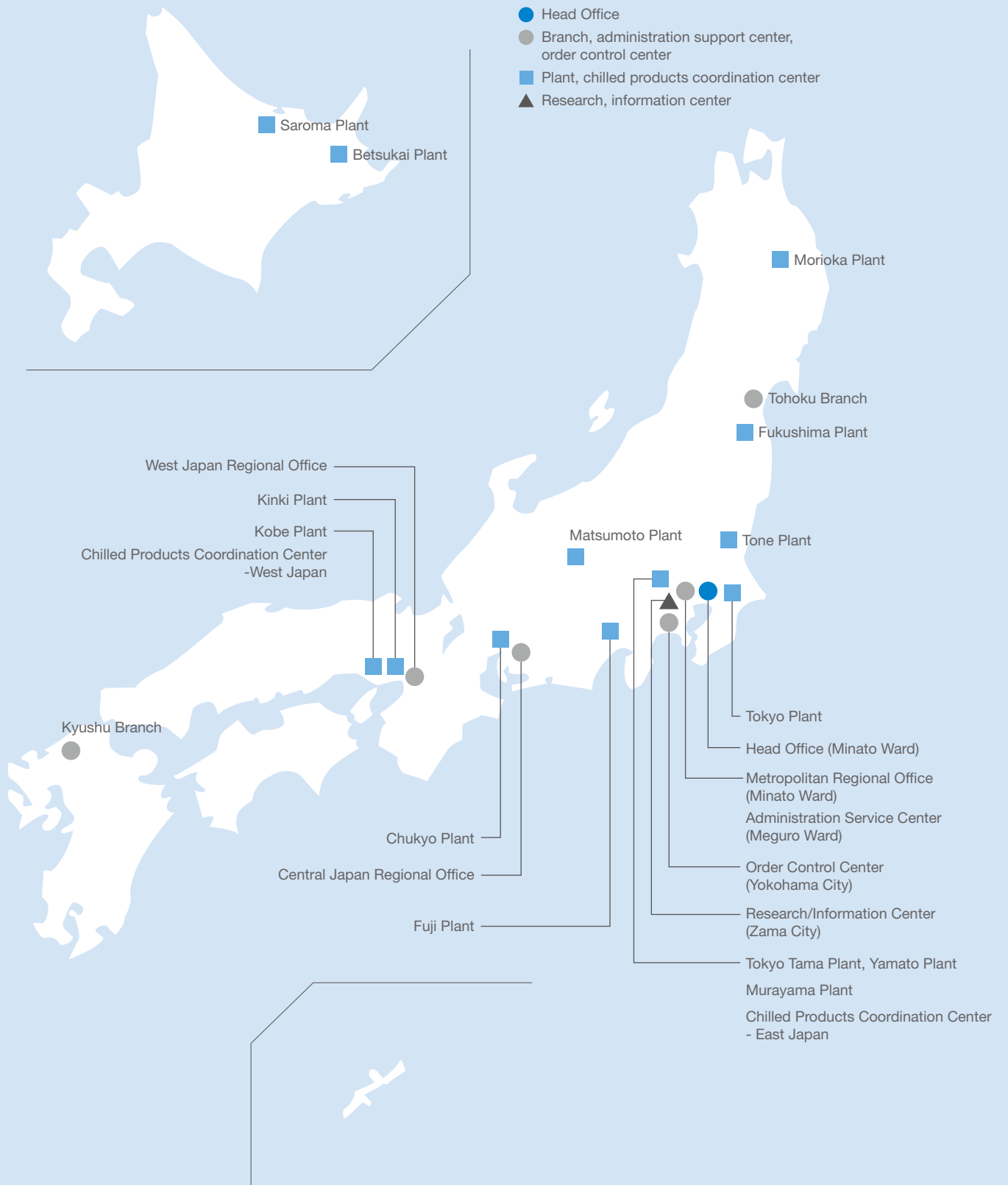
4. None of the companies listed above file securities registration statements or financial statements.

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	¥102,338 million
	(2) Operating income	¥467 million
	(3) Net income	¥224 million
	(4) Net assets	¥9,305 million
	(5) Total assets	¥25,751 million

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

Business Sites



Corporate Data




Corporate Profile (As of March 31, 2015)

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	3,078
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 Tofu 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 tofu 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. Products include whey protein, 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/
	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.
	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
	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.

Stock Information

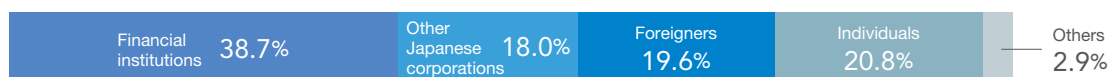
Securities code	2264
Business year	From April 1 to March 31 in the following year
Regular general meeting of shareholders	June
Date of record for shareholders eligible to receive dividends	March 31 (The Company does not pay an interim dividend.)
Listed stock exchange	Tokyo
Authorized shares	720,000,000 shares
Shares issued and outstanding	247,081,645 shares (excluding 1,895,573 shares of treasury stock)
Shareholders	28,992
Shareholders' registry manager, management institution for special accounts	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Major Shareholders

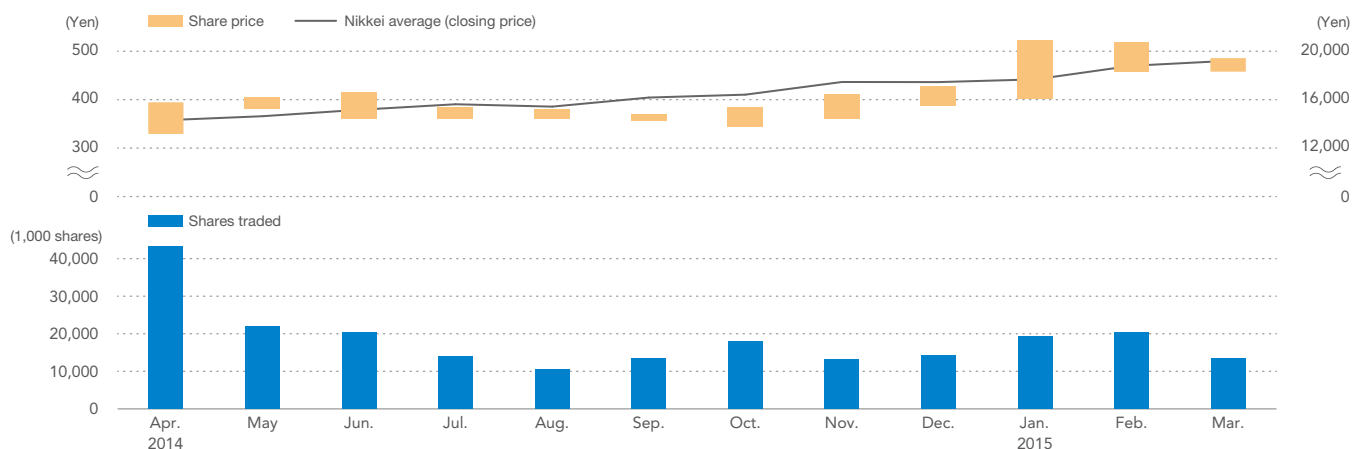
Shareholder	Shareholding (1,000 shares)	Percentage of shares held
(1) Morinaga & Co., Ltd.	26,248	10.62%
(2) Mizuho Bank, Ltd.	12,228	4.95%
(3) The Master Trust Bank of Japan, Ltd. (Trust Accounts)	11,365	4.60%
(4) Japan Trustee Services Bank, Ltd. (Trust Accounts)	7,892	3.19%
(5) The Bank of Tokyo-Mitsubishi 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	5,260	2.13%
(8) Mitsubishi UFJ Trust and Banking Corporation	4,617	1.87%
(9) EVERGREEN	4,194	1.70%
(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





morinaga

MORINAGA MILK INDUSTRY CO., LTD.