

Business Plan for Next Middle Term

Three-year Plan - FY2007 to FY2009

November 24, 2006

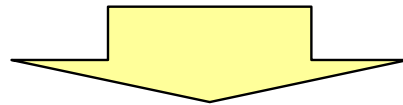
MORINAGA MILK INDUSTRY CO., LTD.

Elements of Business Plan for Next Middle Term

Actively offer new values to customers, society and shareholders

Raise the effectiveness and capabilities of our company

Reform management processes with the focus on customer-orientation



Striving for the top by always seeking innovation, cultivating high capabilities and enjoying to work at a brisk pace

Ranking of Middle Term Business Plan

Make efforts to achieve still higher efficiency and maximize return on investment

Create a system structured to develop and cultivate customer-oriented products

Set up an organization structured to develop products that will please consumers.

Promote low cost operation

Strive for low cost operation by measures such as merging and restructuring of plants, streamlining logistics costs, reducing raw material procurement costs, and improving work processes.

Improve financial standing

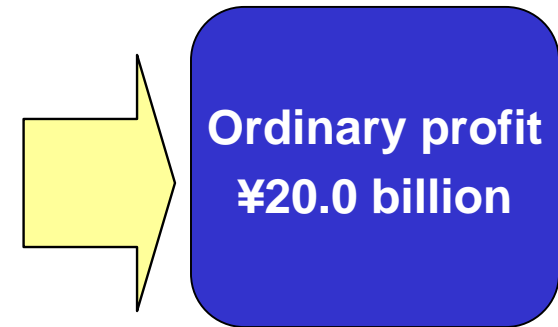
Expand profits and improve financial standing by reducing interest-bearing debt through minimizing fixed assets and inventories for more efficient capital turnover.

Promote human resource management

Cultivate employees with greater capabilities and energy

Improve management quality

Strive to improve management quality centering on consumer tastes, original abilities, respect for employees and harmony with society.



Final Year (FY 2009) Targets

(Unit:¥ billion)

	FY 2009 target values		(Reference) FY 2006 Forecast	
Consolidated	Sales	¥600.0	Sales	¥ 573.0
	Operating profit	¥ 18.5	Operating profit	¥ 10.7
	Ordinary profit	¥ 20.0	Ordinary profit	¥ 12.5
	Net profit	¥ 9.0	Net profit	¥ 5.0
	Ratio of ordinary profit to sales	3.3%	Ratio of ordinary profit to sales	2.2%
	ROE	7.8%	ROE	4.9%
Non-consolidated	Sales	¥ 467.0	Sales	¥ 435.0
	Operating profit	¥ 11.5	Operating profit	¥ 4.7
	Ordinary profit	¥ 13.5	Ordinary profit	¥ 7.5
	Net profit	¥ 6.0	Net profit	¥ 3.2
	Ratio of ordinary profit to sales	2.9%	Ratio of ordinary profit to sales	1.7%
	ROE	7.2%	ROE	4.2%

Key Strategies of Middle Term Business Plan

Main Management Tasks

Elements

Clear definition of business strategies



Identification of key investment areas for management resources

Create system for development/cultivation of differentiated products



Improve marketing and R&D capabilities

Achieve low cost operation



Merging and restructuring of plants, reduction of raw material and business costs

Minimize assets and improve financial standing



Compress fixed assets and inventories, and expand profit

Promote human resource management



Cultivate employees with upgraded capabilities and vitality

Improve management quality



Customer-orientation, originality, valuing employees, harmony with society

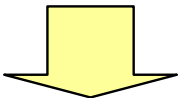
Achieving the Middle Term Business Plan's Ordinary Profit Targets

Forecast

March 2007

Ordinary profit ¥12.5

(Unit:¥ billion)



Identification of business strategies	
Development/cultivation of differentiated products	+ ¥6.0
<hr/>	
Achieve low cost operation	
Compress assets and improve financial standing	+ ¥10.0
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	¥12.5
(Main factors behind cost increase)	
Rising costs of R&D, production, etc.	-¥8.5
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Total increase	+¥7.5

Target

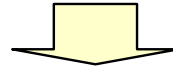
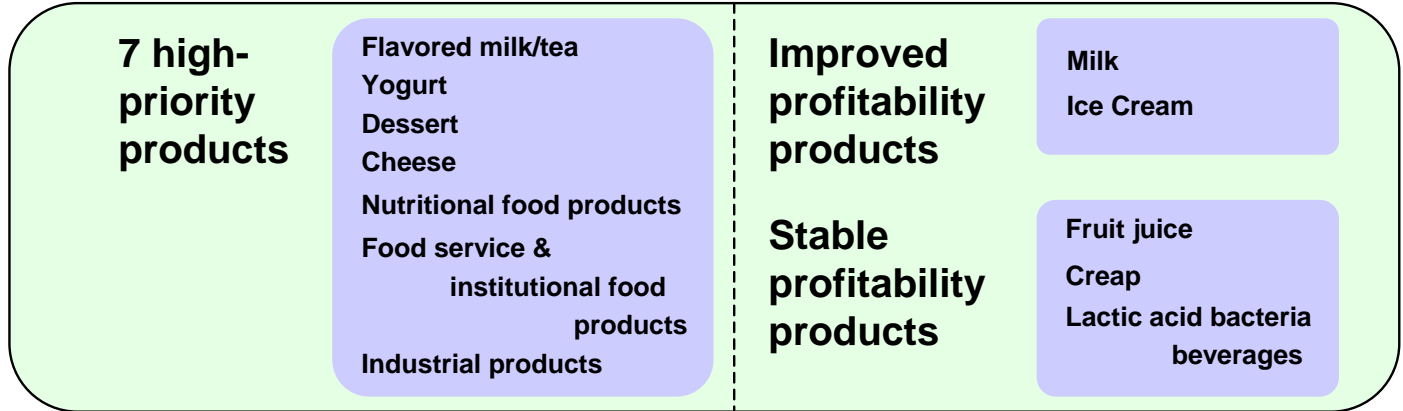
March 2010

Ordinary profit ¥20.0



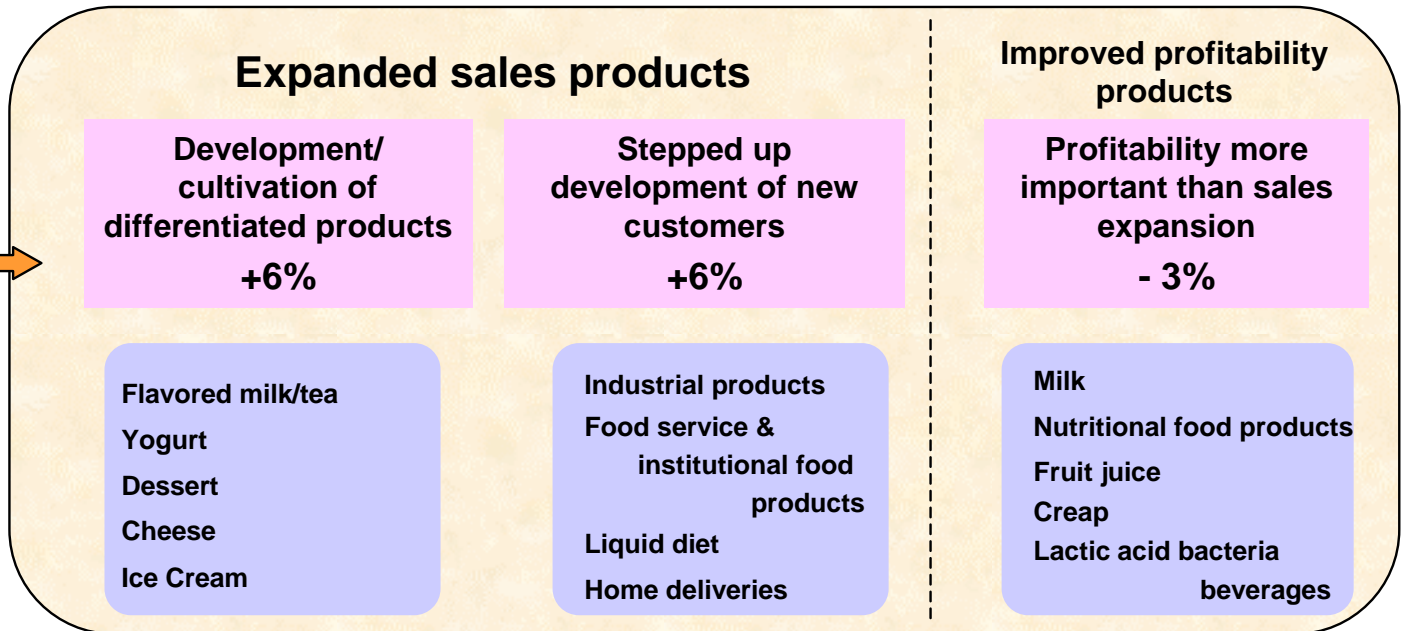
Business Portfolio

Current product categories



New categories

Sales targets
Average annual growth rate



Identification of business strategies - Development/cultivation of differentiated products

Product category	Business Strategies	3-year Growth Rate
Flavored milk/tea	Remains the absolute No. 1 product Develop new products Maximize profits by making full use of Kobe Plant's capacity	+20%
Yogurt	Develop/cultivate mainstay products to follow Aloe Develop functional products	+20%
Dessert	Offer novel products to ensure continuous expansion	+20%
Cheese	Develop new natural cheese products	+20%
Ice Cream	Develop/cultivate No. 1 products to follow Pino, Mow, and Parm Develop products that draw on the strength of the dairy business	+7%

Note: Growth rate refers to the 3-year sales growth rate, with the 2007 March sales forecast as 100%.

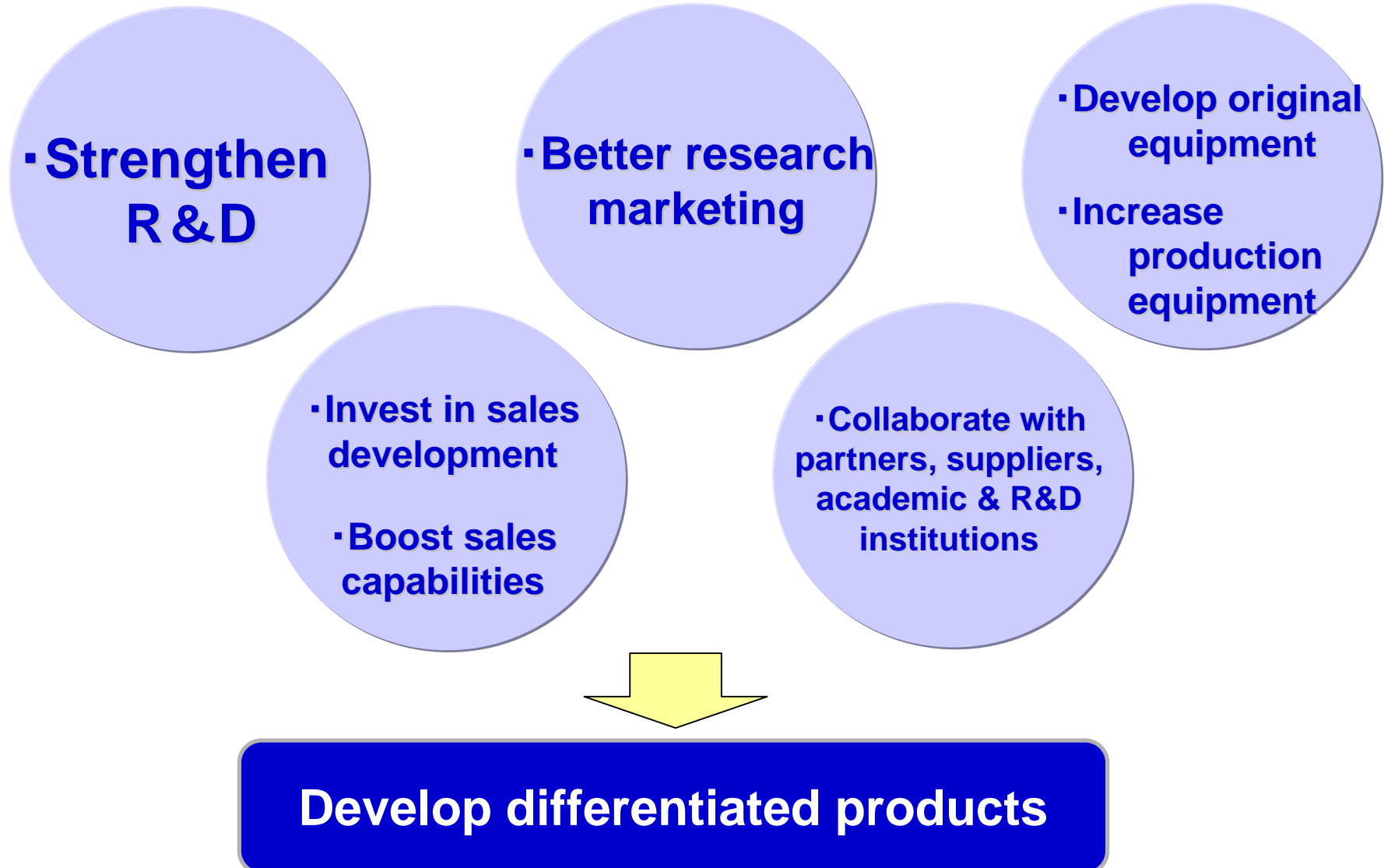
Identification of business strategies - Fields for new customer development

Product category	Business Strategies	3-year Growth Rate
Home deliveries	Develop products and win new customers (2.5 million households) Boost profitability by consolidating production bases accompanied by introduction of light-weight bottle equipment	+6%
Food service & institutional food products	Expand by developing new customers Develop new uses	+6%
Industrial products	Develop original Morinaga high-functionality products	+15%
Liquid diet	Develop nutritional food products for different medical conditions Aggressive injection of management resources into R&D and sales	+50%

Identification of business strategies - Improved profitability products

Product categories	Business Strategies
Milk	Increase NB ratio by expanding Morinaga no Oishii Gyunyu
Nutrition food products	Improve profitability by reviewing distribution of resources
Creap Other dairy products	Develop/cultivate next generation products
Fruit juice	Review non-profitable products

Strengthening of Product Development Capabilities



Basic research currently in the works at Morinaga

■ Lactoferrin

- ◇ The workings of the multifunctional protein which acts to reinforce the antibacterial and immunity boosting functions of breast milk and cow's milk
- ◇ The effects of the intestinal flora in infants
- ◇ Inhibiting the progress of colon polyps (Announced at the 65th Annual Meeting of the Japanese Cancer Association (September 28-30, 2006))
- ◇ Liver function improvement in chronic hepatitis C
- ◇ The effect of the health-boosting bifidus bacillus on inhibiting the propagation of *Helicobacter pylori*, germs and viruses
- ◇ Effect of natural killer cell activity

■ Bifidus bacillus BB536

We are developing a series of health products targeting a wide range of age groups based on a yogurt, also for use in supplements, that is effective against intestinal disorders, prevention of influenza in the elderly, and amelioration and prevention of hay fever.

■ Active ingredients of Aloe

We are developing a FOSHU (Foods for Specified Health Use, or 'Tokuho') approved product which will have a beneficial effect on the skin and act to improve the blood sugar level and inhibit the accumulation of fat on internal organs. In addition, we are working on further expanding Aloe yogurt and Aloe brand related products.

Strengthening of Production System

Kobe Plant



➤ Started operation in May 2006, and by November four lines were fully operational.

(Flavored milk and tea in cups, yogurt, clinical nutritional food products)

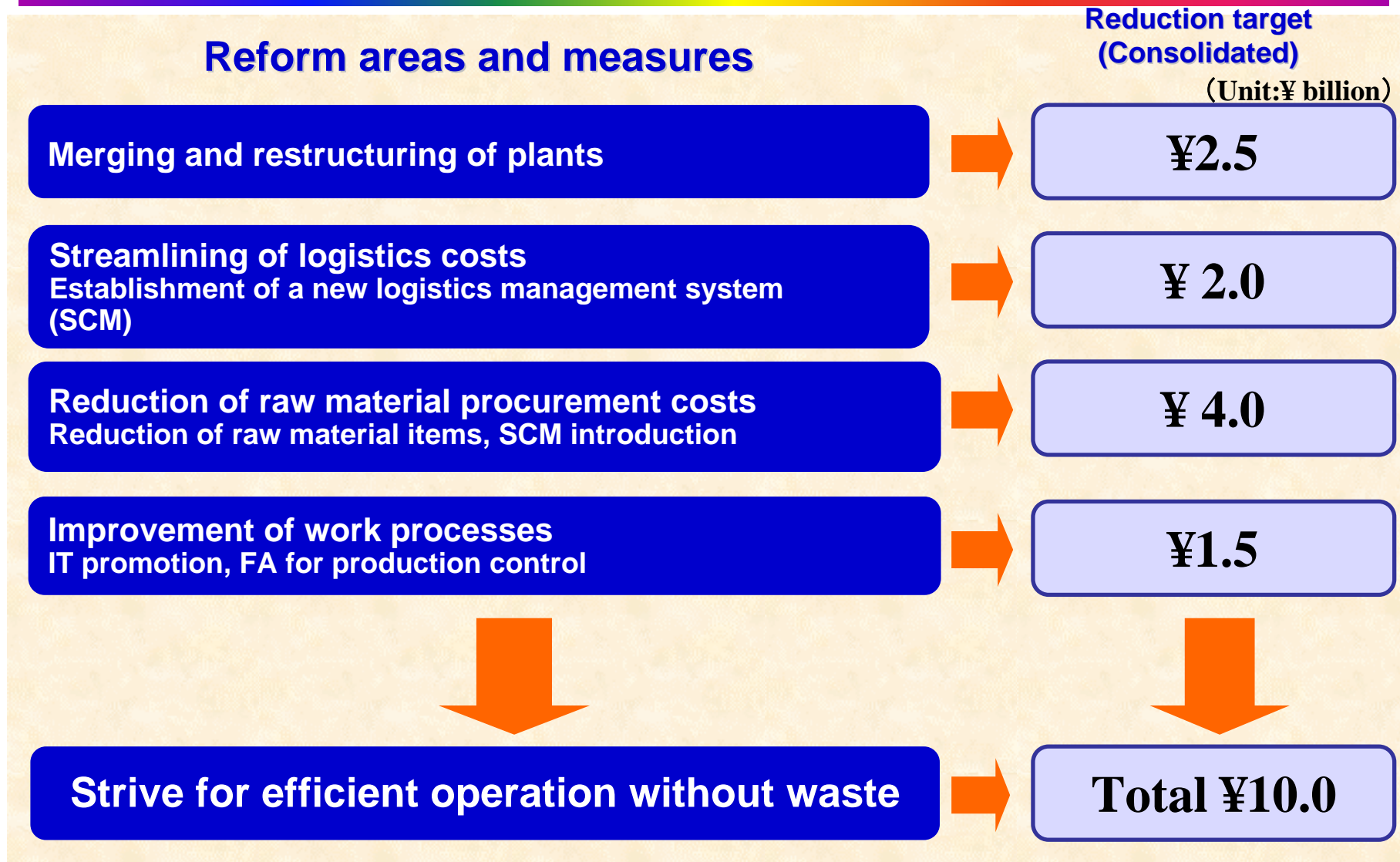
➤ Plans are to start up the 5th line in the spring of 2007 and the remaining 7 lines in the course of the middle term, so that the entire 12-line production system will be in place.

Betsukai Plant with new cheese production facility (artist's conception)

- Nov. 2006: Start of construction
- Spring 2008: Scheduled startup
- Investment: approx. ¥7.0 billion
- Domestic production of natural cheese roughly doubled in FY 2005 from 7,000 tons to 15,000 tons



Achieving Low Cost Operation



Minimize assets and improve financial standing

Middle Term Business Plan

Final year financial targets (Consolidated)

Less than DER 1 (interest-bearing debt less than ¥110 billion)

Planned asset compression (Consolidated)

(Unit:¥ billion)

Inventory reduction ¥6.0

Fixed asset minimization ¥8.4

Efficient use of funds within group ¥5.6



Asset minimization
Total ¥20.0 billion

Investment planned under Middle Term Business Plan

(Unit:¥ billion)

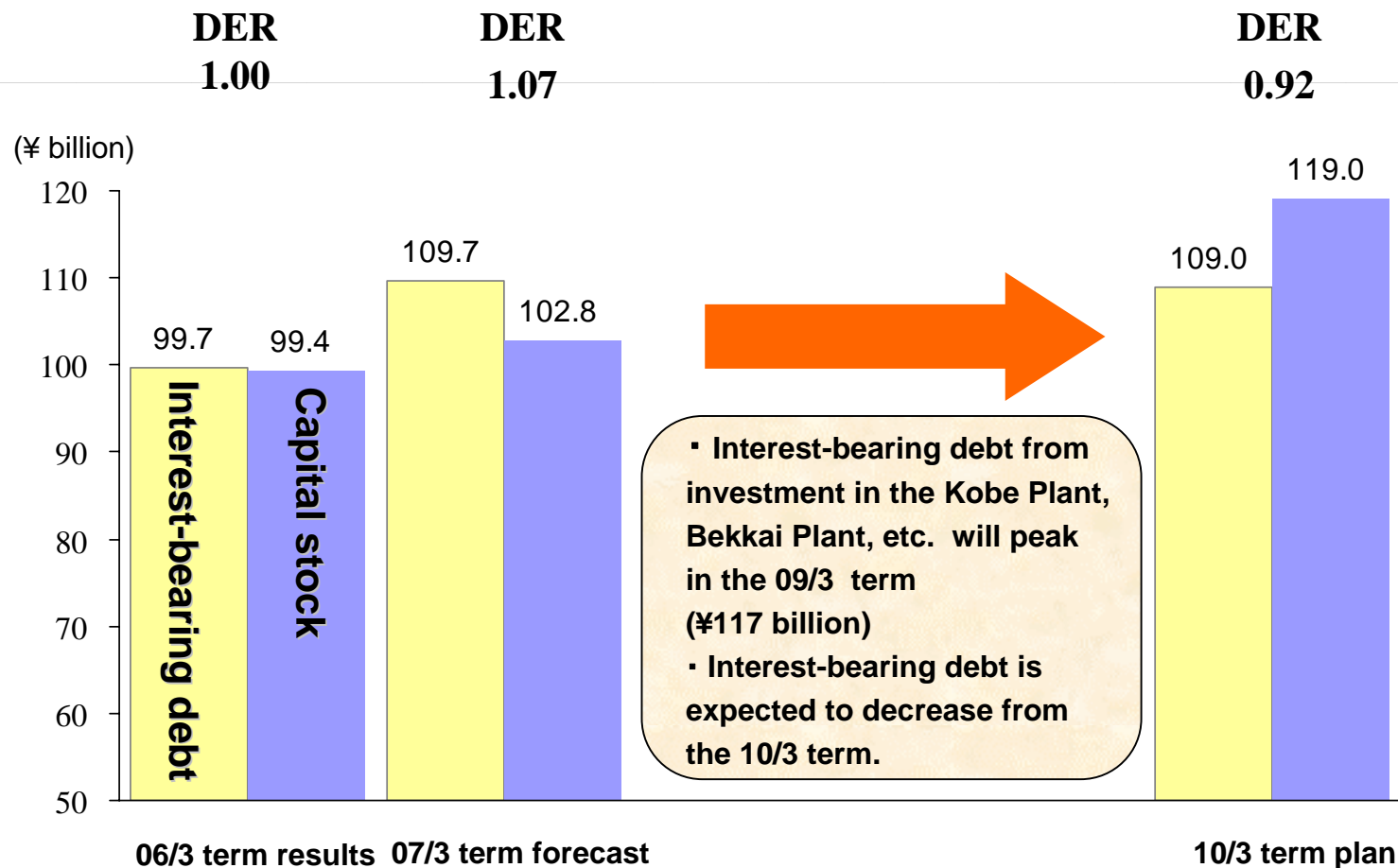
Ordinary investment ¥48.0

Growth investment ¥26.0

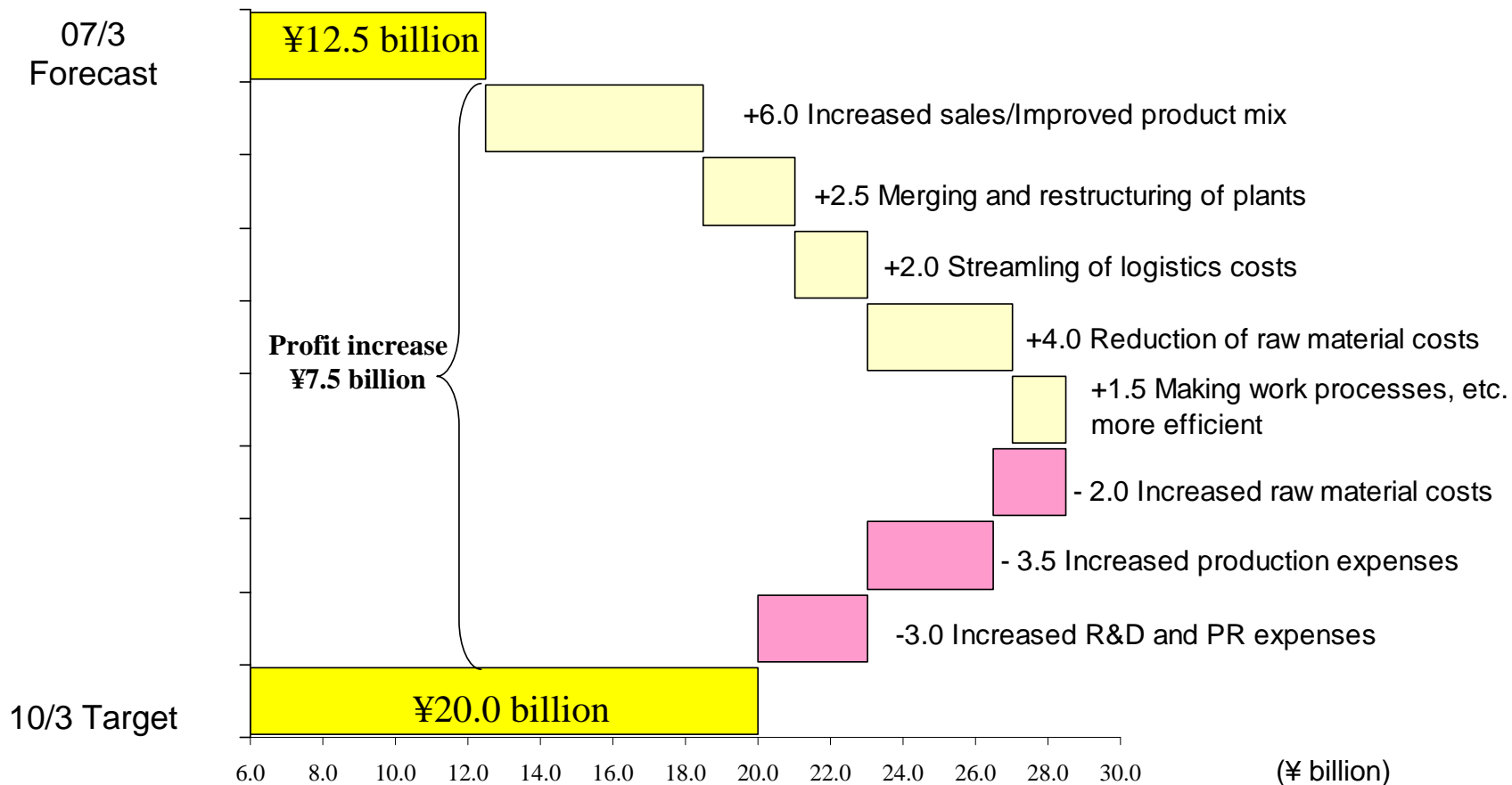
(Kobe Plant, New Tohoku Plant, Bekkai Cheese Plant, others.)

Financial Plan (Consolidated)

Interest-bearing debt and capital stock



Ordinary profit target for final year (FY 2009 Consolidated)



Important Notice

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



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