February 9, 2022

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022
<Japanese GAAP>

Listed company: Morinaga Milk Industry Co., Ltd.
Listed stock exchange: Tokyo
Securities code: 2264
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Submission of quarterly report: February 10, 2022
Dividend payment commencement date: –
Preparation of explanatory materials for quarterly financial results: Yes
Holding of a briefing on quarterly financial results: Yes

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022 (April 1, 2021 to December 31, 2021)

(1) Consolidated operating results (Cumulative) (% figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2021	388,418	–	27,613	–	28,594	–	21,339	–
Nine months ended December 31, 2020	453,599	(1.3)	24,465	6.9	25,476	9.0	16,826	13.4

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥21,720 million / –%
Nine months ended December 31, 2020: ¥16,568 million / 16.2%

	Profit per share	Profit per share–diluted
	Yen	Yen
Nine months ended December 31, 2021	431.12	430.41
Nine months ended December 31, 2020	340.03	339.39

(Note) The Group has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and related guidance from the beginning of the fiscal year ending March 31, 2022. Accordingly, all figures for the third quarter of the fiscal year ending March 31, 2022 are figures after application of the said standard and guideline, and no year-on-year changes are presented.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2021	471,114	219,725	46.2
As of March 31, 2021	453,646	202,503	43.9

(Reference) Shareholders' equity: As of December 31, 2021: ¥217,665 million As of March 31, 2021: ¥199,354 million

(Note 1) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and related guidance from the beginning of the fiscal year ending March 31, 2022. Accordingly, all figures for the third quarter of the fiscal year ending March 31, 2022 are figures after application of the said standard and guideline.

(Note 2) During the first quarter of the fiscal year the consolidated fiscal year under review, the accounting treatment for business combinations that had been applied provisionally was finalized, and this is reflected in the figures relating to the previous consolidated fiscal year.

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	–	–	–	70.00	70.00
Fiscal year ending March 31, 2022	–	–	–		
Fiscal year ending March 31, 2022 (Forecast)				80.00	80.00

(Note) Amendment to forecasts of dividends recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	500,000	–	30,000	–	30,800	–	34,600	–	699.01

(Note 1) Amendment to forecasts of consolidated financial results recently announced: Yes

(Note 2) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and related guidance from the beginning of the fiscal year ending March 31, 2022. The forecast of consolidated financial results stated above shows amounts after application of the said standard and guideline, and no year-on-year changes are presented for both the full year and the quarter.

*** Notes**

(1) Changes in significant subsidiaries during the nine months ended December 31, 2021: None
(changes in specified subsidiaries affecting the scope of consolidation)
New: - (Company name:) Excluded: - (Company name:)

(2) Application of special accounting for preparing quarterly consolidated financial statements: Yes
For details, refer to page 9 of the attached materials, "2. Quarterly Consolidated Financial Statements and Notes (3) Notes regarding the quarterly consolidated financial statements (Application of special accounting for preparing quarterly consolidated financial statements)."

(3) Changes in accounting policies and estimates, and retrospective restatements
(i) Changes in accounting policies in accordance with revision of accounting standards: Yes
(ii) Changes in accounting policies other than item (i) above: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(4) Number of shares issued (common stock)
(i) Number of shares outstanding at the end of the period (including treasury stocks)

As of December 31, 2021	49,845,343 shares
As of March 31, 2021	49,834,143 shares

(ii) Number of treasury stocks at the end of the period

As of December 31, 2021	341,045 shares
As of March 31, 2021	346,315 shares

(iii) Average number of shares during period

For the nine months ended December 31, 2021	49,498,469 shares
For the nine months ended December 31, 2020	49,485,190 shares

* Quarterly financial results are not subject to review by a certified public accountant or audit corporation.

* Proper use of earnings forecasts, and other special matters
The above forecasts of consolidated financial results are based on information currently available to the Company and on certain assumptions on market trends, etc. deemed to be reasonable, and are subject to uncertainties. Consequently, actual business and other results may differ substantially due to various factors. For details on the above forecasts of consolidated financial results, refer to page 4 of the attached materials, "1. Qualitative Information on Quarterly Results (3) Explanation of forward-looking information including consolidated earnings forecasts."

[Attached Materials]

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1. Qualitative Information on Quarterly Results

(1) Explanation of consolidated operating results

In the first nine months of the consolidated fiscal year under review, we saw a resurgence in COVID-19, including new variants of the virus, in countries around the world, and we expect the various problems that resulted from these infections to continue to have an impact going forward. In Japan, although the resurgence of the virus has required close attention, meticulous precautions were taken against infection and socioeconomic activity continued. We expect the trend towards recovery, which arose from the effects of these measures and of improvements in some overseas economies, to continue.

Under these circumstances, the Morinaga Milk Group has made every effort to continue supplying products to the extent possible, while giving the utmost consideration to the safety and health of employees, in order to fulfill its mission as a company that manufactures foods that are essential to daily life. Demand has changed greatly compared with conditions before the pandemic, with a continuous decline in demand for commercial dairy products for the restaurant industry, hotels, tourism, and souvenirs, although some recovery from the previous year has been observed, whereas demand for functional ingredients with health-promoting benefits and for products used by households, such as yogurt and ice cream, has remained firm. There has also been a significant change in society, consumer attitudes, and business conditions overseas, such as a growing demand for functional ingredients against the backdrop of increasing health needs worldwide.

<Overview of the Medium-Term Business Plan>

Based on the "Morinaga Milk Group 10-year Vision," we have set the next three years from April 2019 through the fiscal year ending March 31, 2022, as a period during which we will establish a solid business platform. To that end, we have established the three basic policies of: 1) "achieving sustainable growth by enhancing initiatives laterally across our four pillars[*1] of business"; 2) "performing business with an ESG-focus aligned with our Corporate Philosophy"; and 3) "further strengthening our business base in a manner that supports the foundations of our corporate activities." We also established the new Medium-Term Business Plan, which targets net sales of ¥630,000 million and operating income of ¥30,000 million, and are carrying out various initiatives to achieve the plan. (The above numerical targets are at the time the plan was developed. The earnings forecast for the fiscal year ending March 31, 2022, projects ¥500,000 million in net sales and ¥30,000 million in operating income (revised on February 9, 2022).)

* 1. The four businesses are (1) B-to-C business, (2) Wellness business, (3) B-to-B business, (4) Overseas business

<Key initiatives for the fiscal year under review>

This is the final year of our three-year medium-term business plan. We are working to further strengthen our corporate structure and business. Note that the year-on-year comparison is calculated based on comparison of the forecast for the fiscal year ending March 31, 2022 with the result for the fiscal year ended March 31, 2021 adjusted by applying the accounting standard for revenue recognition due to application of the accounting standard for revenue recognition (ASBJ Statement No. 29 of March 31, 2020, "Accounting Standard for Revenue Recognition") and related guidance from the fiscal year ending March 31, 2022.

- Respond to impact of the COVID-19 pandemic.
  - Conduct sales activities aligned with the recovery in commercial and office demand and market changes in household and health-related demand.
  - Deal with the bounce in operating costs that were curbed last fiscal year and cost increases driven by higher raw materials and energy prices.
  - Establish functions to support business, such as raw material procurement, distribution, and finance.
- Provide and promote the value of products that meet the needs of customers, while also expanding high value-added products and actively promoting sales of functional ingredients that contribute to people's health, and expanding Overseas business.
- Carry out initiatives focused on reduction of CO_2 emissions, water usage, wastewater, plastic use, and food loss to contribute to the creation of a sustainable society.
- Reduce operational costs by improving production efficiency, etc.
- Reorganize the Group's production bases to further strengthen the business base (production suspended at the Tokyo Plant in March 2021).

• Improvement of asset efficiency (sale of former Kinki Plant site, sale of Konan Building (Minato-ku, Tokyo): extraordinary income expected to be recognized in the fiscal year ending March 31, 2022).
• Bolster dialogue with stakeholders ahead of the announcement of the next medium-term business plan.

As a result, consolidated net sales of yogurt and ice cream increased due to expansion of high value-added products and products that contribute to people's health in the B-to-C business. In addition, commercial dairy products in the B-to-B business bounced back from steep declines last fiscal year, helping to support a rise in overall sales.

Consolidated profits were affected by rising raw material prices caused by a global increase in demand and the depreciation of the yen. In response to this, we made further efforts to address these issues, such as improving the product mix by expanding highly profitable businesses and sales of highly profitable products, and working on Group-wide cost reductions. Partly in reaction to the previous year's weakness in the B-to-B business, profits rose to exceed previous-year levels.

Consolidated net sales	¥388,418 million	(+2.7% YoY)
Consolidated operating income	¥27,613 million	(+12.7% YoY)
Consolidated ordinary income	¥28,594 million	(+12.1% YoY)
Profit attributable to owners of parent	¥21,339 million	(+26.6% YoY)

(Other important operating indicators)

Operating income to net sales	7.1%
ROE	10.2%
Overseas sales ratio	8.4%

(Reference) Overview of the results by business field (four pillars of business) in the Medium-Term Business Plan

1. B-to-C business: Although products such as cheese declined in reaction to the increase in household demand experienced in the previous fiscal year, solid demand for products such as yogurt and ice cream supported an increase in sales. In addition, the rise in health awareness led to better-than-expected sales of foods with function claims, such as "Triple Yogurt" and "Bifidus Yogurt Improves Bowel Movement," which made a significant contribution to improvements in the product mix.

   Despite the surge in raw material prices, profits rose not only as a result of increases in sales volume and the improvement in product mix, but also due to containment of costs, including control of sales activities.

B-to-C business net sales	¥203,586 million	(+0.3% YoY)
B-to-C business operating income	¥15,346 million	(+¥1,374 million YoY)

2. Wellness business: Sales rose on the back of growth in CLINICO Co., Ltd.'s products, nutritional supplement foods such as the nutritional milk powder "Milk Life" (powdered milk for adults), and health foods.

   Although there was a negative impact from the rise in raw material prices, in addition to the impact of higher sales we succeeded in containing costs, such as control of sales activities, which resulted in an increase in profits.

Wellness business net sales	¥33,824 million	(+1.9% YoY)
Wellness business operating income	¥3,302 million	(+¥259 million YoY)

3. B-to-B business: Commercial dairy products, which account for a high proportion of the total, recorded a significant increase in net sales in reaction to the large decrease posted in the previous fiscal year. Meanwhile, increased health awareness led to continued high interest in the Company's functional ingredients.

   In terms of profits, despite the impact of higher raw material prices, the significant increase in profit on sales led to a rise in profits.

B-to-B business net sales	¥62,330 million	(+11.0% YoY)
B-to-B business operating income	¥3,184 million	(+¥783 million YoY)

4. Overseas business: Exports of products such as infant and toddler milk dropped in reaction to the considerable increase recorded in the previous fiscal year but sales of MILEI GmbH increased. Net sales also increased as a result of Vietnamese company Elovi becoming a consolidated subsidiary in March 2021.

In addition to the effects of higher sales, growth in high-margin functional ingredients resulted in an improved product mix, pushing profits higher.

Overseas business net sales	¥32,533 million	(+11.8% YoY)
Overseas business operating income	¥5,692 million	(+¥1,592 million YoY)

(2) Explanation of consolidated financial position

Total assets at the end of the third quarter of the consolidated fiscal year under review increased by ¥17,467 million to ¥471,114 million compared to the end of the previous fiscal year. This was mainly due to an increase in notes and accounts receivable–trade and contract assets from seasonal factors and cash and deposits.

Total liabilities were ¥251,388 million, up ¥245 million from the end of the previous fiscal year. This was mainly due to an increase in deposits received and notes and accounts payable–trade, despite a decline in commercial papers.

Net assets were ¥219,725 million, up ¥17,222 million from the end of the previous fiscal year. This was mainly attributable to an increase in retained earnings.

As a result, the shareholders' equity ratio was 46.2%, compared with 43.9% at the end of the previous fiscal year.

(3) Explanation of forward-looking information including consolidated earnings forecasts

Regarding our earnings forecasts for the fiscal year ending March 31, 2022, we have revised our forecasts of the consolidated financial results based on progress by the third quarter and the outlook for market conditions. For details, please refer to "Notice Regarding Revision of the Financial Results Forecast" issued on February 9, 2022.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	19,262	27,419
Notes and accounts receivable–trade	61,573	—
Notes and accounts receivable–trade and contract assets	—	75,294
Merchandise and finished goods	49,394	46,487
Work in process	828	1,046
Raw materials and supplies	16,439	17,803
Other	8,556	8,691
Allowance for doubtful accounts	(368)	(290)
Total current assets	155,615	176,452
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	87,730	84,466
Machinery, equipment and vehicles, net	93,691	91,118
Land	57,185	56,844
Other, net	15,730	16,738
Total property, plant and equipment	254,336	249,167
Intangible assets	7,968	9,706
Investments and other assets		
Investment securities	21,193	20,924
Other	14,621	15,031
Allowance for doubtful accounts	(90)	(168)
Total investments and other assets	35,724	35,787
Total noncurrent assets	298,030	294,661
Total assets	453,646	471,114

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable–trade	48,764	54,885
Electronically recorded obligations–operating	4,695	5,554
Short-term borrowings	3,292	3,084
Current portion of long-term borrowings	7,936	8,069
Commercial papers	10,000	—
Income taxes payable	4,169	5,178
Accrued expenses	33,413	33,242
Deposits received	16,111	22,474
Other	16,524	14,844
Total current liabilities	144,906	147,332
Noncurrent liabilities		
Bonds payable	50,000	50,000
Long-term borrowings	30,404	28,517
Net defined benefit liability	20,985	21,464
Other	4,846	4,073
Total noncurrent liabilities	106,236	104,056
Total liabilities	251,142	251,388
Net assets		
Shareholders' equity		
Capital stock	21,787	21,821
Capital surplus	19,947	19,979
Retained earnings	153,540	171,442
Treasury stock	(708)	(706)
Total shareholders' equity	194,566	212,536
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,625	7,197
Deferred gains or losses on hedges	73	4
Foreign currency translation adjustment	(1,131)	(415)
Remeasurements of defined benefit plans	(1,779)	(1,657)
Total accumulated other comprehensive income	4,787	5,128
Subscription rights to shares	203	174
Non-controlling interests	2,945	1,885
Total net assets	202,503	219,725
Total liabilities and net assets	453,646	471,114

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

(Consolidated statements of income)
(April 1, 2021 – December 31, 2021)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	453,599	388,418
Cost of sales	305,443	291,288
Gross profit	148,155	97,130
Selling, general and administrative expenses	123,689	69,516
Operating income	24,465	27,613
Non-operating income		
Interest income	12	26
Dividends income	1,001	803
House rent income	233	213
Share of profit of entities accounted for using equity method	67	20
Other	939	780
Total non-operating income	2,254	1,843
Non-operating expenses		
Interest expenses	525	562
Loss on valuation of derivatives	341	—
Other	375	300
Total non-operating expenses	1,243	862
Ordinary income	25,476	28,594
Extraordinary income		
Gain on sales of noncurrent assets	93	4,380
Other	78	243
Total extraordinary income	171	4,624
Extraordinary losses		
Loss on disposal of noncurrent assets	392	332
Contributions to the public interest incorporated foundation Hikari Kyokai	1,370	1,260
Plant restructuring cost	475	1,217
Other	81	203
Total extraordinary losses	2,319	3,013
Profit before income taxes	23,329	30,204
Income taxes	6,382	8,761
Profit	16,946	21,443
Profit attributable to non-controlling interests	120	103
Profit attributable to owners of parent	16,826	21,339

(Consolidated statements of comprehensive income)
(April 1, 2021 – December 31, 2021)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit	16,946	21,443
Other comprehensive income		
Valuation difference on available-for-sale securities	12	(425)
Deferred gains or losses on hedges	34	(134)
Foreign currency translation adjustment	(534)	665
Remeasurements of defined benefit plans	113	121
Share of other comprehensive income of entities accounted for using equity method	(4)	50
Total other comprehensive income	(378)	277
Comprehensive income	16,568	21,720
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,413	21,681
Comprehensive income attributable to non-controlling interests	154	39

(3) Notes regarding the quarterly consolidated financial statements

(Notes on premise of going concern)
No items to report.

(Notes on significant changes in the amount of shareholders' equity)
No items to report.

(Application of special accounting for preparing quarterly consolidated financial statements)
(Assessment of tax expenses)

The Company and its consolidated subsidiaries apply the method that reasonably estimates an effective tax rate to be assessed on profit before income taxes for the fiscal year ending March 31, 2022, including this third quarter of the fiscal year under review after accounting for the tax effects, and multiplies profit before income taxes during the third quarter of the fiscal year ending March 31, 2022 by said estimated effective tax rate.

(Changes in accounting policies)
(Application of accounting standard for fair value measurement and related guidance)

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereafter "Accounting Standard for Fair Value Measurement") and related guidance from the beginning of the first quarter of the consolidated fiscal year under review. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and related guidance will be applied into the future. This will have no impact on the quarterly consolidated financial statements.

(Application of accounting standard for revenue recognition and related guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereafter "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the consolidated fiscal year under review. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to customers, at the amount that is expected to be received in exchange for the goods or services.

The main changes resulting from this application are as follows.

For transactions in which the consideration paid to the customer was previously recorded as selling, general and administrative expenses, except in cases where the consideration paid to the customer is paid in exchange for an individual good or service provided by the customer, this has been changed so that it is deducted from the net sales. In addition, for some transactions where the Company or a consolidated subsidiary acted as an agent, the total amount of consideration received from the customer was previously recognized, but this has been changed to the recognition of a net revenue figure consisting of the total amount of consideration from which the amount paid to the supplier has been subtracted.

With regard to the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment set forth in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of the consolidated fiscal year under review has been added to or subtracted from retained earnings at the beginning of the first quarter of the consolidated fiscal year under review, and the new accounting policy has been applied to the opening balance at the start of this three-month period.

As a result, in comparison with past accounting treatment, net sales in the third quarter of the consolidated fiscal year under review decreased by 73,687 million yen, cost of sales decreased by 22,009 million yen, selling, general and administrative expenses decreased by 51,698 million yen, and operating income, ordinary income, and profit before income taxes increased by 20 million yen. Retained earnings at the beginning of the current period increased by 12 million yen.

Due to the application of the Accounting Standard for Revenue Recognition, the "Notes and accounts receivable" shown in the "Current assets" section of the balance sheet for the previous consolidated fiscal year is included in "Notes and accounts receivable–trade and contract assets," beginning from the first quarter of the consolidated fiscal year under review. Furthermore, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, reclassification based on the new presentation method has not been conducted for the previous consolidated fiscal year. Furthermore, as permitted by the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), disaggregated information on revenue from contracts with customers during the third quarter of the previous consolidated fiscal year has not been disclosed.

3 Other

(Transfer of important assets)

The Company's Board of Directors, at its meeting held on February 9, 2022, resolved to transfer the fixed assets that it owns, as described below. Note that the resolution is subject to the approval of the transfer by the Investment Committee of the transferee's asset management company.

1. Reason for the transfer

The decision to transfer the fixed assets that the Company owns has been made with a view to making effective use of management resources and increasing asset efficiency.

2. Description of the assets to be transferred

Description and location of the assets to be transferred	Land (site of the former Tokyo Plant) 66,798.00 m^2*1 1-29-1 Okudo, Katsushika-ku, Tokyo
Transfer price	*2
Book value	*2
Gain on transfer (planned)	65 billion yen*3
Current status	Idle

*1 A trust will be established on the asset to be transferred, subsequent to which the trust beneficiary right will be transferred based on the trust thus established.

*2 Transfer price and book value are not disclosed in complying with the request of the asset management company.
Note that the book value is less than 30% of consolidated net assets.

*3 Gain on transfer is an approximation based on transfer price less book value and estimated amount of expenses relating to the transfer, etc.

3. Overview of the transferee

In complying with the wishes of the asset management company, the Company refrains from disclosing information on the transferee which is a special purpose company to be established by the asset management company for development and management of rental logistics facility at the site. The Company name will be timely disclosed as the progress of disclosed matter when the contract is concluded. Note that there are no matters requiring special mention with respect to capital, personnel and transactional relationship between the Company and the transferee or the asset management company, and as an interested party of the transferee or the asset management company.

4. Schedule of the transfer

(1) Date of resolution by the Board of Directors: February 9, 2022
(2) Date of the agreement: March 1, 2022 (scheduled)
(3) Handover date*: April 2023 (scheduled)
* The above handover date is the transfer date of the trust beneficiary right on the fixed asset.