

Governance

Corporate Governance

Corporate Governance Basic Policy

The Morinaga Group will enhance its corporate governance with the aim of maximizing corporate value and achieving enduring corporate growth based on the basic policies of improving the health and efficiency of management, ensuring the reliability of its financial position, providing timely and appropriate disclosure of information, complying with laws and regulations, and strengthening the trust and relationships with all stakeholders.

(1) Positioning of Stakeholders

To enable us to fulfill our social responsibility in all areas of our business activities, we are committed to maintaining and further developing strong relationships with all stakeholders, who sustain our company, and achieving coexistence with society and sustainable growth in accordance with corporate principles and the code of conduct.

(2) Management Monitoring Functions

We are committed to building an effective internal control system by strengthening the management monitoring functions of the Board of Directors, appointing outside Directors and Statutory Auditors, requiring attendance by Standing Statutory Auditors at important meetings, and placing the Audit Division under the direct control of the President.

(3) Consistency in Thinking within the Entire Group

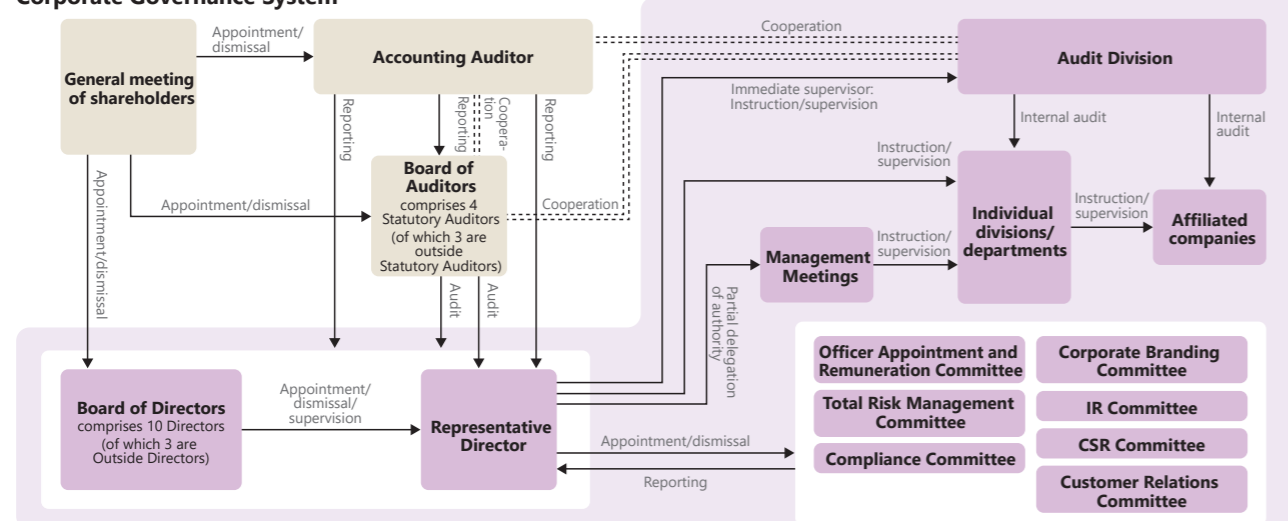
While respecting the independence of our subsidiaries, we endeavor to maintain close ties amongst the Group's member companies.

Corporate Governance System

Management of Corporate Affairs

Morinaga's "Rules on Decision-Making Criteria" states clear definitions of authority and responsibility for respective decision-making units, including the Board of Directors, Management Meetings, Directors, Executive

Corporate Governance System



(As of June 26, 2020)

Officers, and General Managers of individual divisions and departments.

<Board of Directors>

The Board of Directors deliberately makes decisions on statutory matters and the execution of important business based on the business judgment principle and supervises the execution of business. The Board consists of ten Directors, out of which three are Outside Directors, seven are male, and three are female Directors.

Diversity of Directors (As of June 26, 2020)

Ratio of female Directors	30% (3 out of 10)	Ratio of Outside Directors	30% (3 out of 10)
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<Management Meetings>

Management Meetings, which is mainly comprised of Directors and Standing Statutory Auditors, deliberates and makes decisions on important management themes and other matters for which authority is delegated by the Board of Directors. To ensure the effectiveness and efficiency of deliberations at the Board of Directors and Management Meetings, sufficient prior discussions are made at various committees that serve as advisory bodies for the Boards. These committees include the IR Committee, which is concerned with information disclosure, and the Officer Appointment and Remuneration Committee, a forum to discuss matters concerning Directors' personnel and remuneration matters.

<Executive Officer System>

With the aim of increasing the agility to respond to the changing business environment and accelerating the decision-making process, Morinaga has adopted an executive officer system. With this move, the Company delegated authority and responsibility for executing regular business relating to the implementation of strategies to Executive Officers, ensuring efficient management and a clarification of responsibilities for business execution.

List of Directors (As of June 26, 2020)

Name	Attribute	Title	FY2020/3 Board Meeting Attendance
Ejjiro Ota		Representative Director and President	100% (16/16 times)
Machiko Miyai		Director Managing Executive Officer	100% (16/16 times)
Takashi Hirakue		Director Senior Executive Officer	100% (16/16 times)
Shinichi Uchiyama		Director Senior Executive Officer	100% (16/16 times)
Toshiyuki Sakai		Director Senior Executive Officer	100% (16/16 times)
Shinya Mori		Director Senior Executive Officer	100% (11/11 times)
Daisuke Fujii		Director Senior Executive Officer	100% (11/11 times)
Shiho Takano	Outside Independent	Director	100% (16/16 times)
Naomi Eto	Outside Independent	Director	Newly appointed
Shuichi Hoshi	Outside Independent	Director	Newly appointed

four Statutory Auditors are male. In accordance with the Guidelines for Auditors, Statutory Auditors audit the Directors' performance of their duties based on the Rules on Statutory Auditors' Audit. Standing Statutory Auditors hold regular meetings with the Representative Director and attend management meetings of the Board of Directors and other important gatherings to audit the Directors' performance of their duties. Audit Division, which is responsible for carrying out internal audit, directly reports to the President. Composed of five members, the Division audits all divisions (including subsidiaries) in a planned manner, and exchanges opinions with the divisions jointly with Standing Statutory Auditors. To ensure close cooperation, opinion exchange sessions are held regularly and as needed basis between all Statutory Auditors and the Accounting Auditor, as well as between Standing Statutory Auditors and the General Manager of the Audit Division. The General Manager of the Audit Division and the Standing Statutory Auditors attend the meetings of the Internal Control Steering Committee, which is composed of members selected from major divisions and departments, and exchange opinions with the Committee members on a regular basis. Morinaga appointed Deloitte Touche Tohmatsu LLC as its accounting auditor.

List of Statutory Auditors (As of June 26, 2020)

Name	Attribute	FY2020/3 Board of Auditors Attendance	FY2020/3 Board Meeting Attendance
Tadashi Nishimiya	Standing	100% (21/21 times)	100% (16/16 times)
Akiyuki Igarashi	Outside Standing	100% (15/15 times)	100% (11/11 times)
Koichi Sakaguchi	Outside	100% (21/21 times)	100% (16/16 times)
Hiroshi Iwamoto	Outside	100% (15/15 times)	100% (11/11 times)

CSR Issues Discussed at the Board of Directors

In FY2020/3, the Board of Directors discussed the following matters related to CSR:

- Donation to typhoon relief

The Board decided to donate 10 million yen to the areas hit by Typhoon Faxai and Typhoon Hagibis in 2019 via the Japanese Red Cross Society.

- Risk management

Implementation of risk management and challenges in FY2019/3; activity plan for the current year

- Compliance

Compliance efforts and challenges in FY2019/3; activity plan for the current year

- Customers' voice and feedback

The Board discussed response to customers' opinions and requests and associated issues

- Assessment of the Board's effectiveness

The Board discussed whether it was functioning effectively based on third-party assessments and agreed on the issues towards improvement.

- Internal Control

The Board confirmed the effectiveness of internal control and approved the internal control report.

Auditing System

We have four Statutory Auditors, including three Outside Statutory Auditors. One of these three Outside Statutory Auditors is a Standing Statutory Auditor, and all of the

Basic Policy and Structure of Executive Remuneration System

(1) Basic Policy

Our Executive Remuneration Basic Policy stipulates that the Company shall establish and operate a system that prioritizes the strengthening of executives' motivation for contributing to the enhancement of corporate value over the medium- to long-term and the achievement of sustainable growth, while discouraging excessive risk-taking. We are determined to continue pursuing a better remuneration system, ensuring the objectivity and transparency of the remuneration determination process and taking into account regulatory revisions and social trends in the future.

(2) Structure and Content of Remunerations

Under our executive remuneration system, a standard amount of total remuneration has been set for each title. To ensure competitiveness in the market, the standard amount is determined referring to the levels of executive remuneration paid by leading companies that are similar in size to Morinaga.

The standard amount of total remuneration for Executive Directors consists of fixed remuneration and performance-based remuneration.

Further, excluding non-residents in Japan, 10% of the total remuneration is paid in stock for the purpose of clarifying the linkage with the Company's stock value and motivating them to make contributions to an improvement of medium- to long-term performance and corporate value. Considering their need to keep independence from management, Outside Directors and Outside Statutory Auditors only receive fixed remuneration, and excluded from the payment of performance-based remuneration.

The following shows the basic ratio of fixed and performance-based remunerations by title:

Title	Fixed remuneration (%)	Performance-based remuneration (%)
Directors (excluding Outside Directors)	70	30
Outside Directors	100	0
Statutory Auditors	100	0

Assessment of the Board's effectiveness

(1) Method of Analysis and Assessment

To analyze and assess the effectiveness of the Board of Directors as a whole, the Company conducted, during the period from February through March 2020, a survey and interviews of all (including Outside) Directors and Statutory Auditors regarding: 1) the composition, operation, and agendas of the Board; 2) appointment of, and remuneration for, management team members; 3) risk management; 4) dialogues with shareholders; 5) systems supporting the Board; and 6) matters pointed out in the past Board meetings. Based on the results, an opinion exchange session was held at a Board meeting and a self-assessment was undertaken by each member.

Moreover, in order to obtain objective opinions from experts, we engaged an independent law firm to analyze and assess the results of the survey. By referring to the law firm's analysis and assessment, discussions were held at a Board meeting in May 2020, and the effectiveness of the Board of Directors was finally determined.

(2) Results of Assessment

As a result of the assessment, Morinaga's Board of Directors for FY2020/3 was determined to be "functioning effectively" in light of the Companies Act and the Corporate Governance Code, as no significant malfunctions or lack of systems were identified. Based on the above, it was acknowledged that the Board of Directors was demonstrating its effectiveness in accordance with the Morinaga Group's basic concept of corporate governance.

(3) Efforts for Improvement

There were some issues identified in the FY2019/3

assessment of the Board's effectiveness. They included: 1) enhancement of the content of reports to the Board of Directors; 2) review and adjustment of the report's scope; and 3) promotion of cross-functional discussions. While we believe that, with regard to these issues, a significant progress has been made based on the FY2020/3 effectiveness assessment, we are committed to making further improvements in the future by sharing newly arising issues and practical solution proposals at the meetings of the Board of Directors.

(4) Action to be Taken in the Future

On the other hand, we shared the recognition that the following issues must be resolved in the future to strengthen the functions of the Company's Board and further improve its effectiveness and governance:

- (i) The composition of the Board must be more balanced by, for example, increasing the ratio of Outside Directors;
- (ii) Matters to be resolved or reported should be selected appropriately after providing the Board with sufficient information (including an enhancement of the report's content and review/adjustment of the scope);
- (iii) The processes to nominate Directors and determine their remuneration should be clarified further;
- (iv) Sufficient discussions need to be held on the risk management;
- (v) Discussions with a stakeholder's perspective should be accelerated;
- (vi) Cross-functional discussions should be accelerated further.

Based on the assessment of the Board's effectiveness, we are determined to further improve the Board's effectiveness and strengthen our corporate governance by making necessary improvements for the solution of issues listed above.

Changes in Our Response to the Corporate Governance Code

November 2015	Submitted a Corporate Governance Report that was aligned with the Corporate Governance Code
June 2016	Appointed multiple Independent Outside Directors [Supplementary Principle 4-8-2]
June 2017	Introduced an electronic voting system and provided English translations of the notice of convocation of general meeting of shareholders [Supplementary Principle 1-2-4]
June 2018	Introduced a stock remuneration system for 10% of total remuneration for non-Outside Directors [Supplementary Principle 4-2-1]
July 2019	Published an English translation of Corporate Governance Report on our website

Internal Controls

The Morinaga Group is committed to maximizing corporate value and achieving an enduring corporate growth

by strengthening our internal control system, increasing the management efficiency, operating its business properly, and ensuring effective supervisory and audit practices. To ensure appropriate execution of duties, the Board of Directors endeavors to establish an effective internal control system as well as a system of compliance to legal requirements and internal rules including the

Articles of Incorporation, while Statutory Auditors are responsible for auditing the effectiveness and functionality of such systems. In addition, Morinaga and its subsidiaries home and abroad have introduced a helpline to collect a wide range of information about compliance issues take appropriate measures against them.

Compliance

Promotion of Compliance

Based on its awareness that compliance is a priority issue for all business activities, the Morinaga Group formulated the "Morinaga Code of Conduct/Standards of Conduct" in FY2002/3. In FY2009/3, it was revised to the "Morinaga Group Code of Conduct/Standards of Conduct" to ensure that the Group can share a common compliance management system.

Furthermore, we set up the Compliance Committee to establish and promote the compliance management. As a way to report compliance violations and seek consultation about compliance issues, we have established a helpline system. Under the system, we set up three points of contact for consultation—within the Company, labor union, and an external lawyer's office—to prevent compliance violations from occurring.

Increasing Compliance Awareness

With the aim of embedding a compliance culture into the organization, we display the Morinaga Group Code of Conduct/Standards of Behavior on panels in each office, and distribute booklets and cards to all employees.

In order to increase compliance awareness, we provide compliance training not only as part of training sessions by job class, including those for new recruits and newly appointed managers, but at such locations as the headquarters and individual offices.

In addition, we conduct an annual compliance questionnaire that covers all employees working at a domestic member company of the Group, and use it to identify the Group's level of compliance and take appropriate measures in the future.

For more details, see Respect for Human Rights on p.54.

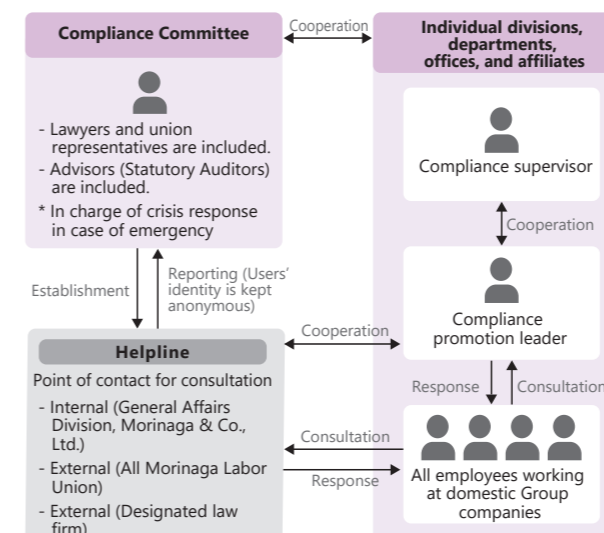
Compliance Training Sessions

In FY2020/3, the secretariat of the Compliance Committee held the following compliance training sessions:

New employee training	Morinaga Group's new employees	82 employees
Second-year training	Morinaga Group's second-year employees	32 employees
Third-year training	Morinaga Group's third-year employees	28 employees
Fifth-year training	Morinaga Group's fifth-year employees	24 employees
Newly-appointed S-grade employee training	Morinaga's employees appointed to the S grade (chief class)	34 employees
New manager training	Morinaga's employees appointed to a managerial position	31 employees
Training provided by office	Conducted based on the results of the compliance questionnaire Employees of Morinaga and affiliated companies	510 employees in total

In addition to the above, respective branches, factories and other business offices, and affiliated companies provide their own compliance training.

Morinaga Group Compliance Management System



Risk Management

Philosophy of Total Risk Management

The Morinaga Group identifies total risk that potentially exists in its business activities and takes appropriate measures against the risk based on the philosophy of total risk management.

(1) To Fulfill Corporate Social Responsibility

- (i) Ensuring of the safety of employees and visitors
- (ii) Safeguarding of assets
- (iii) Early business recovery and ensuring of business continuity

(2) To Gain Corporate Social Responsibility

- (i) Timely and appropriate information disclosure
- (ii) Contribution to local communities
- (iii) Humanitarian considerations

Major Risks and Responses

In an effort to respond to potential risks existing in its business activities, the Morinaga Group established the "Total Risk Management Rules" in FY2002/3 as part of its internal control system. Based on the Rules, we classify and assess possible risks and implement preventive measures in normal times. See the table below for major possible risks and countermeasures.

The Total Risk Management Rules includes various manuals such as the Natural Disaster Crisis Preparedness Manual, which sets out measures to ensure an early resumption of business in case of crisis. In FY2018/3, in an attempt to take our business continuity plan (BCP) a step further, we began to work on the development of business continuity management (BCM), a framework

of continuous improvements that allow the Company to continue operations even when being affected by a disaster or accident, or resume operations as early as possible after an interruption.

In the event of a crisis, we will assess and judge the situation promptly, take necessary actions such as the establishment of a task force and information disclosure, while conducting a cause analysis and implementing recurrence prevention measures.

Further, to demonstrate our strong stance against anti-social forces, we appointed a person in charge of preventing unreasonable demands. We also work to collect information from related administrative agencies, and, in case of an emergency, we will take organization-wide actions swiftly, working closely with these agencies.

Morinaga Group's Total Risk Management System



Major Risks Anticipated by the Morinaga Group and Responses Thereto

Risk Items	Assumptions	Anticipated Risks	Response by the Morinaga Group
1 Risks related to food safety	The Group recognizes that ensuring food safety is the highest priority issue for a food company.	There is a risk that, if a large-scale recall or product liability compensation occurs due to an unexpected quality accident, our performance and financial position are negatively affected as a result of incurring of significant costs and the Group's reputation being damaged severely.	<ul style="list-style-type: none"> • Establishment of the Quality Policy and the Quality Assurance Rules to build a systematic quality assurance framework • Introduction of FSSC 22000 and strengthening of the Quality Assessment System • Crisis Response Manuals should be referred to in case of a quality accident.
2 Risks in the production system	Basically, the Company adopts the one product/one factory production system.	There is a risk that the Group's business performance and financial position are negatively affected in the event of a large-scale disaster or accident that may have a significant impact not only on the Group's production and sales activities but on consumers' purchasing behavior.	<ul style="list-style-type: none"> • Identification of possible measures for core products as part of the business continuity management (BCM).
3 Raw material procurement risk	<ul style="list-style-type: none"> - Our primary raw materials are agricultural products such as wheat flour, cacao beans, and vegetable oils/fats. - We use petroleum products as packaging materials. 	There is a risk that the Group's performance and financial position are negatively affected in the event of price hike or difficulties in acquiring a sufficient volume of raw materials due to such reasons as poor crops resulting from unseasonable weather or political instability in the country of origin.	<ul style="list-style-type: none"> • Strengthening of information collection, diversification of procurement sources, maintenance of appropriate inventory levels, forward exchange contracts, etc.
4 Weather, natural disasters, infectious diseases, etc. (environmental and social risks in the supply chain)	<ul style="list-style-type: none"> - Products purchasing behavior of which are susceptible to weather conditions. - Unforeseen, large-scale natural disasters and infectious disease pandemics 	There is a risk that the Group's performance and financial position are negatively affected by a stagnation of supply chain (mainly production and logistics).	<ul style="list-style-type: none"> • Flexible production management based on the collection and analysis of weather information • Prompt establishment of a task force as well as a production and supply system in case of a natural disaster, infectious disease, etc.
5 Leakage of corporate and/or personal information	Information systems cover all of the business operations and handle classified data.	In the event of an unexpected information leakage due to, for example, an unauthorized access using an unforeseen technology, there is a risk that our performance and financial position are negatively affected as a result of incurring of significant costs and the Group's reputation being damaged severely.	<ul style="list-style-type: none"> • Enhancement of the Group's preparedness through the establishment of Personal Information Handling Policy • In the unlikely event of information leakage, restore our reputation by immediately announcing the incident and taking specific measures.
6 Business expansion into overseas markets	As a global strategy, we expand our business into overseas markets through our subsidiaries in the United States, China, Southeast Asia, etc.	There is a risk that the Group's performance and financial position are negatively affected in case of unpredictable events such as a war, terrorism, political and social changes, changes in local regulatory and taxation frameworks, business practices, and sudden exchange rate fluctuations.	<ul style="list-style-type: none"> • Strengthening of business and risk management systems through information collection in host countries
7 Corporate Social Responsibility	Compliance with laws and social norms	A regulatory violation or anti-social behavior will entail a risk of legal punishment, social sanctions, loss of trust, and damage to the reputation and brand.	<ul style="list-style-type: none"> • Strengthening of compliance with laws, rules, and regulations by establishing the Morinaga Group Code of Conduct • Management of compliance risks by the Compliance Committee

Respect for Human Rights

Human Rights Policy

The Morinaga Group considers that respect for human rights is an important corporate social responsibility. Based on the Morinaga Group Human Rights Policy, each and every employee shall respect human rights, proceed with the creation of a workplace free from discriminations and harassments, and take human rights into consideration on a supply chain-wide basis.

Morinaga Group Human Rights Policy

As a member of the international community, the Morinaga Group respects fundamental human rights, undertaking sincere business activities that do not tolerate human rights violations.

1. Respect for human rights and prohibition of discrimination

We respect fundamental human rights, and will not discriminate in any way based on a person's race, gender, nationality, religion, ideology, age, or physical characteristics, or for any other reason.

2. Prohibition of harassment

We will not participate in power harassment, sexual harassment, or any other behavior whatsoever that injures human dignity.

3. Consideration for safety/hygiene

We will give consideration to safety and hygiene in the workplace, endeavoring to ensure a comfortable work environment, and respect employees' fundamental human rights.

4. Building and maintenance of good labor-management relations

We will respect the right to freedom of association and collective bargaining and other fundamental rights, building and maintaining good labor-management relations.

5. Elimination of child labor/forced labor

In our various business activities, we will not accept child labor, forced labor, or any other unfair labor practices.

(Established in May 2018)

Consideration for Employees' Human Rights

Anti-harassment training

According to our pro-human rights policy, we set the elimination of harassments as a goal of our compliance activities. In our compliance training sessions, we continuously provide educational programs designed to prevent and raise awareness about power, sexual, and other harassments.

Such programs ranges from two types of anti-harassment trainings for executives (one are trainings provided by external lawyers targeting all executives of Morinaga, the other are those for Morinaga's all General Managers leading a division or department, heads of business offices, and executives of Group companies) to training

session videos that can be accessed online by every employee of the Company.

Identifying harassments through compliance survey

The Morinaga Group conducts a compliance survey in every December, targeting all employees working at domestic Group companies (the number of respondents to the survey conducted in December 2019: 3,733), with the view to determine the level of compliance in the Group on a regular basis. In the survey, we attach a special attention to harassing behaviors and include questions asking whether the respondent was directly harassed or saw or heard of a harassing behavior in the last 12 months and in any past year, respectively. Answers to these questions are tabulated separately so that we can have a detailed view of the Company's level of compliance.

We also ask questions about the corporate culture that respects for workplace compliance as well as the respondent's view on the Company's degree of engagement in the compliance management, in an effort to identify our employees' level of compliance awareness. The summary of the survey results is fed back to all the survey respondents to share the understanding about the extent of the Group's compliance.

Examples of questions in the compliance survey

- Have you ever been a victim of a power or sexual harassment?
- In the workplace, do you consult or confirm with your supervisor or colleague when you have any compliance or work-related questions? Alternatively, does your workplace have an atmosphere (environment) that allows such consultation or confirmation?

Furthermore, as part of our proactive activities for an improvement of corporate culture, these results are used as a basis for holding interviews and opinion exchange sessions with respective business offices and making proposals on possible measures to solve compliance issues.



Online anti-harassment training