An Introduction to Megmilk Snow Brand Group
Table of Contents

03 - Group Corporate Philosophy
05 - Founders and History
08 - Business Domains
27 - CSR Management
31 - Governance
32 - Financial Data
By pursuing this threefold mission while endowing milk with new value, Megmilk Snow Brand Group aims to continually contribute to a flourishing society.

Group Corporate Philosophy

Focus on consumers
Contribute to dairy farming production
Put our hearts into milk

Corporate Slogan

Make the Future with Milk
### Company Profile

<table>
<thead>
<tr>
<th><strong>Trade name</strong></th>
<th>MEGMILK SNOW BRAND Co., Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Establishment date</strong></td>
<td>October 1, 2009</td>
</tr>
<tr>
<td><strong>Head office location</strong></td>
<td>5-1 Yotsuya-Honshio-cho, Shinjuku-ku, Tokyo</td>
</tr>
<tr>
<td><em>(Registered head office)</em></td>
<td>1-1, Naecho 6-chome, Higashi-ku, Sapporo City, Hokkaido</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>20 billion yen</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>5,009 (as of March 31, 2018)</td>
</tr>
<tr>
<td><em>(consolidated)</em></td>
<td></td>
</tr>
<tr>
<td><strong>Stock exchange listing</strong></td>
<td>Tokyo Stock Exchange, Sapporo Securities Exchange</td>
</tr>
<tr>
<td><strong>Representative Director</strong></td>
<td>Keiji Nishio</td>
</tr>
<tr>
<td><strong>and President</strong></td>
<td></td>
</tr>
</tbody>
</table>
Founders

Sentaro Utsunomiya
Torizo Kurosawa
Zenshichi Sato

Healthy land, healthy people
Sound land begets healthy food, and healthy food forms healthy people
Our history began with Hokkaido butter

We began manufacturing butter as soon as we were founded. First, we established our milk collection system and trained our staff on how to use a separator. We then launched a modernized factory in 1926 and sold only the best quality product as “Snow Brand Hokkaido Butter”, gaining the trust of our customers.

First in Japan to begin mass production of cheese

From around 1928, we began research, trial manufacturing and trial sales of cheese, and in 1932 we built a cheese plant and began production. As soon as the product went on sale in 1934, it became so popular that it was regularly out of stock, and in no time at all the plant became the first large-scale cheese production facility in Japan.

Opening up the future of milk through our research

Our Research Department was established in 1933. It was engaged in research into processing technology, milk components and lactic acid bacteria. Later, we opened our Sapporo Research Laboratory, Technical Research Laboratory (now the Milk Science Research Institute in Saitama Prefecture) and Cheese Research Laboratory (Yamanashi Prefecture), allowing us to engage in full-scale research projects.
History of MEGMILK SNOW BRAND Co., Ltd.

- Founded in 1925
- Hokkaido Cooperative Creamery Association
- Zenrakuren Cooperative
- Zen-Noh
- Zen-Noh Chokuhan
- Japan Milk Net Co., Ltd.
- Nippon Milk Community Co., Ltd.
- MEGMILK SNOW BRAND Co., Ltd.

Timeline:

- 1925: Founded
- 1948: National Federation of Agricultural Sales Cooperative Associations and National Federation of Agricultural Purchasing Cooperative Associations established
- 1954: Zenrakuren Cooperative established
- 1972: Zenkoku Nohkyo Milk Whole Sales Co., Ltd. ("Zen-Noh") established
- 2002: Snow Brand Food Co., Ltd. fraudulent beef labeling incident
- 2000: Snow Brand Milk Products Co., Ltd. food contamination incident
- October 2009: Management integration
- April 2011: Merger
Business Domains

Business Segments and Profile

MEGMILK SNOW BRAND

Business

- **Daily Products**: Butter, margarine, cheese (domestic and overseas), other dairy products, etc.
- **Beverages and Desserts**: Milk and milk beverages, yogurt, fruit juice and vegetable juice, soft drinks, desserts, etc.
- **Nutrition**: Infant formula (domestic and overseas), functional foods, supplements, functional ingredients, etc.
- **Feedstuffs and Seed Products**: Feedstuffs, seeds (forage grass and crops, vegetables), landscape gardening, cattle fattening, etc.

Group Companies

- **MEGMILK SNOW BRAND Co., Ltd.**
- **KOHNAN OILS AND FATS MFG CO., LTD.**
- **Yatsugatake Milk Co., Ltd.**
- **SI SYSTEM Corporation**
- **CHESCO LTD.**
- **Snow Brand Australia Pty. Ltd.**
- **Udder Delights Australia Pty Ltd**
- **PT. Megmilk Snow Brand Indonesia**
- **CRESCO Corporation**
- **Nichiraku Machinery Co. Ltd., and others**

- **MEGMILK SNOW BRAND Co., Ltd.**
- **Michinoku Milk Co., Ltd.**
- **Yatsugatake Milk Co., Ltd.**
- **Ibaraku Co., Ltd.**
- **SI SYSTEM Corporation**
- **Mitsuwa Distribution Industry Co., Ltd.**
- **Chokuhan Haisou Co., Ltd.**
- **Greenservice Co., Ltd.**
- **CRESCO Corporation, and others**

- **Bean Stalk Snow Co., Ltd.**
- **MEGMILK SNOW BRAND Co., Ltd.**
- **Snow Brand Taiwan Co., Ltd.**
- **Snow Brand Hong Kong Co., Ltd.**
- **Snow Brand Trading (Shanghai) Co., Ltd.**
- **Snow Brand Australia Pty. Ltd.**
- **EN Otsuka Pharmaceutical Co., Ltd.**
- **Amino Up Chemical Co., Ltd.**
- **Belle Neige Direct Co., LTD., and others**

- **Snow Brand Seed Co., Ltd.**
- **Snow Brand Seed USA, Inc.**
- **Doto Feed Corporation**
- **Royal Farm, Ltd.**
- **RF Penkel Farm Co., Ltd.**
- **RF Aomori Farm Co., Ltd., and others**

- **Snow Brand Seed Co., Ltd.**
- **Snow Brand Seed USA, Inc.**
- **Doto Feed Corporation**
- **Royal Farm, Ltd.**
- **RF Penkel Farm Co., Ltd.**
- **RF Aomori Farm Co., Ltd., and others**

YBS Co., Ltd., Snow Brand Parlor Co., Ltd., Snow Brand KODOMO-NO-KUNI Ranch
Dairy Products Business

**Butter**
We began manufacturing and selling butter in 1925, and deliver unchanging flavor and new value in our butter products.

**Margarine**
We sell rich-tasting, melt-in-the-mouth margarine products that leverage our expertise in manufacturing dairy products, including in Southeast Asia.

**Processed Cheese**
We began manufacturing and selling cheese in 1934, and have also been manufacturing and selling cheese in Indonesia since 2013.

**Natural Cheese**
Our mainstay natural cheese products are the YUKIJIRUSHI HOKKAIDO 100 series of camembert cheese, and Sakeru Cheese (string cheese) made from 100% fresh milk produced in Hokkaido.
Dairy Products Business

Market Share

- **Butter**: 32% 1st
- **Margarine**: 37% 1st
- **Cheese**: 18% 1st
- **Skim milk**: 47% 1st
Net Sales and Growth Rates of Cheese

*Market: Megmilk Snow Brand Co., Ltd. survey

*Net Sales (Billion yen)

Household use Cheese

The Company

Cheese Market

Growth rate

Compared with FY2012
Dairy Products Business

Business Locations and Group Companies

- Horonobe Plant
- Okoppe Plant
- Isobunnai Plant
- Sapporo Research Laboratory
- Milk Science Research Institute
- Cheese Research Laboratory
- Yatsugatake Milk Co., Ltd.
- MEGMILK SNOW BRAND Co., Ltd. (Head Office)
- Ami Plant
- Taiki Plant
- Nakashibetsu Plant
- Betsukai Plant
- CHESCO Ltd.
- Kohnan Oils and Fats MFG. CO., LTD.
- Udder Delights Australia Pty Ltd
- PT. Megmilk Snow Brand Indonesia (MSBI)
- Snow Brand Australia Pty. Ltd.
Dairy Products Business

Research and Development

Megmilk Snow Brand
Milk Science Research Institute
Sapporo Research Laboratory
Cheese Research Laboratory

These research laboratories play core roles in all of our research and development work as a comprehensive manufacturer of dairy products. We are engaged in a wide range of research projects across multiple areas relating to dairy products, including the taste and texture of dairy products, research into cheese and butter, and traditional methods of producing natural cheese. The results of our research are practically used to produce new and exciting products.
Dairy Products Business

TV Commercials

Sakeru Cheese

6Pcheese
Beverages and Desserts Business

**Milk and Milk Beverages**
Megmilk Snow Brand milk, which is made using a method that retains the delicious flavor, functional milk beverages with fortified calcium, and more.

**Fruit Juice and Other Beverages**
Dole® fruit juice beverages, NOKYO vegetable juice beverages, coffee, and more.

**Yogurt**
megumi series, featuring Lactobacillus gasseri SP strain which remains live in human intestines for extended periods of time, and more.

**Desserts**
Puddings, jelly, and other products that show our dedication to texture, flavor of milk, and more.
Beverages and Desserts Business

Market Share

Milk 7% 3rd

Milk Beverages 20% 2nd

Yogurt 11% 2nd

Desserts 11% 2nd
Beverages and Desserts Business

Net Sales and Growth Rates of Yogurt

(Billion yen)

<table>
<thead>
<tr>
<th>Net Sales</th>
<th>Household use Yogurt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate</td>
<td></td>
</tr>
<tr>
<td>The Company</td>
<td></td>
</tr>
<tr>
<td>Yogurt Market</td>
<td></td>
</tr>
</tbody>
</table>

*Market: Megmilk Snow Brand Co., Ltd. survey*
Beverages and Desserts Business

Business Locations and Group Companies

- MEGMILK SNOW BRAND Co., Ltd. Head Office and Plants
- MEGMILK SNOW BRAND Co., Ltd. Research Laboratory
- MEGMILK SNOW BRAND Co., Ltd. Subsidiaries and Affiliates

Locations:
- Sapporo Plant
- Kyoto Plant
- Kobe Plant
- Fukuoka Plant
- Ibaraki Co., Ltd.
- Noda Plant
- Ebina Plant
- Sapporo Research Laboratory
- Milk Science Research Institute
- Yatsugatake Milk Co., Ltd.
- Luna Bussan
- MEGMILK SNOW BRAND Co., Ltd. (Head Office)
- Sapporo Research Laboratory
- Milk Science Research Institute
- Yatsugatake Milk Co., Ltd.
- Luna Bussan
- MEGMILK SNOW BRAND Co., Ltd. (Head Office)

Copyright ©MEGMILK SNOW BRAND Co.,Ltd. All Rights Reserved.
Beverages and Desserts Business

Research and Development

Megmilk Snow Brand

Milk Science Research Institute
Sapporo Research Laboratory

These research laboratories play core roles in all of our research and development work as a comprehensive manufacturer of dairy products. We are engaged in a wide range of research projects across multiple areas relating to beverages and desserts, including health-related functions of lactic acid bacteria and trace components of milk, processing technology, and packaging and containers. The results of our research are practically used to produce new and exciting products.
Beverages and Desserts Business

TV Commercials

Gasseri SP Strain Yogurt

Gasseri SP Strain Yogurt
Nutrition Business

**Powdered Milk**
Taking advantage of our research into breast milk for over fifty years, we provide mainly powdered milk giving you confidence in child raising.

**Clinical Nutrition**
We scientifically investigate and verify nutrition, and manufacture and sell various nutritional supplements, eating recovery assisting food and oral care products, in consideration of the condition and status of the sick and the elderly.

**Functional Foods**
We offer a lineup of supplements and functional foods made from functional materials such as MBP, which is found in milk.

**Functional Materials**
We supply functional health foods and cosmetic materials utilizing natural materials such as AHCC and oligonol.
Nutrition Business

Business Locations and Group Companies

- Bean Stalk Snow Co., Ltd. (Head Office)
- EN Otsuka Pharmaceutical Co., Ltd. (Head Office, Hanamaki Plant, Research & Development Laboratory)
- Megmilk Snow Brand Research Laboratory
- Megmilk Snow Brand Group Subsidiaries and Affiliates

In addition:
- Amino Up Chemical Co., Ltd.
- Sapporo Research Laboratory
- Milk Science Research Institute
- EN Otsuka Pharmaceutical Co., Ltd. (Tokyo Head Office)
- Snow Brand Australia Pty. Ltd.
- Belle Neige Direct Co., Ltd.
- Bean Stalk Snow Co., Ltd. (Gunma Plant)
- EN Otsuka Pharmaceutical Co., Ltd. (Kitakami Plant)
- Snow Brand Trading (Shanghai) Co., Ltd.
- Snow Brand Taiwan Co., Ltd.
- Snow Brand Hong Kong Co., Ltd.
- Snow Marketing Sdn. Bhd.
Research and Development

Bean Stalk Snow Co., Ltd.
Product Development Department
Promoting mainly research into the components found in breast milk and their actions, and development of infant formula close to breast milk.

Megmilk Snow Brand Co., Ltd.
Milk Science Research Institute
Sapporo Research Laboratory
As core players in all of our research and development work as a comprehensive manufacturer of dairy products, these institutes are engaged in a wide range of research projects across multiple areas relating to health-related functions of lactic acid bacteria and trace components of milk, as well as powdered milk. The results of our research are practically used to produce new and exciting products.

En Otsuka Pharmaceutical Co., Ltd.
Research and Development Laboratory
EN Otsuka Pharmaceutical’s Research and Development Laboratory, which was jointly established with the Otsuka Group, is pursuing scientific investigation and verification of nutrition and advancing with the development of reliable and superior products in order to contribute to medical and nursing care.

Amino Up Chemical Co., Ltd.
R&D Division
Engaged in research that includes searching for new biologically active substances, determining the structure of active ingredients, and clarifying the mechanism of action.
Feedstuffs and Seed Products Business

**Feedstuffs**
Supplying compound feed for dairy and beef cattle to match conditions in each region from dedicated production lines for cattle feed.

**Seeds**
Seeds for pasture, forage crops, vegetables, and green manure crops, and flower seedlings, etc.

**Landscaping**
Construction and maintenance of parks, trees along streets, and gardens, rooftop gardening, and turf works at sports facilities.

**Livestock Fattening**
Integrated service from the introduction of calves to be raised as beef cattle to fattening, shipping of fattened cattle, and sale of carcasses.
Feedstuffs and Seed Products Business

Business Locations and Group Companies

- **Snow Brand Seed Co., Ltd. (Head Office)**
- **Snow Brand Seed Co., Ltd. (Tokyo Headquarters)**
- **Technical Research Institute**
- **Hokkaido Research Station**
- **Tomakomai Plant**
- **Ishinomaki Shiryo Co., Ltd.**
- **Doto Feed Corporation**
- **Michinoku Shiryo Co., Ltd.**
- **Chiba Research Station**
- **Kajima Plant**
- **Royal Farm, Ltd.**
- **Miyazaki Research Station**
- **Snow Brand Seed USA, Inc.**

**Legend:**
- ● Snow Brand Seed Head Office and Plants
- ▲ Snow Brand Seed Research Institute and Research Station
- ■ Snow Brand Seed Subsidiaries and Affiliates
Research and Development

Snow Brand Seed Co., Ltd Research Stations
(Hokkaido, Chiba, Miyazaki)
Promoting the production of original varieties and improved varieties of pasture and forage crops, vegetables, green manure crops, flowers, and turf and plants.

Snow Brand Seed Co., Ltd New Research Institute
(Hokkaido)
Built in June 2017
CSR Management

CSR Conceptual Diagram for Megmilk Snow Brand Group

Realization of the Corporate Philosophy

Increase the Group’s Corporate Value
CSR Management —Economy—

We will contribute to the health of our customers and consumers by providing products and services that are safe and reliable.

- Expansion of fresh milk production and promotion of dairy farming (TACS Shibecha)
- Listening to customers’ opinions (Customer Relations Center)
- Provide products that will increase the value of milk Excellence Award (THE JAPAN FOOD JOURNAL Co., Ltd.)
- Thorough quality control through our unique quality assurance system
CSR Management —Environment—

We will contribute to the preservation of our irreplaceable global environment.

- Promotion of landscaping activities (planting a flower bed in front of the Hokkaido Government building)
- Raising environmental awareness (environmental education and training)
- Reducing CO₂ through fuel conversion (LNG storage tank at the Betsukai Plant)
- Acquisition of ISO14001 certification
CSR Management —Society—

We will respond accurately to social needs and provide our customers and consumers with the pleasure and importance of food.

- Community contribution activities (Farm Festival, Snow Brand KODOMO-NO-KUNI Ranch)
- Support for sports (Megmilk Snow Brand Ski Team)
- Sponsorship of sporting competitions (women’s soccer)
- Eating education activities (lectures at schools, cooking classes)
- MEGMILK SNOW BRAND MUSEUM
Financial Data

Net sales

Operating profit/
Operating profit to net sales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>549,816</td>
<td>578,328</td>
<td>587,935</td>
<td>596,158</td>
<td>605,000</td>
</tr>
<tr>
<td>Operating profit</td>
<td>9,381</td>
<td>14,004</td>
<td>18,753</td>
<td>19,363</td>
<td>19,000</td>
</tr>
<tr>
<td>Operating profit to net sales</td>
<td>1.7%</td>
<td>2.4%</td>
<td>3.2%</td>
<td>3.2%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>
Financial Data

Ordinary profit

Profit attributable to owners of parent/Return on sales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income</td>
<td>10,444</td>
<td>14,223</td>
<td>20,269</td>
<td>20,996</td>
<td>20,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to owners of parent</td>
<td>3,931</td>
<td>15,047</td>
<td>12,988</td>
<td>13,386</td>
<td>13,500</td>
</tr>
<tr>
<td>Return on sales</td>
<td>0.7%</td>
<td>2.6%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>
Financial Data

Sales by segment
(Million yen)

- Daily Products, 239,746, 40%
- Beverages and Desserts, 275,499, 46%
- Feedstuffs and Seed Products, 44,718, 8%
- Other, 36,196, 6%

Operating profit by segment
(Million yen)

- Daily Products, 12,132, 63%
- Beverages and Desserts, 4,761, 24%
- Feedstuffs and Seed Products, 1,350, 7%
- Other, 1,139, 6%
## Financial Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets (million yen)</strong></td>
<td>345,597</td>
<td>344,194</td>
<td>341,507</td>
<td>352,905</td>
<td>-</td>
</tr>
<tr>
<td><strong>Equity (million yen)</strong></td>
<td>119,926</td>
<td>130,066</td>
<td>143,179</td>
<td>155,021</td>
<td>-</td>
</tr>
<tr>
<td><strong>Equity ratio</strong></td>
<td>34.7%</td>
<td>37.8%</td>
<td>41.9%</td>
<td>43.9%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Return on equity (ROE)</strong></td>
<td>3.4%</td>
<td>12.0%</td>
<td>9.5%</td>
<td>9.0%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Return on assets</strong></td>
<td>1.2%</td>
<td>4.4%</td>
<td>3.8%</td>
<td>3.8%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit per share-basic (yen)</strong></td>
<td>57.95</td>
<td>221.81</td>
<td>191.48</td>
<td>197.36</td>
<td>199.09</td>
</tr>
<tr>
<td><strong>Net asset per share (yen)</strong></td>
<td>1,767.71</td>
<td>1,917.33</td>
<td>2,110.80</td>
<td>2286.11</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities (million yen)</strong></td>
<td>11,241</td>
<td>26,433</td>
<td>29,934</td>
<td>22.817</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities (million yen)</strong></td>
<td>(27,617)</td>
<td>4,567</td>
<td>(14,408)</td>
<td>(11,799)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities (million yen)</strong></td>
<td>14,854</td>
<td>(25,332)</td>
<td>(14,376)</td>
<td>(12,904)</td>
<td>-</td>
</tr>
</tbody>
</table>
## Financial Data

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital expenditures (million yen)</td>
<td>17,593</td>
<td>15,090</td>
<td>14,680</td>
<td>15,916</td>
<td>20,500</td>
</tr>
<tr>
<td>Depreciation and amortization (million yen)</td>
<td>14,558</td>
<td>14,081</td>
<td>15,140</td>
<td>15,158</td>
<td>15,900</td>
</tr>
<tr>
<td>R&amp;D expenses (million yen)</td>
<td>3,780</td>
<td>3,846</td>
<td>3,942</td>
<td>4,330</td>
<td>-</td>
</tr>
<tr>
<td>Dividend per share (yen)</td>
<td>30</td>
<td>30</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Payout ratio</td>
<td>51.8%</td>
<td>13.5%</td>
<td>20.9%</td>
<td>20.3%</td>
<td>20.1%</td>
</tr>
</tbody>
</table>

## Market Share by Product Category (Household-use Products)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter</td>
<td>35.9%</td>
<td>32.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Margarine</td>
<td>37.2%</td>
<td>37.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheese</td>
<td>19.1%</td>
<td>18.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Intage SCI, based on nationwide monetary volume

*Intage SCI, based on nationwide monetary value
Make the Future with Milk.