



**MEGMILK  
SNOW BRAND**



Megmilk  
Snow Brand  
Report  
2018



# **Future Creation Company with Milk**

Transformation & Renewal

Consumers

## Create the future of food with milk.

We will tap into the unlimited potential of milk and engage in manufacturing focused on milk to provide the joy of food to people around the world.



1 Our ideal future

2 DNA and the value creation process

3 Strategies for value creation

4 Initiatives to build our business platform

5 Financial & corporate information



Dairy  
farmers

## Contribute to the future of dairy farmers.

As a good partner to dairy farmers, we will continue contributing to the sustainable growth of dairy farming and the milk industry.

Megmilk  
Snow  
Brand

# Open up the future for us, the employees.

We aim to become a constantly growing corporate group,  
where diverse people can demonstrate their uniqueness and  
abilities to the maximum extent possible with ambition and pride.



1 Our ideal future

2 DNA and the value creation process

3 Strategies for value creation

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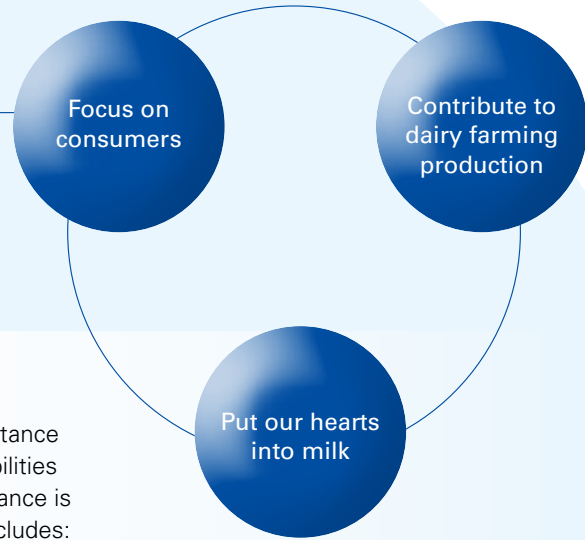
5 Financial & corporate information

# Megmilk Snow Brand Group Corporate Philosophy

Our corporate philosophy consists of our mission and our corporate slogan, "Make the Future with Milk".

## Our mission

The Megmilk Snow Brand Group strives to fulfill our three missions and create new values for milk in order to exist as a company that contributes to society.



### ● Focus on consumers

The Megmilk Snow Brand Group fully recognizes the importance of the concepts of consumer rights and business responsibilities as outlined in the Basic Consumer Act. Our fundamental stance is to practice consumer-focused business operation, which includes:

- Provide safe and reliable products and services
- Proactive information disclosure
- Embrace consumers feedback and reflect in management
- Establish a risk management system to rapidly and appropriately respond to unexpected incidents.

### ● Contribute to dairy farming production

The Megmilk Snow Brand Group is based on Japan's dairy farming industry. As trusted partners of dairy producers, we work to strengthen relationships and meet the expectations of producers by conveying the value of milk. And by developing new demand for milk and dairy products, we will strengthen the foundation of domestic dairy farming production and contribute to its sustainable development.

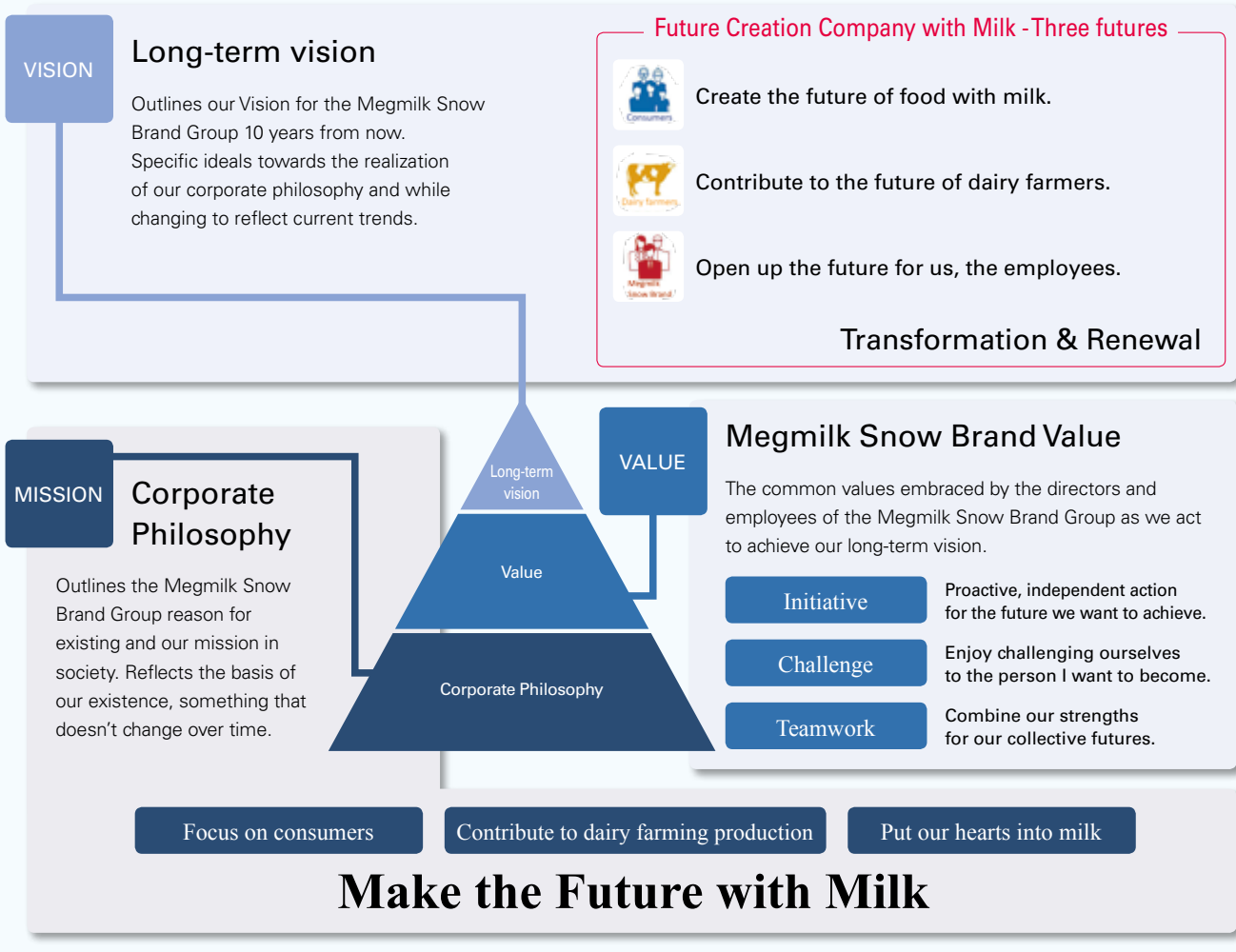
### ● Put our hearts into milk

The Megmilk Snow Brand Group believes there is vast potential for milk. By focusing on and remaining dedicated to milk, we will expand the potential of milk, increase the value of milk, and promote milk throughout the world.

## Corporate slogan

# Make the Future with Milk

# Megmilk Snow Brand Group Long-term Vision 2026



## Practicing consumer-focused business operations grounded in the Basic Consumer Act

To fulfill our responsibilities as business while protecting the eight basic rights of consumers as outlined in the Basic Consumer Act, the Megmilk Snow Brand Group has adopted four basic policies.

**Basic Consumer Act**

**Eight basic rights of consumers**

1. To have basic daily consumption needs fulfilled
2. To be ensured a healthy lifestyle environment
3. The protection of consumer safety
4. To be guaranteed independent and reasonable options for products and services
5. To be provided with necessary information
6. To be provided opportunities for consumer education
7. To ensure consumer opinions are reflected in consumer policy
8. And to be provided appropriate and rapid assistance in the event of an incident harming consumers

\*Numbers added for clarification of content

**Our response**

**Five responsibilities of operators**

1. To ensure consumer safety and fairness in transactions with consumers.
2. To provide consumers with necessary information in a clear and simple format.
3. To consider consumer knowledge, experience, and status of assets during transactions with consumers
4. To create necessary structures for appropriately and rapidly addressing consumer complaints, and to process said complaints appropriately.
5. To cooperate on consumer policies implemented by the government and public organizations.

**Megmilk Snow Brand Group Four Objectives**

1. Provide safe and reliable products and services
2. Proactive information disclosure
3. Embrace consumers feedback and reflect in management
4. Establish a risk management system to rapidly and appropriately respond to unexpected incidents

## Top Message

# The Megmilk Snow Brand Group contributes to the realization of a sustainable society through milk.

The Megmilk Snow Brand Group has adopted the corporate slogan, "Make the future with milk". In this spirit, we strive to provide safe and reliable products and services and work proactively to create new value in milk.

In 2017, we announced the Group Long-term Vision 2026 and the Group Medium-term Management Plan 2019. Together, we provide a framework for the Megmilk Snow Brand Group to achieve sustainable growth.

The Long-term Vision represents the ideal state of the Megmilk Snow Brand Group 10 years from now and outlines the path for realizing our corporate philosophy as becoming a Future Creation Company with Milk that aims to create are three futures: the future of consumers, the future of dairy farmers, and our own future (future of each employee). A future for consumers refers to creating a future of food with milk. We will tap into the unlimited potential of milk and engage in manufacturing focused on milk to provide the joy of food to people around the world. A future for dairy farmers refers to us making continuous contributions towards the sustainable growth of dairy farming and the milk industry. Lastly is a future for each employee. We will aim for growth by supporting individuality and maximizing the potential of diverse range of personnel. As we approach the next 10 years, we will address the various issues we are bound to face over that period.

The Medium-term Management Plan represents the first stage in transforming our business portfolio in a way that supports the realization of our corporate vision. In FY2017, we implemented policies in line with our Medium-term Management Plan to strengthen our profit base to support future growth amid a changing operating environment, including the diversification of consumer values and increasing consumer health consciousness. Measures focused on creating multiple earning bases and maximizing cash flow while also strengthening cheese and other brands in the Dairy Products Business sector and improving our product mix in the Beverages and Desserts Business sector by expanding sales of value-added products. As a result, we recorded increased sales and profits for FY2017, marking a strong start as the first year of our Medium-term Management Plan.

As the future is likely to see more change in the market and in our operating environment, in addition to existing initiatives we will create a structure that enables flexible responses to changes as we continue to support a stronger dairy farming industry. With the adoption of the sustainable development goals (SDGs) by the United Nations, corporations are expected to contribute to resolving social issues. We will shift from corporate-based thinking to CSR-based management that is focused on resolving social issues as we work towards the achievement of a sustainable society through milk.

The Megmilk Snow Brand Group issues the Megmilk Snow Brand Report to introduce the value created by milk and our business structure and business strategies moving forward. We also use the report as an opportunity to introduce our environmental, social, and other non-financial initiatives related to resolving social issues. I hope you will use this report to further your understanding of the Megmilk Snow Brand Group and our commitment to sustainable growth.

**Keiji Nishio**

Representative Director and President  
Megmilk Snow Brand Co., Ltd.





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We reach out to our stakeholders to convey our corporate creed and discuss the future goals and direction for the Megmilk Snow Brand Group with a focus on value and our long-term vision.

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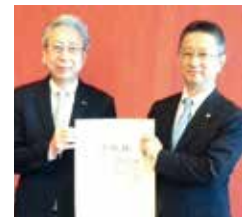


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## SDGs

SDG stands for Sustainable Development Goals. These are international goals for the realization of a sustainable society adopted at the September 2015 UN Summit and aim to resolve social issues such as poverty, starvation, and gender inequality. Embracing the goal of ending starvation and malnutrition by 2030 and pursuing a sustainable future, the SDGs consist of 17 goals and 169 targets.

The Megmilk Snow Brand Group will contribute to the achievement of the SDGs by shifting our thinking from a corporate-centric focus to a focus on resolving social issues. With this in mind, we display the SDG logo with each of our activities.

### SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



Source: United Nations Information Centre

## Megmilk Snow Brand Group – History of Value Creation

One of Megmilk Snow Brand’s predecessors was the Hokkaido Cooperative Creamery Association, which was created as a producers’ organization with the aim of saving dairy farming in Hokkaido, where the region faced predicaments brought on by food policies following the Great Kanto Earthquake of 1923. Inheriting the pioneering spirit of those who strove to create a new foundation for dairy farming through the strength of cooperation, we have been involved in Japan’s dairy farming industry for over 90 years.

1925

Launched sales of  
Snow Brand Hokkaido Butter



1951

Launched sales of Vita Milk  
Infant formula product made  
from powdered milk, sugar,  
and vitamins



1954

Mass production of 6P Cheese  
When production first started,  
all product was packaged by  
hand but we achieved mass  
production by incorporating an  
automatic filling machine



1962

Launched sales  
of Camembert  
Cheese



1963

Launched sales of  
Snow Brand Coffee  
Originally sold in a  
triangle-shaped pack



1925

Megmilk Snow Brand predecessor  
Hokkaido Cooperative Creamery  
Association founded

Began Japan’s  
first large-scale  
cheese production

Launched numerous  
long-selling products

1950

Snow Brand Milk Products  
Co., Ltd. founded

1972

Zenkoku Nohkyo Milk Whole  
Sales Co., Ltd. established

1996

Japan Milk Net Co., Ltd.  
established

\*1974

Changed name to Zen-Noh  
Chokuhan Co., Ltd.

### Our history began with Hokkaido butter

We began manufacturing butter as soon as we were founded. After the completion of our modernized factory in 1926, we launched full-scale sales of Snow Brand Hokkaido Butter.



### First in Japan to begin mass production of cheese

From around 1928, we began research and trial sales of cheese. In 1933, we built a cheese plant in Toasa (Hokkaido) 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 R&D Department was established in 1933. As a dairy farming research institute, we engaged in research into processing technology, components and lactic acid bacteria. Later, we opened our Sapporo Research Laboratory, Technical Research Institute (now the Milk Science Research Institute in Saitama) and Cheese Research Laboratory (Yamanashi) allowing us to engage in full-scale research projects.



## Value creation through R&D

Megmilk Snow Brand pursues the value and possibilities of milk, and uses our research results to create products that provide delicious taste and health to our customers.

### Researching ingredients with health functions

After years of research, Megmilk Snow Brand discovered that, in addition to calcium, MBP® is a component of milk that is beneficial to bone density.

### Lactic acid bacteria research

Megmilk Snow Brand's proprietary Gasseri SP strain is a lactic acid bacteria that is naturally occurring in Japanese people. Not only does it reach the gut in an active state, Gasseri SP also helps reduce visceral fat. We used this proprietary lactic acid bacteria to create yogurt products.



1980

#### Launched sales of String Cheese

Cheese Research Laboratory (Yamanashi) created.



\*Currently Sakeru Cheese

2002

#### Launched sales of Mainichi Hone Care MBP®

Contains MBP®, which is extracted from milk proteins and helps increase bone density.



2007

#### Created the cheese brand YUKIJIRUSHI HOKKAIDO 100

A brand that uses 100% milk produced in Hokkaido.



2015

#### Launched sales of Gasseri SP Strain Yogurt as a foods with function claims

This product contains *Lactobacillus gasseri* SBT2055, a proprietary lactobacillus of Megmilk Snow Brand.



## 2000

Food contamination incident and fraudulent beef labeling incident

Restoring trust and rebuilding company

Corporate consolidation and merger

Becoming a Future Creation Company with Milk

2000

Snow Brand Milk Products Co., Ltd. food contamination incident

2002

Snow Brand Food Co., Ltd. fraudulent beef labeling incident

2003

The beverages and deserts business of Snow Brand Milk Products Co., Ltd., Zen-Noh Chokuhan Co., Ltd. and Japan Milk Net Co., Ltd. merged to form Nippon Milk Community Co., Ltd.

2009

Nippon Milk Community Co., Ltd. and Snow Brand Milk Products Co., Ltd. merged, establishing the joint holding company Megmilk Snow Brand Co., Ltd.

2011

Megmilk Snow Brand Co., Ltd. conducted a merger by absorption with Nippon Milk Community Co., Ltd. and Snow Brand Milk Products Co., Ltd.

2017

Drafted Megmilk Snow Brand Group Long-term Vision  
Started new value creation initiative

### Production facility renewal

The Isobunnai Plant (Hokkaido), which has operated as a butter production plant since 1960, will undergo renewal in 2020. We will organize our production system in Hokkaido to strengthen our platform for business competitiveness. We also will ensure the transfer of production technology to future generations.



Completion concept image for renovated Isobunnai Plant

### Age of borderless cheese

We apply the cheese production technology we have developed over the years in overseas markets. We are conducting borderless operations with a focus on Asia and Oceania.



PT. Megmilk Snow Brand Indonesia

### Rebuilding corporate governance

Positioning the reinforcement compliance to ensure product and service safety (quality assurance) as our highest priority issue, we established a Corporate Ethics Committee and a quality assurance system, strengthened responses by our Customer Relations Center, and created a risk management structure to address quality incidents.



Established quality assurance system



Established Corporate Ethics Committee



Main office renewed with new corporate symbol (Snow Milk Crown)

## Business Domains and Strengths

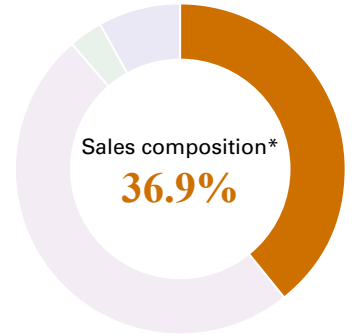


### Dairy Products Business

- Representing the history of Megmilk Snow Brand, this business sector includes butter, which we have produced since our founding, as well as other products such as cheese and margarine. Cheese is a core profit driver and the market is expected to grow moving forward.
- We have numerous long-selling products and our main products have top share on the market.

#### Main products

Butter, margarine, cheese, condensed milk, skim milk, etc.

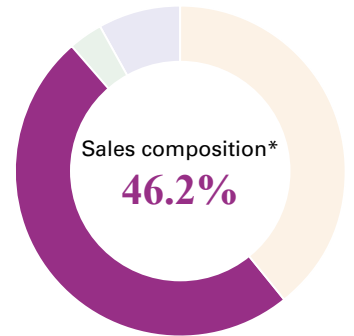


### Beverages and Desserts Business

- The business sector for products such as milk, milk beverages, yogurt, juices, and desserts. With a vast product line, we deliver nutrition and enrichment to the dietary lifestyles of our customers.
- Propelled by growing consumer health consciousness, megumi Gasseri SP Strain Yogurt is driving sales with the drinkable type performing particularly well. We expect continued growth for yogurt and we will work to develop yogurt products into a profit pillar.

#### Main products

Milk and milk beverages, yogurt, fruit juice and vegetable juice, soft drinks, desserts, etc.



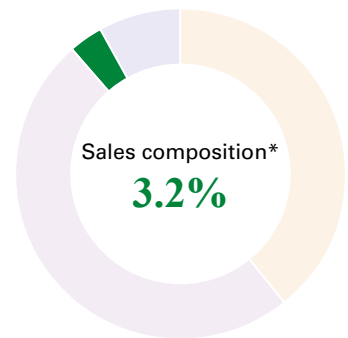


## Nutrition Business

- This segment centers on powdered milk including infant formula and functional food products developed from research into expanding the value of milk. Our functional food products are mainly products containing the milk protein MBP®, which Megmilk Snow Brand discovered as a component in milk that is beneficial to bone density.
- This business responds to increasing health awareness across a wide range of age groups and is expected to see significant growth in the future.

### Main products

Powdered milk including infant formula, functional foods, etc.

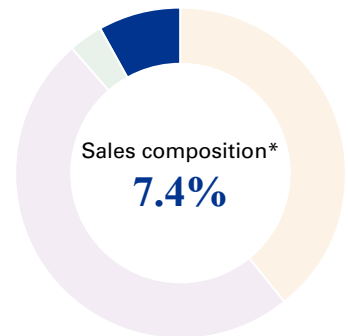


## Feedstuffs and Seed Products Business

- Business sector that centers on operations by Snow Brand Seed Co., Ltd. working to support milk production and environmentally-friendly agriculture.
- The feedstuffs business provides blended feed matched to the needs of each specific region. The seed products business is engaged in grass breed improvement and grows numerous types of high-quality seeds.

### Main products and services

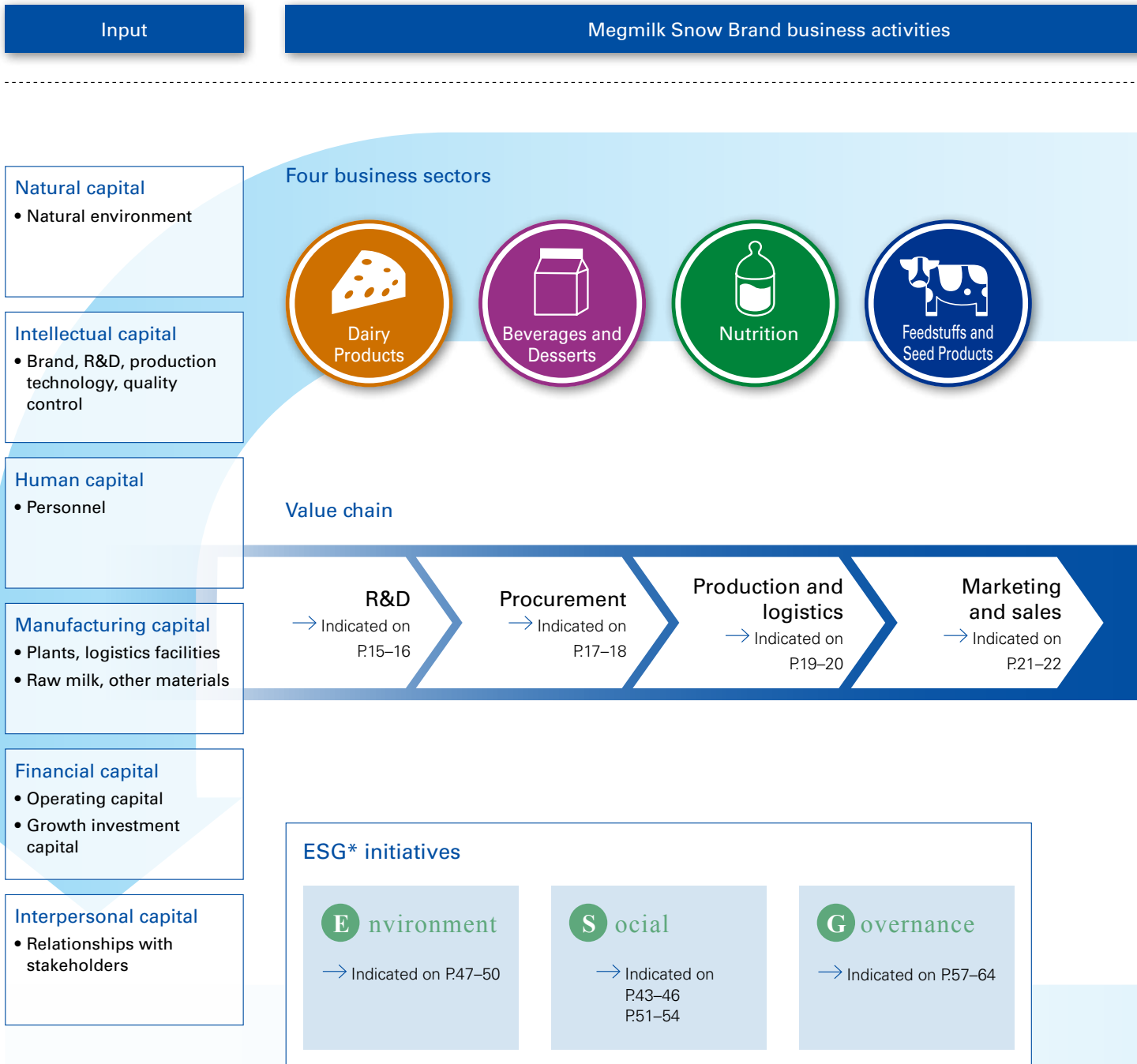
Feedstuffs, seeds (grass, feed crops, vegetables), landscaping, etc.



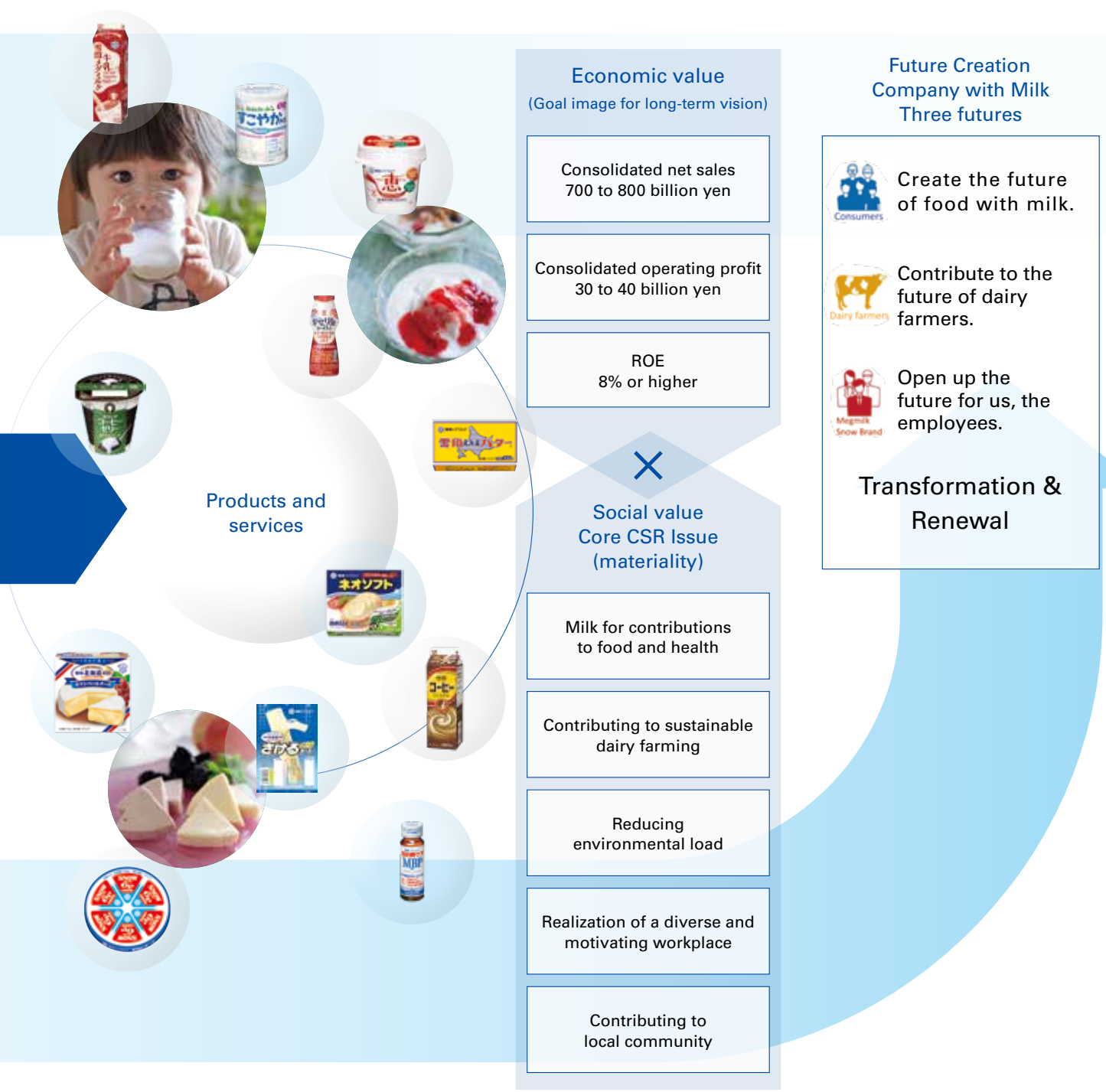
\* Sales composition ratios for each business segment are based on FY2017 (FYE March 2018) earnings results. We also record net sales not included in the above business segments. → P65

# Value Creation Process

The Megmilk Snow Brand Group applies our corporate philosophy to contribute to the realization of a sustainable society through business activities that utilize our Group strengths. We will achieve Group Long-term Vision 2026 by providing value that contributes to society. We will maximize the corporate value of the Megmilk Snow Brand Group and secure a future in which we achieve sustainable growth.



\* Refers to non-financial elements (environment, social, governance) that require proactive engagement to ensure both a sustainable society and sustainable corporate growth.



## Feature: Value Chain

R&D

# For Health and Delicious Taste through

Milk holds numerous possibilities that we have yet to discover. The Megmilk Snow Brand Group continues to pursue those possibilities and create new value with milk.

The Megmilk Snow Brand R&D strives to deliver delicious taste and health to consumers. Our R&D mainly focuses on R&D aimed at pursuing the value and possibilities of milk, and applies its research results towards the development of unique new products.



### R&D structure

Our R&D is comprised of the Milk Science Research Institute, the Product Development Department, and the Research & Development Planning Department.

The Milk Science Research Institute consists of three research centers, the Saitama Development Center, the Sapporo Research Laboratory in Hokkaido, and the Cheese Research Laboratory in Yamanashi.

Each laboratory is involved in a wide variety of research, including subjects such as the health functions of lactic acid bacteria and milk components, milk and dairy product flavor and texture, processing technology for dairy products such as cheese, butter, and powdered milk, research on containers and packaging, and takeover of



Milk Science Research Institute (Saitama)



Sapporo Research Laboratory (Hokkaido)



Cheese Research Laboratory (Yamanashi)

production method for natural cheese.

The Product Development Department works to link laboratory results into new product development by researching composite designs and other ways to improve product competitiveness.

The Research and Development Planning Department creates medium and long-term R&D strategy to support R&D aimed at achieving corporate strategy.

### Core fields of research

Aiming to continuously create new value for milk, we conduct research in fields that enable us to reflect delicious taste and health functions in our products. Below is an introduction to some of our research segments.

#### ● Health function segment

Striving to develop products unique to Megmilk Snow Brand that enable us to contribute to the maintenance and promotion of customer health, we conduct research related to the health functions of milk and lactic acid bacteria.



*Lactobacillus gasseri* SBT2055

#### ● Food processing segment

We conduct research delving into the health functions of the proteins, fats, and sugars that comprise milk. We conduct research to identify the relationship between the structures, flavors, and textures of food created through the processing of food components.

#### ● Technology development segment

To deliver the delicious taste of milk to our customers, we pursue technology development related to processing technology that applies flavor analysis and equipment analysis results towards taking advantage of the delicious taste of milk and designing new containers and packaging.



# the Power of Milk

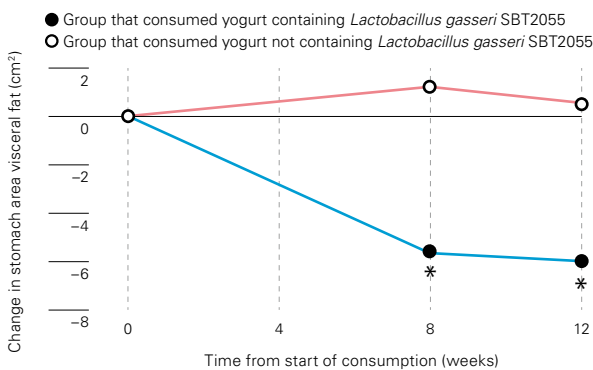
## Lactobacillus gasseri SBT2055 R&D examples

We pursue the potential of Megmilk Snow Brand's proprietary *Lactobacillus gasseri* SBT2055.

### Suppress accumulation of visceral fat

Through testing conducted on adult males and females, we confirmed that subjects who consumed yogurt containing *Lactobacillus gasseri* SBT2055 saw a significant decline in stomach area visceral fat compared to subjects who did not.

#### Change in stomach area visceral fat

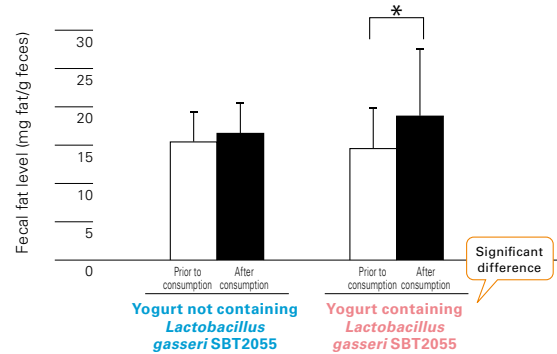


\*Significant difference compared to group that consumed yogurt not containing *Lactobacillus gasseri* SBT2055 ( $P < 0.05$ )

Y. Takano, et al. "Visceral fat-reducing effect of fermented milk containing the probiotic *Lactobacillus gasseri* SBT2055", Japanese pharmacology & therapeutics, 41 (9), 895-903 (2013).

### Constrain fat absorption and promote its discharge

Through testing conducted on adult males and females, subjects who consumed yogurt containing *Lactobacillus gasseri* SBT2055 had significantly higher fat content in their feces compared to subjects who did not. From these results, we found that *Lactobacillus gasseri* SBT2055 constrained fat absorption and promoted excretion from the body.



\* $P < 0.05$  (significant difference in before/after consumption)

Okawa, et al. "*Lactobacillus gasseri* SBT2055 suppresses fatty acid release through enlargement of fat emulsion size *in vitro* and promotes fecal fat excretion in healthy Japanese subjects." Lipids in Health and Disease (2015).

## Developing and supplying special milk for treatment of congenital metabolic disorders

Special milk is infant formula for people who were born with the inability to sufficiently metabolize amino acids.

Newborns undergo blood tests immediately after birth. Depending on conditions, doctors may prescribe special milk upon the discovery of phenylketonuria or other metabolic disorders. Special milk is used in combination with normal milk and food as a method of nutritional therapy to improve conditions.

Megmilk Snow Brand developed Japan's first special milk for such patients and has continued to manufacture and supply such special milk since 1963. Megmilk Snow Brand views the provision of special milk as one of our social responsibilities and we will continue to ensure product quality and stable supply.



### Special infant formula we produce and supply

Product	Target illness
Pharmaceutical products (2 products)	Snow Brand Phe-free Milk Compound: Phenylketonuria
	Snow Brand Leu, Ile, and Val-free Milk Compound: Maple syrup urinary disease
Registered special milk (6 products)*	Phe-free synthetic amino acid powder: Phenylketonuria
	Met-free powder milk: Homocystinuria
	Phe, Tyr-free milk powder: Hypertyrosinemia
	Protein-free milk powder: Hyperammonemia
	Ile, Val, Met, Thr, Gly-free milk powder: Methylmalonic acidemia, Propionic acidemia
Lys, Trp-free milk powder: Glutaric acidemia type I	

\*Manufactured and supplied in accordance with directive by the "Special Milk Secretariat of the General Health Center for Women and Children, Imperial Gift Foundation, Boshi-Aiiku-Kai"

## Feature: Value Chain

Procurement

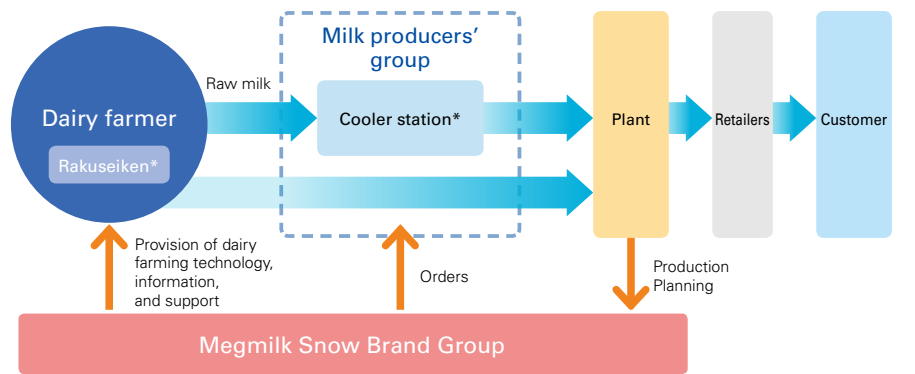
# Together with Dairy Farmers

Dairy farmers and the milk industry walk hand in hand. The main products of the Megmilk Snow Brand Group are milk and dairy products. For us, dairy farmers are extremely important vendors and valuable business partners with whom we have a history spanning more than 90 years. We conduct research related to dairy farming operations to support the development of Japan's dairy farming industry and ensure the procurement of high-quality milk.



### Megmilk Snow Brand and the flow of milk from dairy farms to consumers

The role of the Megmilk Snow Brand Group is to take milk from dairy cattle painstakingly grown by dairy farmers and procure via fair milk trade and process it into various products to add value before delivering these products to consumers.



\*Rakuseiken (Japan Young Dairy Farmers Research Association)

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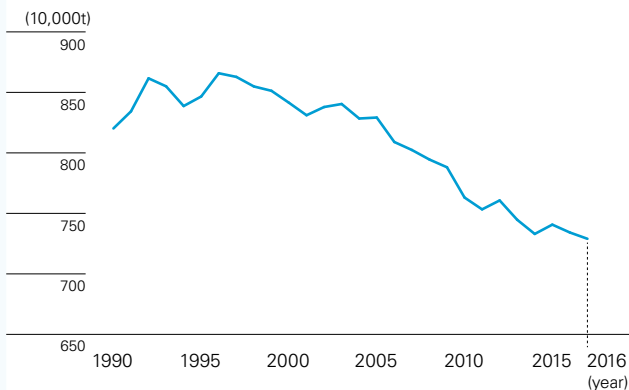
\*Cooling facility where raw milk produced by dairy farmers is stored temporarily

### Dairy farming environment in Japan

Dairy farming operations face uncertainty caused by issues such as a lack of successors and labor shortages, and advancing trade liberalization. This uncertainty is driving a withdrawal from farming that sees no end and resulting in a decline in the dairy farming population.

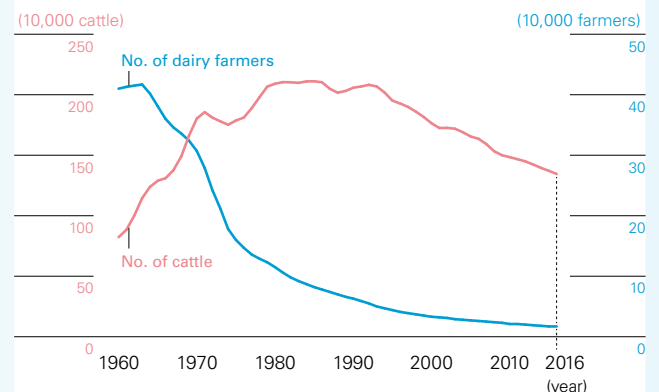
While the scale of farms is growing, the number of herd are declining. Amid such a situation, revitalizing and strengthening the platform for raw milk producers by promoting sustainable dairy farming has become an urgent issue.

Transitions in raw milk production volume in Japan



Source: Statistical Survey on Milk and Dairy Product - Ministry of Agriculture, Forestry and Fisheries

Transitions in number of dairy farmers and number of dairy cattle in Japan



Source: Statistics on Livestock - Ministry of Agriculture, Forestry and Fisheries

## Activities by TACS Shibecha Co., Ltd.

TACS Shibecha Co., Ltd. (Hokkaido) is an agricultural production corporation established through joint capitalization by JA Shibecha, the town of Shibecha, and Snow Brand Seed Co., Ltd. Promoting sustainable agriculture by supporting the maintenance and expansion of dairy production infrastructure, conducting grass-fed dairy farming, and serving as a place for educating new farmers, TACS Shibecha has entered its fourth year of operations. The Snow Brand Seed Total Support Center engages with TACS Shibecha staff to conduct vegetation surveys and feed management, and exchange opinions on vegetation improvement. Center staff also are involved with the management committee and technology subcommittee, and together with relevant agencies participates in grass and feed corn harvest volume surveys conducted by TACS Shibecha.

TACS Shibecha is currently operating with 278 cows and 195 calves (as of March 2018), and ships 2,512 tons of milk annually. At the onset of milking operations, the company started with dairy cattle purchased from other farmers but by the end of FY2017 milk from cattle raised by TACS Shibecha represented 35% of total shipments and milk quality was ranked 8th (out of 230 producers) by the Shibecha Milk Quality Improvement Cooperative. The company is making constant and consistent improvements.

In August, TACS Shibecha conducted a grass renewal\* demonstration on the sloped land common in the Shibecha grasslands. We also established an observation field for confirming the status of sod roots in October.

## Research at test fields\* and with operation validation farmers

The Megmilk Snow Brand dairy farming division and Snow Brand Seed Co., Ltd. collaborates with local farming associations and administrative authorities to conduct studies at test fields and operation validation farmers.

With the goal of grassland management and vegetation improvement, test fields located in three locations across Hokkaido (Horonobe, Taiki, and Okoppe) are used to conduct continuous vegetation surveys and grass harvest surveys. Through these activities, we ascertain the status and harvest amounts of



Test field (Horonobe, Hokkaido)

those fields and evaluate future directions for field management. Amid the aging of the dairy farmer population and a lack of successors, already three TACS Shibecha trainees have started farming operations in Shibecha. The Shibecha Leadership Development Committee solicits people who want to become farmers. After joining the program, trainees live in the Shibecha Agricultural Academy, a training facility created on the site of a former elementary school, where they participate in agricultural training. The Snow Brand Seed Total Support Center will continue to apply the experience accumulated since the conceptual phase of TACS Shibecha to provide technical support for the establishment of other new agricultural producer corporations and contribute to the development of the dairy farming industry.

\*When grassland ages and the condition of soil and vegetation worsens, soil is overturned and churned to revitalize grassland vegetation.



those fields and evaluate future directions for field management.

Operation validation farmers conduct research with the purpose of increasing local feedstuff production and validating the effect of utilization, using operational analysis and diagnosis to improve dairy farm operations, and contributing to production sites by disseminating results to the local community. We conduct continuous trial and error to create the ideal grass for dairy farmers and the silage (feedstuff) made from that grass. We also examine how feeding that to cows to produce milk can contribute to dairy farm management. In FY2017, we conducted research activities with dairy farmers in two locations (Shibecha, Okoppe) in Hokkaido. Of those partners, the dairy farmers in Shibecha are graduates of TACS Shibecha. They became operation validation farmers two years ago when they began farming operations and are working to stabilize operations as soon as possible.

The Megmilk Snow Brand Group is committed to working with local related agencies to advance initiatives at test fields and with operation validation farmers, and share those results throughout the farming community.

## Feature: Value Chain

Production and distribution

# Delivering Safe, Reliable, and Delicious

The Megmilk Snow Brand Group engages in consumer-focused business operations. We are committed to providing quality that consumers can trust, and deliver safe and reliable products to our customers.



### Quality and hygiene management based on our unique quality assurance system (MSQS)

Megmilk Snow Brand conducts quality and hygiene management based on the Megmilk Snow Brand Quality Assurance System (MSQS). MSQS is the Megmilk Snow Brand's unique quality assurance system that incorporates the concepts outlined in ISO9001<sup>\*1</sup> and HACCP<sup>\*2</sup>, and that promotes quality assurance activities by employees in all departments.

#### (1) Hygiene management

Plant employees wear special uniforms. Prior to entering manufacturing areas, employees are required to change shoes, remove dirt and particles attached to their uniform, carefully wash their hands with soap and disinfect their hands with alcohol.



(1) Hygiene management (hand washing)

#### (2) Quality inspections

Inspections are conducted at every stage of the manufacturing process, including before receiving raw materials and raw milk. Prior to shipment, both instrument-based inspections and human-based inspections are conducted to ensure only passed products are shipped.



(2) Quality inspections

#### (3) Quality audits

We work to improve our quality assurance system through quality audits, which include external oversight by the Corporate Ethics Committee (Quality Subcommittee) and external agencies, internal oversight by the Quality Assurance Department, and workplace oversight by each Quality Control Section manager of the plants.

Quality Subcommittee ▶

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#### (4) Shipping and storage

Products are kept in refrigerated storage to maintain quality and delivered by truck to delivery sites. Chilled products are shipped via special refrigerated trucks to ensure temperature control.



(4) Shipping and storage (logistics center)

#### (5) Storefront quality management

Sales Department staff visit their managed storefronts and check the status of product shelving and storage management. They also provide information regarding appropriate storage methods.

\*1. Refers to international standard quality management system.

\*2. Hygiene management method for ensure food safety.

# Products to Consumers

## Megmilk Snow Brand Quality Assurance System (MSQS)

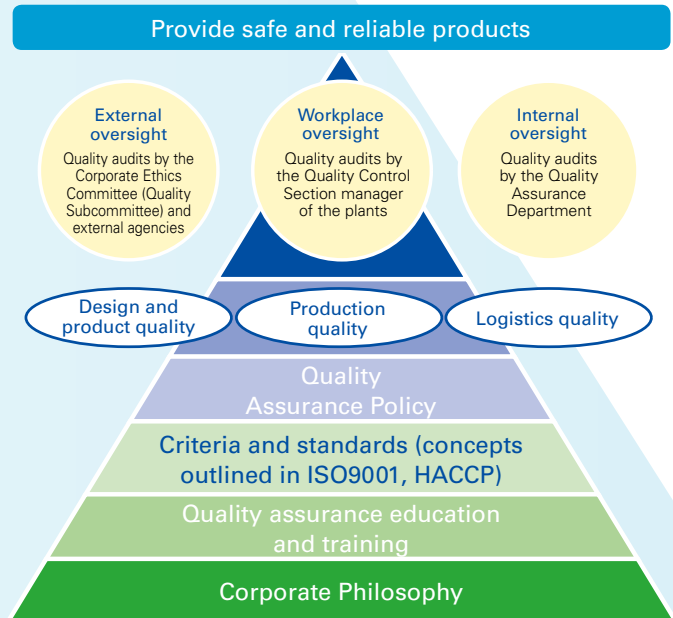
Megmilk Snow Brand is not only dedicated to providing our customers with safe and reliable products. We also proactively reflect customer feedback in operations, and practice customer-focused management that ensures trusted, high-quality system. With this in mind, we have outlined the following four policies as our Quality Assurance Policy.

Under the standards outlined in the MSQS, we manage and secure quality in every phase of the products we deliver, from product design and development, material procurement, production, distribution and sales. We also improve our quality assurance system by three-tier checks, that are external, internal, and workplace oversight to confirm and validate that the MSQS is functioning appropriately and effectively.

### Quality Assurance Policy

- 1 Apply the standards of a customer-focused quality assurance system and ensure compliance with laws and internal standards to provide safe and reliable products.
- 2 Provide appropriate information to prove worthy of the trust we receive from customers.
- 3 Reflect consumer feedback to pursue satisfactory quality.
- 4 Establish a risk management system to ensure rapid, appropriate responses.

## Outline of the Megmilk Snow Brand Quality Management System (MSQS)



## Comments by Taiki Plant General Manager



General Manager Takehiko Inoue

### Providing delicious, high-quality products

Since launching operations in 1957, our plant has been a core plant for the production of consumer-use natural cheese products such as Snow Brand Hokkaido 100 Camembert Cheese and Snow Brand Hokkaido 100 Sakeru Cheese. We also produce various commercial-use dairy products.

In addition to the manufacturing conditions (blending, sterilization temperatures, etc.) required to ensure safety, we also adhere to the methods outlined in work standards, maintain records, promote reporting, information sharing, and consulting in the event of an incident, and conduct training to improve quality awareness. At the manufacturing worksite, it is critical that we adhere to procedures. Furthermore, while we are committed to product safety and manufacturing that does not produce quality complaints, we also have established and rapidly implemented effective reoccurrence prevention in the event of complaints or trouble.

Delicious taste is a critical factor to a product becoming a mainstay favorite of consumers. To ensure the stable production of high-quality products, we reinforce the 5S\* philosophy and work to improve the skill levels of our manufacturing engineers. As such, we conduct monthly workplace 5S inspections and provide manufacturing technology education through the main office as well as on-site at the plant.



Camembert wing

### Being a production plant needed and loved by all

To promote the further development of Japan's dairy industry, we must produce and provide safe, reliable, delicious, and high-quality dairy products made from high-quality raw milk that offer added value and satisfy the needs of our customers. We will strive to be a plant that is more than ever needed and trusted by consumers, dairy farmers, and the local community.

\*The Megmilk Snow Brand 5S stands for Seiri (organized), Seiton (tidy), Seisou (cleaning), Seiketsu (cleanliness), and Shitsuke (discipline)



Sakeru Cheese building



### Taiki Plant overview

Business operations:  
Dairy product production  
Land area: approx. 137,500m<sup>2</sup>  
No. of employees:  
334 (As of April 1, 2018)  
Location:  
35 Midorimachi, Taiki-cho,  
Hiroo-gun, Hokkaido

Established in 1939 as the Taiki Village Milk Center of the Hokkaido Cooperative Creamery Association (the predecessor of Snow Brand Milk Products Co., Ltd.), the Taiki Plant relocated to its current location to launch operations as a cheese factory in 1957. The Taiki Plant is the main production plant for Megmilk Snow Brand natural cheese products for consumer use.

## Feature: Value Chain

Marketing and sales

# Meeting the Needs of our Customers

The Megmilk Snow Brand Group not only sells safe and reliable products, but we also continuously reevaluate our products after sales launch. We believe in the importance of embracing customer feedback and proactively reflect the feedback we receive into our corporate activities in order to make continuous improvements.



Marketing that addresses the food lifestyle issues of Japanese people and the issue of extending healthy long life

### Appealing delicious taste you can't wait to try "Yakiroppi, tsukuroppi!"

As a food for sales promotions, as a food for snacking. Since its release in 1954, the 6P Cheese series has remained a long-selling popular product loved for its delicious taste and convenient packaging. We launched the "Tsukuroppi!" campaign in 2016, which involves combining 6P Cheese with various ingredients to create original characters, to promote a new and entertaining way to enjoy this popular product.

In 2017, we introduced a "Yakiroppi, tsukuroppi!" promotion involving television commercials and other media. This promotion shows consumers how to grill 6P Cheese in a fry pan and then adding soy sauce and decorating with seaweed to make the original "Yakiroppi"

character. The delicious-looking pan-fried cheese combined with the sizzling sound of the drizzled soy sauce creates a mouth-watering presentation.



Your everyday 6P Cheese turns into a wonderful grilled cheesy sensation!

**WEB** "Yakiroppi, tsukuroppi!"  
WEB <http://www.tsuku6p.com/>

### Using storefront promotions to promote dietary lifestyle improvements

#### ● Promoting cheese & milk as low-carb snacks for drinking at home

Tapping into the market trends of enjoying drinks at home and the low-carb boom among people concerned about health and diet, we conducted a promotion aiming to generate new demand by presenting delicious snack recipes using cheese and yogurt to promote the low-carb nature of dairy products.

In addition to publishing recipes on our website that can easily be added to everyday meals, we also distributed recipe leaflets, uploaded cooking videos to the internet,



Fried tofu pizza

and installed pop media videos in storefronts as part of a multifaceted campaign to reach consumers.

#### ● Time-saving menu for busy mornings "breakfast in a mug"

Even though people understand the importance of breakfast in terms of supporting health and beauty, busy people today do not have a lot of time to spend preparing breakfast.

What consumers need are recipes that are nutritional yet easy to make.

Our "breakfast in a mug" promotion presented a simple breakfast menu using visually appealing and nutritional milk products to get people excited about making breakfast.

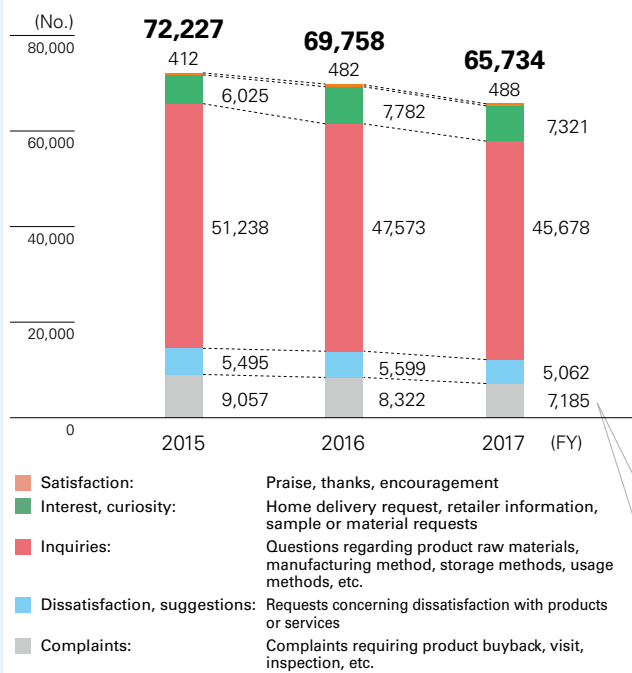


**WEB** Delicious hints provided by milk, Yume-kuru  
<https://www.yume-kuru.net/>

## Customer Relations Center responses

The Megmilk Snow Brand Customer Relations Center operates 365 days a year. We convey precious feedback received from customers to the relevant department and reflect this feedback in our business activities to promote better product development and labeling that is easier to understand.

Customer Relations Center feedback received



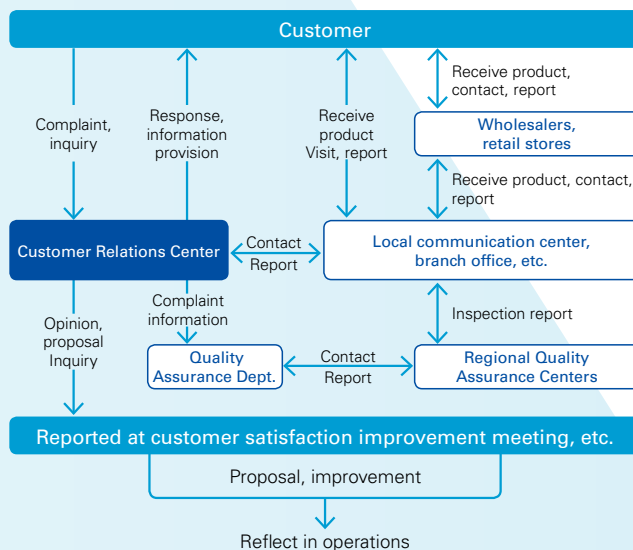
### Breakdown of customer complaint causes for inspected products

Of complaints received in FY2017, we conducted 5,457 inspections on products we received back from the customer (in all other cases, inspections were not possible due to the customer having already disposed of the product, etc.).

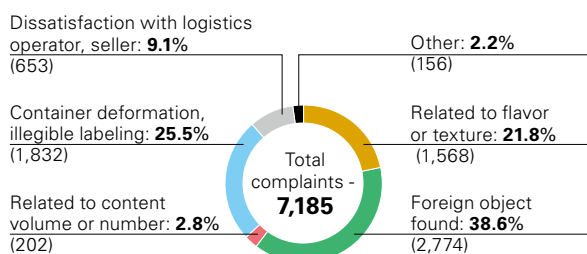
As a result of inspections, 228 cases were related to production. That information was used to make improvements in manufacturing processes at raw materials manufacturers and Megmilk, and make improvements to product design. Another 309 cases were attributable to damage during shipment. That information was used to make improvements in the logistics division.

Inspection results were also conveyed to the customer who made the complaint.

Customer Relations Center response flow



Details of complaints received in FY2017



## Customer satisfaction improvement meetings

Aiming to make improvements by incorporating customer feedback, Megmilk Snow Brand holds monthly customer satisfaction improvement meetings.

Relevant departments discussed cases of frequently received opinions and requests and decided on 13 different improvements in FY2017. Discussion details were reported to the Corporate Ethics Committee and the Board of Directors, and improvements are introduced on our website.

### <Improvement example> 6P Cheese Series box package seal improvement

Customer feedback	Improvement made
Seal difficult to remove.	→ We made the seal easier to hold and easier to remove.
Concerned because there's no way to know if the seal was removed in the store.	→ We switched to a type that once removed cannot be reattached.
Labeling on the bottom is difficult to read due to the seal.	→ We assigned a fixed attachment location for the seal to ensure text and symbols are not covered up.



We received the Accessible Design Packaging Award at the Japan Packaging Content 2018 sponsored by the Japan Packaging Institute. We were recognized for our appropriate consideration of the elderly and persons with disabilities.

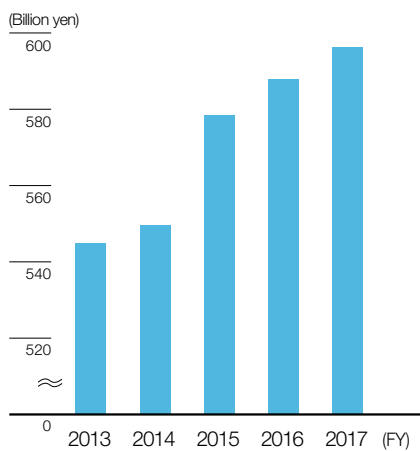
## Financial & Non-financial Highlights

### Financial information (consolidated)

#### Net sales

**596.1** billion yen

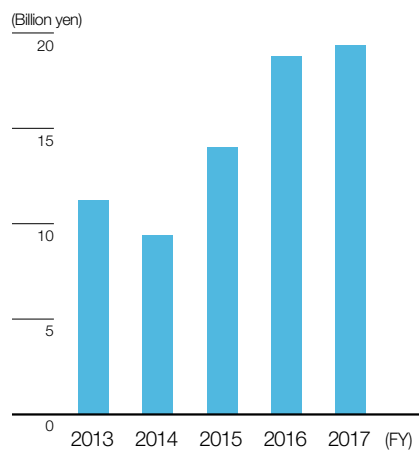
Continued growth on five consecutive years of increased revenues. In particular, sales increased in FY2015 on significant growth in cheese and yogurt.



#### Operating profit

**19.3** billion yen

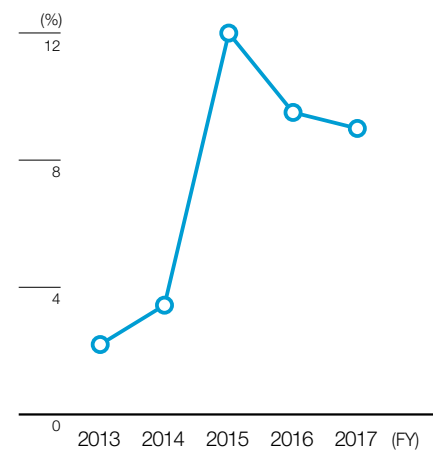
Income also increased thanks to yogurt sales growth since FY2015. Cheese and yogurt growth are contributing to income.



#### ROE (return on equity)

**9.0%**

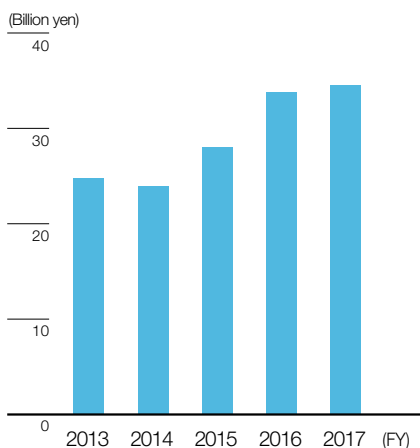
We will continue our focus on maintaining adequate levels while also giving due consideration to investment efficiency.



#### EBITDA\*1

**34.5** billion yen

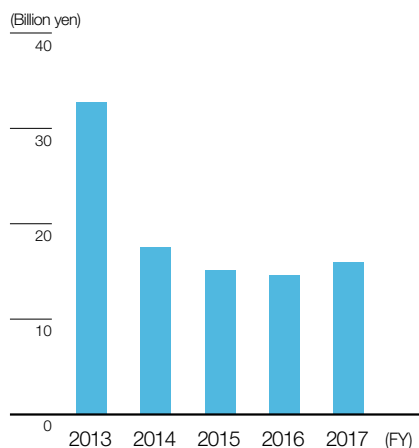
Since FY2014, EBITDA has continued to rise as operating profit increases.



#### Capital expenditures

**15.9** billion yen

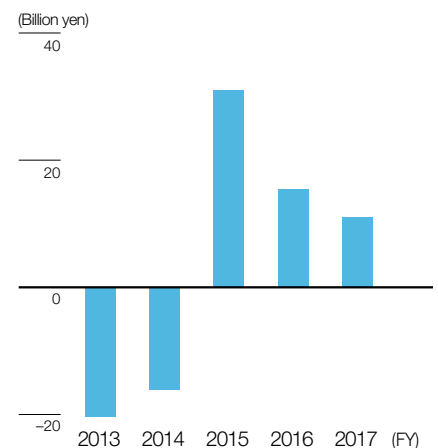
Since FY2017, we are increasing our focus on strategic capital expenditures. We will continue to expand growth investments. Looking at FY2013, plant restructuring is reflected in our capital expenditures.



#### Free cash flow\*2

**11.0** billion yen

Since FY2015, we are generating stable cash flow. In FY2015, we had a cash inflow due to the sale of former plant land.



\*1. Earnings before interest, taxes, depreciation and amortization

\*2. Cash flow from operating activities + cash flow from investment activities.

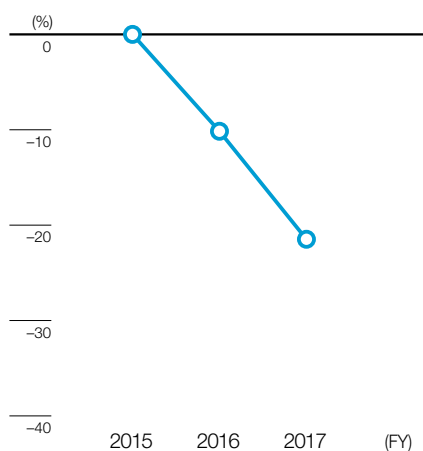


## Non-financial information (Megmilk Snow Brand [non-consolidated])

### Overtime labor reduction rate (1H/FY2015)

**-21.5%**

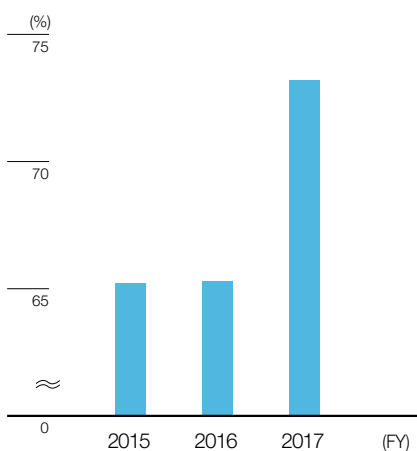
We are making a company-wide effort to achieve labor productivity improvements and promote workstyle reform.



### Paid leave acquisition rate

**73.2%**

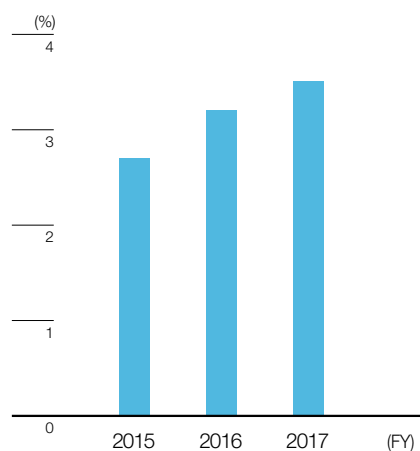
We encourage employees to take paid leave to promote enriched lifestyles and work-life balance.



### Rate of women in management positions

**3.5%**

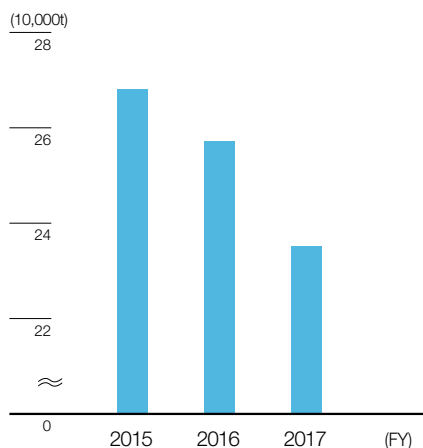
We promote the engagement of women as a part of efforts to ensure human resource diversity and help employees maximize their potential. We are aiming for a goal of 5% by FY2020.



### CO<sub>2</sub> emissions

**235,000t**

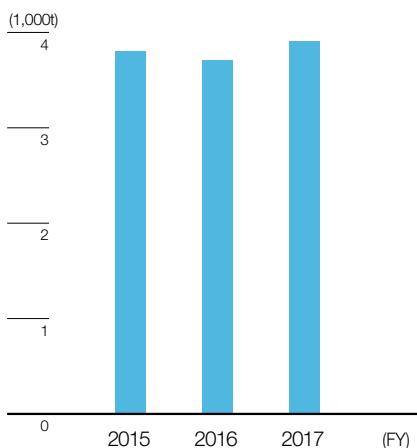
We have worked to stabilize plant operations and are switching from heavy oil to gas as a fuel source, initiatives that are leading to reduced CO<sub>2</sub> emissions.



### Food waste product generation

**3,900t**

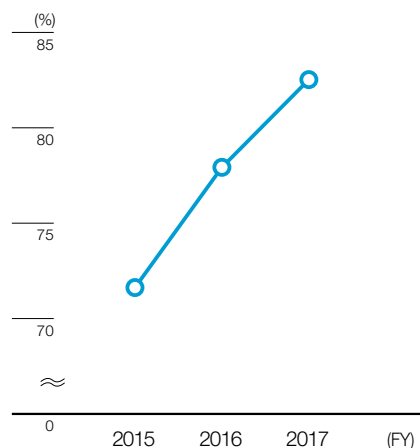
We are working to limit the production of nonconforming products at plants and reinforcing demand management to eliminate losses.



### Food waste product recycling rate

**82.5%**

We treat waste products at our new food recycling treatment facility and are working to increase our rate of recycling for food waste products.



\*In addition to the above, we disclose information on initiatives and results figures via the Megmilk Snow Brand website CSR Initiatives page.

## Commitment of Top Management

**As a Future Creation Company with Milk,  
the Megmilk Snow Brand Group contributes to  
sustainable development for society.**



**Keiji Nishio**

Representative Director and President  
Megmilk Snow Brand Co., Ltd.

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## 1. Megmilk Snow Brand history

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Snow Brand Milk Products Co., Ltd., one of the predecessors of Megmilk Snow Brand, was created to save Hokkaido's dairy farming, which fell into difficult times due to food policies following the Great Kanto Earthquake (1923). As part of the former Hokkaido Cooperative Creamery Association, an organization founded by producers, for the last 90 years the company has been a part of Japan's dairy industry.

Our history began with making butter, after which the company expanded to cheese and numerous other milk products as worked to contribute to ensuring enriched dietary lifestyles and health for the nation's consumers.

However, in 2000 and 2002, Snow Brand Milk Products Group was involved in two incidents that would impact food safety and security, and greatly impact society. As a result, the company instantaneously lost the trust and corporate value built over the years by our predecessors. In a struggle for our very survival, we received support from numerous parties. Through business divestiture and other measures, we slowly over time worked to rebuild ourselves into a company that once again had earned the public trust.

In 2009, a consolidation and merger between Snow Brand Milk Products Co., Ltd. and Nippon Milk Community Co., Ltd. resulted in a new start beginning in 2011 as Megmilk Snow Brand Co., Ltd.

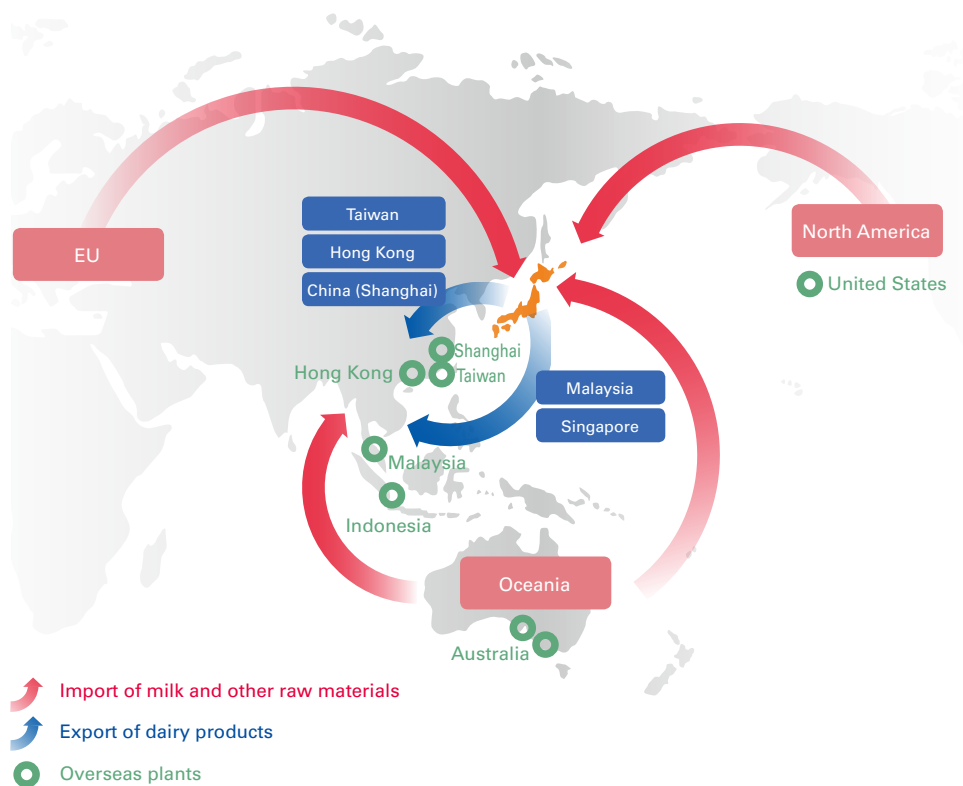
The Megmilk Snow Brand Group Corporate Philosophy is to fulfill three missions: To focus on consumers, to contribute to dairy farming production, and to put our hearts into milk. By creating new value for milk, we will continue to exist as a company that contributes to society. This commitment is expressed through our corporate slogan: "Make the future with milk". Megmilk Snow Brand will never forget the history of those two incidents. We will use that experience as a lesson towards solidifying our position as a responsible company focused on the future.

## 2. Market environment and forecasts

In Japan, milk production is on the decline and there are problems with securing raw milk supplies. On the other hand, demand for dairy products is firm thanks to increasing health consciousness among consumers. Looking at the global environment, population growth and changes in dietary lifestyles are driving a trend towards growth in dairy product consumption, particularly in Asia. Overall, the dairy market holds strong potential for growth, both in Japan and overseas. Moving forward, with trade liberalization, we expect the globalization of dairy products to continue, including increased imports of cheese as a raw material and exports of domestic dairy products.

Amid such an environment, we will actively pursue business development in growth markets by developing new products and through marketing. Additionally, we will address declining milk production in Japan by providing support to strengthen domestic dairy farming infrastructure and practicing stable procurement that incorporates milk globalization. The Megmilk Snow Brand Group will maintain our focus on domestic dairy farming while conducting business practices that respond to opportunities and risks.

### “Globalization of Dairy Products” is underway



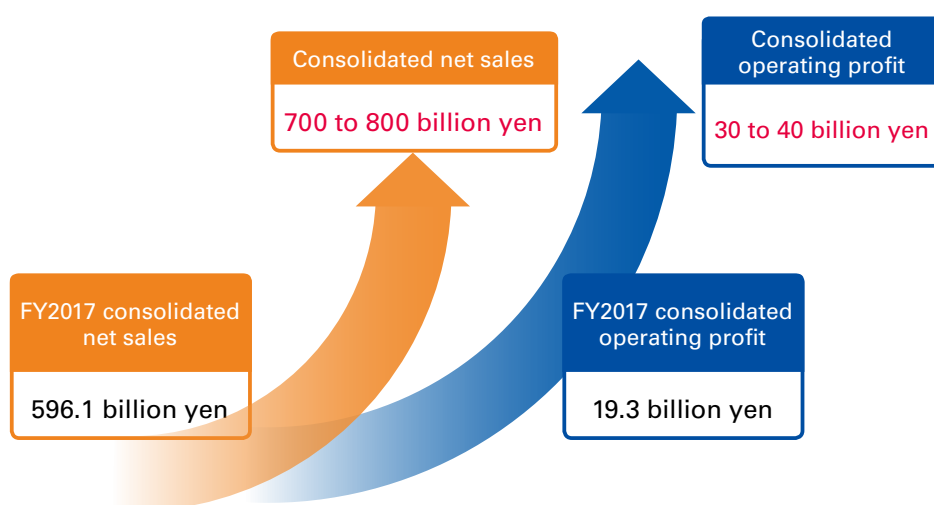
### 3. Group Long-term Vision 2026 - for sustainable growth

In May 2017, the Megmilk Snow Brand Group announced our Group Long-term Vision 2026, which outlines our 10 year plan for achieving sustainable growth. Based on our Group Corporate Philosophy, the foundation of all our business activities, we named our long-term vision Future Creation Company with Milk with a focus on three futures: the future of consumers, the future of dairy farmers, and our own future (future of each employee).

Our three strategies for achieving this vision are based on the concept, Transformation and Renewal. The first is a transformation of our business portfolio. To enable sustainable growth, we must transform into a business portfolio for a new age in which we generate income through multiple businesses. The second is a renewal into a production structure that supports business growth. By linking production structure renewal with business platform transformation, we will adopt new technology and restructure our production line composition to establish a highly efficient and competitive production line. Lastly, simultaneous to transformation and renewal initiatives, we will evolve Group management. We will maximize management resources and value chain to enhance the overall strength of our Group. By FY2026, we will conduct 300 to 400 billion yen in investments with a focus on production facilities.

We will achieve between 700 and 800 billion yen in consolidated net sales and between 30 to 40 billion yen in consolidated operating profit by FY2026, the final year of our long-term vision. We will achieve transformation and renewal to establish ourselves as a Future Creation Company with Milk as we look to usher in a new age for the Megmilk Snow Brand Group.

#### FY2026 goal image



## 4. SDGs and Megmilk Snow Brand Group initiatives

The UN adopted the SDGs (Sustainable Development Goals) in 2015. The SDGs outline 17 goals and 169 targets to be achieved by 2030 as priority global issues for achieving a sustainable society.

Moving forward, we believe it vital that the Megmilk Snow Brand Group adopt CSR policies that address what we can do in response to common global social issues and that respond broadly to both domestic and overseas stakeholders.

To share and promote this approach throughout the entire Megmilk Snow Brand Group, it is important that we clarify the priority initiatives that are important to both society and our Group.

With this in mind, we identified the Megmilk Snow Brand Group Core CSR Issue (Materiality). Shifting from CSR with a traditional corporate perspective to a focus on social issues, through our business activities, the entire Megmilk Snow Brand Group will contribute to resolving long-term social issues such as extending healthy lifespans for an aging society and sustainable development for the dairy farming industry.

In addition to designating materiality as our core CSR issue, we also will strengthen our initiatives related to ESG (environment, society, and governance).

To address environmental load reduction, we will gradually enhance initiatives such as CO<sub>2</sub> emissions reduction and carbon offsetting. To strive for a recycling based society, we also are actively promoting the efficient use of raw materials and improved efficiency for waste products.

Beyond ensuring product safety, we also will address our social responsibilities through a variety of activities, including by disseminating research results and food education to promote sustainable dairy farming and contribute to local communities.

We will proactively work to strengthen corporate governance by practicing compliance and working to reinforce transparent management, enhance external audit functions, and establish a management structure that enables us to respond quickly to market changes.



Source: United Nations Public Relations Center



## 5. Resolving social issues and creating value

Moving forward, the Megmilk Snow Brand Group will strive for the realization of a sustainable society through our milk business activities, and by applying our R&D and manufacturing strengths as well as our diverse team of human resources to contribute to resolving social issues and improve our corporate value.

Moving forward, we will continue conversing with stakeholders on how we can provide value to society and what role we can play in society. At the Megmilk Snow Brand Group, we still have many, many goals to achieve.

We ask our stakeholders for your continued understanding and support.

October 2018,  
Keiji Nishio  
Representative Director and President

# Group Long-term Vision 2026 and Group Medium-term Management Plan 2019

In May 2017, we created the Group Long-term Vision 2026 to outline the vision for the Megmilk Snow Brand Group ten years into the future and our Group Medium-term Management Plan 2019 as the first stage of that vision. The catalyst behind this initiative included advancing trade liberalization, changes in milk trading system, and major shifts in the environment influencing the Megmilk Snow Brand Group. Achieving corporate growth while responding to these changes in our operating environment will require that we address the various issues we are bound to face over the next 10 years. Below is an explanation of our long-term vision and business strategies outlined in our Medium-term Management Plan.

## Group Long-term Vision 2026

### Strategy concept

To achieve our long-term vision, we outlined the strategic concept of Transformation & Renewal. This concept involves three initiatives, one of which is the creation of a business portfolio transformation for a new age that will enable us to create profits from numerous revenue streams. Next, we will conduct 300 to 400 billion yen in investments on the next ten years with a focus on production facilities.

### Transformation & Renewal

- **Business Portfolio Transformation**  
Transformation
- **Renewal of the Production Structure to Support Business Growth**  
Renewal
- **Promoting Group Management**  
Group Management

**Total investment**  
**300 to 400 billion yen**

### Basic strategies

We outlined specific strategies based on our strategy concepts.

1. Transform our business portfolio to create new growth opportunities and strengthen our earnings bases.
2. Build strategic procurement and production structures for the future (ten years from now) to establish a competitive platform.
3. Create new value by engaging in manufacturing (monozukuri) grounded in R&D.
4. Respect and take advantage of personnel diversity to create a highly productive organization capable of continuous growth.
5. Utilize Group management resources effectively to maximize our Group competitiveness and core capabilities.

### Roadmap

We will promote our long-term vision over a ten-year period divided into three stages. In the first stage, we will Begin Transformation. In the second stage, we will Accelerate Transformation by implementing total innovation to our production system. The third and final stage will be a Total Renewal during which we launch a new long-term vision focused on stable profit generation and our outlook for the next ten years.

	First Stage	Second Stage	Third Stage
	FY2017-FY2019	FY2020-FY2022	FY2023-FY2026
Positioning	<b>Begin Transformation</b> Start and promote Group management	<b>Accelerate Transformation</b> Strengthen development of Group management	<b>Total Renewal</b> Accelerate and renew Group management
Role	<ul style="list-style-type: none"> <li>• Create multiple earnings bases and maximize cash flow</li> <li>• Begin renewal of the production structure</li> </ul>	<ul style="list-style-type: none"> <li>• Establish earnings bases</li> <li>• Begin full-fledged renewal of the production structure</li> </ul>	<ul style="list-style-type: none"> <li>• Stable creation of earnings through four business sectors</li> <li>• Establish the procurement and production structure</li> </ul>



# Group Medium-term Management Plan 2019

## Business Portfolio Transformation



Butter, margarine, cheese, condensed milk, skim milk, etc.

Respond to changes in the environment and strengthen the earnings bases

- Market expansion by strengthening our main product lineup
- Market expansion through borderless development of cheese



**[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. / PT. Megmilk Snow Brand Indonesia / Nichiraku Machinery Co., Ltd. / Cresco Corporation / SBS Flec Co., Ltd. / Udder Delights Australia Pty. Ltd., and others



Milk and milk beverages, yogurt, fruit juice and vegetable juice, soft drinks, desserts, etc.

Secure the earnings bases and structurally transform into a business that will drive growth

- Strategic expansion of functional yogurt
- Product mix optimization



**[Group Companies]**

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 / SBS Flec Co., Ltd. / Luna Bussan / Nichiraku Machinery Co., Ltd., and others



Powdered milk include infant formula, functional foods, etc.

Create new growth opportunities and develop into a highly profitable business

- Build a growth model for functional foods business
- Strengthen the competitiveness of the powdered milk business by promoting value



**[Group Companies]**

Megmilk Snow Brand Co., Ltd. / Bean Stalk Snow 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



Feedstuffs, seeds (forage grass and crops, vegetables), landscape gardening, etc.

Increase efficiency in the feedstuffs business and grow the seed products business into a core business

- Strategic expansion of the seed products business
- Increase profitability in the feedstuffs business



**[Group Companies]**

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

## Long-term vision and Medium-term Management Plan benchmarks

Megmilk Snow Brand Group has set the following benchmarks for our 2026 goal image and Medium-term Management Plan.

**FY2026 goal image**

Performance indicators	FY2026 goal figures
Consolidated net sales	700 to 800 billion yen
Consolidated operating profit	30 to 40 billion yen

Items	Target
Total investment (10 year total)	300 to 400 billion yen
Consolidated ROE	8% or higher
Consolidated equity ratio	50% or higher
Consolidated payout ratio	30% or higher

**Medium-term Management Plan benchmarks**

Performance indicators	FY2019 goal figures
Consolidated net sales	630 billion yen
Consolidated EBITDA	40 billion yen
Consolidated operating profit	22 billion yen

Items	Target
Total investment (3 year total)	77 billion yen
Consolidated ROE	8% or higher
Consolidated equity ratio	40% or higher
Consolidated payout ratio	20% or higher

## Executive Officer in Charge of Finance - Commitment



**Hideki Motoi**

Director, Managing Executive Officer  
Megmilk Snow Brand Co., Ltd.

### Ideal future for the Megmilk Snow Brand Group

The Megmilk Snow Brand Group outlined our Group Long-term Vision 2026, which aims to achieve sustainable growth and increase our corporate value by making contributions to society, including engaging in initiatives to resolve social issues, through our business activities. The Long-term Vision reflects the current demand environment for dairy products, the procurement environment for milk resources, and other trends causing major environmental changes in our industry.

As specific growth goals, this Long-term Vision calls a goal of 700 to 800 billion yen in net sales and 30 to 40 billion

yen in operating profit by FY2026 (FYE March 2027).

One policy will be to implement business portfolio reform to respond to market environment changes and achieve sustainable growth. As part of this policy, we will position the Nutrition Business, which proposes lifestyle quality improvements to consumers, as a new domain and develop new markets mainly in Asia.

Implementing this strategy will require innovation in our production structure, including improving our cost competitiveness. Our Long-term Vision includes investments of 300 to 400 billion yen for upgrades to existing facilities.

### Financial direction in line with Group Long-term Vision 2026 and the Medium-term Management Plan 2019

As a capital strategy for supporting policies to increase our corporate value as outlined in the Group Long-term Vision 2026 and the Medium-term Business Plan, the Megmilk Snow Brand Group will focus on maintaining balance between capital efficiency, financial stability, and shareholder returns.

We also outlined goals for ROE, equity ratio, and dividend payout ratio based on this strategy.

#### <Capital efficiency>

Management will improve the efficiency of the precious capital entrusted to us by shareholders. Through the business portfolio reforms and production structure

innovation outlined in our Long-term Vision, we will increase profitability and make solid improvements to ROE.

Investment decisions will be made with consideration given to capital costs. For growth investments, we will evaluate business risks while pursuing high profitability (ROI). For investments in existing facilities, we will base investment decisions on whether or not we can secure profitability that at a minimum exceeds capital costs.

Through growth investments and by ensuring financial stability, we can anticipate certain situations that will negatively impact capital efficiency. However, even in such cases we will maintain a continuous focus on capital efficiency to ensure an ROE of 8% and higher.

**<Financial stability>**

Financial stability is essential to creating surplus capital for investments, supporting growth, and supporting stable operations and dividends.

For growth investments, we are not anticipating conducting equity financing\* or other such transactions that would result in stock dilution. During the period of the current Medium-term Management Plan, we will accumulate the internal capital required for the investments assumed as part of our Long-term Vision. Furthermore, we will maintain financial stability to ensure a minimum equity ratio of 40% and higher.

In July of this year (2018), the rating agency Rating and Investment Information, Inc. elevated our rating to A- (Stable). As we are in a positive environment for capital procurement through financial markets, we will focus on

the diversification of procurement means and on reducing financing costs.

**<Shareholder returns>**

During the period of the current Medium-term Management Plan, we will maintain balance between growth investments aimed at increasing our corporate value and ensuring financial stability. We will aim for a dividend payout ratio of 20% as we aim to issue stable dividends. Our Long-term Vision outlines growth investments and ensuring financial stability while increasing shareholder returns with a goal dividend payout ratio of 30%.

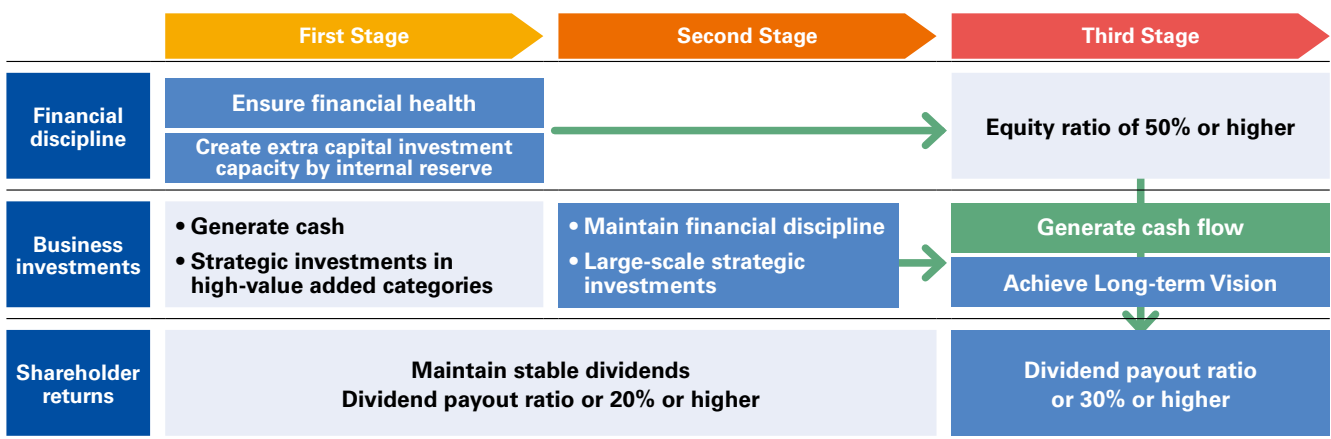
\* Capital procurement that increases equity (shareholder capital) by issuing new shares or CB (convertible bonds)

**Cashflow distribution policy**

We are planning cashflow distribution based on the ideas outlined in the Long-term Vision. In the first stage, we will invest in growth sectors and value added categories to expand profits and generate cash. In FY2017, we invested approximately 6.2 billion yen to expand the small plastic bottle line in order to increase production of functional yogurt at our Kyoto Plant. In the second stage, we will utilize generated cash to conduct the large-scale

investments necessary to reform our business portfolio.

As shareholder returns during this period, we will aim for a dividend payout ratio of 20% as we aim to issue stable dividends while maintaining a balance between financial stability and plans for large-scale investments. In the third stage, fulfilling our Long-term Vision will enable us to increase shareholder returns to a dividend payout ratio of at least 30%.



**Achieving management benchmarks**

The Megmilk Snow Brand Group will generate synergy with Group companies to respond to changes in market environments. We must strengthen Group corporate functions to achieve the core concepts of our strategies: Transform our business portfolio, renew our production structure to support business growth, and promote

Group management. We will increase the Group's level of expertise in various fields, including IT infrastructure and finance to support unified management and provide financial affairs support related to human resources and the utilization of Group management resources.



# Business Strategy

## Dairy Products Business



### Business overview

#### Our products

This product category includes products such as butter, margarine, cheese, and condensed milk and skim milk.

#### Butter

Produced since our founding in 1925, SNOW BRAND Hokkaido Butter is one of the products that most represents Megmilk Snow Brand. We also offer products that provide new value such as butter that is pre-cut into 10g pieces.



#### Cheese

Among our processed cheese products, 6P Cheese has been a consumer favorite for over 60 years. Our Baby Cheese and sliced cheese are also long-selling products. In 2013, we launched production of processed cheese in Indonesia.

Natural cheese products we offer include Camembert cheese and Sakeru Cheese, part of the YUKIJIRUSHI HOKKAIDO 100 series that uses 100% milk produced in Hokkaido.



#### Margarine

Centered on the Neo Soft brand, we offer various margarine products featuring rich flavors and mild texture achieved through our dairy product manufacturing technology. With growing health consciousness among consumers, we are constantly working to reduce trans fatty acids.



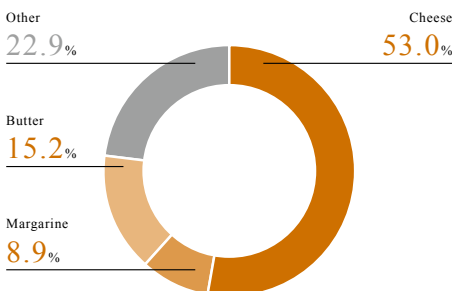
#### Market environment

Our mainstay cheese business is supported by strong demand thanks to increased market demand driven by growing consumer focus on nutrition and health and the growing popularity of entertaining at home. We predict firm sales to continue for both natural and processed cheese. The margarine market is on a trend to underperform the previous year as consumers appear to be making conscious decisions aimed at limiting consumption of trans fatty acids. Megmilk Snow Brand is working to support demand by creating fat and oil raw materials free

of partially hydrogenated oils, which contain high levels of trans fatty acids.

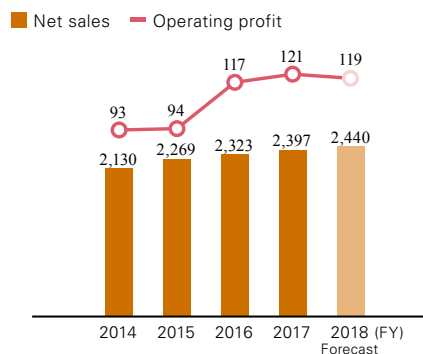
There is concern about how TPP and EPA trade liberalization policies will impact the dairy products market. We will continue to establish appropriate strategies in response to future trade agreements and government policies. The Megmilk Snow Brand Group will respond to changes in the market environment based on a basic philosophy centered on domestic dairy farming and work to ensure stable procurement while also taking advantages of policy merits.

Net sales composition (by category)



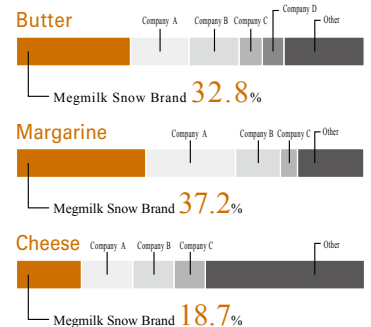
Megmilk Snow Brand net sales only FY2017 (FYE March 2018) earnings

Trends in net sales and operating profit (100 million yen)



Includes Nutrition Business

Category share



Source: Intage SCI (up to 70s)  
Monetary share for FY2017

## Growth strategy

### Medium-term Management Plan

#### ● Market expansion by strengthening main products

We have established supply structures for butter and cheese, our mainstay consumer products, as we aim to expand our unique line of value-added products.

#### ● Market expansion through borderless development of cheese

We are transitioning to borderless operations, particularly in Asia and Oceania, as we aim for further growth in our cheese business.

- 1 Stable supply of butter and brand strengthening
- 2 Strengthen sales of main cheese products for consumers and reinforce production structure
  - Improve infrastructure of Taiki Plant
  - Strengthen natural cheese products made in Japan (Camembert Cheese, Sakeru Cheese, etc.)
  - Expand product line-up of main processed cheese products (6P, Baby Cheese, etc.)
- 3 Cultivate a new market for commercial-use cheese products
  - Expand sales of sliced/diced/shredded cheese products
  - Launch new soft cheese products

- 1 Export products made in Japan (for consumers/commercial use)
- 2 Expand overseas production and sales
  - Promote Megmilk Snow Brand products
  - Utilize overseas bases

#### FY2017 results

Net sales were favorable thanks to strong performance from mainstay products 6P Cheese and Sakeru Cheese. We aimed to increase sales by running TV commercials, campaigns offering increased product volume, and promotions depicting various consumption scenarios. Net sales of margarine declined on struggling market demand. Overall, net sales of dairy products increased thanks to contributions from cheese. Although marketing and raw materials costs were higher, operating profit grew thanks to higher sales of cheese.

#### FY2018 initiatives

We implemented pricing and product volume revisions for cheese products where cost increases related to higher raw material costs and increased expenses for energy, logistics, and personnel exceeded a level we were able to absorb. Amid a difficult market environment, we will expand sales by conducting promotions that generate demand and propose various consumption scenarios. We will support sales of margarine by introducing products with reduced trans fatty acids and implementing product strategies that maximize this promotional opportunity.

## Topics

Megmilk Snow Brand has created blends of consumer margarine and shortening that do not use partially hydrogenated oils, which contain multiple trans fatty acids.

#### Q. What are trans fatty acids?

A. Trans fatty acids are a type of fatty acid, a component of fat. Trans fatty acids are found in processed fats and processed foods made using processed fats.

The average amount of trans fatty acids consumed by Japanese people today is not believed to be a problem but long-term overconsumption is believed to be put people at risk for coronary artery disease (CAD).

#### Q. What are partially hydrogenated oils?

A. Partially hydrogenated oil is a type of oil containing high amounts of trans fatty acid that is made by adding hydrogen to a portion of a raw material oil to adjust the hardness and melting point. It is used as a raw material in not only margarine and shortening, but many other foods products as well.



\* Now with fewer trans fatty acids.



## Business Strategy

### Beverages and Desserts Business



## Business overview

### Our products

Product categories include milk and milk beverages, yogurt, fruit juice and vegetable juice, soft drinks, desserts, etc.

#### Milk and milk-based beverages

We offer a wide variety of products, from the Megmilk Snow Brand milk recognized by its red carton to calcium-enriched functional milk-based beverages. We also supply milk to elementary and middle schools throughout Japan.



#### Yogurt

We offer distinctive products like megumi, a series of yogurt products containing *Lactobacillus gasseri* SBT2055, a lactic acid bacterium that survives and remains active in the human gut. We also have expanded our product line to include both yogurts that you eat with a spoon and drinkable.



#### Other beverages

Some of the wide variety of products we offer include fruit juices, vegetable juices, coffees, and teas. In particular, Snow Brand Coffee has been a consumer favorite for over 50 years. We also offering fruit juices under the Dole® brand.



#### Desserts and fresh cream

We provide puddings and jellies that boast the textures and flavors consumers desire. We released coffee jelly in 1976 and our current product line CREAM SWEETS has become a consumer favorite that combines smooth cream with wonderful sweetness.

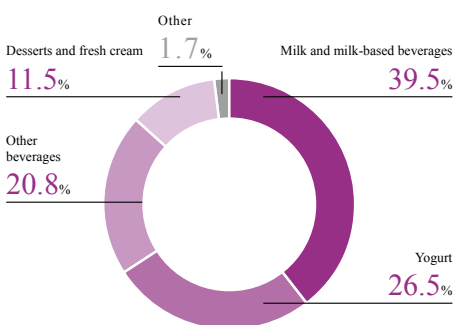


### Market environment

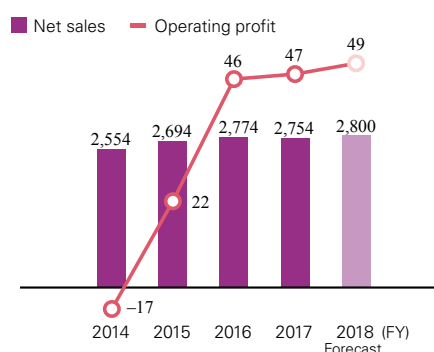
Growth for the yogurt market was largely unchanged during FY2017 at 99% compared to the previous year. However, with functional products such as our *Lactobacillus gasseri* SBT2055 line driving sales, we forecast sales will again trend upward. We also forecast firm growth over the medium- and long-term outlook backed by a strong trend towards health-consciousness by consumers.

The beverage and dessert markets are severely competitive. We will expand sales by promoting consumer-focused product development, including offering cup type packaging for non-dairy beverages, and increase our selection of personal-type desserts.

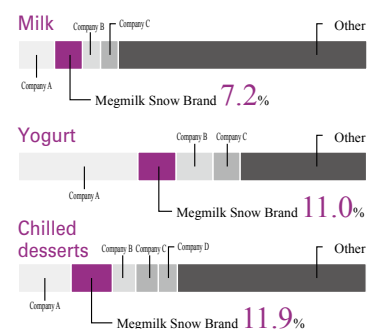
Net sales composition (by category)



Trends in net sales and operating profit (100 million yen)



Category share



Megmilk Snow Brand net sales only  
FY2017 (FYE March 2018) earnings

Source: Intage SCI (up to 70s)  
Monetary share for FY2017

## Growth strategy

### Medium-term Management Plan

#### ● Strategic expansion of functional yogurt

We will strategically expand functional yogurt with a focus on *Lactobacillus gasseri* SBT2055.

#### ● Product mix optimization

We will increase added value by promoting consumer-focused product development, including offering personal-type desserts and small-sized beverages.

#### 1 Increase production capacity and enhance supply structure

- Drink-type Ebina Plant + Kyoto Plant: Build a new line
- Hard-type, plain-type Ebina Plant
- Soft-type Kyodo Milk Industry

#### 2 Expand product line-ups

#### 3 Strengthen marketing

- Enhance the recognition of *Lactobacillus gasseri* SBT2055

#### 1 Enhance competitiveness of personal-type desserts

- Luna Bussan: Build a new production line for desserts

#### 2 Add more value to milk based beverages

### FY2017 results

Net sales of yogurt were firm thanks to TV commercials and promotions to convey the functionality of our *Lactobacillus gasseri* SBT2055 yogurt, which uses a Megmilk Snow Brand proprietary lactic acid bacterium. On the other hand, net sales of beverages decreased due to a stagnant market. Overall, net sales for the Beverages and Desserts Business sector declined slightly. Operating profit increased. Although logistics expenses increased, profit was higher on increased sales of functional yogurt.

### FY2018 initiatives

We will expand profits by expanding sales of our *Lactobacillus gasseri* SBT2055 product line, which will led to improvements in our product mix. In March, we added a new small plastic bottle type drink-type yogurt line at our Kyoto Plant and launched production. We will strengthen mainstay products and implement aggressive sales strategies, including launching new drinkable yogurt products and adding Food for Specified Health Uses (FOSHU) products. We will aim to increase sales for our *Lactobacillus gasseri* SBT2055 product line by 50% compared to the previous year.

For beverages, we will focus on cup beverages and other highly profitable products. For desserts, we will utilize a new dessert line to expand sales.

## Topics

### Expand sales of the high-value-added product *Lactobacillus gasseri* SBT2055 yogurt

By adding a new small plastic bottle type drinkable yogurt line at our Kyoto Plant in March, we were able to increase production capacity to 400% compared to when we first launched sales (Ebina Plant included). We have established a structure for future sales expansion.



Kyoto Plant exterior



Kyoto Plant plastic bottle line



## Business Strategy Nutrition Business



### Market environment

Amid population aging and low birth rates, this business responds to increasing health awareness across a wide range of age groups, from infants to the elderly, and is expected to see significant growth in the future. From functional foods to domestic and overseas powdered milk including infant formula, we will aim for growth by utilizing group synergy in the nutrition and health market, which is expected to see future growth for various products.

## Business overview

### Business introduction

Nutrition refers to the consumption of nutritional foods and strives to contribute to consumer health.

#### Functional foods

We sell products enriched with the functional components of milk such as MBP®, which Megmilk Snow Brand discovered after many years of research. We offer protein, calcium, and various other supplements, including Food for Specified Health Uses (FOSHU) Mainichi Hone Care MBP®, the only product in Japan that can claim to increase bone density.



#### Powdered milk including infant formula

Bean Stalk Snow Co., Ltd. heads up operations for products such as powdered milk. Products offered include infant formula Sukoyaka M1, a product developed after more than 50 years of research related to breastmilk.



## Growth strategy

### Medium-term Management Plan

- **Build a growth model for the functional foods business**

In addition to MBP®, and other products related to locomotive syndrome, we will promote various other functional products for health to elderly consumers as well as aggressively promote sales to other consumer audiences.

- **Enhance competitiveness by promoting value**

We will expand beyond a focus on infant formula and introduce products for adults and expecting mothers to create synergy effect. We also will expand into overseas markets.

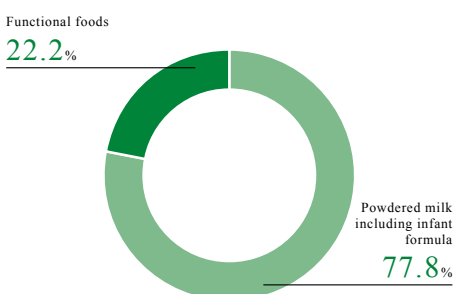
### FY2017 results

Net sales of functional foods increased thanks to aggressive marketing to promote Mainichi Hone Care MBP® and favorable sales of powdered milk driven by the release of powdered milk for adults.

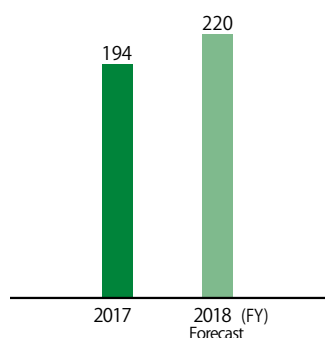
### FY2018 initiatives

For functional foods, we will continue to implement aggressive marketing investments to develop markets that will grow into future profit pillars. For powdered milk, we will expand sales in Japan and overseas by developing unique infant formula products and powdered milk for adults.

Net sales composition (by category)



Net sales (100 million yen)



Included in the Dairy Products Business



Mainichi Hone Care MBP®



Powdered milk for adults, Platinum Milk for Balance





# Business Strategy

## Feedstuffs and Seed Products Business



### Market environment

In the dairy farming segment, labor unionization is spreading as a result of an increased focus on securing domestic feedstuff and efforts to increase feed production. In the agriculture segment, growing demand for environmentally-friendly cultivation and demand for domestic crops is expected to drive demand in the green manure and vegetable sectors. Costs for imported raw materials are increasing due to higher costs in producer nations and growing international demand.

### Growth strategy

#### Medium-term Management Plan

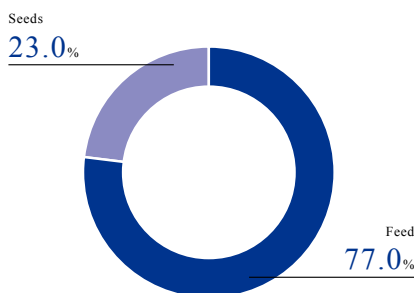
- **Strategic expansion of the seed products business**

Our R&D Department will engage in product development for region and climate-specific products and our production and procurement departments will ensure the stable procurement of high-quality seeds to expand sales of seeds for grass feedstuff, green manure, and vegetables, and microorganism products.

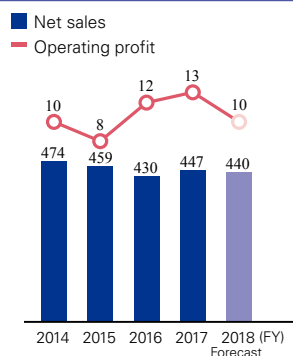
- **Improving profitability for feedstuff business**

We will combine the development of blended feed matched to operating and feed management requirements with technology for high-quality cultivation of crude feed and feed management technology to present comprehensive proposals and strengthen relationships with dairy farmers. We also will develop efficient procurement, production, and logistics structures.

Net sales composition (by category)



Trends in net sales and operating profit (100 million yen)



FY2017 (FYE March 2018) earnings

## Business overview

### Business introduction

Snow Brand Seed Co., Ltd. leads operations related to feedstuffs, seeds (forage grass and crops, vegetables), landscape gardening, and cattle fattening.

#### Feed Business

The feedstuff business provides blended dairy and beef cattle feed matched to the needs of each specific region.



#### Seed Business

The seed business is engaged in grass breed improvement and grows numerous types of high-quality seeds for both cold and warm climate regions. We offer a variety of vegetable seeds, including top quality edamame (immature soy bean) seeds and seeds for daikon (radish), komatsuna (mustard spinach), and spinach.



#### Landscaping Business

The potential for Sports turf\* continues to grow as recent years have seen greater focus on grass due to changes in the sports industry. These changes are expected to create various opportunities. We will aggressively engage in product development and facility management technology for the landscaping business and nature restoration business, particularly on sports turf and parks, to provide products that meet the needs of consumers and society.



\*Refers to turf used in sports activities

### FY2017 results

Net sales and profit increased thanks to increased sales of seeds for grass and feed, and higher sales prices for blended feed products compared to last year.

### FY2018 initiatives

For the seed business, we will use our new research center to develop products that distinguish us from our competitors. For the feed business, we will continue working to support sustainable dairy farming by practicing comprehensive, proposal-based sales. We will further strengthen our business platform to contribute to Japan's dairy farming industry and enable future growth.



Snow Brand Seed Co., Ltd. new laboratory building (Hokkaido, completed in June 2017)

1 Our ideal future

2 DNA and the value creation process

3 Strategies for value creation

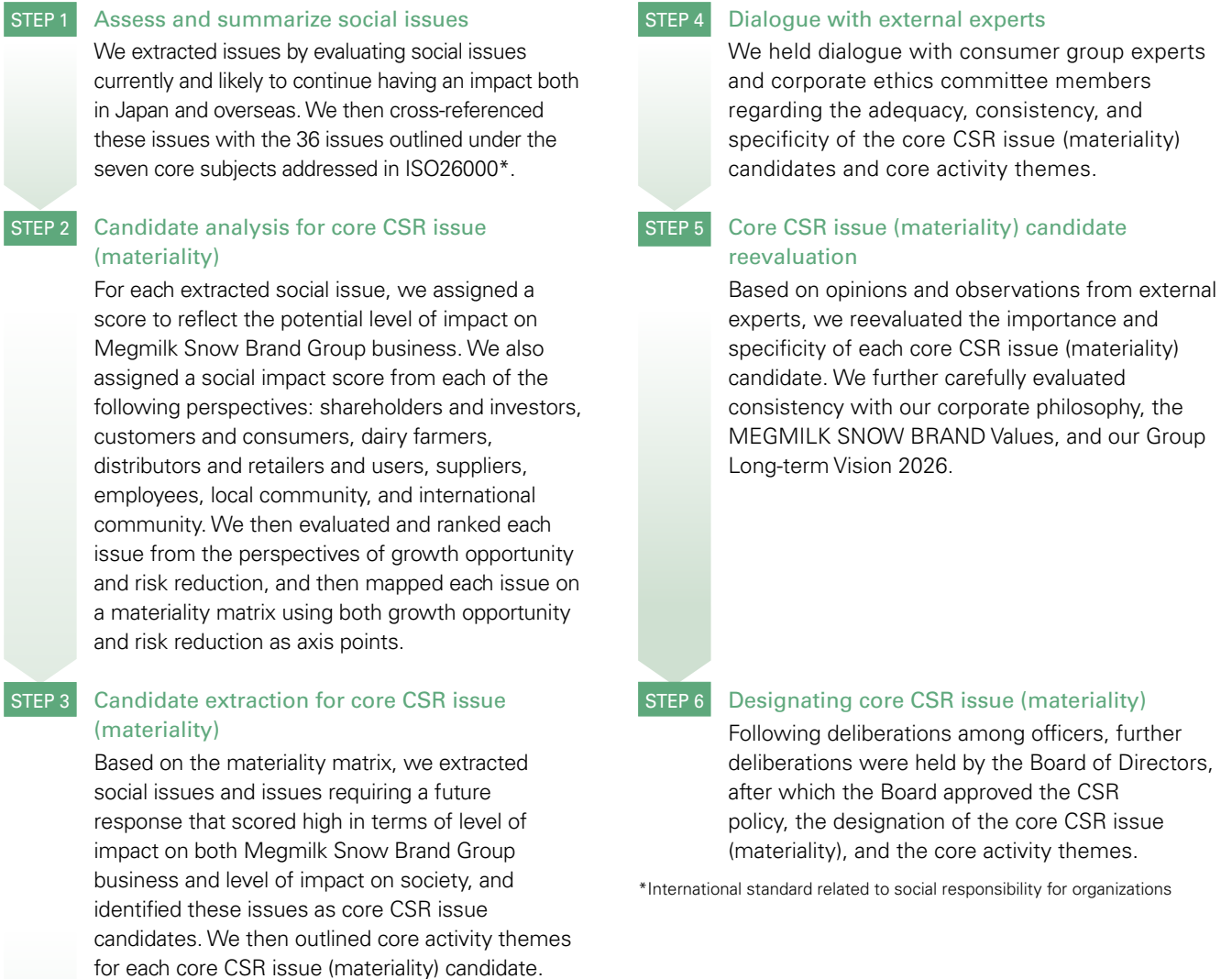
4 Initiatives to build our business platform

5 Financial & corporate information

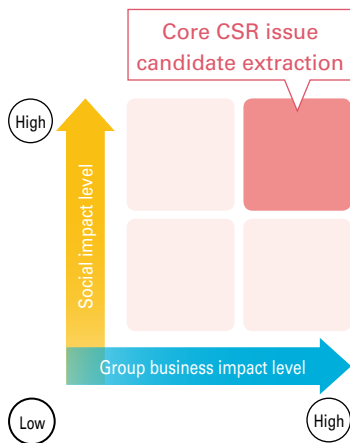
## CSR Policy and Core CSR Issue (Materiality)

The Megmilk Snow Brand Group conducts new CSR activities based on compliance and governance to contribute to the realization of a sustainable society by resolving social issues through our business activities. To promote this new CSR activities linked to long-term corporate growth, we conducted internal evaluations and engaged in dialogue with external experts to outline a revised CSR policy and designate our core CSR issue (materiality).

### Core CSR Issue (materiality) designation process



\*International standard related to social responsibility for organizations



## CSR Policy and Core CSR Issue (Materiality)

### ● CSR Policy

In accordance with our corporate philosophy<sup>\*1</sup>, we promote operations that through our business activities support sustainable development for our company and society.

#### [Basic approach]

- Grounded in compliance<sup>\*2</sup>, engage in activities with highest priority on securing product and service safety (quality assurance).
- Focus on all stakeholders, including customers and consumers, and conduct operations that reflect social conscious.
- Designate our core CSR issue (materiality) and work towards resolving social issues in order to achieve a sustainable society.

\*1. Megmilk Snow Brand Corporate Philosophy: Focus on consumers, contribute to dairy farming production, and put our hearts into milk. Our corporate slogan is, "Make the future with milk."

\*2. Compliance includes legal compliance as well as adherence to internal and societal rules, and adherence to the ethical values of society.

### ● Core CSR Issue (materiality)

CSR domain	Core CSR Issue (materiality)	Core activity theme
Food and health	Milk for contributions to food and health	Providing safe products and services
		Contributing to extending healthy life expectancy
Dairy farming	Contributing to sustainable dairy farming	Activities to strengthen the dairy farming production platform
Environment	Reducing environmental load	Preventing global warming
		Sustainable use of resources
		Formation of a recycling-based society
People and society	Realization of a diverse and motivating workplace	Human resource diversification and development
		Achieve work-life balance and improve labor productivity
	Contributing to local community	Partnerships with local community



## Core CSR issue > Milk for contributions to food and health

The Megmilk Snow Brand Group promotes health and contributes to enriched lifestyles by providing dairy products and information. We also listen to customer feedback and reflect that feedback in products and services to practice consumer-focused management as we strive continuously to provide safe and reliable products and services.



### megumi Gasseri SP Strain Yogurt 100g - A certified FOSHU product

We revamped megumi Gasseri SP Strain Yogurt 100g to relaunch the product in March as the first FOSHU yogurt product that helps reduce visceral fat.

This healthy recipe remains fat free and sugar free, and features the same delicious taste that makes it easy to consume everyday. *Lactobacillus gasseri* SBT2055 Yogurt - a daily lifestyle yogurt for modern Japanese people

**Permitted labeling:**

*Lactobacillus gasseri* SBT2055 works to constrain fat absorption when eaten together with meals, which helps reduce visceral fat and supports improved food lifestyles for overweight people concerned about visceral fat.



megumi  
Gasseri SP Strain Yogurt  
100g

### Product that contributes to strong bones

People long believed that milk was good for the bones due to the calcium content. However, research by Megmilk Snow Brand led to the discovery of an element called MBP®\* as a contributing factor in addition to calcium.

Megmilk Snow Brand Group is increasing our line of products containing MBP®, which works to increase bone density. We also participate in activities to support extending healthy lifespans by introducing information related to bone health and the superb results of MBP® at seminars organized by local governments and at conferences attended by medical professionals.

\*Microproteins in milk that contribute to bone regeneration.

**Permitted labeling:**

This product contains MBP® (milk basic protein), which works to improve bone density, making it a suitable beverage for people concerned about bone health.

From left:  
Mainichi Hone Care MBP® Blueberry 50ml  
Mainichi Hone Care MBP® Lychee 50ml



## Food education activities

Food is the most important work involved in fostering life. This also includes important things such as gratitude for the blessings of food, gratitude for the people involved in delivering food to our tables, and passing on food culture. At Megmilk Snow Brand, we have assigned dedicated staff in six locations around the country to support community health, including by providing guest lectures, seminars, and cooking classes at local elementary and middle schools. Through guest lectures, we convey not only the importance and health value of milk and dairy products, we also teach the importance of growing children to live a proper lifestyle and maintain a balanced diet.

### Summer break parent-child workshop event —From Dairy Farm to the Table—

In July, as part of our parent-child food education activities, we provided participants the opportunity to experience milking cows, feeding calves, tour our plant production line, and participate in a cooking workshop. Participants enjoyed themselves while expanding their understanding of dairy farming, milk, and dairy products.



FY2017 No. of food education activity participants

Approx. **41,000** participants

## Plant tour

The Megmilk Snow Brand Group has established tour routes for the general public at eleven of our touring plants in Japan. We are proactively engaged in disseminating information on our corporate activities, including safe and reliable information such as production hygiene management and inspection structures.

FY2017 No. of plant tour participants

Approx. **67,000** participants

### Plant tour and cheese seminar at our Ami Plant

In January, we held the first plant tour and cheese seminar for the Ami Plant and welcomed 77 participants. After a tour of the plant, participants took a Cheese Seminar through which they expanded their knowledge of cheese and its history.

Participants engaged in various fun activities, including tastings of Torokeru Sliced Cheese galettes.



Plant tour (VR corner)



Cheese Seminar

## Seminars

Megmilk Snow Brand conducts enlightenment seminars and cooking seminars to support healthy and energetic lifestyles across a wide range of people. We conduct a vast variety of activities, from grassroots efforts involving our staff members visiting individual municipalities, companies, PTA meetings, and other groups, to as offering seminars as a part of university and junior college curriculum and partnering with media outlets to hold large-scale seminars featuring guest experts.

### ● Bone & Calcium Seminar, Cheese Seminar

The Bone & Calcium Seminar provides an easy-to-understand introduction into the importance of bone health and efficient ways to consume calcium. Through the Cheese Seminar, we provide information on various types of cheese from



around the world to make cheese a more enjoyable experience for consumers. Through these seminars, we work to resolve health problems and improve quality of life (QOL).

We also teach the importance and joy of food through other groups such as the Milk and Dairy Foods Cooking Class, an Enjoying Cheese Society, and a Yogurt Cooking Class.

### ● Lactic acid bacteria seminar

To disseminate information on gut and health, we held the Yomiuri Gut & Health Forum 2017, a lactic acid bacteria seminar sponsored by Yomiuri Shimbum, in September in Tokyo and Osaka. Both seminars received many participants and we could sense their high level of interest in health.



This year's seminars, the seventh time putting on the seminars, had the theme of visceral fat and daily lifestyle habits. The seminars featured lectures by physicians and panel discussion participated in by celebrities, through which we conveyed the functionality of the Megmilk Snow Brand's proprietary *Lactobacillus gasseri* SBT2055.

## Core CSR issue > Contributing to sustainable dairy farming

The Megmilk Snow Brand Group contributes to sustainable growth for the Japanese dairy farming industry by supporting technology upgrades and management stability for dairy farmers, and through initiatives aimed at cultivating consumer understanding of dairy farmers.



### Megmilk Snow Brand Group dairy farmer contribution initiatives

#### Snow Brand Seed Co., Ltd. - Since 1950

Conducts business activities aimed at promoting environmentally-conscious agriculture through a dairy livestock business. Snow Brand Seed sells mixed feed, operates a dry field farming/horticultural agriculture business, develops and produces seeds and saplings for feed crops and vegetables, and operates an environmental greening business that specializes in rooftop greenification. In 2017, we completed development of an agricultural new research facility in Hokkaido.



#### Nichiraku Machinery Co., Ltd. - Since 1954

A manufacturer of production equipment for milk and dairy product plants. Contributes to improvements in dairy product manufacturing technology (multi-layer operations) by providing small-scale manufacturing equipment and technical instruction for dairy farmers who produce and sell cheese and other consumer products.

#### Organization that contributes to dairy farm management research and development

- Japan Young Dairy Farmers Research Association (Rakuseiken) - Since 1948

Megmilk Snow Brand, Snow Brand Seed, Yatsugatake Milk Industry serve as liaisons to support activities.

- Research and Development Center for Dairy Farming - Since 1976

Established as the only private R&D facility for dairy farming. Currently serving as the internal research facility for Megmilk Snow Brand, the R&D Center conducts research, provides dairy farming support, and holds annual symposiums.

- Dairy Farming Advisory Committee - Since 2009

Receives opinions and recommendations from dairy farmers and expert committees with advanced knowledge and vast experience.



Dairy Farming Advisory Committee

#### PR facility for promoting understanding of dairy farming

- Snow Brand Kodomo-no-Kuni Ranch (Children's Land) (Yokohama) - Since 1965

We use various experiential activities to convey the connection between food and life, and to further understanding about dairy farming.



- Megmilk Snow Brand Museum (Sapporo) - Since 1977

We present history to promote further understanding of and interest in dairy farming. Registered as a Hokkaido Heritage Site and a Heritage of Industrial Modernization Site.



## Japan Young Dairy Farmers Research Association (Rakuseiken)

After World War II, Torizo Kurosawa\* was inspired by the proactive activities of youth working to restore dairy farming. Through Kurosawa's support, Rakuseiken was established in 1948. The organization is comprised of approximately 1,000 dairy farmers across Japan and today exists as Japan's oldest research group for practical dairy farming. The Megmilk Snow Brand Group has served as the administrative office since the organization's founding and continues to support various local activities as well as activities by the Japan Dairy Farmer's Research Association, overseas dairy farming training, training for mid-career members, and national women's conferences.

In 2017, Rakuseiken celebrated its 70th anniversary. In commemoration, the Japan Dairy Farmer's Research Association Conference and the Rakuseiken 70th Anniversary Commemorative Event were held as a combined event in Sapporo, the city where the organization was originally founded. Some 450 guests from all over Japan gathered to celebrate the occasion.

During the leadership presentation, Mr. Harada of Harada Farms (Shibecha town, Hokkaido) was awarded the

Kurosawa Award for Excellence in recognition of his superb leadership and company management.

For the Keynote Speech, Toshikazu Semboku, President of Rakuno Gakuen University, spoke on "cultivating the mind and spirit, the message conveyed by Torizo Kurosawa".

This was followed by a presentation by students of the Towanomori Sanai High School gave a presentation on "the road to connected dairy farmers." The presentation was representative of the work of Torizo Kurosawa, who dedicated his life working with national federation members towards developing the dairy farming industry.

We received feedback from the Towanomori Sanai High School students, who as students aiming to work in the agricultural industry, were grateful for the opportunity to participate in the day's events. One could sense their energy and passion and the event served as an opportunity to convey the beauty of dairy farming to future generations.

\* Born in 1885. Founder of the Hokkaido Cooperative Creamery Association, from which Snow Brand Seeds and Megmilk Snow Brand partially derived, and the Hokkaido Dairy Farming School (currently the Rakuno Gakuen University). Kurosawa dedicated his life to the development of Hokkaido and the development of the Japanese dairy farming industry.



69th Japan Dairy Farmer's Research Association Conference & Rakuseiken 70th Anniversary Commemorative Event



41st Overseas Dairy Farming Training (Germany)



Mr. Harada awarded the Kurosawa Award



Speech by President Semboku

## Approach to animal welfare

The Megmilk Snow Brand Group conducts animal welfare-conscious dairy cattle nurturing management that is both ethical and in line with our corporate philosophy. Needless to say, this also applies to methods aimed at contributing to the development of the dairy farming industry (milk quality improvement, dairy farming production enhancements through increased productivity).

The Megmilk Snow Brand cooperates with and supports affiliate initiatives to further disseminate and promote nurturing management in line with relevant laws and guidelines. Furthermore, Snow Brand Seed and the Research and Development Center for Dairy Farming issue advice and recommendations related to research and dairy farms to support producer initiatives related to animal welfare.

## Core CSR issue > Reducing environmental load

The Megmilk Snow Brand Group can only exist thanks to cows, grass, and elements impacted by climate and the vast natural environment that supports dairy farming. As such, each member of our Group is dedicated to conducting environmentally friendly business activities. We will continue to contribute to a sustainable global environment by practicing the standards outlined in ISO14001\*1, ISO26000\*2, GRI guidelines\*3, and the SDGs.



\*1. International standard for environmental management system.  
 \*2. International standard related to social responsibility for organizations.  
 \*3. International guidelines for sustainability reporting outlined by the Global Reporting Initiative (GRI), an international NGO.

### Megmilk Snow Brand environmental policy

We work to reduce environmental load through the establishment of an environmental management system (EMS)\* in accordance with the Megmilk Snow Brand Code of Conduct. We practice business activities centered on milk created in a natural environment and promote coexistence with the global environment.

#### 1. Legal compliance

Adhere to environmental laws and ordinances, and rapidly respond to legal revisions.

#### 2. Environmental consciousness

Properly manage energy conservation and waste products, and make continuous improvements.

#### 3. Increase environmental awareness

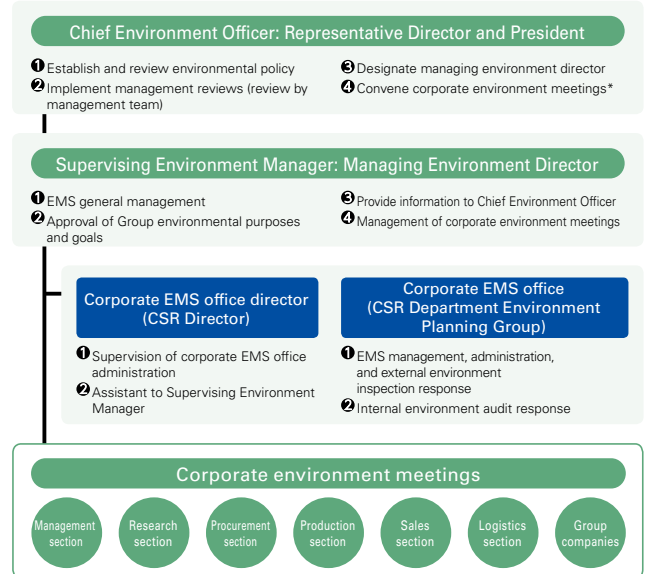
Promote awareness of environmental conservation among all employees and proactively promote environmental education.

#### 4. Disclosure of environmental information

Proactively disclose environmental information to promote transparent environmental conservation activities.

\* Drafting and implementation of environmental policy, environmental goals and plans, and the process of monitoring and measurements, audits, and reviews.

### Environmental management structure map



\* Committee that deliberates on corporate environmental goals, manages progress, decides on required measures, and confirms that the EMS is functioning appropriately and effectively.

### ISO14001 certification

Megmilk Snow Brand proactively engages in environmental conservation to reduce the environmental impact resulting from our business activities. To objectively present the results of these initiatives both internally and externally, we have acquired ISO14001 certification. ISO14001 standards were revised in 2015 and in 2016 our entire Group (70 locations, including two Group companies) acquired certification based on the revised standards. In February 2018, we newly acquired certification at Yatsugatake Milk Industry Co., Ltd.



Inspection (Sapporo Plant)



Inspection (Yatsugatake Milk Industry Co., Ltd.)



Inspection (Hokkaido Regional Sales Office)



## Environmental audit structure

Environmental audits include external inspections conducted by an inspection agency and an internal audit conducted internally. These inspections are used to comprehensively confirm the status of EMS operations and legal compliance.

Internal environmental audits at Megmilk Snow Brand are a combination of a primary audit conducted by the Production Department and a secondary audit conducted by the CSR Department. Through the primary audit, auditors closely familiar with the relevant tasks enable workflow improvements while the secondary audit involves a legal check from an objective perspective and helps to identify problems.



Internal environment audit (Michinoku Milk Co., Ltd.)

## Environmental education

Megmilk Snow Brand works to improve environmental awareness through various environmental education systems, including e-learning as well as internal environmental auditor development training conducted by the corporate EMS office and individual education conducted by each department.

Providing education for all applicable employees is very important. For position-specific e-learning, we require all executive and employees to complete the general education course and each year we receive a 100% participation rate.



Internal environmental audit personnel training (Hokkaido district)

## Initiatives by each section

The Megmilk Snow Brand Group uses significant amounts of natural resources and energy during every phase of our product life cycle, and in response each section implements various initiatives to reduce the resource losses and environmental load generated through these processes as much as possible.

Energy conservation activities and waste product reduction are typical activities conducted on a company-wide level. Additionally, the R&D section conducts environmentally conscious product design, the Procurement section shifted to thin plastic containers and environmentally-conscious containers, and our plants

are implementing measures such as optimizing energy use and treating wastewater. Our Logistics section is implementing a modal shift\* in raw materials and product shipment and working to improve load rates. At our branch offices and sales offices, we are promoting eco-driving for all sales vehicles. In the Administration section, we work to limit the energy required for heating and cooling by practicing "cool biz" and "warm biz," and are shifting to paperless business.

\*Shifting cargo transport from vehicles to rail and marine transport to reduce CO<sub>2</sub> emissions and reduce environmental load.

## Improving wastewater treatment performance

At our Sapporo Plant, we increased the number of wastewater equalizing tank and installed a fluidized bed\*1 for our wastewater treatment facilities.

By increasing the number of wastewater equalizing tanks, we are able to improve water quality consistency by increasing the volume of reserves of waste water and raw water.

This also enables the parallel operation of existing aeration tanks\*2 and the fluidized bed, enabling a 63% year-on-year reduction in wastewater generated from aeration tank treatment.

\*1. Apparatus that sprays fluid upward to create a status of solid particles floating in a fluid.

\*2. Refers to a tank that blows air into wastewater to stimulate microorganisms in activated sludge to treat wastewater.



Wastewater treatment facilities (Sapporo Plant)

## CO2 emissions reduction

Plants which use heavy oil as fuel produce significant amounts of CO2 but converting it from heavy oil to liquid natural gas (LNG) will reduce CO2 emissions by approximately 20%. We also are gradually converting to liquid natural gas at our Hokkaido Plant, which previously used heavy fuel oil.

We also switched to LED lights for the lighting used in our plants and refrigerators to promote energy

conservation.

At our Isobunnai Plant, we shifted to a more efficient skim milk concentrator to promote energy conservation and reduce CO2 emissions.



Liquid natural gas storage tank (Isobunnai Plant)

## Shift to lightweight containers

We worked towards reducing the weight of plastic bottle containers, resulting in a 10% weight reduction.

In FY2018, we are expecting weight reduction efforts to result in an approximately 200 ton annual reduction\* in plastic use.

\* Estimated value calculated based on results of FY2017 sales figures



megumi Gasseri SP Strain Yogurt Drink-Type Yogurt Berry Mix 100g

## Proactively participating in environmental events and campaigns

At Megmilk Snow Brand, we proactively participate in environmental events and campaigns.



4 Chome Plaza (Sapporo)

We participated in the CO2 Reduction/Light-Down Campaign organized by the Ministry of the Environment. On June 21 (summer solstice) and July 7 (Cool Earth Day), we simultaneously cut off the lights of outdoor advertisements at 23 locations.

As a member of the Committee for Milk Container Environmental Issues, we collaborated with the Japan Milk Carton Recycling Association at the Eco Life Fair

(Yoyogi Park) in June and at EcoPro (Tokyo Big Sight) in December to promote the importance of milk carton recycling and the importance of using recycled paper. We accomplished this by holding various workshops such as how to tear milk cartons open by hand and how to use milk cartons to create handmade post cards.



EcoPro 2017

## Carbon offsetting initiatives

Carbon offsetting is the practice of purchasing CO<sub>2</sub> emissions credits earned through forest preservation efforts such as tree-planting and clean energy business to indirectly offset a part of the CO<sub>2</sub> emissions generated through corporate activities.

Megmilk Snow Brand has long purchased

Hokkaido Carbon Credits. Additionally, in November we purchased Nakashibetsu Town J-Credits.



Presentation of Nakashibetsu Town J-Credits certificate of purchase

## Procurement activities to support the realization of a sustainable society

In accordance with the Megmilk Snow Brand Group Procurement Policy, we practice procurement activities that promote social responsibilities such as fair trade, human rights, and the environment, as well as work to procure sustainable raw materials. We also conduct regular inspections regarding the details of initiatives conducted by our business partners.

### Megmilk Snow Brand Group Procurement Policy

Megmilk Snow Brand applies our Group corporate philosophy and the Megmilk Snow Brand Group CSR Policy to take a leading role in working with business partners to promote socially responsible procurement activities and contribute to the realization of an enriched and sustainable society.

#### 1. Legal compliance and respect for social norms

- Conduct procurement activities that adhere to the relevant laws and respect the social norms of relevant countries.
- Conduct socially responsible procurement activities, including respecting basic human rights and working to improve the labor environment.

#### 2. Ensure quality and safety

- Conduct procurement activities that ensure high-quality and safety of our products.
- Conduct procurement activities that enable us to supply products at stable and appropriate pricing.

#### 3. Conduct fair trade

- Conduct fair trades with business partners.
- Appropriately manage personal information and confidential information related to procurement transactions.

#### 4. Environmental consciousness

- Dairy farming, the foundation of our business, is only possible with a vast natural environment. To contribute to the realization of a sustainable society, respect biodiversity and conduct environmentally conscious procurement activities.

### Fundamental concept to the use of paper

With respect to the use of paper, whenever possible Megmilk Snow Brand prioritizes the use of sustainable products or the use of recycled paper, and we are gradually promoting the shift to these products. We are applying this philosophy to not only the paper containers and cardboard packing boxes we use for our products, but also printing paper, printed matter, and storefront promotional papers.

In accordance with our fundamental concept to the use of paper, for a portion of our packaging Megmilk Snow Brand uses paper from forests that are appropriately managed by an inspection agency and paper certified by the FSC® (Forest Stewardship Council), which supports

sustainable forestry by inspecting and validating forestry, distribution, and processing businesses and issues a proprietary certification mark to certified businesses.

### Membership in the Roundtable on Sustainable Palm Oil (RSPO)

Palm oil is an oil extracted from the fruit of the oil palm tree and has seen a rapid increase in demand in recent years. As a result, plantation development has taken place on a large scale in Malaysia and Indonesia. This development has resulted to the illegal deforestation and burning of tropical rain forests, and also gave way to plantation labor issues, including the problem of child labor.

The dramatic increase in palm oil production is causing serious social and environmental problems. To address these problems, the RSPO was established as a certification organization in 2004. Supporting the mission to strive for healthy palm oil industry development, Megmilk Snow Brand joined the RSPO in July 2018.



Products using FSC® certified paper



FSC® certification mark

## Core CSR issue > Realization of a diverse and motivating workplace

The Megmilk Snow Brand Group recognizes the respective individuality of all persons, regardless of gender, age, nationality, or whether or not that person has physical disabilities. We strive to be a company that generates synergy by encouraging individuals to reach their potential. We are focused on creating an environment that supports diverse workstyles, including supporting child care and family care.



### Workstyle reform

Workstyle improvements achieved through the Megmilk Snow Brand initiative to improve work productivity and work reforms implemented since FY2016 have achieved numerous results, including reductions to overtime hours that exceed goals and employee returns via incentive payments.

In FY2017, each section engaged in an initiative to improve meeting efficiency, shift to paperless meetings, improve time management (reduction of overtime hours), and further promote paid leave acquisition, and the "3/4 Challenge Activities" to reduce workload related to indirect tasks that occur among various sections. In FY2017, we also conducted a test run of a telecommuting structure. Based on those results, we made improvements and adopted the system full-scale beginning in FY2018.

In FY2018, various sections, including R&D, Purchasing, Production, Sales, and Logistics, cooperated to increase Group value chain productivity by improving core workflows, direct tasks in addition to indirect tasks.



### Major FY2017 initiatives

Labor productivity improvements and workstyle reform	<b>Enhancing time management</b> * Overtime labor reduction rate goal of 20% (vs. 1H/FY2015)	<ul style="list-style-type: none"> <li>Using PC login / logoff time records to increase awareness</li> <li>Department-specific overtime labor status analysis and establishment of reduction goals</li> <li>Paid incentives to employees based on corporate goal achievement rate</li> </ul>
	<b>Promoting paid leave acquisition</b> * Goal acquisition rate - 70% or higher	<ul style="list-style-type: none"> <li>Create environment that promotes taking vacations by reviewing holiday breaks and shifts</li> <li>Newly establish half-day paid leave system</li> </ul>
	Challenge 3/4 Activities	<ul style="list-style-type: none"> <li>Department-specific workflow review, establishment of initiative efficacy goals, and progress confirmation</li> </ul>
	Linking with results analysis	<ul style="list-style-type: none"> <li>Reflecting initiative results in personnel reviews</li> </ul>
Creating work environment	Efficient meeting operations	<ul style="list-style-type: none"> <li>Optimization by improving meeting progression</li> </ul>
	Shift to paperless operations	<ul style="list-style-type: none"> <li>The use of conference room equipment, videoconferencing systems, and digital documents will lead to more efficient meetings and the diversification of workplace locations.</li> </ul>
	Telecommuting program	<ul style="list-style-type: none"> <li>Applicable to all employees approved by a direct manager (test run in FY2017, full-scale adoption in FY2018)</li> </ul>

## HR development

The Megmilk Snow Brand Group conducts personnel education for all Group employees based on the philosophy that people are our greatest assets. Megmilk Snow Brand Group companies'



Dairy farming training

employees participate in Megmilk Snow Brand's new employee training and new management training. Since FY2018, they also participate in position-specific training.

We also are focus on enhancing our training programs. Since FY2017, we have conduct training programs applicable to all management employees age 50 and younger, and include diversity training for management and workshop career support training to promote proactive career design\* and self-sufficient skills development for subordinates.

\* Refers to process of evaluating career and independently developing skills towards becoming the "person you want to be"

In FY2018, we adopted a new program for training female managers and our entire Group is implementing various policies to further understanding of personnel diversity.

Category	Job title	Position-based training	Newly established training	e-learning	
Management position	Department manager				
	Section manager	Workshop career support	Leadership development training		
	New management member	New management training (basic) New management training (follow-up)		Applied accounting Time management	
General position	Grade 6	Grade 6 promotion training	Administrative training (plans/appraisals)		
	Grade 5	Grade 5 promotion training		Training for female leaders	Pre-management *required for Grade 6 promotion
	Grade 4	Grade 4 promotion training		Training for future female leaders • Basic training • Follow-up training	Logical writing / speaking *required for Grade 5 promotion
	Grade 3	Grade 3 promotion training	Plant practical training		
	Grade 2	New employee training Dairy farming training		Year 2 follow-up training	Basic accounting *required for Grade 3 promotion
	Grade 1				

## Promoting women's active participation in the workplace

The Megmilk Snow Brand Group promotes women's active participation in the workplace as a core policy towards creating an environment that encourages diverse personnel to fulfill their potential.



and child care leave programs are available to both female and male employees. We also conduct training for supervisors.

### Initiative 2: Planned personnel development

We conduct position-specific female leadership training and female leadership candidate training with the goal of fostering the skills required of leaders and fostering independent action aimed at the realization of individual career visions. To alleviate concerns regarding career advancement, we promote exchanges of opinion with senior employees and network building among female employees.

### Initiative 3: Fostering awareness of women's active participation in the workplace

We use information distribution through our intranet and internal publications to foster awareness of women's active participation in the workplace and promote understanding of company systems.

**WEB** Declaration on promoting women's active participation in the workplace  
<http://www.meg-snow.com/corporate/womanactivation/>

Rate of women in management positions ▶ **PAGE 24**

### Initiative 1: Supporting work and home life balance

We provide programs that support a balance between work and having/raising children. We have established systems for remained connected and achieving self-improvement during leave, conduct pre-return interviews,

## Ensuring employee human rights

We established internal and external whistleblowing hotlines to build a system that can be used by the entire Megmilk Snow Brand Group. To create a workplace environment that ensures the human rights of employees and promotes a pleasant workplace, we receive consultations on harassment and work-related matters. We respond quickly to whistleblowing and following a certain

period of time we confirm that the whistleblower has not been subjected to any unfair treatment, and issue reports to the Corporate Ethics Committee. We continuously work to prevent harassment through training and information dissemination via the "CSR Information Journal," our CSR information magazine.

Internal whistleblowing system ▶ **PAGE 63**

## Core CSR issue > Contributing to local community

The Megmilk Snow Brand Group interacts and partners with our local community through our business activities to promote harmony with people and society, and to contribute to the local community.



### Hokkaido Comprehensive Partnership Agreement

Megmilk Snow Brand, Snow Brand Seeds, and Snow Brand Parlor concluded a comprehensive partnership agreement with Hokkaido Prefecture to apply technology cultivated through dairy product production towards economic stimulation for Hokkaido Prefecture.

#### Specific initiatives

**(1) Initiatives related to stimulating dairy farming**

- Technology support related to environmentally conscious dairy farming
- Supporting dissemination of cheese manufacturing technology

**(2) Initiatives related to food safety and reliability, producer/consumer partnerships\***

- Technical support related to clean agriculture
- Support for initiatives related to food safety and reliability for Hokkaido produce

**(3) Initiatives related to childcare and health**

- Support for local activities related to childcare
- Support related to food education and health
- Support related to sports promotion

**(4) Initiatives concerning promoting attractive Hokkaido tourism**

- Support related to flower tourism
- World Heritage Sites
- Promotions related to Hokkaido Heritage
- Hokkaido tourism PR at the Megmilk Snow Brand Museum

**(5) Other initiatives deemed necessary**

- Environmental initiatives
- Disaster prevention initiatives
- Cooperation with Hokkaido PR activities

\*Local consumers and producers cooperate on the consumption and utilization of local resources and produce to increase regional recycling (flow of people, things, money) and help stimulate the local economy.

#### Participation and sponsorship of educational projects

In July and August, Megmilk Snow Brand dispatched Milk Science Research Institute staff to Shibecha High School and Hokkaido Toyotomi High School to conduct special classes on cheese as part of our human resource development project, a project sponsored by the Hokkaido Government Board of Education. Students who took the course then participated in a cheesemaking workshop to further their understanding of cheese and dairy products.

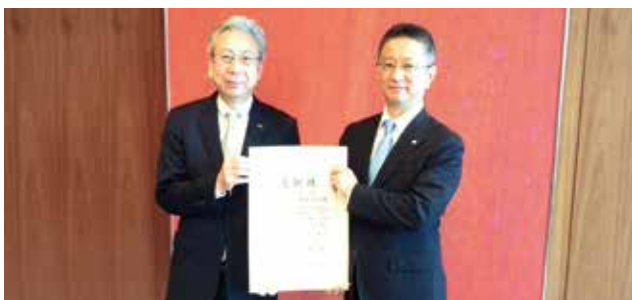


Special class on cheese



Cheesemaking workshop

### Sapporo Urban Development Partner Treaty



Sapporo Deputy Mayor Kishi and President Nishio

In March 2012, Sapporo City and Megmilk Snow Brand signed a Sapporo Urban Development Partner Treaty. Megmilk Snow Brand donates to the Support Hotto Fund based on the number of visitors to the Megmilk Snow Brand Museum to support activities supporting healthy childrearing. In FY2017, we donated 10 yen for each person who visited the Megmilk Snow Brand Museum. We received a letter of thanks from Sapporo Deputy Mayor Kishi.

## Disaster response

### Vending machines with disaster response

SI System Corporation has installed 19 vending machines with disaster response in their joint distribution center. Vending machines are equipped with functions that allow people to remove products with a simple operation so that beverages can be distributed to nearby companies and residents even in the event of a power outage due to a disaster or other emergency situation.

### Mutual plant cooperation in the event of a large-scale disaster

The Kobe Plant, Nagoya Plant, Ebina Plant, Nakashibetsu Plant have signed agreements with nearby districts. In the event of a large-scale disaster, communities and plants will mutually cooperate to provide evacuation sites and material assistance in order to reduce the impact of a disaster.

## Everything for our customers (Snow Brand Kodomo-no-Kuni Ranch)

Under the corporate philosophy of responding to the needs of all our customers, Snow Brand Kodomo-no-Kuni Ranch learned how to respond to persons with disabilities. We received the cooperation of the Kanagawa Independent Living Center to hold an employee workshop in October. The workshop was led by two instructors who have physical disabilities. The instructors provided a talk on persons with disabilities and guidance on how to interact and care for persons with disabilities. Following the workshop, we worked to create a more enjoyable and pleasant work environment but considering how we respond to persons with disabilities, proactively speaking

with people with disabilities, and making improvements such as barrier free renovations. In December, employees who know sign language served as instructors for sign language workshops during meetings by each section.



Seminar



Outdoor tables with wheelchair access

## Sports promotion

At Megmilk Snow Brand, we contribute to society by supporting sports with a focus on our Megmilk Snow Brand Ski Team. In August, we held a Sports and Food event at the Megmilk Snow Brand Museum. This summer project is participated in by elementary school students and their parents. The Megmilk Snow Brand Ski Team cooperated by providing an exhibition of skis they used in games and gold medals won during the Olympics. Team members also introduced the Megmilk Snow Brand Ski Team and the sport of ski jumping to convey the joy of sports. They also explain the importance of children

maintaining balanced nutrition. In January, we sponsored the 59th Snow Brand Megmilk Cup Ski Jumping, which gathered skis jumpers from all over Japan. To promote sports outside of skiing and to support healthy development, in May we sponsored the 30th Soccer Magazine Megmilk Cup Ladies Championship 2017.



Soccer Magazine Megmilk Cup Ladies Championship

## Plant open house day (Megmilk Snow Brand Fukuoka Plant)

In June, Megmilk Snow Brand celebrated the 80th anniversary of the Fukuoka Office by holding an open house for the Fukuoka Plant. The event welcomed over 700 visitors, from families with children to senior citizens. The event featured a plant tour, product tastings and sales, a butter-making workshop, a bone density measurement event, sports and food education, a ski team talk event, and more. The event was an opportunity to increase understanding of the Megmilk Snow Brand and helped develop relations with the community.



Butter-making workshop



Sports and food education

## Management Structure (as of June 27, 2018)

### Director



**Keiji Nishio**  
Representative Director and President

**Main responsibilities**  
Overall management



**Shigeru Nishibaba**  
Representative Director and Executive Vice President

**Main responsibilities**  
Overall management and assistant to the President, in charge of Internal Audit and Logistics



**Takahiro Ishida**  
Representative Director and Executive Vice President

**Main responsibilities**  
Overall management and assistant to the President, in charge of General Affairs, Secretarial Dept. and Personnel



**Shinya Kosaka**  
Director and Senior Managing Executive Officer

**Main responsibilities**  
In charge of Corporate Planning Div., Administration and Affiliated Company Control



**Hideaki Tsuchioka**  
Director and Senior Managing Executive Officer

**Main responsibilities**  
Supervising Household Products Division and in charge of National Chain Store Sales, Public Relations and Corporate Social Responsibility



**Katsuyuki Shirohata**  
Director and Managing Executive Officer

**Main responsibilities**  
In charge of Production and Production Technology





**Masato Koitabashi**  
Director and Managing Executive Officer

**Main responsibilities**

In charge of Dairy (General Manager, Dairy Dept.)



**Hideki Motoi**  
Director and Managing Executive Officer

**Main responsibilities**

In charge of Accounting & Finance (including Investor Relations) and Information Technology, Deputy Manager of Corporate Planning Div. and Affiliated Company Control



**Hisa Anan**  
External Director



**Shinobu Chiba**  
Director serving as Audit & Supervisory Committee Member



**Ikuo Nishikawa**  
External Director serving as Audit & Supervisory Committee Member



**Akito Hattori**  
External Director serving as Audit & Supervisory Committee Member

## Executive Officer

Managing Executive Officer	<b>Yasuo Ikeura</b>	In charge of Hokkaido Headquarters, Research & Development Center for Dairy Farming, Deputy General Manager in Charge of Dairy Farming (General Manager, Hokkaido Headquarters, General Manager in Charge of Research & Development Center for Dairy Farming)
Managing Executive Officer	<b>Akihiko Uchida</b>	In charge of Functional Food Marketing and Purchasing
Managing Executive Officer	<b>Toshio Itabashi</b>	In charge of Marketing, Dairy Foods Marketing, and Milk Beverages & Desserts Marketing
Managing Executive Officer	<b>Ryoichi Sueyasu</b>	In charge of International Dept.
Managing Executive Officer	<b>Yoshihiro Kawasaki</b>	In charge of Research & Development Planning, Products Development, Milk Science Research Institute, Quality Assurance
Managing Executive Officer	<b>Kohei Ogai</b>	In charge of Institutional Foods Dept.
Managing Executive Officer	<b>Kazuo Hokura</b>	Senior General Manager, Kansai Regional Sales Headquarters
Managing Executive Officer	<b>Yuji Kuramochi</b>	Senior General Manager, Kanto Regional Sales Headquarters
Executive Officer	<b>Shigeru Watanabe</b>	General Manager, Public Relations & Investor Relations Dept.
Executive Officer	<b>Takahiro Shibata</b>	General Manager, Production Dept.
Executive Officer	<b>Atsushi Serizawa</b>	General Manager, Milk Science Research Institute

# Corporate Governance

## Basic policy on corporate governance

### Basic approach


Our basic policy is to enhance our corporate value by ensuring transparency in management, strengthening oversight functions from outside the company, and establishing a management structure that can respond swiftly to changes in the market.

In accordance with this basic policy, we actively work to strengthen governance in order to fulfill all our responsibilities to our shareholders and stakeholders.

We have adopted a structure as a Company with an Audit and Supervisory Committee in order to strengthen the oversight functions of the Board of Directors and to improve flexibility in the execution of business.

### ● Corporate governance reports

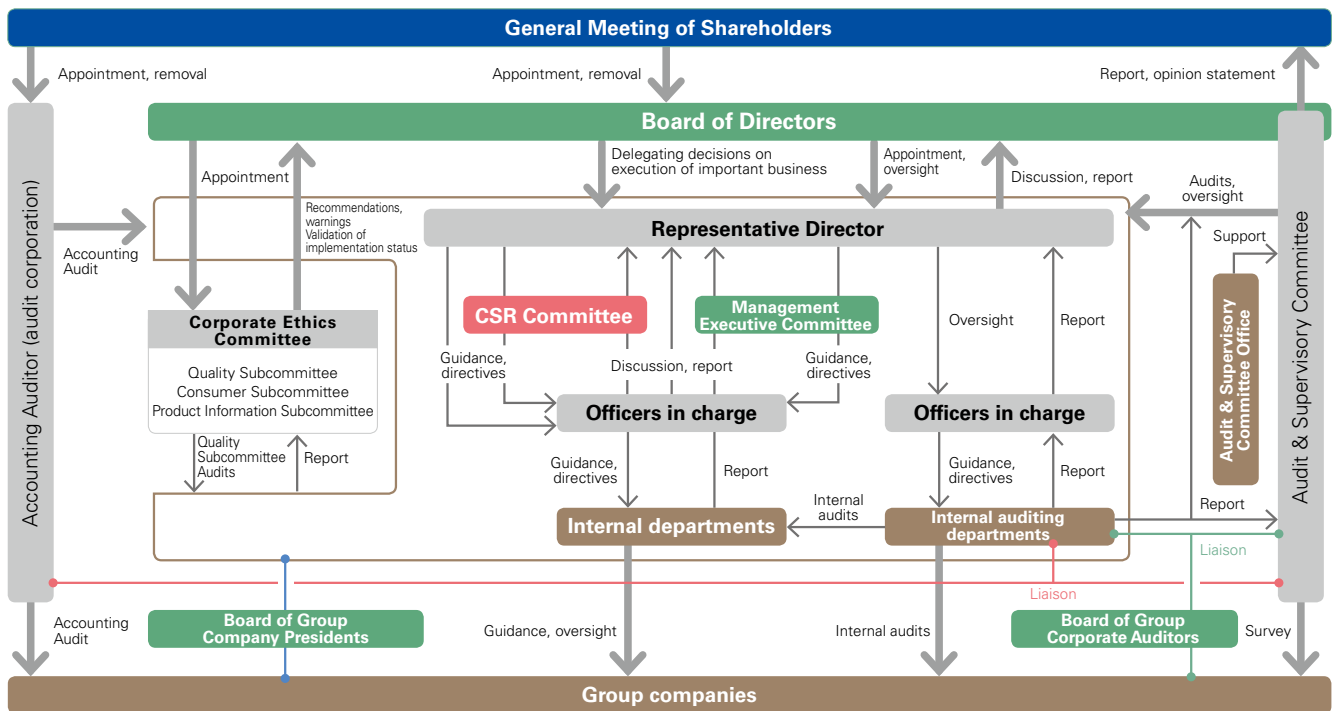
These general reports on Megmilk Snow Brand governance are created in accordance with the regulations of domestic stock exchanges. The report is formatted to comply with the principles of the Japan's Corporate Governance Code and details the Megmilk Snow Brand corporate governance structure and status of response.

 **Corporate governance report**  
<http://www.meg-snow.com/ir/governance/pdf/governance.pdf>

 **Basic policy on corporate governance**  
<http://www.meg-snow.com/ir/governance/>

Megmilk Snow Brand Governance Organization Chart

As of March 31, 2018



## Structure and function of Board of Directors

The Megmilk Snow Brand Board of Directors is comprised of 15 or fewer directors (excluding directors serving as Audit & Supervisory Committee Members) and five or fewer directors serving as Audit & Supervisory Committee Members. In principle, the Board of Directors convenes once per month (twice during months when there is a quarterly Board of Directors meeting) to promote rapid decision-making and information sharing.

At Megmilk Snow Brand, we stipulate in our Articles of Incorporation that the Board of Directors may resolve to consign all or a part of the execution of important business (excluding matters outlined in the paragraphs of Companies Act Article 399, Section 13, No. 5). Furthermore, we adopted an executive officer system to separate the execution and oversight of business operations. Excluding certain important decisions, the

Board of Directors shall consign the execution of business to executive directors and executive officers to ensure dynamic business execution and improve the efficacy of oversight functions.

The Board of Directors outlines management strategy in accordance with our corporate philosophy. It is the responsibility of the Board of Directors to ensure fulfillment of these strategies, to conduct appropriate evaluations of

corporate performance and appropriately reflect the results of those evaluations in corporate management personnel decisions, and to ensure appropriate oversight of the plan of succession for the company's chief executive officer. In doing so, the Board of Directors works toward the sustainable growth of the Megmilk Snow Brand Group and to increase our corporate value.

## Structure and function of the Audit & Supervisory Committee

As of June 27, 2018, the Megmilk Snow Brand Audit & Supervisory Committee consists of three members – two external directors and one full-time Audit & Supervisory Committee Member. External directors serving as Audit & Supervisory Committee Members are selected from among experts in fields such as finance, accounting, or legal affairs.

Audit & Supervisory Committee Members attend important meetings, including Board of Directors, Corporate Ethics Committee, and Executive Committee meetings, where they provide opinions and gather

information as needed.

The Audit & Supervisory Committee coordinates as appropriate with corporate management and external directors to promote information sharing. Furthermore, the Audit & Supervisory Committee holds regular meetings with the accounting auditor and internal audit department to gain information beneficial to conducting effective audits. The Audit & Supervisory Committee also uses the internal controls systems to conduct effective and efficient audits of all business execution, including business conducted at Group companies.

## Corporate Ethics Committee

The Corporate Ethics Committee was established in 2002 as an advisory body to the Megmilk Snow Brand Board of Directors and is comprised of external experts, labor union representatives, and internal committee members. The Corporate Ethics Committee holds regular monthly meetings to serve as an external oversight entity for all aspects of business management. The recommendations and validation work

conducted by the Corporate Ethics Committee is applied to our business activities.

In addition to regular committee meetings, the Corporate Ethics Committee also consists of three subcommittees.



Corporate Ethics Committee

### Quality Subcommittee

A group of external experts in quality and hygiene management conducts plant audits and exchanges opinions with employees. Plants draft and implement improvement



Quality Subcommittee

proposals in response to audit recommendations and issue reports to the Corporate Ethics Committee. During FY2017, audits were conducted at eight plants in Japan.

### Consumer Subcommittee

Megmilk Snow Brand Group initiatives are presented to consumer group representatives and experts on consumer issues to receive evaluations and opinions from a consumer perspective. During FY2017, we held two meetings respectively (September & March) in the Kanto and Kansai regions. The September meeting covered the Megmilk Snow Brand CSR Activities Report 2017. During the March meeting, we received opinions regarding the new direction of Megmilk Snow Brand CSR.

### Product Information Subcommittee

External experts in the field of labeling apply a consumer perspective to strict checks of product package labeling, an important source of information for consumers, to ensure product labeling does not lead to misunderstandings or confusion, and that we are providing easily comprehensible information. As necessary, the subcommittee also reviews voluntary standards with a focus on current trends in society. During FY2017, the subcommittee met six times.

1

Our ideal future

2

DNA and the value creation process

3

Strategies for value creation

4

Initiatives to build our business platform

5

Financial & corporate information

## Executive compensation system

Prior to the Board of Directors voting on compensation for Megmilk Snow Brand directors<sup>\*1</sup>, the board provides an explanation of compensation details to the Audit & Supervisory Committee. Director compensation is comprised of fixed compensation and profit-linked bonuses. Fixed compensation is comprised of a base salary, which is the same for all directors including external directors, and position-based compensation. This compensation is compared to other companies of a similar size and amounts are determined based on Megmilk Snow Brand performance. Profit-linked bonus is judged based on

consolidated operating income for the Megmilk Snow Brand Group as indicated in the Medium-term Management Plan and is paid to full-time directors<sup>\*2</sup>. Sixty percent of the compensation amount is paid into the executive shareholders' association and held until retirement to promote value sharing with shareholders. Compensation for directors serving as Audit & Supervisory Committee Members is fixed compensation only. Furthermore, there is no retirement bonus system for directors.

\*1. Excludes directors serving as Audit & Supervisory Committee Members.  
\*2. Excludes directors serving as Audit & Supervisory Committee Members.

## Board of Directors efficacy assessment

The Megmilk Snow Brand Board of Directors conducts an annual self-assessment to confirm and improve the efficacy of the Board of Directors and we disclose a summary of self-assessment results.

A summary of the FY2017 assessment is as follows.

### Assessment details

A survey of all directors was conducted and we received responses to the following topics from each director. The results of this self-assessment is deliberated by the Board of Directors and future response measures were evaluated.

#### ● Survey topics

- (1) Structure of the Board of Directors
- (2) Director operations
- (3) Own image of participation
- (4) Roles and responsibilities of Board of Directors
- (5) Relationship with stakeholders

### Summary of analysis and assessment results

- (1) Self-assessment analysis results indicated that the Megmilk Snow Brand Board of Directors is largely functioning effectively and that in general the efficacy of the Board of Directors is being ensured.
- (2) At the same time, we also confirmed the need for continued evaluations of the following to increase Board of Directors efficacy: 1) Efforts to stimulate deliberations by the Board of Directors, 2) continued information provision to external directors, 3) changes to the Board of Directors structure to adapt to changes in social trends and operating environment, and 4) initiatives to further reflect stakeholder perspectives.

### Future initiatives

Based on the opinions of directors and in light of the inappropriate business practices by Snow Brand Seed Co., Ltd., a Megmilk Snow Brand consolidated subsidiary, the Megmilk Snow Brand Board of Directors will work to resolve confirmed issues and conduct continuous assessments as we strive to further increase the efficacy of the Board of Directors.

## External directors - reason for appointment

Megmilk Snow Brand appoints three external directors to ensure oversight from a position independent of business execution. Megmilk Snow Brand uses the standards outlined in the Companies Act and by securities exchange

markets to outline criteria for judging the independence of external directors. Directors who fulfill these criteria are registered as independent directors.

Name	Reason for appointment
<b>Hisa Anan</b>	Although Ms. Anan has no past history of direct involvement in any company operations, she has particular expertise in the field of consumer lifestyles due to her vast experience with consumer organizations and having previously served as Commissioner of the Consumer Affairs Agency. As such, we determined we can apply advice, recommendations, and oversight by Ms. Anan towards Megmilk Snow Brand company operations.
<b>Ikuo Nishikawa</b>	Although Mr. Nishikawa has no past history of direct involvement in any company operations, as a certified public accountant he has advanced knowledge of and broad experience in the field of finance and accounting. As such, we determined we can apply Mr. Nishikawa's knowledge and experience towards the oversight and audits of business execution by Megmilk Snow Brand directors.
<b>Akito Hattori</b>	Mr. Hattori is an expert in corporate legal affairs, and we determined we can apply his advanced expertise towards the oversight and audits of business execution by Megmilk Snow Brand directors.

## Message from our external directors



**Hisa Anan**  
External Director

My role is to provide external oversight by monitoring company operations and providing opinions.

The basis for this is the company's corporate philosophy. I monitor operations and provide recommendations and proposals from the perspective of the Megmilk Snow Brand corporate philosophy to ensure that 1) product development is focused on consumer safety and health, that proper information is being provided, and that consumer feedback is constantly being reflected, 2) the company is meeting the expectations of dairy producers and contributing to the development of dairy farming in Japan, and 3) the company is increasing and promoting the value of milk.

The corporate philosophy is a promise a company makes in exchange for being allowed to exist in society. Going back on this promise will see the company lose the public trust and be viewed as a company that is incapable of fulfilling its promises. This is something the company has already experienced.

As chairman of the Corporate Ethics Committee, I take the inappropriate practices by Snow Brand Seed Co., Ltd. (P63) extremely seriously and will work to fulfill my responsibilities by ensuring broad oversight for the entire Group.



**Ikuo Nishikawa**  
External Director serving as Audit & Supervisory Committee Member

Listed companies are bound by a corporate disclosure system and compliance requirements that have become stricter in recent years.

Companies must accurately convey the status of the company, including financial reports and other disclosures, to stakeholders. As an external Audit & Supervisory Committee Member, it is my responsibility to apply my experience related to developing accounting standards towards monitoring the appropriateness of Megmilk Snow Brand disclosures.

Applying the guidance and advice of the Corporate Ethics Committee (Quality Subcommittee, Consumer Subcommittee, Product Information Subcommittee) Megmilk Snow Brand works to ensure food safety and reliability. Megmilk Snow Brand is conducting ideal business activities but moving forward it also will be important that we actively present new goals for society. For example, in the area of diversity, Megmilk Snow Brand has published its declaration on promoting women's active participation in the workplace. By setting specific advanced goals, Megmilk Snow Brand can achieve further growth as a company that contributes to a society that promotes energetic and motivating workplace environments for employees.



**Akito Hattori**  
External Director serving as Audit & Supervisory Committee Member

Ensuring accurate and appropriate corporate governance is vital to all corporate stakeholders. At the same time, there has been no end to corporate scandals and cover-ups. Acting in accordance with social norms without engaging in special interests and conducting transparent deliberations internally, I believe consistency in meeting these expectations is incredibly vital.

Through my position as a new Audit & Supervisory Committee Member, I hope to contribute to applying the excellence of Megmilk Snow Brand towards increasing its corporate value.

As an attorney, I have spent nearly 30 years supporting individuals and companies in times of trouble. I have experienced times when situations called for me to present my clients with stern and even painful advice, and not any type of meaningless flattery.

As a heartfelt supporter, and not some cold and objective critic, I am prepared to elevate myself in order to participate diligently in company deliberations.

## ● Compliance

### Megmilk Snow Brand Group Code of Conduct and voluntary conduct standards

The Megmilk Snow Brand Group Code of Conduct defines the basis for conduct by the Megmilk Snow Brand Group as we strive to fulfill our social responsibilities. Companies in the Megmilk Snow Brand Group also outline voluntary conduct standards to define conduct standards and compliance matters specific to each company. The Code of Conduct and voluntary conduct standards define the basis for all activities by Megmilk Snow Brand directors and employees.

#### Declaration

Each year, all Megmilk Snow Brand Group directors and employees sign a declaration of their intent to adhere to Voluntary Conduct Standards and then submit this declaration to the President. The President also signs the declaration and submits it to the Director in charge of CSR.

#### Megmilk Snow Brand Group Code of Conduct

As members of the Megmilk Snow Brand Group, we fully understand our responsibilities to society and shall act in accordance with the following to promote growth together with society.

- We promise to value the feelings of all our stakeholders and conduct ourselves in a way that earns the trust of all members of society.
- We promise to reinforce quality management and provide safe, high-quality products and services.
- We promise to reinforce compliance and practice fair and transparent corporate activities.
- We promise to reinforce the conservation and management of corporate assets and information, and to respect the rights of third parties.
- We promise to work proactively towards social contributions and environmental conservation through our business activities.
- We promise to build a corporate culture that promotes freedom and innovation, and to provide a safe and motivating workplace environment.

### Two incidents

#### Snow Brand Milk Products food contamination incident

Snow Brand Milk Products Co., Ltd. food poisoning incident linked to low-fat milk manufactured at the Osaka Plant. On June 27, 2000, the Osaka Public Health Office received an initial report regarding a consumer suffering from food poisoning. From the results of an investigation it was determined that the raw material used by the Osaka Plant for the manufacturing of products such as low-fat milk was powdered skim milk that had become contaminated after manufacturing due to a power outage at the Snow Brand Milk Products' Taiki Plant. The food poisoning was the result of the powdered skim milk containing enterotoxins produced by staphylococcus aureus.

The response by Snow Brand Milk Products immediately following the incident was mishandled and it took time for the company to conduct a product recall and notify consumers and the general public. As a result, 13,420 suffered from food poisoning. Not only did this incident cause great distrust among consumers regarding milk, dairy products, and processed foods in general, the incident also had a great impact on society as numerous issues came to light, including the milk industry's interpretation of the Ministerial Ordinance on Milk and

Milk Products Concerning Compositional Standards, etc. and the apparent gap with society in terms of the understanding of this ordinance.

#### Snow Brand Food fraudulent beef labeling incident

Incident of fraud in which Snow Brand Food Co., Ltd., at the time a subsidiary of Snow Brand Milk Products, manipulated Japan's national BSE Countermeasures Program\* to register cheap imported beef as domestically produced beef, thereby fraudulently receiving subsidies through the program. The incident came to light in a newspaper article published on January 23, 2002. In the background of this incident was the BSE outbreak that occurred during the previous year, which caused widespread consumer pessimism towards beef. This left the entire meat industry faced with excessive inventory. However, the ultimate cause was the unethical thinking of the employees and their supervisors, who instructed them to engage in such practices. Snow Brand Food was forced to dissolve as a company at the end of April 2002, three months after the fraud was discovered.

\*Program implemented by the Japanese government to purchase domestic beef prior to herd inspections. The program was implemented in response to an outbreak of bovine spongiform encephalopathy (BSE), a type of disease that affects cattle.

### Commitment Day - Taking ownership of our responsibilities as a food provider and never forgetting past incidents involving the Megmilk Snow Brand Group

Food contamination incident and fraudulent beef labeling incident. Since 2003, every year we conduct activities in June and January, the months during which these incidents occurred, to reinforce a strong awareness of our responsibilities as a food provider by ensuring that we never forget and learn from these incidents. In June, we held a panel discussion with Osaka Plant manufacturing

Commitment Day - awareness of and dedication to fulfilling the responsibilities of a food provider

**30**<sup>th</sup> event in the 15 years since activities started in 2003

staff, Taiki Plant quality control staff, and Osaka Sales Branch Office staff in charge at the time of the Snow Brand

Milk Products food contamination incident. The panel also featured an employee hired after the incident who shared her personal experiences. In January, Mr. Mori, editor-in-chief of the CSR information magazine *alterna*, gave a lecture titled "Companies Chosen by the Future - Tomorrow's CSR," in which he discussed the importance of CSR focused on value creation as a path to resolving social issues and achieving economic results.



Panel discussion (June)



Seminar by Editor-in-Chief Mori (January)

## CSR Group Activities

Since 2003, Megmilk Snow Brand has been conducting CSR Group Activities, a time we use to promote further understanding of our corporate social responsibilities and discuss how to convert discussion into action. Activities are held at each workplace and participation is required of all employees, regardless of employment type.

In addition to discussing topics such as understanding our corporate philosophy and promoting CSR in the workplace, each time participants take turns reading the Voluntary conduct standards out loud as a way to reinforce compliance awareness.

In June and January, the respective months in which the Snow Brand Milk Products food contamination incident and the Snow Brand Food fraudulent beef labeling



CSR Group Activities

### CSR Group activities

15 years since activities started in 2003

incident occurred, we look back on the background and events leading up to the incidents as well as view news reports broadcast at the time to renew our sense of responsibility and ethics as a food provider.

These activities also have the secondary benefit of providing employees with the opportunity to hear a diverse range of values and differing opinions, as well as interact with people in different jobs and positions. These activities also function as a way to stimulate the workplace in a way that differs from everyday activities.

Our Group companies also conduct activities that they plan independently based on compliance and other issues relevant to each respective company.

## CSR promotion structure

Megmilk Snow Brand has established the CSR Committee as a management-level governance entity for promoting CSR throughout the Group. The President serves as chairman and the committee is comprised of all full-time directors as well as executive officers and the General Manager of the Corporate Social Responsibility Dept. In principle, the committee convenes twice per year.

Also, CSR leaders designated within each department fulfill a central role in CSR activities, including implementing planned CSR Group Activities.



CSR leaders

## About the Snow Brand Seed Co., Ltd. incident

In February 2018, the Megmilk Snow Brand consolidated subsidiary Snow Brand Seed Co., Ltd. received a Report Collection Order from the Ministry of Agriculture, Forestry, and Fisheries (MAFF) in accordance with Article 65 of the Plant Variety Protection and Seed Act. An investigation by a third-party committee discovered improper certificate labeling and other violations of the Plant Variety Protection and Seed Act. Additionally, it was discovered that the company had conducted breed falsification and attempted to conceal such acts.

Violations of the Plant Variety Protection and Seed Act included failure to label registered breed names on pasture, feed produce and vegetation produce seeds as well as insufficient statement labeling. This was caused by a failure to understand the importance of the Plant Variety Protection and Seed Act and the importance of labeling responsibilities. This in turn was attributable to a failure to provide sufficient opportunities for employees to properly understand the law and acquire required knowledge.

The acts of breed falsification and the attempt to conceal those acts were related to sales fraud in which the company sold seeds

that differed from the seeds ordered. These acts of falsification were systematic and occurred on a continuous basis through 2002. They briefly stopped conducting these acts due to the Snow Brand Food fraudulent beef labeling incident but falsification occurred again in 2012 and 2013, and numerous suspicious administrative treatments were confirmed to have taken place during this period. Furthermore, during the internal investigation, further falsification of records was conducted in an attempt to conceal the facts of the incident. These incidents were deemed to be attributable to a lack of the effort required of corporate management, including an unwillingness to accept the truth of the situation and no attempts to improve corporate culture. As a result, the company was not able to improve internal conditions and the improper practices were conducted over a long period of time.

Snow Brand Seed has begun work to prevent reoccurrence by instituting corporate culture reforms and involving external oversight in work to improve compliance awareness and establish a governance structure.

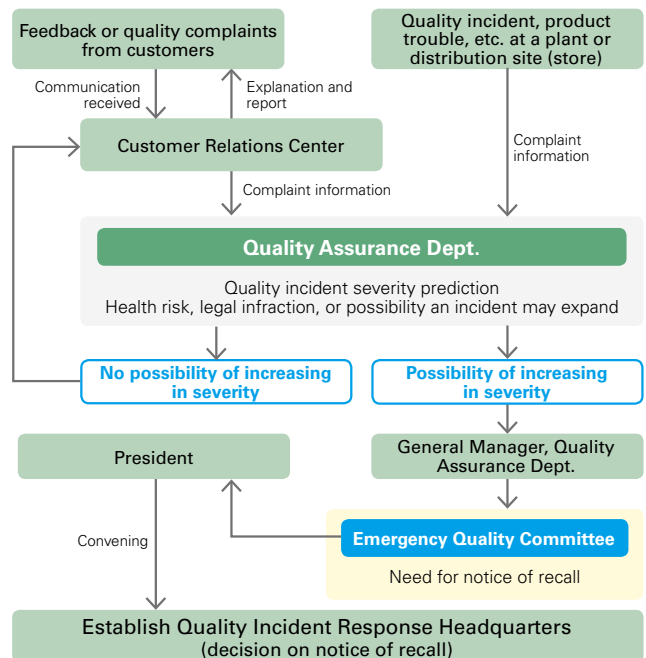
The entire Megmilk Snow Brand Group is committed to strengthening initiatives throughout our entire Group.

## Risk management structure

In addition to responding rapidly and appropriately to product and service incidents and trouble, Megmilk Snow Brand also manages risks related to Group companies.

### Quality incident response

Information related to product quality received via daily customer feedback and trouble and complaint information received from plants and stores are conveyed to the Quality Assurance Dept. When there is a possibility of a problem growing in seriousness, including health risks, legal infractions, or possibility incident may expand, the Emergency Quality Committee is convened to ascertain facts and rapidly implement necessary response. If the results of the committee assessment indicates the need to issue a notice of recall or other response requiring rapid decision-making by corporate management, a Quality Incident Response Headquarters is established and the President serves as the Response Headquarters General Manager to oversee response.



### Risk Liaison Committee

In principle, and Risk Liaison Committee meetings are held weekly at the company headquarters to manage risks and trouble at Group companies. The meetings are attended by the President, Executive Vice President, Audit & Supervisory Committee Members, the respective directors in charge and General Managers of the General

Affairs Dept., Quality Assurance Dept., Corporate Social Responsibility Dept., Public Relations & Investor Relations Dept., and Personnel Dept. In addition to product quality, the committee also promotes the rapid sharing of information concerning other trouble and risk incidents, and checks on the response to risk incidents.

### Whistleblowing system

The Megmilk Snow Brand Group has established both an internal whistleblowing hotline, the Megmilk Snow Brand Hotline, and an external hotline (attorney) for external whistleblowing consultations, both of which are available to the entire Group. Both hotlines serve to address all matters, not only serious incidents such as legal infractions, violations

of internal regulations, and harassment claims, but also issues such as consultation regarding work-related questions and proposals. Whistleblowing claims brought to the hotlines are investigated with a focus on prioritizing the protection and privacy of the whistleblower. At every opportunity, we encourage employees to take advantage of the hotlines.



# Information disclosure to shareholders and investors

## Policy and approach to information disclosure

Megmilk Snow Brand works to earn the trust of all our stakeholders, including customers, consumers, and shareholders, by practicing the timely disclosure of accurate corporate information to ensure transparent business management. The disclosure of information applicable to Timely Disclosure Rules\*<sup>1</sup> is disclosed via the TDnet System provided by the Tokyo Stock Exchange\*<sup>2</sup>. The same materials are then published to the Megmilk Snow Brand website immediately afterwards. We also work to ensure the fair disclosure of information not applicable to timely disclosure regulations.

- \*1. Refers to Rules on Timely Disclosure of Corporate Information by Issuers of Listed Securities. Rules outlined to ensure the provision of continuously changing important corporate information to investors in a timely and appropriate manner. These rules serve to compliment legal provisions concerning disclosure.
- \*2. A comprehensive electronic publishing system for the series of processes related to timely disclosure conducted by listed companies designed to ensure the fair, rapid, and broad-based timely disclosure. Processes include prior explanations to the Tokyo Stock Exchange and disclosure to broadcast media, the registration of disclosure materials to a database, and the publication of disclosure materials to timely disclosure information browsing services.

## General Meeting of Shareholders

- (1) We provide an environment at the General Meeting of Shareholders that enables shareholders to exercise their voting rights as appropriate.
1. Accurately provide information that will contribute to appropriate decision-making by shareholders.
  2. Work to ensure early disclosure and/or delivery of convening notices, use electronic voting systems, and disclose English language versions of convening notices to ensure the smooth and appropriate exercising of voting rights.

3. Avoid days on which numerous companies hold shareholders meetings when selecting the meeting date for the General Meeting of Shareholders.
- (2) Following the adjournment of the General Meeting of Shareholders, we analyze factors attributing to approval and opposition of all motions, and evaluate response measures as necessary.

## Communication with shareholders and investors

Megmilk Snow Brand seeks to build long-term, trust-based relationships with shareholders and investors by engaging in constructive communication with the goal of promoting sustainable growth and increasing our medium- to long-term corporate value.

Communication with shareholders and investors is overseen by the Director in charge of IR with everyday operations conducted by Public Relations & Investor Relations Dept. IR staff in cooperation with the Corporate Planning Div., the General Affairs Dept. and the Accounting & Finance Dept. For media outlets, analysts,

and institutional investors, we conduct conferences related to first half earnings and year-end results. We also hold quarterly small meetings with analysts and institutional investors as well as engage in one-on-one communication as necessary. We regularly hold conferences for individual investors. The Public Relations & Investor Relations Dept. provides monthly reports on the details of communication with shareholders and investors to the Executive Committee. No insider information (undisclosed important information) is conveyed during communication with shareholders and investors.

## Information provision via the internet and pamphlets

To promote fairness and information dissemination and disclosure, Megmilk Snow Brand immediately publishes materials concerning earnings, business operations, corporate policies, and our Medium-term Management Plan to our IR information website. After earnings results are released, we also immediately publish our earnings summary and earnings conference materials. Additionally,

the Megmilk Snow Brand Group also publishes the Megmilk Snow Brand Report, our marketable securities report, our shareholder report, and press releases. Also, to enable the browsing of information by overseas stakeholders, we also publish an English version of the Megmilk Snow Brand Report.

## Operating Results and Financial Analysis (FY2017)

### Analysis of Operating Results

#### Status of operations

In accordance with Group Medium-term Management Plan 2019, the Megmilk Snow Brand Group endeavored to strengthen the earnings base in preparation for future growth through efforts to create multiple earnings bases and maximize cash flow, through product mix improvement accompanying sales growth from high-value-added products such as functional yogurt and from cheese and other mainstay products, and through scale expansion from continued marketing investment in the nutrition business sector.

As a result, consolidated earnings for the current consolidated fiscal year were net sales of 596.1 billion yen (up 1.4% YoY), operating profit of 19.3 billion yen (up 3.3% YoY), ordinary profit of 20.9 billion yen (up 3.6% YoY), and profit attributable to owners of parent of 13.3 billion yen (up 3.1% YoY).

#### Net sales

The Dairy Products Business (includes Nutrition Business) resulted in net sales of 239.7 billion yen (up 3.2% YoY) on favorable sales driven by promotional activities to take advantage of a growing cheese market. The Beverages and Desserts Business recorded favorable sales on continued activities promoting yogurt made with the Megmilk Snow Brand proprietary lactobacillus strain *Lactobacillus gasseri* SBT2055.

On the other hand, sales of beverages declined due to the impact of a stagnant market. As a result, net sales were 275.4 billion yen (down 0.7% YoY).

The Feedstuffs and Seed Products Business recorded net sales of 44.7 billion yen (up 4.0% YoY) thanks to increased sales of pasture forage/crop seeds and rising sales prices for compound feeds.

When adding 36.1 billion yen (up 3.2% YoY) in net sales from the Other segment, which includes real estate rental and joint distribution center services among other businesses, segment net sales increased 8.2 billion yen to 596.1 billion yen (up 1.4% YoY).

#### Operating profit

Operating profit increased 0.6 billion yen to 19.3 billion yen (up 3.3% YoY). Although we recorded various cost increases, including higher promotion costs, raw material costs, and logistics costs, sales growth for cheese in the Dairy Products Business and higher sales for functional yogurt in the Beverages and Desserts Business contributed. EBITDA increased by 0.6 billion yen to 34.5 billion yen (up 1.8% YoY).

#### <Reference> Net sales and operating profit by segment

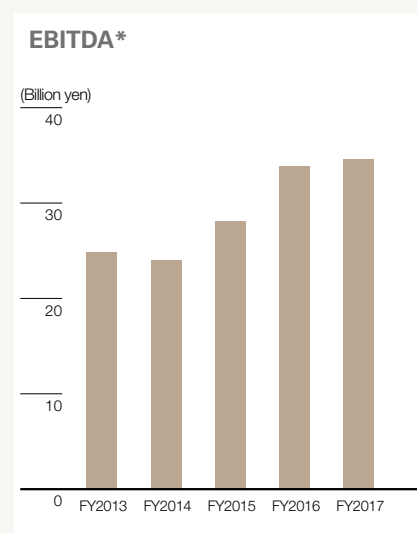
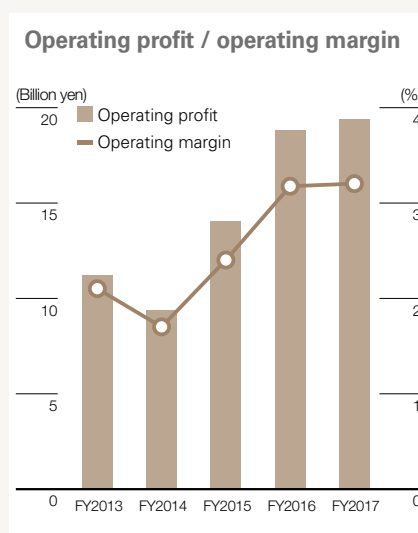
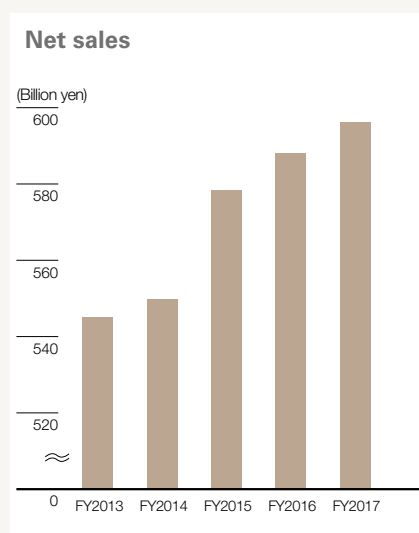
Unit: Billion yen

	FY2017	
	Net sales	Operating profit
Dairy products	239.7	12.1
Beverages and Desserts	275.4	4.7
Feedstuffs and Seed Products	44.7	1.3
Other	36.1	1.1
Total	596.1	19.3

#### <Reference> Nutrition Business (reported under Dairy Products Business) segment net sales

Unit: Billion yen

	FY2017
	Net sales
Nutrition	19.4



\*Earnings before interest, taxes, depreciation and amortization

## Analysis of financial status

### Assets

Total assets as of the end of the consolidated fiscal year under review increased by 11.3 billion yen year on year. This was mainly attributable to increases in wholesale assets, investment securities, and notes and accounts receivable-trade.

### Liabilities and net assets

Total liabilities as of the end of the consolidated fiscal year decreased by 0.4 billion yen year on year. Although notes and accounts payable-trade and accounts payable increased, loans payable and income taxes payable decreased.

Total net assets increased by 11.8 billion yen year on year. This was mainly attributable to increases in retained earnings and valuation difference on available-for-sale securities.

## Cash flow analysis

### Cash flows from operating activities

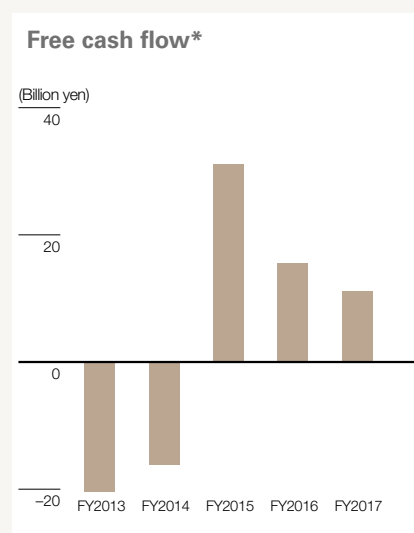
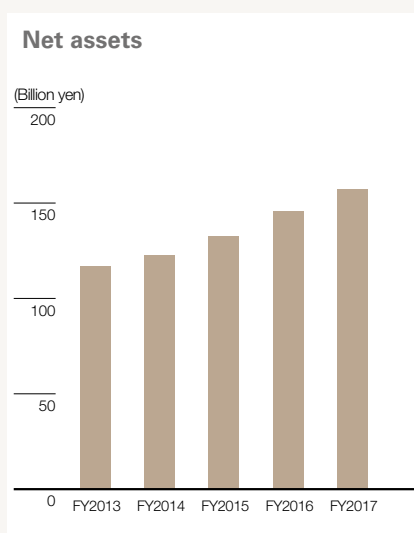
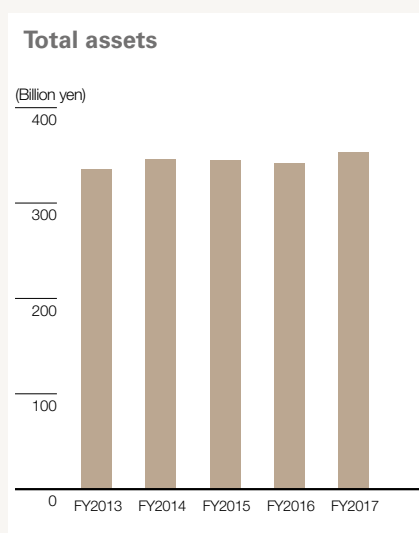
We recorded revenues of 22.8 billion yen (previous FY was revenues of 29.9 billion). Compared to the previous fiscal year, while income tax payments decreased, inventory assets increased, resulting in a 7.1 billion yen decline in revenues.

### Cash flows from investing activities

We recorded expenditures of 11.7 billion yen (previous fiscal year was expenditures of 14.4 billion yen). Compared to the previous fiscal year, the change is mainly attributable to a decrease in proceeds from sales of property, plant and equipment and intangible assets, which offset a decrease in purchase of property, plant and equipment and intangible assets. This resulted in a decrease in expenditures of 2.6 billion yen.

### Cash flows from financing activities

Cash flows from financing activities resulted in revenues of 12.9 billion yen (previous FY was revenues of 14.3 billion). Compared to the previous fiscal year, while expenditures for repayment of long-term loans payable decreased, the net amount for short-term loans payable and revenues from long-term loans decreased, expenditures for the purchase of subsidiary stock not resulting in changes in the scope of consolidation and increased cash dividends paid resulted in decreased expenditures of 1.4 billion yen.



\*Cash flows from operating activities + cash flows from investing activities.

# Consolidated Financial Statements

## Consolidated balance sheets

	Millions of yen			Millions of yen	
	As of March 31, 2017	As of March 31, 2018		As of March 31, 2017	As of March 31, 2018
<b>Assets</b>			<b>Liabilities</b>		
Current assets			Current liabilities		
Cash and deposits	16,657	<b>14,620</b>	Notes and accounts payable-trade	56,313	<b>60,475</b>
Notes and accounts receivable-trade	65,063	<b>69,302</b>	Electronically recorded obligations-operating	3,572	<b>4,021</b>
Merchandise and finished goods	35,021	<b>39,632</b>	Short-term loans payable	20,900	<b>19,774</b>
Work in process	905	<b>1,423</b>	Current portion of long-term loans payable	8,506	<b>22,052</b>
Raw materials and supplies	12,524	<b>12,857</b>	Lease obligations	937	<b>1,121</b>
Deferred tax assets	4,556	<b>4,384</b>	Accounts payable	9,661	<b>13,467</b>
Accounts receivable	2,224	<b>2,506</b>	Income taxes payable	2,902	<b>2,259</b>
Other	2,247	<b>2,187</b>	Accrued expenses	7,742	<b>7,900</b>
Allowance for doubtful accounts	(535)	<b>(405)</b>	Deposits received	632	<b>385</b>
<b>Total current assets</b>	<b>138,665</b>	<b>146,510</b>	Deferred tax liabilities	4	<b>—</b>
			Provision for bonuses	5,285	<b>5,208</b>
Non-current assets			Other	4,601	<b>4,003</b>
Property, plant and equipment			<b>Total current liabilities</b>	<b>121,060</b>	<b>140,670</b>
Buildings and structures	45,452	<b>48,039</b>	Non-current liabilities		
Machinery, equipment and vehicles	56,921	<b>56,095</b>	Long-term loans payable	47,304	<b>27,089</b>
Tools, fixtures, and equipment	3,791	<b>4,020</b>	Long-term deposits received	5,052	<b>5,173</b>
Land	50,057	<b>50,396</b>	Lease obligations	5,940	<b>5,013</b>
Leased assets	5,921	<b>5,419</b>	Deferred tax liabilities	1,093	<b>2,317</b>
Construction in progress	2,451	<b>822</b>	Deferred tax liabilities for land revaluation	3,982	<b>3,981</b>
<b>Total property, plant and equipment</b>	<b>164,596</b>	<b>164,794</b>	Provision for director's retirement benefits	137	<b>20</b>
			Provision for gift token exchange	203	<b>190</b>
Intangible assets			Net defined benefit liabilities	8,229	<b>8,667</b>
Leased assets	42	<b>22</b>	Asset retirement obligations	2,284	<b>1,699</b>
Software	4,126	<b>3,115</b>	Other	734	<b>744</b>
Right of using facilities	648	<b>736</b>	<b>Total non-current liabilities</b>	<b>74,961</b>	<b>54,896</b>
Other	111	<b>46</b>	<b>Total liabilities</b>	<b>196,022</b>	<b>195,566</b>
<b>Total intangible assets</b>	<b>4,929</b>	<b>3,921</b>	Net assets		
			Shareholders' equity		
Investments and other assets			Capital stock	20,000	<b>20,000</b>
Investment securities	26,015	<b>29,326</b>	Capital surplus	17,583	<b>17,585</b>
Long-term prepaid expenses	509	<b>553</b>	Retained earnings	97,336	<b>108,186</b>
Net defined benefit assets	781	<b>1,519</b>	Treasury stock	(4,571)	<b>(4,643)</b>
Deferred tax assets	2,126	<b>2,139</b>	<b>Total shareholders' equity</b>	<b>130,348</b>	<b>141,128</b>
Other	4,642	<b>4,744</b>	Accumulated other comprehensive income		
Allowance for doubtful accounts	(759)	<b>(604)</b>	Valuation difference on available-for-sale securities	5,400	<b>6,322</b>
<b>Total investments and other assets</b>	<b>33,316</b>	<b>37,678</b>	Deferred gains or losses on hedges	(199)	<b>(163)</b>
<b>Total non-current assets</b>	<b>202,842</b>	<b>206,395</b>	Revaluation reserve for land	8,954	<b>8,951</b>
<b>Total assets</b>	<b>341,507</b>	<b>352,905</b>	Foreign currency translation adjustment	250	<b>382</b>
			Remeasurements of defined benefit plans	(1,574)	<b>(1,600)</b>
			<b>Total accumulated other comprehensive income</b>	<b>12,831</b>	<b>13,892</b>
			Non-controlling interests	2,306	<b>2,317</b>
			<b>Total net assets</b>	<b>145,485</b>	<b>157,338</b>
			<b>Total liabilities and net assets</b>	<b>341,507</b>	<b>352,905</b>

## Consolidated statements of income

	Millions of yen	
	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Current consolidated fiscal year (from April 1, 2017 to March 31, 2018)
Net sales	587,935	<b>596,158</b>
Cost of sales	446,164	<b>452,218</b>
Gross profit	141,770	<b>143,940</b>
Selling, general and administrative expenses		
Sales expenses	105,905	<b>106,899</b>
General and administrative expenses	17,112	<b>17,677</b>
Total selling, general and administrative expenses	123,017	<b>124,577</b>
Operating profit	18,753	<b>19,363</b>
Non-operating profit		
Interest income	18	<b>20</b>
Dividend income	758	<b>874</b>
Equity in earnings of affiliates	585	<b>837</b>
Other	1,468	<b>991</b>
Total non-operating expenses	2,830	<b>2,724</b>
Non-operating expenses		
Interest expenses	672	<b>538</b>
Other	642	<b>552</b>
Total non-operating expenses	1,314	<b>1,091</b>
Ordinary profit	20,269	<b>20,996</b>
Extraordinary income		
Gain on sales of non-current assets	294	<b>127</b>
Gains on sales of investment securities	13	<b>53</b>
Other	73	<b>14</b>
Total extraordinary income	381	<b>196</b>
Extraordinary loss		
Loss on sales of non-current assets	55	<b>110</b>
Loss on retirement of non-current assets	1,127	<b>1,221</b>
Impairment loss	1,017	<b>488</b>
Other	583	<b>305</b>
Total extraordinary loss	2,784	<b>2,126</b>
Profit before income taxes	17,866	<b>19,066</b>
Income taxes - current	5,741	<b>4,714</b>
Income taxes - deferred	(885)	<b>955</b>
Total income taxes	4,856	<b>5,669</b>
Profit	13,009	<b>13,396</b>
Profit attributable to non-controlling interests	21	<b>10</b>
Profit attributable to owners of parent	12,988	<b>13,386</b>

## Consolidated statements of comprehensive income

	Millions of yen	
	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Current consolidated fiscal year (from April 1, 2017 to March 31, 2018)
Profit	13,009	<b>13,396</b>
Other comprehensive income		
Valuation difference on available-for-sale securities	938	<b>916</b>
Deferred gains or losses on hedges	290	<b>35</b>
Foreign currency translation adjustment	(73)	<b>131</b>
Remeasurements of defined benefit plans	1,024	<b>(1)</b>
Share of other comprehensive income of entities accounted for using the equity method	(9)	<b>36</b>
Total other comprehensive income	2,170	<b>1,119</b>
Comprehensive income	15,180	<b>14,516</b>
(Breakdown)		
Comprehensive income attributable to owners of parent	15,162	<b>14,504</b>
Comprehensive income attributable to non-controlling interests	18	<b>12</b>

## Consolidated Statements of Changes in Net Assets

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)					
Balance at beginning of current term	20,000	17,580	86,269	(4,554)	119,295
Changes of items during term					
Reversal of revaluation reserve for land			113		113
Cash dividends			(2,035)		(2,035)
Profit attributable to owners of parent			12,988		12,988
Purchase of treasury stock				(16)	(16)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling shareholders		2			2
Change of scope of equity method					-
Net changes of items other than shareholders' equity					
Total changes of item during term	—	2	11,066	(16)	11,053
Balance at end of current term	20,000	17,583	97,336	(4,571)	130,348

	Millions of yen							
	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current term	4,465	(489)	9,067	324	(2,597)	10,770	2,335	132,401
Changes of items during term								
Reversal of revaluation reserve for land								113
Cash dividends								(2,035)
Profit attributable to owners of parent								12,988
Purchase of treasury stock								(16)
Disposal of treasury stock								0
Change in equity attributable to parent arising from transactions with non-controlling shareholders								2
Change of scope of equity method								-
Net changes of items other than shareholders' equity	934	290	(113)	(73)	1,022	2,060	(29)	2,030
Total changes of items during term	934	290	(113)	(73)	1,022	2,060	(29)	13,083
Balance at end of current term	5,400	(199)	8,954	250	(1,574)	12,831	2,306	145,485

	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Current consolidated fiscal year (from April 1, 2017 to March 31, 2018)</b>					
Balance at beginning of current term	<b>20,000</b>	<b>17,583</b>	<b>97,336</b>	<b>(4,571)</b>	<b>130,348</b>
Changes of items during term					
Reversal of revaluation reserve for land					—
Cash dividends			(2,713)		(2,713)
Profit attributable to owners of parent			13,386		13,386
Purchase of treasury stock				(73)	(73)
Disposal of treasury stock		2		2	4
Change in equity attributable to parent arising from transactions with non-controlling shareholders					—
Change of scope of equity method			177		177
Net changes of items other than shareholders' equity					
Total changes of items during term	—	2	10,849	(71)	10,780
Balance at end of current term	<b>20,000</b>	<b>17,585</b>	<b>108,186</b>	<b>(4,643)</b>	<b>141,128</b>

	Millions of yen							
	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current term	5,400	(199)	8,954	250	(1,574)	12,831	2,306	145,485
Changes of items during term								
Reversal of revaluation reserve for land								—
Cash dividends								(2,713)
Profit attributable to owners of parent								13,386
Purchase of treasury stock								(73)
Disposal of treasury stock								4
Change in equity attributable to parent arising from transactions with non-controlling shareholders								—
Change of scope of equity method								177
Net changes of items other than shareholders' equity	922	35	(3)	131	(25)	1,061	11	1,072
Total changes of items during term	922	35	(3)	131	(25)	1,061	11	11,852
Balance at end of current term	<b>6,322</b>	<b>(163)</b>	<b>8,951</b>	<b>382</b>	<b>(1,600)</b>	<b>13,892</b>	<b>2,317</b>	<b>157,338</b>

## Consolidated statements of cash flows

	Millions of yen	
	Previous consolidated fiscal year (from April 1, 2016 to March 31, 2017)	Current consolidated fiscal year (from April 1, 2017 to March 31, 2018)
Cash flows from operating activities		
Profit before income taxes	17,866	<b>19,066</b>
Depreciation and amortization	15,140	<b>15,157</b>
Impairment loss	1,017	<b>488</b>
Equity in (earnings) losses of affiliates	(585)	<b>(837)</b>
Increase (decrease) in allowance for doubtful accounts	(3)	<b>(285)</b>
Increase (decrease) in provision for bonuses	730	<b>(78)</b>
Decrease (increase) in net defined benefit asset	(781)	<b>(740)</b>
Increase (decrease) in net defined benefit liability	328	<b>436</b>
Increase (decrease) in provision for gift token exchange	(11)	<b>(13)</b>
Increase (decrease) in provision for directors' retirement benefits	(116)	<b>(117)</b>
Loss (gain) on sales and retirement of non-current assets	889	<b>1,203</b>
Interest and dividend income received	(777)	<b>(895)</b>
Interest expenses	672	<b>538</b>
Decrease (increase) in notes and accounts receivable-trade	275	<b>(4,175)</b>
Decrease (increase) in inventories	3,979	<b>(5,402)</b>
Increase (decrease) in notes and accounts payable-trade	(1,301)	<b>4,566</b>
Other	1,705	<b>(1,501)</b>
Subtotal	39,028	<b>27,409</b>
Interest and dividend income	918	<b>1,187</b>
Interest expenses paid	(699)	<b>(540)</b>
Income taxes paid	(9,313)	<b>(5,238)</b>
Net cash provided by (used in) operating activities	29,934	<b>22,817</b>
Cash flows from investing activities		
Payments into time deposits	(126)	<b>(90)</b>
Proceeds from withdrawal of time deposits	112	<b>262</b>
Payments of loans receivable	(293)	<b>(371)</b>
Collection of loans receivable	225	<b>410</b>
Purchase of property, plant and equipment and intangible assets	(15,647)	<b>(12,222)</b>
Proceeds from sales of property, plant and equipment and intangible assets	1,312	<b>435</b>
Purchase of investment securities	(25)	<b>(32)</b>
Proceeds from sales of investment securities	37	<b>156</b>
Other	(3)	<b>(347)</b>
Net cash provided by (used in) investing activities	(14,408)	<b>(11,799)</b>
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,970	<b>(1,125)</b>
Proceeds from long-term loans payable	6,150	<b>2,500</b>
Repayment of long-term loans payable	(21,414)	<b>(9,169)</b>
Purchase of treasury stock	(16)	<b>(73)</b>
Cash dividends paid	(2,036)	<b>(2,712)</b>
Cash dividends paid to non-controlling interests	(2)	<b>(0)</b>
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(42)	<b>(1,410)</b>
Other	(984)	<b>(911)</b>
Net cash provided by (used in) financing activities	(14,376)	<b>(12,904)</b>
Effect of exchange rate on cash and cash equivalents	(6)	<b>21</b>
Net increase (decrease) in cash and cash equivalents	1,143	<b>(1,864)</b>
Cash and cash equivalents at beginning of period	14,797	<b>15,940</b>
Cash and cash equivalents at end of period	15,940	<b>14,076</b>

# Corporation Information

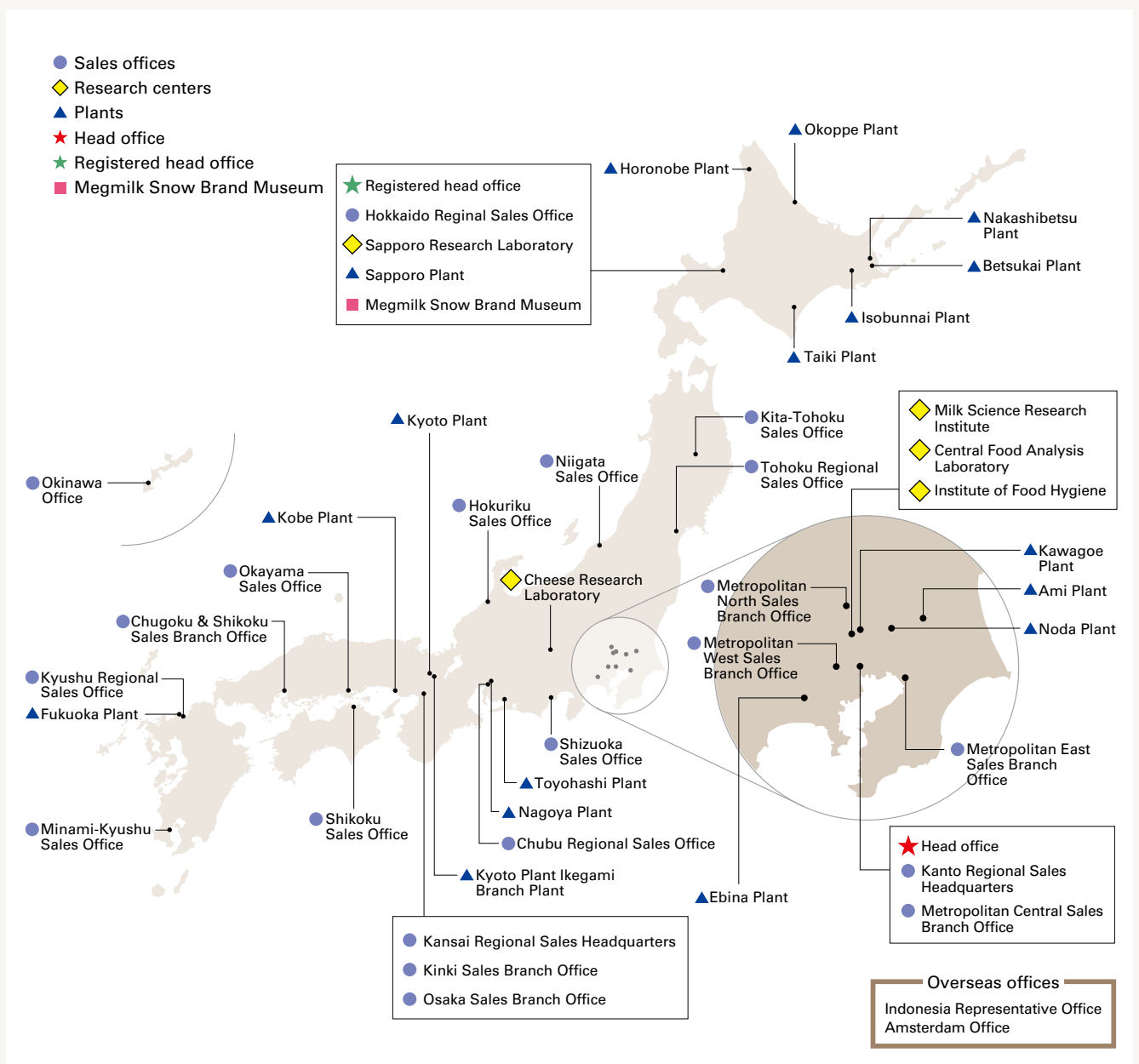
## Megmilk Snow Brand Corporate overview

As of March 31, 2018

<b>Corporate name</b>	MEGMILK SNOW BRAND Co., Ltd.	<b>Established</b>	October 1, 2009
<b>Business</b>	Production and sales of milk, dairy products, beverages, and other foods	<b>Representative Director and President</b>	Keiji Nishio
<b>Head office location</b>	(Registered head office) 1-1, Naebocho 6-chome, Higashi-ku, Sapporo City, Hokkaido  (Head office) 5-1, Yotsuya-Honshio-cho, Shinjuku-ku, Tokyo	<b>Capital</b>	20 billion yen
		<b>Fiscal year closing date</b>	March 31
		<b>No. of employees (consolidated)</b>	5,009
		<b>Stock exchange listing</b>	Tokyo Stock Exchange, Sapporo Securities Exchange
		<b>Securities Code</b>	2270
		<b>Shareholder ledger trustee</b>	Mizuho Trust & Banking Co., Ltd.



## Megmilk Snow Brand List of offices





# Main Group Companies

As of October 1, 2018

## Snow Brand Seed Co., Ltd.

<b>Established</b>	December 1950
<b>Capital</b>	4,643 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Sapporo City, Hokkaido
<b>Representative</b>	Mitsuo Takayama
<b>Business</b>	Production and sales of seeds and agricultural products, manufacturing and sales of feedstuff, landscaping business, seed breed improvement, testing, and research



## Yatsugatake Milk Co., Ltd.

<b>Established</b>	January 1954
<b>Capital</b>	60 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Chino-City, Nagano
<b>Representative</b>	Kiichiro Akimoto
<b>Business</b>	Manufacturing, purchase, and sales of milk, milk beverages, and yogurt, cheese processing, shipping and handling business



## Ibaraku Co., Ltd.

<b>Established</b>	January 1959
<b>Capital</b>	117 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Mito City, Ibaraki
<b>Representative</b>	Hiroshi Kawasaki
<b>Business</b>	Manufacturing and sales of milk, milk beverages, soft drinks, yogurt, and desserts



## Chesco Ltd.

<b>Established</b>	March 1957
<b>Capital</b>	472 million yen
<b>Group total equity ratio</b>	96.5%
<b>Head office location</b>	Shinjuku-ku, Tokyo
<b>Representative</b>	Naoyuki Motomura
<b>Business</b>	Import, manufacturing, processing, and sales of natural cheese, food products, alcohol, and sundries



## Chokuhan Haisou Co., Ltd.

<b>Established</b>	April 1980
<b>Capital</b>	30 million yen
<b>Group total equity ratio</b>	70.0%
<b>Head office location</b>	Shibuya-ku, Tokyo
<b>Representative</b>	Makoto Ogawa
<b>Business</b>	Joint distribution center services business, chilled products distribution business, general freight shipment business



## Cresco Corporation

<b>Established</b>	August 1948
<b>Capital</b>	38 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Kita-ku, Tokyo
<b>Representative</b>	Masamichi Suzuki
<b>Business</b>	Purchase and sales of food packaging materials, ice cream cones, etc.



## SI System Corporation

<b>Established</b>	January 1997
<b>Capital</b>	400 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Shinjuku-ku, Tokyo
<b>Representative</b>	Takanobu Saito
<b>Business</b>	Management of vendors, product sales, and joint distribution centers mainly for chilled and frozen foods



## Michinoku Milk Co., Ltd.

<b>Established</b>	October 1996
<b>Capital</b>	466 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Osaki-City, Miyagi
<b>Representative</b>	Toshiyuki Namiki
<b>Business</b>	Contracted manufacturing of milk, milk beverages, fruit and vegetable juices, yogurt, desserts, etc.



## Mitsuwa Distribution Industry Co., Ltd.

<b>Established</b>	January 1954
<b>Capital</b>	450 million yen
<b>Group total equity ratio</b>	100.0%
<b>Head office location</b>	Saitama-City, Saitama
<b>Representative</b>	Shoichi Takeshima
<b>Business</b>	Wholesale business for daily chilled foods, joint distribution center business



## Nichiraku Machinery Co., Ltd.

<b>Established</b>	April 1954
<b>Capital</b>	50 million yen
<b>Group total equity ratio</b>	67.6%
<b>Head office location</b>	Saitama-City, Saitama
<b>Representative</b>	Toshihiko Sato
<b>Business</b>	Design, manufacturing, installation, sales, repairs, and maintenance of plants and machinery mainly for food manufacturing



1 Our ideal future

2 DNA and the value creation process

3 Strategies for value creation

4 Initiatives to build our business platform

5 Financial & corporate information

**Bean Stalk Snow Co., Ltd.**

**Established** August 2002  
**Capital** 500 million yen  
**Group total equity ratio** 80.0%  
**Head office location** Shinjuku-ku, Tokyo  
**Representative** Satoshi Inaba  
**Business** Infant goods business, life sciences business, functional foods business, contracted manufacturing



**Greenservice Co., Ltd.**

**Established** November 1980  
**Capital** 30 million yen  
**Group total equity ratio** 70.0%  
**Head office location** Chofu-City, Tokyo  
**Representative** Seiji Masaki  
**Business** Management of CVS and chilled centers, fresh milk and pasteurized milk transport, Megmilk Snow Brand order center and shipping warehouse administration



**Snow Brand Kodomo-no-Kuni Ranch**

**Established** August 1965  
**Capital** 10 million yen  
**Group total equity ratio** 100.0%  
**Head office location** Yokohama-City, Kanagawa  
**Representative** Koji Tanaka  
**Business** Milk manufacturing, operation of farms, zoos, cafeterias, and shops



**Snow Brand Parlor Co., Ltd.**

**Established** April 1961  
**Capital** 30 million yen  
**Group total equity ratio** 100.0%  
**Head office location** Sapporo-City, Hokkaido  
**Representative** Toshikazu Nagao  
**Business** Cafeteria and shop management, sales of dairy products, etc.



**Kohnan Oils and Fats Mfg. Co., Ltd.**

**Established** July 1992  
**Capital** 100 million yen  
**Group total equity ratio** 51.0%  
**Head office location** Kobe-City, Hyogo  
**Representative** Satoru Endo  
**Business** Contracted manufacturing of margarine products, shortening, lard, soft cheese, butter, etc.

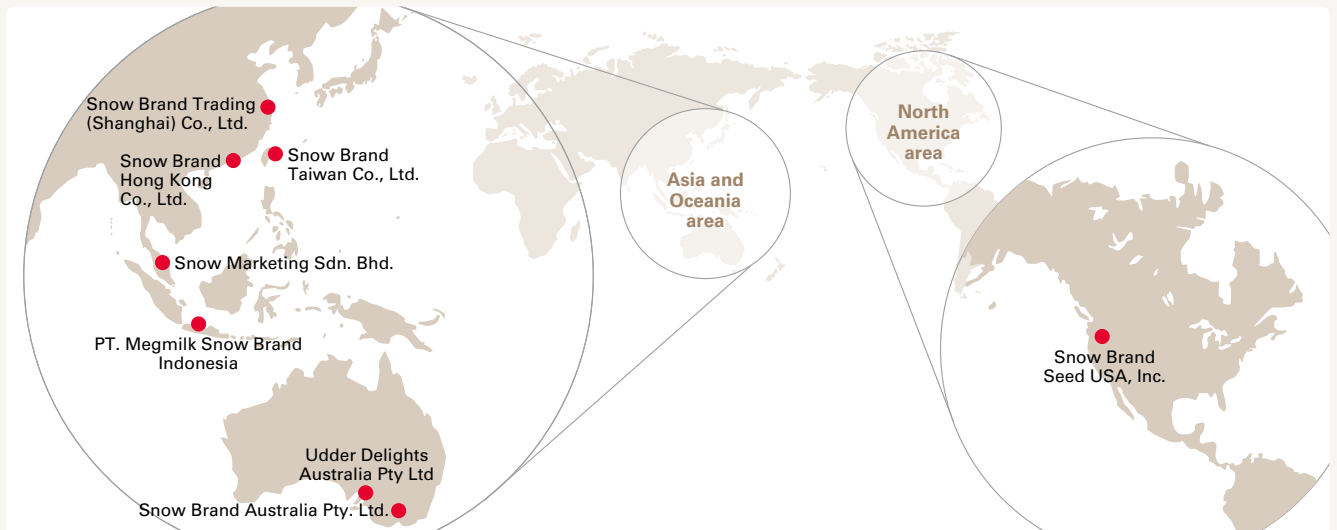


**YBS Co., Ltd.**

**Established** April 1971  
**Capital** 30 million yen  
**Group total equity ratio** 100.0%  
**Head office location** Shinjuku-ku, Tokyo  
**Representative** Atsushi Kunimoto  
**Business** General building management, security, construction, nonlife insurance services, staffing, sales, management, production quality, and other business support services



**Megmilk Snow Brand overseas group companies**



# Stock Information

## Status of the Company's Stock (as of March 31, 2018)

Total number of shares .....	280,000,000 shares
Total number of issued shares .....	70,751,855 shares
Number of shareholders .....	51,233

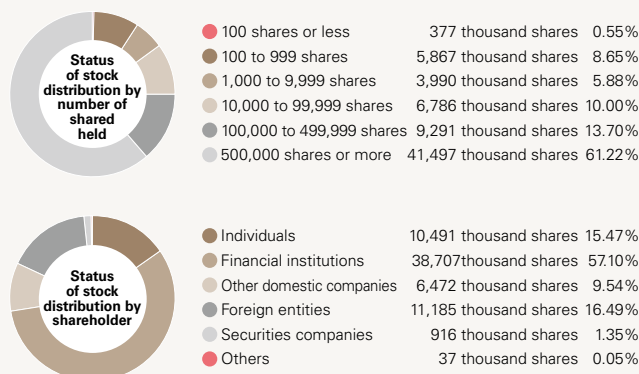
## Major shareholders (top 10) (as of March 31, 2018)

Shareholder Name	Shares Held (1,000 shares)	Investment Ratio (%)
National Federation of Agricultural Cooperative Associations (ZEN-NOH)	9,237	13.62
The Norinchukin Bank	6,728	9.92
Japan Trustee Services Bank, Ltd. (in trust of Sumitomo Mitsui Trust Bank, Limited, trust account for retirement benefits of ITOCHU Corporation)	3,703	5.46
Japan Trustee Services Bank, Ltd. (Trust account)	2,866	4.22
The Master Trust Bank of Japan, Ltd. (Trust account)	2,703	3.98
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,435	2.11
Government of Norway	1,199	1.76
Megmilk Snow Brand Employee Shareholding Association	1,117	1.64
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,083	1.59
HOKUREN Group	1,074	1.58

(Note 1) Number of shares displayed rounded off to nearest 1,000 shares.

(Note 2) Although the Company holds 2,941,743 shares of common stock, the Company is excluded from the above list of major shareholders. Calculations of investment ratio exclude common stock.

## Status of stock distribution (as of March 31, 2018)



(Note 1) Number of shares displayed rounded off to nearest 1,000 shares.

(Note 2) Although the Company holds 2,941,743 shares of common stock, the Company is excluded from the above list.

### Editing policy

Thus far, the Megmilk Snow Brand Group has reported on social contribution activities undertaken as part of our business operations via the Megmilk Snow Brand CSR Activities Report. From this fiscal year, we are issuing the Megmilk Snow Brand Report to our shareholders, investors, and a broad range of readers to better communicate and promote further understanding of initiatives towards achieving sustainable medium and long-term growth for the Megmilk Snow Brand Group. Please note that the latest financial and non-financial information, including information that could not fit into this report, is available via the Megmilk Snow Brand corporate website.

### 1. We use an easy-to-understand structure and language

- (1) We focus on using simple expressions and provide notes for industry jargon or unfamiliar terms.
- (2) We make text size as consistent as possible.

### 2. We reflect external opinions in this report.

We incorporated opinions and recommendations from the Corporate Ethics Committee and readers of the CSR Activities Report 2017 received as of the time of production.

### About indication of "customers" and "consumers"

The Megmilk Snow Brand Group respects the basic rights of consumers, and we conduct operations with a focus not only on our customers, but on all consumers. With the understanding that some consumers are our customers, we express the concept of these individuals as two separate groups within this report.

### Caution

This report contains not only past and current facts regarding the Megmilk Snow Brand Group but also forward-looking statements based on plans, forecasts, and management strategies as of the time of publication. These forward-looking statements are assumptions and decisions based on information available at the time of inclusion but future operating results and conditions may differ from expectations due to a change in any number of factors.

This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

### Applicable reporting period

FY2017 (April 1, 2017 to March 31, 2018)

Information from other periods is included as necessary.

### Applicable reporting organizations

The information contained in this report refers to the Megmilk Snow Brand Group (Megmilk Snow Brand and its Group companies). However, this report is not a comprehensive indication of all information relevant to applicable companies. Initiatives with no company name listed indicates a Megmilk Snow Brand initiative.

### Referenced guidelines

- International Integrated Reporting Framework by the International Integrated Reporting Council (IIRC)
- GRI Standards
- Environmental Reporting Guidelines 2012 (MOE)
- ISO26000: Guidelines on Social Responsibility

### Publication period

This issue: October 2018

Next issue: Autumn 2019 (planned)

(This report is published annually).

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**MEGMILK  
SNOW BRAND**