



Megmilk Snow Brand Report 2019

Integrated Report

Contents

Vision	3	Corporate Philosophy / Consumer Approach	CSR Material Issues for Sustainable Growth	45	CSR Policy and KPIs for CSR Material Issues
	5	Our Ideal Future		47	Milk for Contributions to Food and Health
Feature	7	Developing Products Focused on Health		49	Contributing to Sustainable Dairy Farming
Management Message	13	Top Message		51	Reducing Environmental Impact
	21	Message from Executive Officer Responsible for Finance		55	Realization of a Diverse and Motivating Workplace
				57	Contributing to Local Communities
Highlights	23	Financial and Non-Financial Highlights	Corporate Governance	59	Management Team
Value Creation at Megmilk Snow Brand	25	Value Creation at Megmilk Snow Brand		61	Corporate Governance
	26	Our History of Market Creation		65	Compliance
	29	Value Creation Process		69	Risk Management Structure
	31	Value Chain		70	Information Disclosure to Shareholders and Investors
	35	Business Overview	Corporate Data	71	Operating Results and Financial Analysis
	37	Main Group Companies		73	Consolidated Financial Statements
	39	Business Strategy		77	Corporate and Stock Information

Editorial Policy

The Megmilk Snow Brand Group has issued this Megmilk Snow Brand Report to share the Group's approach and initiatives to achieve medium- and long-term sustainable growth in the hope that a broad range of readers, including shareholders and investors, will gain a better understanding of the Group. Please note that the latest financial and non-financial information, including information that could not fit into this report, is available at the Megmilk Snow Brand corporate website.

1. We Reflect External Opinions in This Report.

The views and requests of the Corporate Ethics Committee and consumer groups were reflected in preparing this report.

2. 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.

3. Terminology for Managerial Positions

Megmilk Snow Brand Co., Ltd. refers to administrative positions as managerial positions. In this report, "managerial position" is used to standardize the terminology.

Disclaimer

Earnings forecasts and other statements concerning the future in this report are projections made by Megmilk Snow Brand based on information available at the time of writing and are not intended as a guarantee that Megmilk Snow Brand will achieve these forecasts. Actual business results may differ from the forecasts in this report depending on changes in business conditions and other factors.

Caution

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.

Period Reported

FY2018 (April 1, 2018 to March 31, 2019)
Information from other periods is included as necessary.

Report Boundary

The information contained in this report refers to the Megmilk Snow Brand Group (Megmilk Snow Brand Co., Ltd. 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 are initiatives of Megmilk Snow Brand Co., Ltd.

Referenced Guidelines

- International Integrated Reporting Framework by the International Integrated Reporting Council (IIRC)
- GRI Standards
- ISO 26000: Guidelines on Social Responsibility

Publication Period

This Issue: September 2019
Next Issue: Autumn 2020 (planned)
(This report is published annually.)

Inquiries

Megmilk Snow Brand Co., Ltd.
CSR Department
5-1, Yotsuya-Honshio-cho, Shinjuku-ku, Tokyo
Tel. +81-3-3226-2064 Fax. +81-3-3226-2163

Vision

Feature

Management
Message

Highlights

Value Creation at
Megmilk Snow Brand

CSR Material Issues for
Sustainable Growth

Corporate
Governance

Corporate Data



Corporate Philosophy / Consumer Approach

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 value for milk in order to exist as a company that contributes to society.

Focus on
Consumers

Contribute to
Dairy Farming
Production

Put Our Hearts
into Milk

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. Determined to keep our business operations consumer-focused, we are committed to:

- Providing safe and reliable products and services
- Proactively disclosing information
- Embracing consumers' feedback and reflecting it in management
- Establishing 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. Further, 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 and increase the value of milk, and promote milk throughout the world.

Corporate Slogan

Make the Future with Milk

Consumer-focused Management Based on the Basic Consumer Act

Megmilk Snow Brand Group will meet its responsibilities as an operator with initiatives based on the Group's four commitments. This reflects the eight basic rights of consumers stipulated in Japan's Basic Consumer Act.

Basic Consumer Act	Fundamental Principles (Eight Basic Rights)	Responsibilities, etc. of Business Operators
* Numbers added for clarification of content	<p>Article 2</p> <p>(1) When implementing comprehensive policies (hereinafter referred to as "Consumer Policies") with regard to the protection and advancement of the interests of consumers,</p> <ol style="list-style-type: none"> 1. the satisfaction of the basic demands of consumers, 2. a healthy living environment, 3. consumer safety, and 4. the opportunity for consumers to make autonomous and reasonable choices about products and services shall be guaranteed, 5. the opportunity for consumers to receive the necessary information and education shall be provided, 7. the opinions of consumers shall be reflected in the Consumer Policies, and 8. when consumers suffer damage, such damage shall be appropriately and promptly relieved, and the Consumer Policies shall be undertaken on the basis of supporting the self-reliance of consumers so that they are able to autonomously and reasonably act to protect and advance their own interests. 	<p>Article 5</p> <p>(1) Business operators shall have the following duties when providing their goods and services with respect to the rights of consumers, support for their self-reliance and other fundamental principles under Article 2.</p> <ol style="list-style-type: none"> (i) Duty to secure the safety of consumers and fairness in transactions with consumers. (ii) Duty to provide necessary information to consumers in clear and simple terms. (iii) Duty to consider the state of consumers' knowledge, experience and the status of their assets, etc. in dealings with consumers. (iv) Duty to endeavor to establish systems necessary to appropriately and promptly process complaints by consumers, and to appropriately process said complaints. (v) Duty to cooperate with the Consumer Policies implemented by the State and local governments.



Our Ideal Future

Group Long-term Vision 2026

Future Creation Company with Milk Transformation & Renewal

The Megmilk Snow Brand Group established the Group Long-term Vision 2026 as its vision for 2026. This plan is aligned with the Group's Corporate Philosophy, the foundation for all of its activities. The vision, "Future Creation Company with Milk," includes "**Three Futures**"—from the perspectives of consumers, dairy farmers, and employees. The Group will undertake transformation and renewal to pioneer a new future for all three groups. Through its business, the Group will also contribute to the resolution of the important social issues that the entire world faces, helping to achieve the Sustainable Development Goals (SDGs) adopted at the UN Summit in September 2015.

Three Futures

Create the Future of Food with Milk

We will create and utilize the Megmilk Snow Brand's strengths and create and provide value. We will also continue to give people all over the world the joy of eating by drawing out the unlimited potential of milk and manufacturing dairy products.



Contribute to the Future of Dairy Farmers

We will achieve sustainable growth by working together with dairy farmers to enhance the value of milk. In our role as a good partner, we will continue to contribute to the sustainable growth of dairy farmers and the milk industry.

Create Future Opportunities for Employees

We recognize that people nurture companies and companies can also nurture people. We aim to be a corporate group that makes the most of the individuality and skills of each employee and continues to grow with a diverse workforce filled with a sense of pride and hope.

VISION

Group Long-term Vision 2026

Outlines our Vision for the Megmilk Snow Brand Group 10 years from now. Specific ideals to achieve our corporate philosophy while changing to reflect current trends.

VALUES

Megmilk Snow Brand Values

The common values embraced by the directors and employees of the Megmilk Snow Brand Group as we act to achieve our long-term vision.



Self-motivated

Start the action.
For your future.



Challenge

Enjoy the challenge.
For your future goal.



Teamwork

Work together.
For our common future.



Long-term Vision

Value

Corporate Philosophy

MISSION

Corporate Philosophy

Outlines the Megmilk Snow Brand Group's reason for existing and our mission in society. Reflects the basis of our existence, something that doesn't change over time.

Focus on Consumers

Contribute to
Dairy Farming Production

Put Our Hearts into Milk

Make the Future with Milk

Feature

Pursuing Sustainable Growth

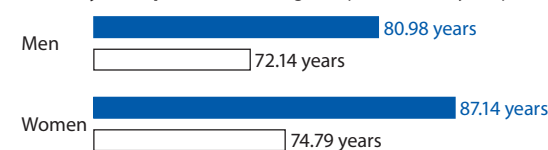
Developing Products Focused on Health

As Japanese society rapidly ages, people are increasingly interested in improving health and quality of life (QOL). The Megmilk Snow Brand Group aims to help achieve sustainable growth and resolve social issues by creating products with a focus on health. This mission is in line with the Group's vision of creating the future of food with milk, one of the "three futures" laid out in the Long-term Vision. Here, we introduce unique and healthy products that fulfill our mission of providing customers with the pleasure of food and health.

Social Issues

- Extending a healthy lifespan as society ages
- Improving quality of life (QOL)

Average Lifespan of Japanese People and Healthy Lifespan



(Source) Material from eleventh council of Ministry of Health, Labour and Welfare
"National Health Promotion Movement in the 21st Century (second term)"



Foods for Specified Health Uses (FOSHU)



"Foods for specified health uses" (FOSHU) are foods acknowledged under Japanese law to contain ingredients that help to maintain and improve health. Once the effects and safety of these foods are shown in clinical trials, they are screened by Japan's Consumer Commission and Food Safety Commission, after which the Consumer Affairs Agency authorizes the Group to label products with health functions and effects. FOSHU are products that have been researched and developed with a focus on biological regulation, which is closely related to health and is one of the three functions of foods (the others being nutrition and taste). These products are designed to help maintain and improve health and to serve as first-line prevention for lifestyle diseases.



Products are labeled with the "foods for specified health uses" mark.



Foods with Nutrient Function Claims



"Foods with nutrient function claims" are products that are used to supplement nutritional ingredients (vitamins and minerals), based on Japan's Nutrition Labeling Standards, and display the functions of the nutritional ingredients. When the amount of the nutritional ingredient in the recommended daily intake of the product complies with the maximum and minimum levels in the standards stipulated by the government, the product can be labeled with the ingredient's functions as a "food with nutrient function claims."

Feature

Foods with Nutrient Function Claims

Products are displayed as "foods with nutrient function claims."

Megmilk Snow Brand's Health-focused Products



Foods with Function Claims



The "foods with function claims" system was launched in Japan on April 1, 2015 to allow foods to be labeled with their functions, following the "foods for specified health uses" and "foods with nutrient function claims." Under the "foods with function claims" system, companies can label products with their functions by submitting the scientific evidence for the safety and functionality of the foods and other necessary information to the Consumer Affairs Agency before the product is put on the market (at least 60 days in advance), based on new rules stipulated by the government. Megmilk Snow Brand carries a wide range of foods with function claims, particularly its yogurt products.

Foods with Function Claims

Products are displayed as "foods with function claims."

Feature Creating Products Focused on Health: Product Development

Lactobacillus gasseri SBT2055 Yogurt

Continues to Enjoy Rapid Growth

Sales of the drink type of *Lactobacillus gasseri* SBT2055 yogurt have grown significantly since it was certified in Japan as a food with functional claims in August 2015. We have established a production system while also strengthening the lineup and promoting the product. We will continue to provide products that contribute to customers' health on a daily basis.



Foods with Function Claims



Consumer Affairs Agency's registration number: B3

Consumer Affairs Agency's registration number: A48



Sharply Increased Interest in Mainichi Hone Care MBP®

As the birthrate declines and the population ages, people are becoming more concerned about their health, particularly bone health. Mainichi Hone Care MBP® helps to extend customers' healthy lives. Recently, we have carried out joint research with athletes with a focus on the effect that MBP® has on bones.

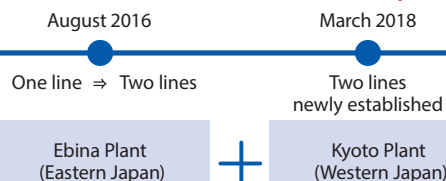
* Mainichi Hone Care MBP® is Japanese for daily (mainichi) bone (hone) care.



Strategic Expansion

Reinforcing Production System for Drink Type

Strengthening Production Capacity for Small Plastic Bottle Line



Production Capacity has Increased about 4x since Sales Began

Feature

Product Lineup



Recent Advertisement



With role by Teruyuki Kagawa



We have provided Mainichi Hone Care MBP® and Mainichi Hitotsubu MBP® to the women's ekiden (long-distance relay race) team from Meijo University (Aichi) since 2015.

At the 36th Morino Miyako Japanese University Women's Ekiden, held in October 2018, Meijo University came in first for the third time and for the second year in a row, following its first place ranking in 2017.



Feature Creating Products Focused on Health: Research Results

Lactobacillus gasseri SBT2055 Helps to Reduce Visceral Fat



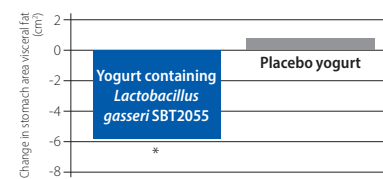
We scientifically examined the functions of *Lactobacillus gasseri* SBT2055 in a human trial. The results showed that adult males and females who consumed yogurt containing *Lactobacillus gasseri* SBT2055 once a day for twelve consecutive weeks saw a significant reduction in visceral fat.

Scientific Proof

A total of 101 adults 20 to 64 years of age who were somewhat overweight (BMI: 25-29 kg/m², visceral fat area: 80 cm² or more) were divided into two groups. One group (27 males, 25 females) was given 100 g of yogurt containing *Lactobacillus gasseri* SBT2055 (1 billion colony-forming units) and the second group (27 males, 22 females) was given 100 g of a placebo yogurt*. They each had yogurt once a day for twelve weeks.

*The placebo yogurt did not contain *Lactobacillus gasseri* SBT2055.

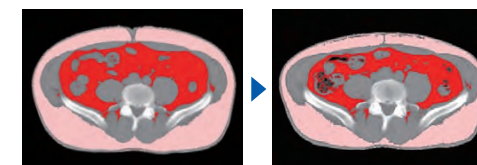
Change in Stomach Area Visceral Fat after 12 Weeks of Consumption



*There was a statistically significant difference compared to the placebo yogurt. (Reference) Yoshihiko Takano (Megmilk Snow Brand), et al., Japanese Pharmacology & Therapeutics, 41, 895-903 (2013).

(Note) Results of tests using *Lactobacillus gasseri* SBT2055 (The most representative parts of the paper attached to the test application are provided as examples.)

CT Images of Subjects' Abdominal Cross-sections in Human Trials (Red Indicates Visceral Fat)



Before consumption

12 weeks after consumption

(Note) There are individual differences in the results.



MBP Promotes Bone Growth

Research thus far has shown that MBP is effective in improving bone regeneration. A study of the length of femur bones in mice showed that MBP was effective in lengthening the bone. This suggested that the secretion of hormones is involved in this mechanism.



Embracing the Challenge of Creating Added Value with Fresh Perspectives and New Ideas

Yukio Kadooka
Senior Researcher
MEGMILK SNOW BRAND

People looking to enhance their diet to support their health are discovering that, in addition to consuming well-balanced meals, being intentional about incorporating lactobacillus and other food ingredients with effective health functions can be a helpful option. *Lactobacillus gasseri* SBT2055 is a lactobacillus with functions that make it deserving of a place among these options. Research and development on its survivability in the intestinal tract, its effect in regulating the functions of the intestines, and the immunomodulatory functions has been carried out by many people, resulting in a large body of reliable evidence. This most recent research project showed that inhibiting the accumulation of visceral fat is one of the typical health functions of *Lactobacillus gasseri* SBT2055. The effects of *Lactobacillus gasseri* SBT2055 consumed as part of a regular diet were confirmed in human trials, and we were the first to present these results at academic conferences



and in papers. The entire company worked together to utilize this knowledge, leading to the development of foods with functional claims and foods for specified health uses. The series of results we have obtained in the process from research to product development have earned high regard at academic conferences, and we were awarded the Fiscal 2018 Technology Prize from the Japan Society of Nutrition and Food Science, the Fiscal 2018 Food Immunology Industry Prize from the Japanese Association for Food Immunology, and the Fiscal 2018 Tojuro Iijima Award for Food Technology. The physiological effects of food are generally slow, and for this reason, these functional foods can be consumed every day. That said, it is not easy to scientifically prove such gradual effects. This is a consistent problem facing research on the health functions of foods, but we will continue to grapple with this with fresh perspectives and new ideas as we strive to create added value.

Feature

Top Message

“Future Creation Company with Milk”— How the Megmilk Snow Brand Group Is Contributing to a Sustainable Society

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



Scientific Proof

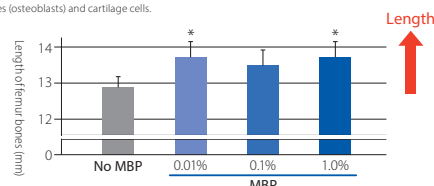
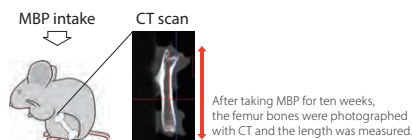
MBP's Effect in Lengthening Bones (News release from May 21, 2015)

In order to examine whether MBP was effective in promoting bone elongation, we gave mice water supplemented with MBP at concentrations of 0%, 0.01%, 0.1%, or 1.0% for ten weeks. The results showed that, compared to mice that had not consumed MBP, the femur bones of the mice who had received MBP had lengthened significantly. In addition, to assess the function of MBP in this process, we examined the concentration of ghrelin,^{*1} which stimulates the secretion of growth hormones, and IGF-1^{*2} in the blood, and found a significant increase.

^{*1} Ghrelin is a peptide hormone produced in the stomach. It stimulates the release of growth hormone from the pituitary gland, among other functions.

^{*2} IGF-1 is a growth hormone with a molecular structure similar to insulin. It is primarily produced by the liver, with production stimulated by growth hormone. It stimulates the maturation and functions of the cells that grow bones (osteoblasts) and cartilage cells.

Length of Femur Bones after MBP Administration



* There were statistically significant differences compared to the mice not given MBP.

Megmilk Snow Brand History

We will Continue to Be a Responsible Company that Looks to the Future without Letting the Memory of the Two Compliance Incidents Fade.

Snow Brand Milk Products Co., Ltd., one of the predecessors of Megmilk Snow Brand Co., Ltd., 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 it worked to contribute to ensuring enriched dietary lifestyles and health for the nation's consumers.

However, in 2000 and 2002, the Snow Brand Milk Products Group was involved in two compliance 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 in 2011 as Megmilk Snow Brand Co., Ltd. The year 2019 is the tenth year of that consolidation. During this period, we have worked hard to build a foundation for sustainable growth. I am deeply grateful for everyone who has supported us over this crucial decade.

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." We will never forget the history of those two incidents. We will use that experience as a lesson to solidify our position as a responsible company that looks to the future.

Management
Message

Market Environment and Forecasts

We Are Developing a Borderless Business in Anticipation of Trade Liberalization Buoyed by Solid Demand in and outside Japan.

Consumers' growing health awareness and other factors have ensured a solid milk products market in Japan, particularly for cheese. We expect the market to expand for functional foods as well, due to the aging of society and Japan's unique "foods with function claims" regulatory system. Consumption of milk products is on the rise, particularly in Asia, due to the global population increase and changes in diet. In sum, we can expect the milk products market to enjoy high growth in the medium and long term both in and outside Japan.

That said, in fiscal 2018 both the Trans-Pacific Partnership Agreement (TPP11) and the EU-Japan Economic Partnership Agreement went into effect. Steps are being taken to

globalize this market, with the import of dairy materials and products for household use, and the export of Japanese dairy products. We believe this kind of trade liberalization will bolster the growth of the global milk products market, including in Japan, but it could also lead to major changes in the supply and demand conditions for global dairy resources.

The Megmilk Snow Brand Group will continue to focus on Japanese dairy farms as a source of stable procurement while milk becomes a global commodity. On the management side, we will expand to a borderless business and respond to risks and opportunities.

Group Long-term Vision 2026 for Sustainable Growth

Future Creation Company with Milk P.5

We Aim to Be a "Future Creation Company with Milk" to Build a New Era.

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

Our three strategies for achieving this vision are based on the concept of "Transformation and Renewal." The first is a transformation of our business portfolio. To enable sustainable growth, we must shift to 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 make the most of management resources and the value chain to enhance the overall strength of our Group.

Our goal for fiscal 2026, the final fiscal year of our Long-term Vision, is to achieve consolidated sales of 700 to 800 billion yen and consolidated operating profit of 30 to 40 billion yen. Accordingly, we will invest 300 to 400 billion yen, primarily in production facilities.

We will achieve transformation and renewal to be a "Future Creation Company with Milk" as we look to usher in a new era of growth for the Megmilk Snow Brand Group by fiscal 2026.



Group Long-term Vision 2026 / Group Medium-term Management Plan 2019

Performance Indicators P.18

The environment surrounding the Megmilk Snow Brand Group is changing markedly with trade liberalization and changes in the fresh raw milk transaction system. We are addressing the issues facing us as we look ahead to the next ten years to ensure that we achieve sustainable growth while addressing these changes in our environment.

Group Long-term Vision 2026 (FY2017-FY2026)

Strategy Concept

Transformation & Renewal

Business Portfolio Transformation
Transformation

Renewal of the Production Structure to Support Business Growth
Renewal

Promoting Group Management
Group Management

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 2017) 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.

Group Medium-term Management Plan 2019 (FY2017-FY2019)

Business Portfolio Transformation



Butter, margarine, cheese, condensed 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



Milk and milk beverages, yogurt, fruit juice, etc.

Secure the Earnings Bases and Structurally Transform into a Business that will Drive Growth

- Strategic expansion of functional yogurt
- Product mix optimization



Powdered milk including infant formula, 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



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

Progress on the Group's Medium-term Management Plan 2019

We Are Steadily Addressing the Issues We Need to Solve to Develop Multiple Earnings Bases, Maximize Cash Flow and Renew Our Production Structure.

The Long-term Vision consists of three stages spread over ten years. In the first stage, we worked on developing multiple earnings bases, maximizing cash flow and renewing our production structure as part of the Group Medium-term Management Plan 2019, which started in fiscal 2017.

In our business portfolio transformation, we took specific steps to follow our Medium-term Management Plan with strategic measures. These included strengthening our drink-type yogurt products by expanding the production line at the Kyoto Plant, creating new growth opportunities by developing functional food products, and expanding the cheese business outside Japan.

As part of our efforts to renew the production structure, we are constructing new buildings in Isobunnai (to be completed in fiscal 2020) and building a new feed plant with

Snow Brand Seed's establishment of a joint venture company (to be completed in fiscal 2021). These steps are expected to strengthen the foundation for our business competition and raise production efficiency. In addition, we completed making an Australian natural cheese manufacturing and sales company and a Japanese mail order company our subsidiaries. We are making aggressive investments in further growth, including M&A, and steadily implementing measures in line with the Medium-term Management Plan.

However, in fiscal 2018, the second year of the Medium-term Management Plan, consolidated operating profit fell short of the previous year's level because our response to higher costs, such as an increase in the price of raw milk, was not effective enough and some sales showed sluggish growth due to tough competition.

Roadmap for Group Long-term Vision 2026

	First Stage FY2017-FY2019	Second Stage FY2020-FY2022	Third Stage FY2023-FY2026
Positioning	Begin Transformation	Accelerate Transformation	Total Renewal
	Start and promote Group management	Strengthen development of Group management	Accelerate and renew Group management
Role	Create multiple earnings bases and maximize cash flow	Firmly establish earnings bases	Stable creation of earnings through four business sectors
	Begin renewal of the production structure	Begin full-fledged renewal of the production structure	Establish the procurement and production structure

Initiatives in Fiscal 2019

We will Step Up Our Efforts to Achieve the Group's Long-term Vision 2026 by Shifting to Accelerated Profit Growth.

In fiscal 2019, raw milk prices increased, as in the previous year. We also expect distribution costs, labor costs and other costs to continue rising. To address this, we revised pricing for beverage and dessert products, starting in April. We are also working to expand sales of cheese and yogurt, which we see as a priority category and earnings base, in order to transform our business portfolio. We also plan to boost sales of our *Lactobacillus gasseri* SBT2055 yogurt with an appeal to health-conscious consumers.

In our overseas business, we will reinforce our initiatives to establish a new earnings base by expanding the cheese business in Australia and Indonesia and strategically expanding into the nutrition business with an eye on the growing health foods market.

With these efforts, we forecast consolidated operating profit of 18 billion yen in fiscal 2019, an increase over the previous fiscal year. This is below the 22 billion yen in consolidated operating profit that we had targeted when we announced the Medium-term Management Plan, but we will strive to shift to a path of profit growth by steadily implementing the business measures we have planned.

We will start the new Medium-term Management Plan in fiscal 2020. As part of these efforts, we plan to take our business portfolio transformation even further and firmly establish earnings bases, while also beginning in earnest on production structure renewal.

Management
Message

Performance Indicators

				Long-term Vision
	FY2017	FY2018	FY2019	FY2026
	Result	Result	Forecast	Target
Consolidated net sales (billion yen)	596.1	603.3	615.0	700-800
Consolidated operating profit (billion yen)	19.3	17.2	18.0	30-40
Consolidated EBITDA (billion yen)	34.5	33.1	34.3	—
				Target
Total investment (billion yen)	15.9	14.4	21.5	300-400 (10-year total)
Consolidated ROE (%)	9.0	6.7	—	8% or higher
Consolidated equity ratio (%)	44.1	46.3	—	50% or higher
Consolidated payout ratio (%)	20.3	25.2	22.6	30% or higher

ESG Initiatives

We will Focus on ESG Initiatives as the Foundation for Our Business Activities.

We are working to address environmental, social and governance (ESG) performance, a foundation that supports the business activities of the Megmilk Snow Brand Group, to achieve the goals in our Long-term Vision.

With our environmental initiatives, we are striving to preserve a sustainable environment in various ways, such as reducing CO₂ emissions at our plants, safeguarding water resources by improving our wastewater processing capacity, reducing the use of plastics for product containers, and expanding the use of paper materials from forests that are appropriately managed. In particular, problems with plastics have been receiving more attention in recent years, and we have added "initiatives to address the plastic resource cycle" to the company-wide environmental targets of Megmilk Snow Brand Co., Ltd. We have begun considering ways to systematically reduce the amount of plastic used.

Our basic goal on the social side is to provide products and services that are safe, which customers can use with peace of mind. We are involved in a wide range of activities, such as studies and research that contribute to the development of sustainable dairy farming, sports promotion, and the promotion of food education for all generations.

Our corporate governance is focused on ensuring the transparency of management, reinforcing external monitoring functions, and maintaining a management system that can immediately respond to market changes, with compliance at the foundation. In particular, the Corporate Ethics Committee, an advisory body to the Company's Board of Directors, has met every month since it was established in 2002. This committee examines issues and makes recommendations from an outside expert perspective, and its findings are reflected in our corporate activities.



● Top Message

CSR Material Issues for Sustainable Growth P.45-46

In 2018, the Megmilk Snow Brand Group revised its CSR policies, identified CSR material issues in order to ensure balanced sustainable development for both society and the Group, and announced that it would address these issues. We designated five CSR material issues—"milk for contributions to food and health," "contributing to sustainable dairy farming," "reducing environmental impact," "realization of a diverse and motivating workplace" and "contributing to local communities"—in the four domains of food and health, dairy farming, the environment, and people and society. These clarify the issues with the greatest materiality to both society and the Megmilk Snow Brand Group. In August 2019, we set specific initiatives and key performance indicators that we will use to steadily address these CSR material issues.

The Sustainable Development Goals (SDGs) adopted by

the United Nations in 2015 are global targets for building a sustainable world in which no one is left behind. The Megmilk Snow Brand Group will address the social issues related to our business, including our CSR material issues, to help achieve the SDGs.

The Megmilk Snow Brand Group aims to be a "Future Creation Company with Milk," as laid out in our Long-term Vision, by remaining in harmony with society. We ask our stakeholders for their continued understanding and support.

September 2019

Keiji Nishio

Keiji Nishio
Representative Director and President

Management
Message

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



(Source) United Nations Information Centre

SDGs

The Sustainable Development Goals (SDGs) were adopted unanimously by Member States at the UN Summit in September 2015. They are international goals aimed at resolving issues such as poverty, malnutrition and gender equality by 2030 in order to build a sustainable world. They include 17 goals with 169 targets and 230 indicators. Under the commitment that "no one will be left behind," companies and individuals, as well as national governments, are working to realize these goals.

Message from Executive Officer Responsible for Finance



Future Vision for the Megmilk Snow Brand Group

We expect major changes in the environment surrounding the supply and demand of dairy products and the procurement of milk resources. Anticipating these changes, the Megmilk Snow Brand Group established the Long-term Vision 2026. This vision outlines our goal of achieving even more sustainable growth and raising corporate value by addressing social issues by living up to our corporate philosophy and contributing to the community.

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

in operating profit by fiscal 2026 (ending March 31, 2027). One policy will be to transform our business portfolio 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 Strategy 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 a 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

We will work to improve the profitability of capital in management. Through the business portfolio transformation and production structure renewal 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.

In the fiscal year ended March 2019, ROE fell below the 8% target designated in the Long-term Vision and the Medium-term Management Plan. This was due to the impact of an impairment loss following the construction of a new feed plant, which was a growth investment, and the augmentation of equity capital, to improve financial soundness. 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.

The equity ratio improved to 46.3% in the fiscal year ended in March 2019, up 2.2 points over the previous year. In July 2018, we received a rating of A- (stable) from a rating

agency. As a result, Megmilk Snow Brand Co., Ltd. issued 10 billion yen in corporate bonds, its first such issuance. We will consider diversifying our procurement methods and reducing financial costs, in line with the market environment.

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

Shareholder Returns

During the period of the current Medium-term Management Plan, we will maintain a 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 seek to issue stable dividends. Our Long-term Vision outlines growth investments and ensuring financial stability while increasing shareholder returns with a target dividend payout ratio of 30%.

Cash Flow Distribution Policy

We are planning cash flow 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 March 2018, 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 the generated cash to conduct the large-scale investments

necessary to reform our business portfolio.

For shareholder returns during this period, we will aim for a dividend payout ratio of 20% as we seek 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%.

	First Stage	Second Stage	Third Stage
Financial Discipline	Ensure financial health Create extra capital investment capacity by building internal reserves		Equity ratio of 50% or higher
Business Investments	• Generate cash • Strategic investments in high value-added categories	• Maintain financial discipline • Large-scale strategic investments	Generate cash flow Achieve Long-term Vision
Shareholder Returns	Maintain stable dividends Dividend payout ratio of 20% or higher		Dividend payout ratio of 30% or higher

Achieving Management Benchmarks

The Megmilk Snow Brand Group will generate synergies as a whole in order to respond to changes in market environments. We will 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.

Management
Message

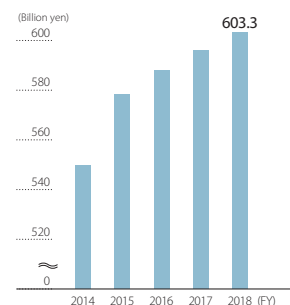
Financial and Non-Financial Highlights

Financial Information [Consolidated]

Net Sales

¥603.3 billion

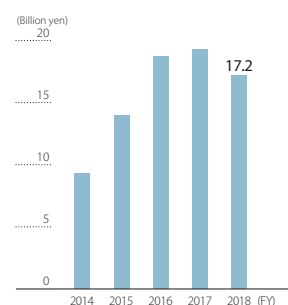
Net sales have grown with five consecutive years of increased revenues. Sales grew especially quickly in fiscal 2015, driven by significant growth in cheese and yogurt.



Operating Profit

¥17.2 billion

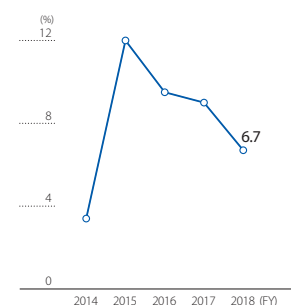
Profit had been on the increase since fiscal 2015 due to higher sales growth for yogurt, but it declined in fiscal 2018 with the impact of higher costs and other factors.



ROE (Return on Equity)

6.7%

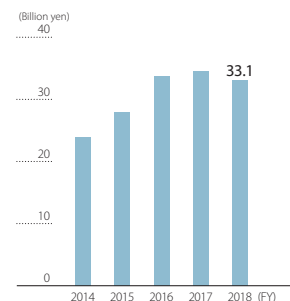
Expenditures due to the reorganization of plants were recorded in fiscal 2014, but revenue from the sale of a closed plant's fixed assets was recorded in fiscal 2015. In fiscal 2018, losses on disasters and accidents due to natural disasters as well as impairment losses resulting from investments in the Feedstuffs and Seed Products business were posted.



EBITDA*

¥33.1 billion

Since fiscal 2014, EBITDA has been rising with operating profit, but in fiscal 2018, it fell slightly as operating profit declined due to higher costs and other factors and amortization costs rose slightly over fiscal 2017 due to strategic capital investment.

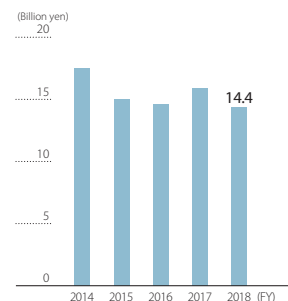


* Earnings before interest, taxes, depreciation and amortization

Capital Expenditures

¥14.4 billion

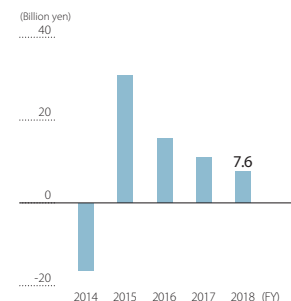
The Group has moved ahead with strategic capital investment since fiscal 2017. We will continue to expand growth investments while also considering investment efficiency going forward.



Free Cash Flow*

¥7.6 billion

Since fiscal 2015, we have been generating stable cash flow. In fiscal 2015, we had a cash inflow due to the sale of former plant land.



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

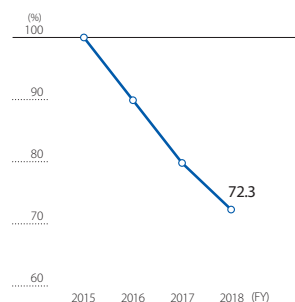
Non-Financial Information [Megmilk Snow Brand Co., Ltd., Non-Consolidated]

Details on CSR Initiatives (in Japanese)
<https://www.meg-snow.com/csr/>

Overtime Work Reduction Rate (Compared with Fiscal 2015)

72.3%

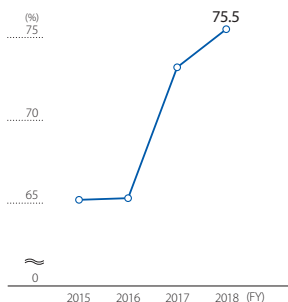
We strive to improve labor productivity by pursuing operational reforms.



Paid Leave Acquisition Rate

75.5%

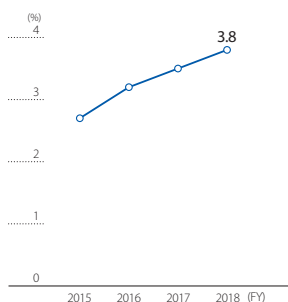
We encourage employees to take paid leave to promote enriched lifestyles and work-life balance.



Rate of Women in Management Positions

3.8%

We promote the engagement of women as part of our efforts to ensure human resource diversity and help employees maximize their potential. Our goal is for women to hold 5% of management positions by fiscal 2020.

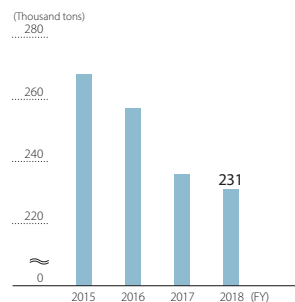


Highlights

CO₂ Emissions

231 thousand tons

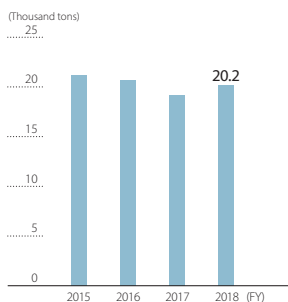
We have worked to stabilize plant operations and are switching from heavy oil to gas as a fuel source, and these efforts are reducing CO₂ emissions.



Waste Product Emissions

20.2 thousand tons

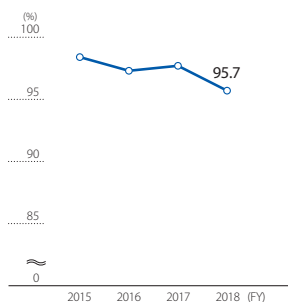
In fiscal 2018, waste products such as raw material milk and refrigerated products increased due to the impact of power losses and interruptions in the transportation network following natural disasters.



Waste Product Recycling Rate

95.7%

The recycling rate declined in fiscal 2018 due to a significant increase in waste products as a result of natural disasters.



Value Creation at Megmilk Snow Brand

One of the predecessors of Megmilk Snow Brand Co., Ltd. was the Hokkaido Cooperative Creamery Association. This producers' organization was created to save dairy farming in Hokkaido, when 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, our company has been involved in Japan's dairy farming industry for nearly a century. This section describes this history, the results of our value creation thus far, and our business strategy.

Our History of Market Creation

Always pursuing the value and potential of milk, we have created outstanding products that deliver delicious taste and health to customers, and many of these have gone on to become long-sellers. We will continue to offer customers delicious, health-enhancing products.

Starting Out with Hokkaido Butter

We began manufacturing butter at the very beginning. 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

Starting 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. We expanded the scale of the plant, building the first large-scale cheese production facility in Japan.

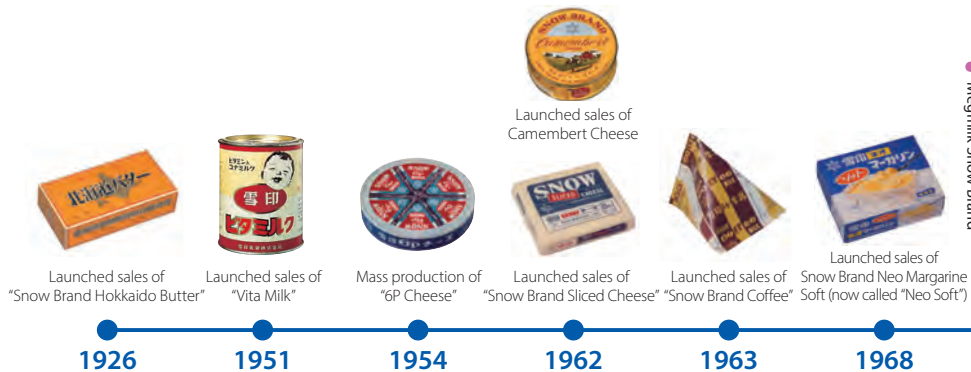


Pioneering the Future of Milk with Research

Our R&D Department was established in 1933. Functioning as a dairy farming research institute, it engaged in research into processing technology, components and lactic acid bacteria. Later, we opened the Sapporo Research Laboratory, Technical Research Institute (now the Milk Science Research Institute) and Cheese Research Laboratory, allowing us to engage in full-scale research projects.



Value Creation at Megmilk Snow Brand



1925

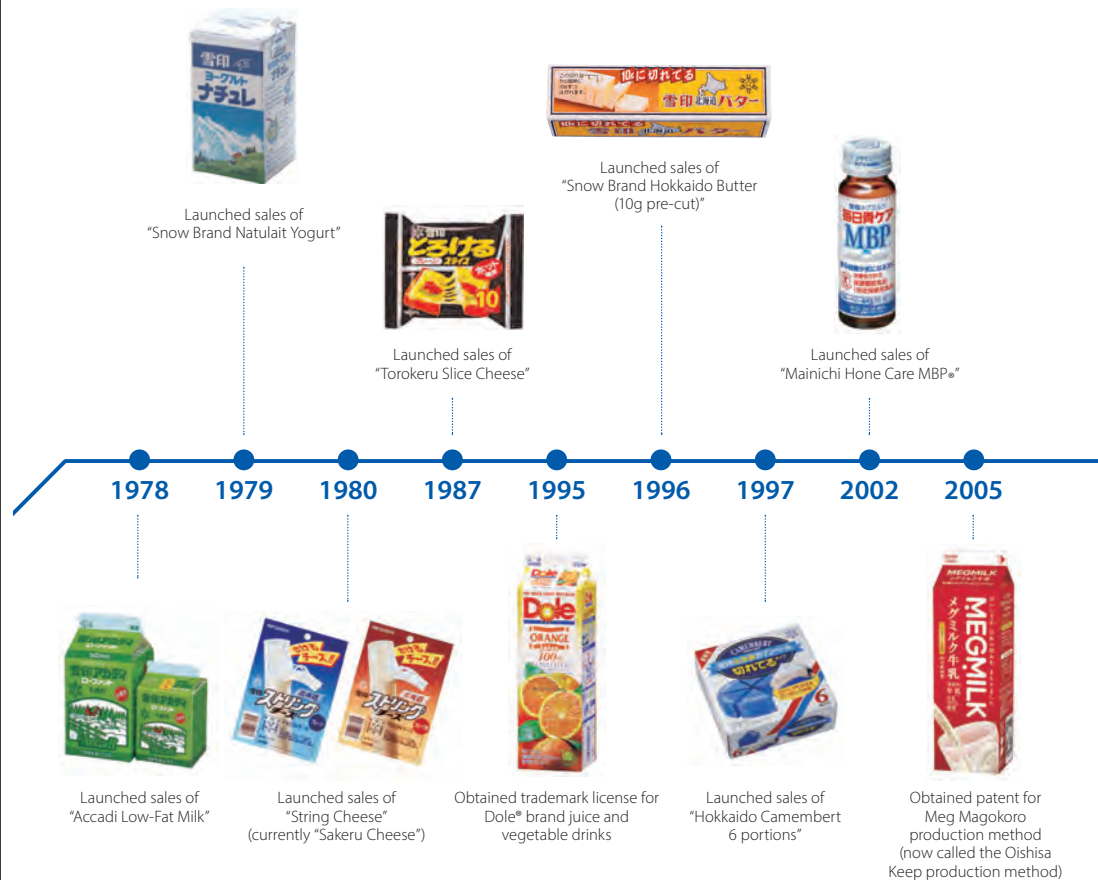
Hokkaido Cooperative Creamery Association Founded

Large-Scale Cheese Production Begins

Numerous Long-Selling Products Launched

1950

Snow Brand Milk Products Co., Ltd. founded



Food Contamination Incident and Fraudulent Beef Labeling Incident

Restoring Trust and Rebuilding Company

1972

Zenkoku Nohkyo Milk Whole Sales Co., Ltd.* established

* Changed name to Zen-Noh Chokuhan Co., Ltd. in 1974

1996

Japan Milk Net Co., Ltd. established

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.

● Our History of Market Creation



Developed the "Yukijirushi Hokkaido 100" cheese brand, which uses 100% Hokkaido milk



Launched sales of "Gasser SP Strain Yogurt" as a "foods with function claims"

2007 2010 2015 2018



Launched sales of "Kasane Dolche," single-serving desserts using a layering technique



Improved all types of margarine for household use so that they no longer use partially hydrogenated oil, which contains large amounts of trans fats

True to our long-term vision of becoming a "Future Creation Company with Milk," the Megmilk Snow Brand Group pursues the value and potential of milk to create new value.



Value Creation at Megmilk Snow Brand

Corporate Consolidation and Merger

Becoming a Future Creation Company with Milk

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

Megmilk Snow Brand Group Long-term Vision 2026 launched as an initiative to create new value

Transformation & Renewal

Value Creation Process

At the Megmilk Snow Brand Group, we apply our corporate philosophy to contribute to the realization of a sustainable society through business activities that utilize our Group strengths. We will achieve our 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.

Inputs

Natural Capital

- Growth capacity based on the sound foundation of the natural environment and its ecosystem services

Intellectual Capital

- Strengths in R&D, production technology and quality management required to provide safe, reliable products
- Trustworthy brand

Human Capital

- Forward-thinking people who are determined to grow

Manufacturing Capital

- Procurement, plant and logistics network for the raw milk and other ingredients that go into making safe, reliable products

Financial Capital

- Sound financial position and fund-raising capacity to support corporate activities and drive growth investment

Interpersonal Capital

- Trust and relationships with stakeholders

Megmilk Snow Brand Business Activities

Four Business Sectors



P.39-40



P.41-42



P.43



P.44

Value Chain



P.31



P.32



P.33



P.34

ESG* Initiatives

E

Environment

P.51-54

S

Social

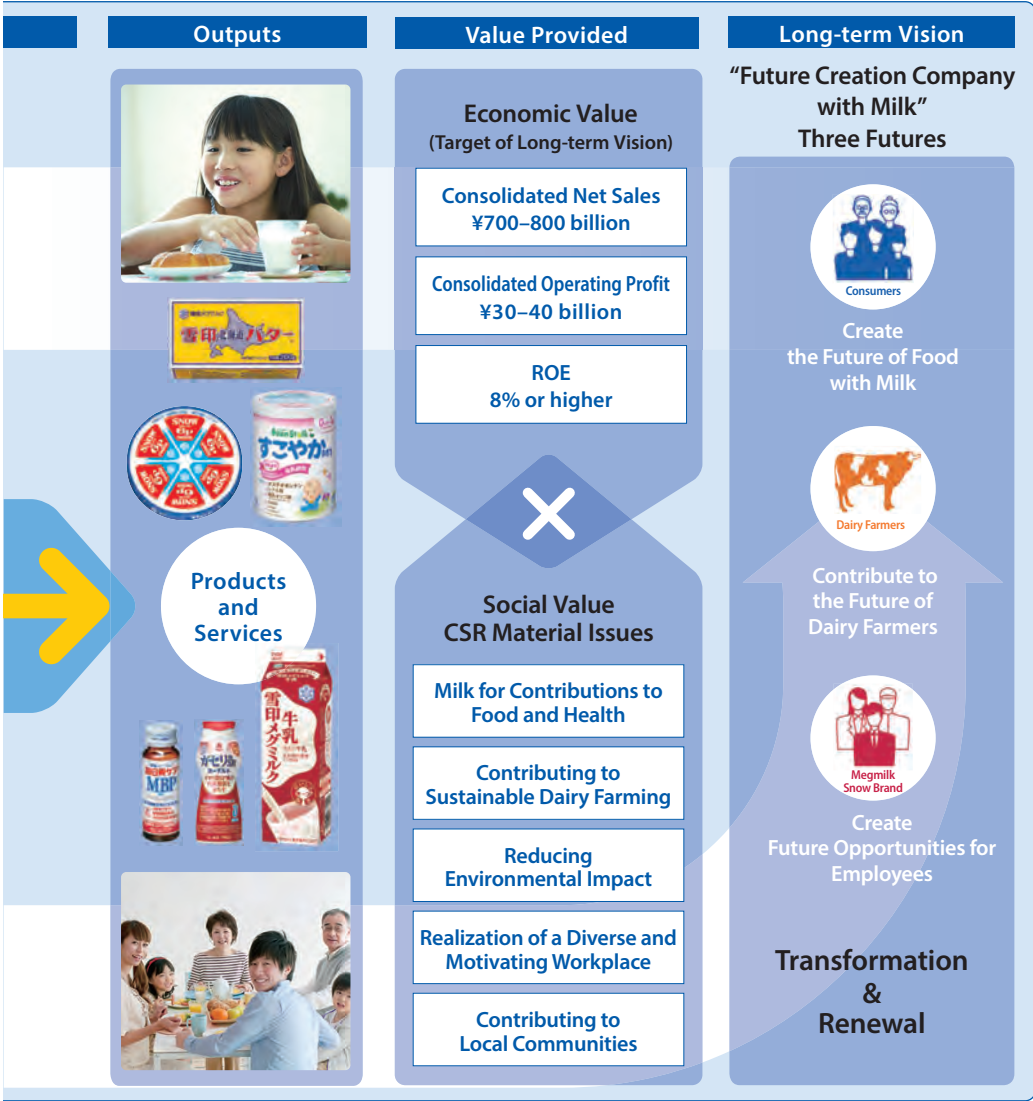
P.47-50
P.55-58

G

Governance

P.59-70

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



Value Creation at
Megmilk Snow Brand



Value Chain

1

Research and Development

[Contributing to the SDGs]



Bringing Customers Delicious Taste and Health with the Power of Milk

Our R&D organization plays a central role in pursuing the potential of milk and maximizing its value, all with the aim of providing customers delicious taste and health.



Our R&D organization 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 production method for natural cheese.

Research and Development

Core Fields of Research

Functional Foods

We conduct research related to the health functions of milk and lactic acid bacteria. Our goal is to develop products unique to the Megmilk Snow Brand Group that help to maintain and promote the health of diverse customers, from infants to the elderly.

Food Processing

We conduct research into the health functions of milk, focusing on components such as the proteins, fats and sugars that comprise milk. We also carry out research into the relationship between the structures, flavors and textures of food.

Technology Development

We develop food processing technology based on milk flavor analysis and technology related to the design of containers and packaging.



Lactobacillus gasseri SBT2055



MBP



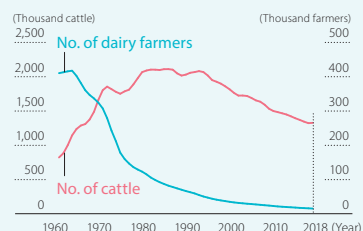
Lactobacillus helveticus SBT217

Collaborating with Dairy Farmers

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.

Dairy Farming Environment in Japan

Number of Dairy Farmers and Number of Dairy Cattle in Japan



(Source) Statistics on Livestock, Ministry of Agriculture, Forestry and Fisheries, 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 seems to see no end and is resulting in a decline in the dairy farming population. While the scale of farms is growing, the number of herds is declining. Amid such a situation, revitalizing and strengthening the platform for raw milk producers by promoting sustainable dairy farming has become an urgent issue.



[Contributing to the SDGs]



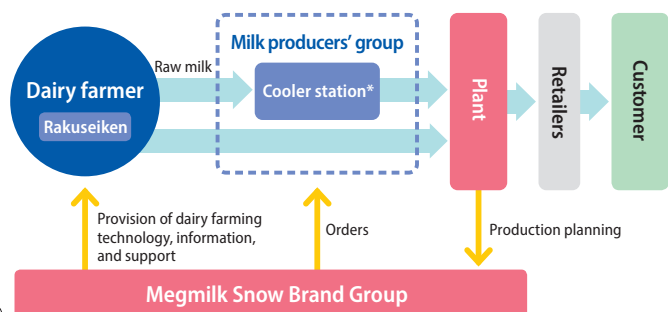
Procurement

Value Creation at Megmilk Snow Brand

Procurement

Megmilk Snow Brand Group 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 produced by dairy farmers and procure via fair milk trade and process it into various products to add value before delivering these products to consumers.



Details on Japan Young Dairy Farmers Research Association (Rakuseiken)
P.50

* A cooling facility where raw milk received from dairy farmers is temporarily stored.

Delivering Safe, Reliable and Delicious Milk to Customers

We engage in consumer-focused business operations. We are committed to providing quality that customers and consumers can trust, and deliver safe and reliable products to them.

Megmilk Snow Brand Quality Assurance System (MSQS)

We are not only dedicated to providing our customers with safe and reliable products. We also proactively reflect consumer feedback in operations, and practice consumer-focused management that ensures a trusted, high-quality systems. With this in mind, we have outlined the following Quality Assurance Policy.

[Quality Assurance Policy]

- 1 Apply the standards of a consumer-focused quality assurance system and ensure compliance with laws and internal standards to provide safe and reliable products.
- 2 Disclose 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.



Production and Distribution

[Contributing to the SDGs]



Production

Quality and Hygiene Management Based on Our Unique Quality Assurance System (MSQS)

Megmilk Snow Brand Co., Ltd. conducts quality and hygiene management based on the Megmilk Snow Brand Quality Assurance System (MSQS). MSQS is the Company's unique quality assurance system that incorporates the concepts outlined in ISO 9001*1 and HACCP*2 and that promotes quality assurance activities by employees in all departments.

*1 Refers to international standard quality management system.
*2 Hygiene management method for ensuring food safety.

Distribution

Worked to Earn Certification for International Food Safety Scheme Certified by GFSI*

The Megmilk Snow Brand Group proactively works to earn certification for the international food safety scheme certified by GFSI in its food production facilities around the world. We have introduced a sophisticated food safety management scheme that meets global standards, assuring customers they can feel safe and secure using our products.

* The Global Food Safety Initiative (GFSI) provides a global platform for collaboration on food safety between food-related companies all over the world that work together to make ongoing improvements in food safety systems. Some of the food safety schemes recognized by GFSI are FSSC 22000 and SQF.

Maintaining and Raising the Quality of Distribution Sites

Based on annual plans for voluntary inspections, quality management is inspected at contracted warehouses, which leads to prompt improvements and corrective action.

Responding to Customer Needs

The Megmilk Snow Brand Group not only sells safe and reliable products, but we also continuously reevaluate our products after sales launch.

Marketing that Identifies and Creates Food Trends and Contributes to Better Health

"Cheese dogs," a food that suddenly became popular in 2018 in Japan as part of a menu originating in South Korea, following the popularity of "cheese dak-galbi," have drawn attention to the gooey melting of cheese. We identified this trend early on and devised recipes that can be easily made with Sakeru Cheese. We also ran a television commercial that uses reverse playback videos in an innovative way to show how to enjoy "crunchy" cheese by simply microwaving sliced cheese. We also ran promotions with recipes for high-protein, low-carb milk products, in order to propose more healthy meals.



Value Chain

[Contributing to the SDGs]



4
Marketing
and
Sales

Value Creation at
Megmilk Snow Brand

Marketing

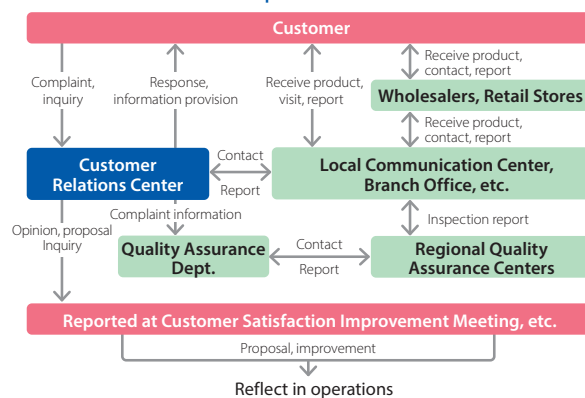
Sales

Customer

Response at Customer Relations Center and Improving Customer Satisfaction

Our Customer Relations Center is open year-round. Customer complaints are addressed promptly together with the regional staff and the Quality Assurance Department. Customers' valuable opinions are passed on to the relevant divisions so that they can be reflected in corporate activities to promote better product development and clearer product labeling. In addition, the Company holds monthly meetings on improving customer satisfaction with the aim of improving products utilizing customer opinions.

Customer Relations Center Response Flow



Business Overview

Main Group Companies

Dairy Products Business



- Representing the history of the Megmilk Snow Brand Group, 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 a top share of the market.

- 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. / others

Beverages and Desserts Business



- This business sector handles 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 Gasser 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.

- Megmilk Snow Brand Co., Ltd. / Michinoku Milk Co., Ltd. / Yatsugatake Milk Co., Ltd. / Ibaraku Co., Ltd. / SI System Corporation / Mitsuwa Distribution Industry Co., Ltd. / Chokuhon Haisou Co., Ltd. / Greenservice Co., Ltd. / Cresco Corporation / SBS Flec Co., Ltd. / Luna Bussan / Nichiraku Machinery Co., Ltd. / others

Nutrition Business



- This segment focuses 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 the Company 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.

- 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 Co., Ltd. / Belle Neige Direct Co., Ltd. / others

Feedstuffs and Seed Products Business



- This business sector focuses on operations by Snow Brand Seed Co., Ltd. that 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.

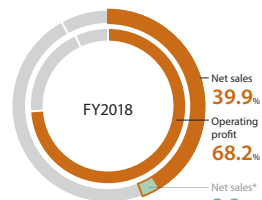
- Snow Brand Seed Co., Ltd. / Snow Brand Seed USA, Inc. / Doto Feed Corporation / Royal Farm, Ltd. / RF Penkel Farm Co., Ltd. / RF Aomori Farm Co., Ltd. / others

Main Products

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

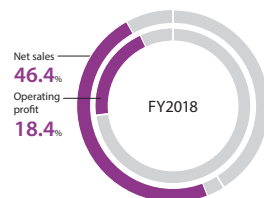


Breakdown of Net Sales and Operating Profit

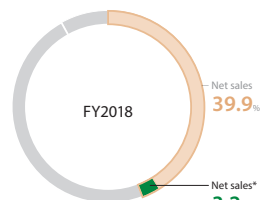


* Nutrition business sales (includes sales to the Dairy Products business).

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

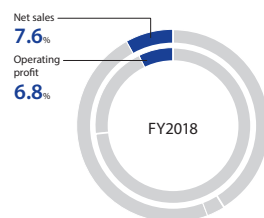


- Powdered milk including infant formula, functional foods, etc.



*Included in the Dairy Products business.

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



(Note) Some contributions to net sales and operating profit are not included in the above business segments.

Value Creation at
Megmilk Snow Brand

Main Group Companies

Japan

SI System Corporation

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



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



Mitsuwa Distribution Industry Co., Ltd.

Established	January 1954
Capital	450 million yen
Group total equity ratio	100.0%
Head office location	Saitama City, Saitama
Representative	Shigeru Yamaguchi
Business	Wholesale business for daily chilled foods, joint distribution center business



Chokuhan Haisou Co., Ltd.

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



Belle Neige Direct Co., Ltd.

Established	March 1999
Capital	79 million yen
Group total equity ratio	66.6%
Head office location	Chiyoda-ku, Tokyo
Representative	Tomihisa Kakizaki
Business	Mail order and contracted mail order and publishing, sales, and promotion of books and magazines



Ibaraku Co., Ltd.

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



Cresco Corporation

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



Chesco Ltd.

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



Nichiraku Machinery Co., Ltd.

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



Michinoku Milk Co., Ltd.

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



Yatsugatake Milk Co., Ltd.

Established	January 1954
Capital	60 million yen
Group total equity ratio	100.0%
Head office location	Chino City, Nagano
Representative	Hitoshi Naito
Business	Manufacturing, purchase, and sales of milk, milk beverages, and yogurt, cheese processing, shipping and handling business



Snow Brand Seed Co., Ltd.

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



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



Outside Japan

Udder Delights Australia Pty. Ltd.

Established	August 2017
Capital	AU\$15 million
Group total equity ratio	90.0%
Head office location	Adelaide (Australia)
Representative	Saul Sullivan
Business	Manufacturing and sales of white mold and blue mold cheese



Snow Brand Australia Pty. Ltd.

Established	December 1992
Capital	AU\$28 million
Group total equity ratio	100.0%
Head office location	Melbourne (Australia)
Representative	Tadaki Fukusaku
Business	Manufacturing and sales of powdered milk products for infants and white mold cheese, and export and import of raw milk materials



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	Manufacturing and sales of milk, 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.



YBS Co., Ltd.

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



Snow Brand Taiwan CO., LTD.

Established	December 1992
Capital	NT\$7 million
Group total equity ratio	100.0%
Head office location	Taipei (Taiwan)
Representative	Ryoichi Sueyasu
Business	Import and sales of powdered milk products for infants and dairy products



PT. Megmilk Snow Brand Indonesia

Established	May 2012
Capital	US\$11 million
Group total equity ratio	52.8%
Head office location	Bekasi (Indonesia)
Representative	Nurjadi Thaher
Business	Manufacturing and sales of processed cheese



Business Strategy



Dairy Products Business

Respond to Changes in the Environment and Strengthen Earnings Bases



Business Conditions

Market Environment

- The market for our mainstay cheese is solid due to the focus on nutrition and health effects and the effect of increase in demand for entertaining at home.
- Recently, new ways of eating have spread on social media.
- Demand for butter has increased, but ensuring a stable supply is an issue for the industry overall.
- The market for margarine products has declined due to reports about trans fats.

Strengths

- The Dairy Products business, which includes butter and cheese, is the business with the longest history.
- Long-selling products that have gone through ongoing refinements are still popular today.
- The "Snow Brand Hokkaido 100" brand is committed to using milk 100% sourced from Hokkaido.
- We are applying the cheese manufacturing technology developed in Japan in our overseas expansion as well.

Risks

- Issues with future trends in raw milk production volumes in Japan and ensuring stable procurement of raw ingredients, such as imported cheese.
- The implementation of the Trans-Pacific Partnership Agreement (TPP11) and the Economic Partnership Agreement (EPA) between Japan and the EU in fiscal 2018 could affect the milk product market in Japan.

Growth Strategy—Medium-term Management Plan

Expand Market 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.



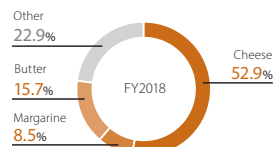
- 1 Provide stable supply of butter and strengthen brand
- 2 Strengthen sales of main cheese products for consumers and reinforce production structure
 - Improve infrastructure of Taiki Plant
 - Strengthen natural cheese products made in Japan (Camembert Cheese, Sakeru Cheese, etc.)
 - Expand product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

Expand Market 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.

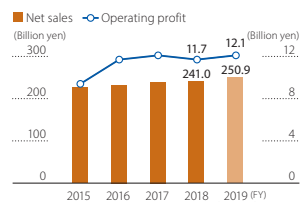
- 1 Export products made in Japan (for consumer/commercial use)
- 2 Expand overseas production and sales
 - Promote Megmilk Snow Brand products
 - Utilize overseas bases

Net Sales Composition (by Category)*



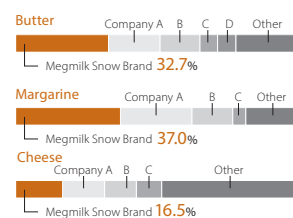
* Megmilk Snow Brand net sales only

Net Sales and Operating Profit*



* Includes Nutrition Business

Category Share



(Source) Intage SCI (up to 70s)
Monetary share for FY2018

Fiscal 2018 Results

The Dairy Products business continued to strive to ensure a stable supply of butter for household use. Sales of margarine and other oils declined due to struggling market demand. In cheese for household use, raw material costs were higher, as were distribution and labor costs. In response, we had to raise prices and change capacity to make up for what could not be absorbed by our own efforts. Sales increased for mainstay products such as 6P Cheese, camembert cheese and Sakeru Cheese thanks to customer support. However, products that sell well at a lower price, such as sliced cheese and baby cheese, were slow to recover.

Fiscal 2019 Initiatives

We will endeavor to expand sales of mainstay products in the cheese category such as 6P cheese, camembert cheese and Sakeru Cheese. We will also focus on the sale of sliced cheese and baby cheese, whose sales have been slow to recover with price revisions. The market for margarine products has been poor, but we will focus on the sale of products with sweet flavor profiles and those that promote health. In the overseas sector, we will move ahead with a borderless expansion of our cheese products.



Milky Soft ©2018 FUJIIYA CO., LTD.

Value Creation at
Megmilk Snow Brand

Spotlight

Borderless Expansion of Cheese Products

Expanding our cheese products to markets outside Japan is one of the growth strategies in our medium-term management plan. We consolidated Megmilk Snow Brand Indonesia and Udder Delights Australia and plan to work together with Snow Brand Australia to achieve future income growth. We will also expand cheese exports from Megmilk Snow Brand Indonesia to Singapore, Thailand and Malaysia.



Increase in Cheese Exports



Business Strategy



Beverages and Desserts Business

Secure Earnings Bases and Structurally Transform into a Business that will Drive Growth



Business Conditions

Market Environment

- The yogurt market was flat in fiscal 2018, but we expect it to remain stable, supported by consumers' continuing health concerns.
- Income continues to decline slightly in the milk and milk-based beverage market, due to the wide range of beverages people today consume, but our beverage products receive high praise for their nutritional value.
- The percentage of personal-type desserts in the chilled dessert category is increasing due to diversifying tastes.

Strengths

- Milk and yogurt are a familiar presence that have contributed to the health of Japanese people on a daily basis for a long time.
- Brands that have been popular with consumers for a long time, such as Snow Brand Coffee, Makiba no Asa, CREAM SWEETS Coffee Jelly, remain strong.
- The yogurt category has a wide range of unique products, such as the megumi series that uses *Lactobacillus gasseri* SBT2055, a live strain that becomes established long-term in the human digestive system.

Risks

- Raw milk production is on the decline due to the number of dairy farmers leaving the business in Japan, excluding Hokkaido.
- Distribution costs and other costs are rising due to the characteristics of our products, which must be shipped frequently.
- Competition is harsh because the beverage category is relatively easy to enter and consumption is diversifying.

Growth Strategy—Medium-term Management Plan

Strategically Expand Functional Yogurt

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



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 Co., Ltd.

2 Expand product line-ups

3 Strengthen marketing

- Enhance the recognition of *Lactobacillus gasseri* SBT2055

Optimize Product Mix

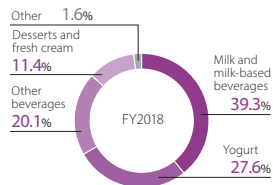
We will increase added value by promoting consumer-focused product development, including offering personal-type desserts and small-sized beverages.

1 Enhance competitiveness of personal-type desserts

- Luna Bussan: Build a new production line for desserts

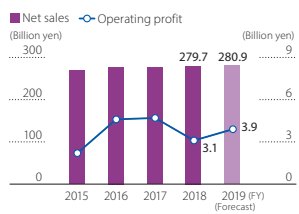
2 Add more value to milk-based beverages

Net Sales Composition (by Category)*

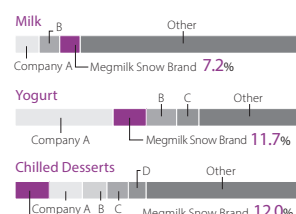


* Megmilk Snow Brand net sales only

Net Sales and Operating Profit*



Category Share



(Source) Intage SCI (up to 70s)
Monetary share for FY2018

Fiscal 2018 Results

The household beverage market was weak, resulting in lower sales. Yogurt was strong overall. In particular, sales increased 1.3 times over the previous year for *Lactobacillus gasseri* SBT2055 yogurt products due to efforts to enhance product strength and aggressive sales promotions, such as the launch of new drink-type products and the labeling of individual-serving types as foods for specified health uses. Desserts were strong performers, with new products driving sales.

Fiscal 2019 Initiatives

In addition to higher raw material milk prices for beverages, distribution and labor costs will also increase, and our own efforts will not be enough to completely absorb these costs. As a result, we started raising prices in April 2019, primarily for milk and yogurt. We will reinforce promotions by launching new TV commercials and continue to focus on expanding sales of yogurt, particularly *Lactobacillus gasseri* SBT2055 yogurt.

Spotlight

New Product Development

New Lineup

We added muscat flavor to the lineup of megumi Gasseri SP Strain Yogurt drink-type products, and launched it on September 4, 2018.

Meeting Customer Needs

Aiming to expand the series further and to meet requests for a functional yogurt without a sweet taste, we launched the plain-type megumi Gasseri SP Strain Yogurt Fresh Milk Plain on March 5, 2019.

Reinforcing Personal-Type Dessert Products

We will enhance product strength by utilizing the production line that we expanded at Luna Bussan in 2018.

Value Creation at
Megmilk Snow Brand



Business Strategy



Nutrition Business

Create New Growth Opportunities and Develop into a Highly Profitable Business



Business Conditions

Market Environment

- We expect further growth in this business, which primarily markets functional foods and powdered milk, due to the public's heightened interest in health.

Strengths

- In this business, we offer functional products using proprietary ingredients, such as Mainichi Hone Care MBP, which contains MBP, a component of milk that helps increase bone density, which was discovered through many years of research.
- We have developed infant formula that is close to breast milk, developed after about 60 years of research related to breast milk and based on the resulting knowledge.

Risks

- In the powdered milk business, a decline in the birth rate in Japan could reduce sales volume of infant formula.
- The increase of new entrants to the health foods market, including companies from different industries, is heightening competition.

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.

Strengthen Competitive Advantages in the Powdered Milk Business by Pursuing Value

In addition to the powdered milk for infants we have offered thus far, we will expand the line of products providing value to adults and nursing mothers and strengthen the competitiveness of the powdered milk business in and outside Japan.

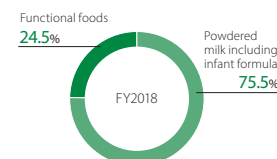
Fiscal 2018 Results

Sales increased in this business as the customer base grew with ongoing marketing investments made in Mainichi Hone Care MBP in the functional foods line. In addition, we acquired more shares in Belle Neige Direct Co., Ltd. (making it a subsidiary) to reinforce the foundation of our mail order channel business.

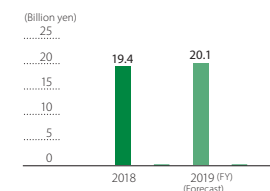
Fiscal 2019 Initiatives

In the functional foods business, in line with our growth strategy, we will expand our products related to locomotive syndrome for the elderly, as well as move into businesses in products for children. In the powdered milk business, we will launch Bean Stalk Sukoyaka M1, a new infant formula product developed from the most recent results of our research on breast milk, and aim for further business growth.

Net Sales Composition (by Category)



Net Sales



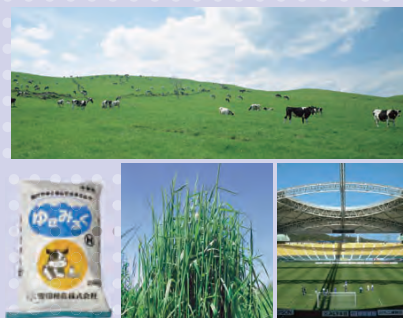
Mainichi Hone Care MBP

Bean Stalk Sukoyaka M1



Feedstuffs and Seed Products Business

Increase Efficiency in the Feedstuffs Business and Grow the Seed Products Business into a Core Business



Business Conditions

Market Environment

- The need for feedstuffs produced in Japan is rising, and feedstuffs production work is becoming increasingly outsourced and specialized.
- We expect the market for vegetable seeds to expand due to growing demand for environmentally friendly cultivation and produce grown in Japan.
- Expectations for lawns and greenery are rising due to growing awareness of the environment and interest in sports events.

Strengths

- In this business, we utilize feed management technology and self-supplied feed cultivation technology in affiliation with the R&D division to make recommendations aligned to needs.
- In addition to prime grass breeds aligned with climate conditions, we offer vegetable seeds that we have developed ourselves, such as daikon radish and top-quality edamame (immature soy bean) seeds.
- Our technical capacity, built up in every step from land development to maintenance and management for parks, roadside trees and sports facilities, is one of our key strengths.

Risks

- The increase in people leaving farming due to a shortage of producers is an issue.
- Natural disasters and weather conditions hurt the growth of raw materials and can reduce sales volume.

Growth Strategy—Medium-term Management Plan

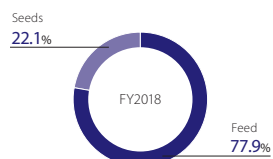
Improve Profitability of the Feedstuffs Business

We will combine the development of blended feed matched to operating style 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.

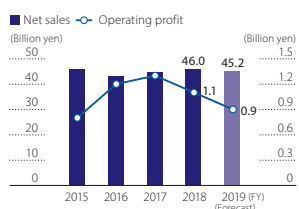
Strategically Expand the Seed Products Business

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.

Net Sales Composition (by Category)



Net Sales and Operating Profit



Fiscal 2018 Results

The sales price of blended feeds exceeded the previous year's levels and we completed major construction projects using our sports turfs. However, sales of grass feedstuff seeds fell, the sales volume of blended feeds declined, and raw material costs rose. As a result, sales increased but profits fell.

Fiscal 2019 Initiatives

In the feedstuffs business, we will continue working to support sustainable dairy farming to practice comprehensive, proposal-based sales. In addition, we will aim to begin operating a new plant for Hokuren Snow Brand Feed Co., Ltd., established through a merger in April 2019, in fiscal 2021 to ensure low costs and high quality. In the seed products business, we will continue to develop products utilizing our new research center.



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

Value Creation at Megmilk Snow Brand

CSR Material Issues for Sustainable Growth

The Megmilk Snow Brand Group aims to achieve sustainable growth by addressing social issues. With this in mind, we held internal discussions and also exchanged views with external parties. These led to a revision of our CSR Policy in September 2018, and the identification of CSR material issues. In addition, in August 2019, we set KPI that we will use to confirm progress on important CSR issues and to carry out PDCA management.

CSR Domain	CSR Material Issues
Food and Health	Milk for Contributions to Food and Health <ul style="list-style-type: none"> 2. ZERO HUNGER 3. GOOD HEALTH AND WELL-BEING 4. QUALITY EDUCATION 12. RESPONSIBLE CONSUMPTION AND PRODUCTION
Dairy Farming	Contributing to Sustainable Dairy Farming <ul style="list-style-type: none"> 2. ZERO HUNGER 4. QUALITY EDUCATION 8. DECENT WORK AND ECONOMIC GROWTH 9. INDUSTRY, INNOVATION AND INFRASTRUCTURE 15. LIFE ON LAND
Environment	Reducing Environmental Impact <ul style="list-style-type: none"> 7. AFFORDABLE AND CLEAN ENERGY 8. DECENT WORK AND ECONOMIC GROWTH 11. SUSTAINABLE CITIES AND COMMUNITIES 12. RESPONSIBLE CONSUMPTION AND PRODUCTION 13. CLIMATE ACTION 15. LIFE ON LAND
People and Society	Realization of a Diverse and Motivating Workplace <ul style="list-style-type: none"> 3. GOOD HEALTH AND WELL-BEING 4. QUALITY EDUCATION 5. GENDER EQUALITY 8. DECENT WORK AND ECONOMIC GROWTH 10. REDUCED INEQUALITIES
	Contributing to Local Communities <ul style="list-style-type: none"> 3. GOOD HEALTH AND WELL-BEING 4. QUALITY EDUCATION 8. DECENT WORK AND ECONOMIC GROWTH 11. SUSTAINABLE CITIES AND COMMUNITIES 17. PARTNERSHIPS FOR THE GOALS

CSR Policy

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

<Basic Approach>

- Grounded in compliance,*2 engage in activities with the highest priority on securing product and service safety (quality assurance).
- Focus on all stakeholders, including customers and consumers, and conduct operations that reflect the social conscience.
- Designate our CSR material issues and work to resolve 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 Activity Themes	Target Fiscal Year	KPI (Key Performance Indicator)
	Providing safe products and services	2022	• By fiscal 2022, 75% or more of the food facilities in and outside Japan that manufacture Megmilk Snow Brand products will be certified under an international food safety scheme (such as FSSC or SQF) recognized by GFSI, and thereafter continuing efforts will be made to increase GFSI certifications. (G)
		2022	• Train certified sensory evaluation technicians with the ability to evaluate flavor (number of certified sensory evaluation technicians: 110% or more compared to fiscal 2017 levels)
	Contributing to extending healthy life expectancy	Every year	• Carry out research and development, product development, service provision and information transmission to contribute to the extension of healthy lives through milk (G)
		2026	• Carry out food education activities based on the key theme of contributing to the extension of healthy lives and aim for an average of 45,000 participants every year in fiscal 2019-2026
	Working to strengthen the dairy farming production platform	Every year	• Provide administrative and technical support for sustainable dairy farm management through operational support for Rakuseiken and the activities of the Research & Development Center for Dairy Farming (G)
	Preventing global warming	2030	• Reduce CO ₂ emissions by 30% from the fiscal 2013 level by fiscal 2030
	Sustainably using resources	2022	• Make sure that all paper used is made of eco-friendly materials by fiscal 2022
		2026	• Procure 100% certified palm oil by fiscal 2026
			• Reduce plastic use and reuse resources by developing and using eco-friendly packaging and containers (quantitative targets will be set by the end of fiscal 2020)
	Building a recycling-based society	①2030 ②2030 ③2019	• Take the following steps to address waste: ① Cut waste generation by 30% from the fiscal 2013 levels by fiscal 2030 ② Raise the waste recycling rate to 98% or more by fiscal 2030 ③ Raise the food waste recycling rate to 95% or more by fiscal 2019
		Every year	• Pursue eco-friendly product development (extend the expiration date on existing and new products, and actively promote the labeling of the month and year for expiration dates)
			• Promote the effective use of water resources (quantitative targets will be set by the end of fiscal 2020)
	Diversifying and developing human resources	2025	• Increase the share of management positions held by women to 10% or more by fiscal 2025
	Achieving work-life balance and improving labor productivity	Every year	• Obtain METI recognition under the Certified Health & Productivity Management Outstanding Organizations Recognition Program
	Partnering with local communities	Every year	• Work with the community to help resolve social issues (G)

"(G)" indicates a KPI for the Megmilk Snow Brand Group; other KPIs are for Megmilk Snow Brand Co., Ltd. only.

CSR Material Issue



Food and Health

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, reliable products and services.

Products and Services ● Feature P.7-12

Food Education Activities

We have assigned dedicated staff in six locations in Japan to support people's health through food, primarily by providing seminars, cooking classes and health education classes at local elementary and junior high schools. In these activities, we convey the importance of food and the value of milk and dairy products across the generations. In fiscal 2018, about 42,000 people participated.

Participation in the Food and Science Wonder Expo

At the Food and Science Wonder Expo held in Osaka (hosted by Shinko Shuppansha Keirinkan Co., Ltd.), we showed a video and made butter with about 200 children in order to demonstrate how butter is made from cow milk. The children were surprised and thrilled to see for themselves how it is done. The interesting demonstration, given from a scientific perspective, earned praise from the expo sponsors.



Bone and Calcium Seminar

This seminar conveys the necessary points for maintaining bone health, such as the importance of bone health, the necessary nutritional elements, and the function of calcium and how to consume it efficiently.



Workshop for Enjoying Cheese

This workshop conveys the wonder of cheese and ways to eat it in an easy-to-understand way, such as the history of cheese, how it is manufactured, its nutritional value and the differences in cheeses by type.



Voice



Shiori Tsubota
Kansai Communication Center,
Kansai Regional Sales Headquarters,
Megmilk Snow Brand Co., Ltd.

Conveying the Value of Milk and Dairy Products

Those of us on the food education team work every day to teach people about food by visiting classes, cooking classes and seminars. After working in sales of home-use products, I was put in charge of food education. I am always thinking about what I need to do and can do to carry on the good teamwork that my superiors started, while utilizing my skills as a nutritionist and experience in marketing.

Japan has the longest-lived population in the world, but the average life span is not equivalent to the healthy life span. Milk and dairy products, which are affordable and delicious, have many health functions, so I can recommend them with confidence as a means of extending a healthy life. I hope that I will be able to meet many people and share with them the value of milk and dairy products in a way that is sincere, easy to understand and fun.

Plant Tour

The Megmilk Snow Brand Group has established tour routes for the general public at eleven of its 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. In fiscal 2018, about 69,000 people visited.

Plant Tours on Theme of Independent Research (Ebina Plant)

We held tours of our plant on the theme of independent research during summer vacation for students at a nearby elementary school and their families. The students were divided by theme into three groups to explore handicrafts using the milk drink box, mechanisms of fermentation and fungus, or making whipped cream and butter, and they all then viewed the actual manufacturing process.

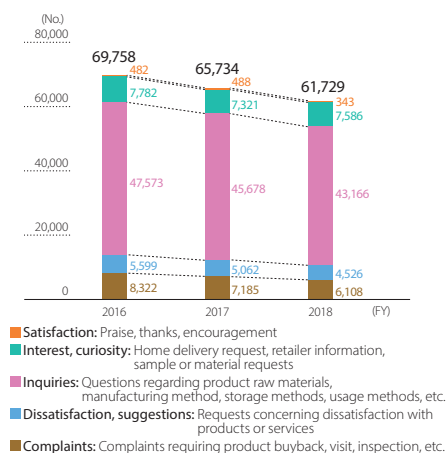


Incorporating the Voice of the Customer to Enhance Safety and Reliability

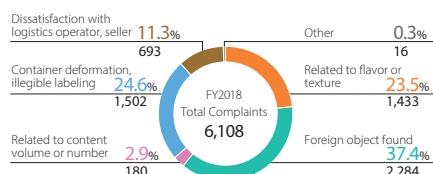
We make constant efforts to further improve, taking the voice of the customer and consumer seriously, and reflecting it in our corporate activities.

We responded to the voice of the customer. (in Japanese)
<https://www.meg-snow.com/customer/center/voice/>

Customer Relations Center Feedback Received



Details of Complaints Received



Breakdown of Complaint Causes for Inspected Products

Of complaints received in fiscal 2018, we conducted 4,471 inspections of products we received back from customers (in all other cases, inspections were not possible due to the customer having already disposed of the product, etc.). As a result of inspections, 195 cases were related to production. That information was used to make improvements in manufacturing processes at raw materials manufacturers and for Megmilk Snow Brand product, and make improvements to product design. Another 263 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 customers who made the complaints.

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. Special milk is used in combination with normal milk and food as a method of nutritional therapy to improve conditions. The Megmilk Snow Brand Group developed Japan's first special milk for such patients and has continued to manufacture and supply such special milk since 1963.



Special Formulas We Produce and Supply

Product	Target illnesses
Pharmaceutical products (2 products)	Phenylketonuria Maple syrup urinary disease
Snow Brand Phe-free Milk Compound Snow Brand Leu, Ile, and Val-free Milk Compound	Phenylketonuria
Phe-free synthetic amino acid powder Met-free special formula	Homocystinuria
Phe, Tyr-free special formula	Hyperammonemia
Protein-free special formula	Protein / amino acid metabolism abnormality
Registered special milk (6 products)	Hyperammonemia Methylmalonic acidemia Propionic acidemia Glutaric acidemia type I
Ile, Val, Met, Thr, Gly-free special formula Lys, Trp-free special formula	Organic metabolic syndrome

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

CSR Material Issues for Sustainable Growth

CSR Material Issue



Dairy Farming

Contributing to Sustainable Dairy Farming

The Megmilk Snow Brand Group contributes to the growth of dairy farming in Japan by providing management and technical support and carrying out initiatives to foster understanding of dairy farming among consumers in order to ensure sustainable management of dairy farms.

Megmilk Snow Brand Group Dairy Farmer Contribution Initiatives

1948- Japan Young Dairy Farmers Research Association (Rakuseiken)

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

1950- Snow Brand Seed Co., Ltd.

The company 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.



Agricultural new research facility in Hokkaido at Snow Brand Seed Co., Ltd.

1954- Nichiraku Machinery Co., Ltd.

This company manufactures production equipment for plants that manufacture milk, milk products and other food. It provides small manufacturing equipment and technical guidance to dairy farmers that run cheese-making facilities, and helps to improve dairy farmers' technology for milk product manufacturing and processing.

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

This facility offers various experiential activities to convey the connection between food and life and to foster better understanding of dairy farming.



Snow Brand Kodomo-no-Kuni Ranch (Children's Land) (Yokohama, Kanagawa)

1976- Research and Development Center for Dairy Farming

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



Megmilk Snow Brand Museum (Sapporo)

1977- Megmilk Snow Brand Museum

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

2009- Dairy Farming Advisory Committee

This committee receives opinions and recommendations from dairy farmers and expert committees with advanced knowledge and vast experience.



Dairy Farming Advisory Committee

■ Organization that contributes to dairy farm management research and development
 ■ PR facility for promoting understanding of dairy farming

70th Japan Dairy Farmer's Research Association Conference

The 70th Japan Dairy Farmer's Research Association Conference, held by the Japan Young Dairy Farmer's Research Association (Rakuseiken), was held in Shizuoka in November 2018 with about 280 participants from all over the country.

During the turmoil after World War II, Torizo Kurosawa* was inspired by the proactive efforts of the young people who were working to restore dairy farming in Hokkaido. Due to his tireless 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 national activities.

At the 70th Japan Dairy Farmer's Research Association Conference, seven dairy farmers selected from around Japan gave presentations on dairy farm management, and five others gave talks. The speakers reported their unique management results and dairy farming initiatives. All of the presentations focused on the kind of sustainable dairy farm management required in Japan today. The presentations reaffirmed that measures and hints to address the many issues facing this sector can be found on dairy farms themselves.

Moreover, as part of human resource development and efforts to create a corporate climate, 20 employees who have been with Megmilk Snow Brand Co., Ltd. for two to four years attended the conference as listeners. This was a good opportunity for them to deepen their understanding of Japan's dairy farming—the roots of the Megmilk Snow Brand Group—and contribute to dairy farming in their own roles.



Presentation at the 70th Japan Dairy Farmer's Research Association Conference

* Torizo Kurosawa: Born in 1885, founder of the Hokkaido Cooperative Creamery Association, from which the Snow Brand Seed and Megmilk Snow Brand companies were 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.

Research and Development Center for Dairy Farming Symposium

The Research and Development Center for Dairy Farming was established in 1976 by Snow Brand Milk Co., Ltd. (the Company's name at that time). It became the Group's research facility in 2005, and conducts studies and research on dairy farming, provides dairy farming support and holds annual symposiums.

The Research and Development Center for Dairy Farming Symposium has been held 42 times, from 1978* through the present. A theme is chosen each year, and experts, researchers, dairy farming instructors and dairy farming producers are invited as instructors to provide advice, expertise and information on everything from systems and policy related to dairy farming to technology actually used in production. In addition, discussions with symposium participants help to build a shared awareness of dairy farming conditions and promote the use and spread of knowledge and technology on dairy farms. This is one of the ways that the Group strives to contribute to dairy farming production.

In fiscal 2018, the symposium was held under the title of "Considering 'Kaizen' on Dairy Farms III: Raising Productivity with Small Investments." About 240 people involved in dairy farming participated from all over the country. Three instructors discussed raising productivity (milk production) with zero investment or small investments that do not depend on large-scale investment, livestock management and environmental improvements through an approach based on dairy cows' actions and physiology, and support for producers utilizing a cow herd inspection system. The participants also exchanged opinions together. We will continue to hold this Research and Development Center for Dairy Farming Symposium to contribute to the sustainable development of dairy farming in Japan.



Lively discussions at the Research and Development Center for Dairy Farming Symposium

* At that time, the group's name was the Dairy Farming Conference.



Environment

CSR Material Issue

Reducing Environmental Impact

Dairy farming depends on cows and pasture grass, but also on the climate and natural resources that make both possible. The Megmilk Snow Brand Group would not exist without dairy farming, and for this reason each employee is dedicated to environmentally friendly business practices and contributing to a sustainable global environment.

Megmilk Snow Brand Environmental Policy

We work to reduce environmental impact 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 Organization Chart



ISO 14001 Certification

The Megmilk Snow Brand Group proactively engages in environmental conservation to reduce the environmental impact resulting from its business activities. To objectively present the results of these initiatives both internally and externally, several



Inspection (Chugoku & Shikoku Sales Branch Office)



Inspection (Kobe Plant)



Inspection (Interviews with top management)

group companies have acquired ISO 14001 certification. At present, Megmilk Snow Brand Co., Ltd., Michinoku Milk Co., Ltd., Ibaraku Co., Ltd. and Yatsugatake Milk Co., Ltd. have earned this certification.

Voice



Kazuhiro Tachibana
Tachibana Ranch

Networking beyond the usual roles for a truly meaningful chance to exchange information

I joined Rakuseiken in 1983, and I have been able to interact with dairy farmers from all over the country without hierarchy coming into play, as if we were friends. There are no barriers in my interactions with the administrative office either, and when Rakuseiken held overseas training, I stayed in the homes of dairy farmers in Europe together with employees of the Snow Brand Milk Group, which was serving as the administrative office at that time. Rakuseiken's activities would not be possible without the administrative office, including the Megmilk Snow Brand Group employees who run it. We can exchange information with office staff freely, beyond the usual role definitions. In November 2019, the 71st Japan Dairy Farmer's Research Association Conference will be held in Narita, and I hope that many people will participate.

Environmental Audit System

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 Co., Ltd. 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 that helps to identify problems.



Internal environmental audit (Kobe Plant)

Environmental Education

Megmilk Snow Brand Co., Ltd. works to improve environmental awareness using 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. For position-based e-learning, the Company requires all executives and employees (about 4,100 people) to complete the general education course, and each year there is a 100% participation rate.



Internal environmental audit personnel training

Initiatives by Each Section

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

Administration Section	Reducing energy required for heating and cooling by practicing "cool biz" and "warm biz," shifting to a paperless business using IT, other
R&D Section	Environmentally conscious product design, other
Procurement Section	Changes to containers such as shifting to thin plastic containers and environmentally responsible containers, other
Production Section	Optimizing energy use, treating wastewater, other
Marketing Section	Promoting eco-driving and active introduction of hybrid vehicles, other
Logistics Section	Modal shift* in raw materials and product shipment, improvements to load rates, other

* Shifting cargo transport from vehicles to rail and marine transport to reduce CO₂ emissions and reduce environmental load.

Voice



Hiroyuki Ozaki
Engineering Section,
Horonobe Plant,
Megmilk Snow Brand
Co., Ltd.

Carrying Out Environmental Activities with the Aim of Doing What We can Ourselves

Sometimes we feel like our efforts to address environmental problems are meaningless because what each one of us can do on our own seems so limited and the effect so small. At the Horonobe Plant, our slogan is to "act like a hummingbird" in doing what each person can do with environmental activities. This is based on a South American indigenous story about a hummingbird who decided to do what she could when a fire broke out in the mountains, and continued to carry water in her beak to pour over the fire. As the EMS official at this plant, I hope to give back to society by building and appropriately running a system in which employees' individual efforts add up to real results.

CSR Material Issues for
Sustainable Growth

Improving Wastewater Treatment Performance

The Taiki Plant completed a full installation of new wastewater treatment facilities in mid-December. The facilities can be operated stably now that treatment capacity has been increased by 150% and the fluidized bed pre-treatment system*¹ and activated sludge treatment*² have been adopted as treatment methods. In addition, effluent quality can be constantly monitored, and even greater energy conservation and reductions in dehydration sludge are expected.

*¹ With this method, microorganisms adhere to the carriers that are installed in substantial numbers in the tank that treats these microorganisms, and by expanding the area of the biofilm that these microorganisms create, wastewater treatment capacity is raised.

*² This is a process by which air is injected into the wastewater and the organic matter in the wastewater is treated with highly concentrated microorganisms (activated sludge) to generate clean water.



Wastewater treatment facilities (Taiki Plant)

CO₂ Emissions Reduction

At the Horonobe Plant, boilers were updated in February. By switching the fuel from heavy oil to liquid natural gas (LNG), the plant reduced CO₂ emissions by about 20%. In addition, heavy oil boilers must be internally cleaned on a regular basis, which results in about four tons of waste material a year in the form of soot and dust, and this has now been eliminated. The plant is also working to conserve energy, reduce CO₂ emissions and eliminate waste by switching its well pump to an inverter and overhauling its operation of drainage facilities.



Boilers (Horonobe Plant)



Liquid natural gas
storage tank
(Horonobe Plant)

Reducing Use of Plastic

We succeeded in reducing the weight of the plastic caps on the milk bottles used by our Noda Plant and Fukuoka Plant by 13%. We expect this lighter weight to reduce plastic use by 25 tons per year.* We are also carrying out internal education to raise awareness about the plastic problem.

* Estimated value calculated based on results of FY2018 sales figures



Reducing weight of plastic caps
on glass bottles

Active Participation in Environmental Events

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. 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.



Eco Life Fair



EcoPro 2018

● Reducing Environmental Impact

Carbon Offsetting Initiatives

Carbon offsetting is the practice of purchasing CO₂ emissions credits earned through forest preservation efforts such as tree-planting and clean energy business to indirectly offset a part of the CO₂ emissions generated through corporate activities. Megmilk Snow Brand Co., Ltd. has long purchased Hokkaido Carbon Credits and Nakashibetsu Town J-Credits from Nakashibetsu Town in Hokkaido. In fiscal 2018, the Company also purchased "J-Credit for Project to Introduce Woody Biomass Boiler for Bansei Hot Spring," contributing to the preservation of forest resources.



Presentation for certification of purchase of "J-Credit for Project to Introduce Woody Biomass Boiler for Bansei Hot Spring in Talki"

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 Group applies its 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 provide 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.

Using Forest-Certified Paper

With respect to the use of paper, to the extent possible the Megmilk Snow Brand Group is gradually switching to paper from certified forests that are sustainably managed. Paper certified by FSC® (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification), which are international forest certification programs for responsibly managed forests and their products, is used in packaging for Megmilk Snow Brand Milk and other products. This paper is used not only for product containers and cardboard boxes used for exterior packaging, but also for printing paper, handouts and store promotional materials.



Products using forest-certified paper



FSC® certification mark
PEFC certification mark

Membership in the Roundtable on Sustainable Palm Oil (RSPO)

The burning of tropical rain forests, primarily in Malaysia and Indonesia, to develop plantations for palm oil, an oil extracted from the fruit of the oil palm tree, has become a serious social issue. To address these problems, the RSPO was established to serve as a certification organization in 2004 to bring together stakeholders from seven sectors related to the palm oil industry, including palm oil producers, retailers and environmental NGOs. Supporting the mission to strive for healthy palm oil industry development, Megmilk Snow Brand Co., Ltd. joined the RSPO in July 2018 and began using certified palm oil in some of its products.

(Note) This mark is posted with the permission of SGEC/PEFC Japan.

CSR Material Issues for Sustainable Growth



People and Society

► CSR Material 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 corporate group that generates synergy by encouraging individuals to reach their potential. We are focused on creating an environment that supports diverse workstyles, including supporting childcare and family care.

Workstyle Reform

Since fiscal 2016, the Megmilk Snow Brand Group has been working on productivity improvements and workstyle reform. One of the Group's goals is to reduce overtime work by 20%, compared to the first half of fiscal 2015. The target has already been surpassed and steady results are being achieved. The Group is working to improve productivity by improving the efficiency of meetings, reducing and revising operations, and promoting paid leave acquisition.

In order to improve workplace environments, the Group is

promoting the use of videoconferencing and web conferencing systems, while improving work efficiency by shifting to paperless operations. In fiscal 2018, a telecommuting program was introduced, creating a system that supports the lifestyles of individual employees, especially those with childcare or home care responsibilities.

The Megmilk Snow Brand Group will continue to pursue workstyle reform in order to promote sustainable corporate growth and help employees achieve work-life balance.

Major Initiatives

Labor Productivity Improvements and Workstyle Reform	Enhancing time management <small>(End FY2019 goal: Overtime work reduction rate of 20% (vs. 1H/FY2015))</small>	<ul style="list-style-type: none"> • Using PC login/logoff time records to increase awareness • Department-specific overtime work status analysis and establishment of reduction goals • Provision of incentives to employees in accordance with company-wide target achievement rate
	Promoting paid leave acquisition <small>(End FY2019 goal: Acquisition rate of 70% or higher)</small>	<ul style="list-style-type: none"> • Making leave easier to take by revising shifts • Half-day paid leave system
	Challenge 3/4 Activities	<ul style="list-style-type: none"> • Promoting efficiency and streamlining operations in each department • Target setting and confirmation of progress
	Linking with results analysis	<ul style="list-style-type: none"> • Reflecting initiative results in personnel reviews
Creating Work Environment	Efficient meeting operations	<ul style="list-style-type: none"> • Optimization by improving meeting progression
	Shift to paperless operations	<ul style="list-style-type: none"> • The use of conference room equipment, videoconferencing systems, and digital documents will lead to more efficient meetings and the diversification of workplace locations.
	Telecommuting program	<ul style="list-style-type: none"> • Development of flexible and efficient work environments, and promoting workstyles that suit employee lifestyles
	Satellite offices	<ul style="list-style-type: none"> • Improving time efficiency and productivity for sales representatives by using rented external offices (Tokyo metropolitan area)

Human Resource Development

The Megmilk Snow Brand Group conducts human resource education for all Group employees based on the philosophy that people are its greatest assets. Under the human resources development strategy included in the Group's Medium-term Management Plan 2019, the Group is providing programs focused on skill development, offering career development support aimed at securing human resource diversity, and promoting participation in Group company training.

Initiative 1: Skills Development

In the past, training was conducted individually at each company, but since fiscal 2017, employees of Group companies have participated in new employee and new management training held by Megmilk Snow Brand Co., Ltd. In fiscal 2018, employees of Group companies also participated in position-based training.

Initiative 2: Career Development

Since fiscal 2017, the Group has implemented workshops on career support to promote management that respects the diversity of human resources, independent career design* for subordinates, and self-sufficient skills development. The Group also introduced a new career counseling system in fiscal 2018. Qualified staff in the human resources department provide individual career consultation in addition to that provided by supervisors.

* Refers to the process of evaluating career options and independently developing skills to become the "person one wants to be"

Training System		Everyone	Selected participants	Applicants
Position		Skills development program		Career development program
Position	Position-based training	Business skills training (by application)		Workshops
Management position	Department manager Section manager New management member	Project management training Female section manager training New management training (basic/follow-up)	Female section manager training New management training (basic/follow-up)	WS Career Support
General position	Grade 6 Grade 5 Grade 4 Grade 3 Grade 2 Grade 1	Grade 6 promotion training Grade 5 promotion training Grade 4 promotion training Grade 3 promotion training New employee training New employee training (basic/follow-up)	Grade 6 promotion training Grade 5 promotion training Grade 4 promotion training Grade 3 promotion training New employee training New employee training (basic/follow-up)	WS Career Design WS Career Dock 38 (at age 38) WS Career Dock 30 (at age 30) WS Career Try (new-graduate second-year employees)

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 in its effort to foster a work environment that encourages diverse employees to realize their full potential. Several initiatives are described below.

Declaration on Promoting Women's Active Participation in the Workplace (in Japanese)
<https://www.meg-snow.com/corporate/womanactivation/>

Initiative 1: Supporting Work and Home Life Balance

We provide programs that support a balance between work and having/raising children. These programs, available to male and female employees taking childcare leave, include systems for remaining connected and carrying out self-development during leave, as well as pre-return interviews. In fiscal 2018, our company was recognized by Shinjuku Ward as a "Work-Life Balance Promotion Enterprise."



Award ceremony for Shinjuku Ward's "Work-Life Balance Promotion Enterprise"

Initiative 2: Planned Personnel Development

We continue to conduct position-specific female leadership training and female leadership candidate training workshops with the goal of fostering the skills required of leaders and fostering independent action aimed at the realization of individual career visions. Sharing views with senior colleagues in training sessions eases concerns over careers and helps employees build networks. In fiscal 2018, in addition to new management training, we introduced a new selective training for female section managers. This training opportunity supports female employees who are already managers and want the chance to go further in their careers.

Initiative 3: Fostering Awareness of Women's Active Participation in the Workplace

We reinforced distribution of information via our intranet and internal publications to foster awareness of women's active participation in the workplace and promote understanding of company systems. In addition, in fiscal 2018 we invited a leading company to a Forum for the Promotion of Diverse Human Resources.

CSR Material Issues for Sustainable Growth



People and Society

CSR Material Issue

Contributing to Local Communities

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

Hokkaido Comprehensive Partnership Agreement

The Megmilk Snow Brand Group signed a comprehensive partnership agreement with the Hokkaido Prefectural Government in 2007.* Taking advantage of the technology it has developed in dairy product manufacturing, the Group is working to help revitalize the Hokkaido economy in the areas of dairy farming and food.

* The agreement signed in 2007 was between the Hokkaido Prefectural Government and Snow Brand Milk Products Co., Ltd., Snow Brand Seed Co., Ltd., and Snow Brand Parlor Co., Ltd.

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.

Support for the Dissemination of Cheese Production Technology

As a project to support the dissemination of cheese manufacturing technology, the Hokkaido Natural Cheese Manufacturing Improvement Workshop was held in Nakashibetsu-cho and sponsored by the Hokkaido Department of Agriculture. Designed for people looking to set up artisanal cheese-making businesses in Hokkaido, the workshop enabled participants to acquire basic knowledge about cheese production, over three days in September. The content included basic and hygiene training to foster understanding and improve awareness of hygiene management, as well as a regional exchange activity allowing participants to meet local cheese makers and taste their cheeses. There was also a regional production training to improve production techniques. A member of the Milk Science Research Institute, which is operated by Megmilk Snow Brand Co., Ltd., took part as a lecturer.



Hygiene training

Regional production training

Sapporo Urban Development Partner Treaty

In March 2012, Sapporo City and Megmilk Snow Brand Co., Ltd. signed a Sapporo Urban Development Partner Treaty. The Company 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 FY2018, we donated 10 yen for each person who visited the Megmilk Snow Brand Museum. We received a letter of thanks from then-Sapporo Deputy Mayor Koyu Kishi.



Then-Sapporo Deputy Mayor Koyu Kishi and President Keiji Nishio

Voice



Junko Otani

Milk Beverages & Desserts
Sales Promotion Sec. 1,
Chubu Regional Sales Office,
Megmilk Snow Brand Co., Ltd.

Even with My Busy Life after Maternity and Childcare Leave, Every Day is Rewarding.

I work in sales, mainly handling household beverages and desserts carried by mass retailers. After returning to work following three years of maternity and childcare leave, I am using the program for shortened working hours, which gives me valuable time with my child after work. I once worried about whether I could continue working after getting married and having children. However, I was able to set my own goals by looking to my senior colleagues who remained active in the workplace after marriage and childbirth, thanks to the in-house training program for the advancement of women. Currently, I am leading a busy and rewarding life with the support of my boss and colleagues. The challenge is how to work efficiently in a limited time and earn the trust of customers. It would be great if the program for more flexible workstyles could be further enhanced to enable me to serve customers more efficiently.

Partnership with Local Communities through Disaster Preparedness

Some sites of the Megmilk Snow Brand Group have signed disaster prevention agreements with their local governments. In addition to regular joint training, in the event of a large-scale disaster, the sites will work with their neighborhoods to provide evacuation sites, emergency well water and supplies, and minimize damage.

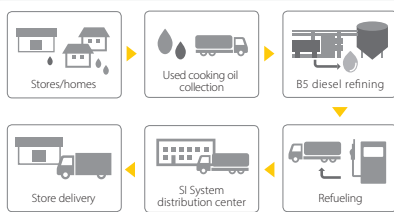
Flooding in Western Japan (July 2018)

Torrential rain and flooding in western Japan in July caused product shortages in stores as a result of interrupted raw milk transportation and product delivery. To prepare for future disasters, The Megmilk Snow Brand Group revised its disaster response systems for sharing information internally and taking responsive measures based on quick decision-making in emergencies.

Reusing Cooking Oil as Fuel for Delivery Vehicles (SI System Corporation)

SI System Corporation uses B5 diesel oil (Eco Mark-certified biofuel) for its delivery vehicles serving convenience stores in Ehime Prefecture. The aim is to promote local food recycling and a recycling-oriented society. B5 diesel oil is mainly made from used cooking oil collected from households in Ehime Prefecture, as well as edible oil used at convenience stores and food product plants.

Cooking Oil Reuse Process



Hokkaido Eastern Iburi Earthquake (September 2018)

Megmilk Snow Brand Co., Ltd. provided juice as a relief supply to the victims of the Hokkaido Eastern Iburi earthquake. It also donated 20 million yen to the Japanese Red Cross Society for earthquake relief, and 30 million yen to the Hokkaido Prefectural Government to support dairy farming on the island. In addition, some of the Company's plants became inoperable due to a large-scale power outage. Therefore, according to the division of roles after discussion among dairy producers in Hokkaido, the Company decided to introduce a private power system at each plant.

Promoting Ski Jumping

Megmilk Snow Brand has been promoting ski jumping in Japan for many years by sponsoring ski jumping competitions as well as the participation of ski jumpers affiliated with the Company. For the eighth year, the Megmilk Snow Brand Cup Junior Summer Ski Jumping Competition was held in August to help develop jumpers in elementary and junior high school. In January, the annual Megmilk Snow Brand Cup All-Japan Ski Jumping Competition was held for the 60th year. In addition, in order to further energize a region enthusiastic about fostering young ski jumpers, the Megmilk Snow Brand Cup Shimokawa Junior Ski Jumping Competition was held for the first time, in Shimokawa-cho, Hokkaido.



Megmilk Snow Brand Cup Shimokawa Junior Ski Jumping Competition



Ski team with eight jumpers, and two coaches

CSR Material Issues for Sustainable Growth

Management Team

(As of June 26, 2019)

Director



Keiji Nishio
Representative Director and President

Overall management

- 1981 Joined Snow Brand Milk Products Co., Ltd.
- 2002 General Manager, Dairy & Grocery Foods Div.
- 2003 General Manager, Dairy, Grocery Foods & Wine Marketing Dept.
- 2003 Executive Officer and General Manager, Dairy, Grocery Foods & Wine Marketing Dept.
- 2004 Executive Officer and Deputy General Manager, Cheese Division
- 2009 Managing Executive Officer and Chief Operations Officer, Kanto Regional Sales Division
- 2009 Managing Executive Officer, General Manager, Sales Promotion Dept., and Chief Operations Officer, Kanto Regional Sales Division
- 2011 Director, Executive Officer, General Manager, Sales Promotion Dept., and Chief Operations Officer, Kanto Regional Sales Division
- 2011 Executive Officer and General Manager, Marketing Control Dept. of Megmilk Snow Brand Co., Ltd.
- 2013 Director and Executive Officer
- 2014 Director, Executive Officer and General Manager, Milk Beverages & Desserts Marketing Dept.
- 2015 Representative Director and President
- 2018 President and Representative Director of Japan Dairy Trade Co., Ltd. (concurrent post)



Shigeru Nishibaba
Representative Director and Executive Vice President

Overall management and assistant to the President, responsible for Internal Audit and Logistics

- 1979 Joined National Federation of Agricultural Cooperative Associations (ZEN-NOH)
- 2000 General Manager, Meat Dept., Central Livestock Center
- 2004 Manager, Meat Div., Headquarters Livestock Sales Dept.
- 2006 Managing Director and General Manager, Business Planning Dept. of JA ZEN-NOH MEAT FOODS CO., LTD.
- 2007 Adviser of ZEN-NOH
- 2010 Senior Managing Director of ZENNOH CHICKEN FOODS CORPORATION
- 2011 Representative Director and President
- 2012 Adviser of Megmilk Snow Brand Co., Ltd.
- 2013 Director and Executive Officer
- 2014 Director, Executive Officer and General Manager, Institutional Foods Dept.
- 2015 Director and Executive Officer
- 2016 Managing Executive Officer
- 2018 Representative Director and Executive Vice President



Hideki Motoi
Representative Director and Executive Vice President

Overall management and assistant to the President, responsible for General Affairs, Secretarial Dept. and Personnel

- 1984 Joined The Norinchukin Bank
- 2004 General Manager, Naha Branch
- 2005 General Manager, JA Sales Dept. of Mizuho Securities Co., Ltd.
- 2007 Deputy General Manager, Credit & Alternative Portfolio Planning Div. of The Norinchukin Bank
- 2009 General Manager, Corporate Planning Dept. of Snow Brand Milk Products Co., Ltd.
- 2011 General Manager, Corporate Planning Dept. of Megmilk Snow Brand Co., Ltd.
- 2011 General Manager, Corporate Planning Div. of General Manager, Agriculture, Forestry, Fishery & Ecology Business Planning Div. of The Norinchukin Bank
- 2014 Managing Director
- 2016 Adviser of Megmilk Snow Brand Co., Ltd.
- 2019 Representative Director and Executive Vice President



Shinya Kosaka
Director and Senior Managing Executive Officer

Responsible for Corporate Planning Div., Administration and Affiliated Company Control

- 1980 Joined Snow Brand Milk Products Co., Ltd.
- 2002 General Manager, Corporate Planning Dept.
- 2003 General Manager, Supply Chain Management Dept.
- 2004 Executive Officer and General Manager, Supply Chain Management Dept.
- 2004 Executive Officer and General Manager, Cheese Division
- 2005 Executive Officer and General Manager, Institutional Foods Division
- 2006 General Manager, Institutional Foods Division
- 2007 General Manager, Investment Planning Dept.
- 2009 Deputy General Manager, Integration Strategy Dept. of Megmilk Snow Brand Co., Ltd.
- 2010 General Manager, Integration Strategy Dept.
- 2011 Executive Officer
- 2013 Director and Managing Executive Officer
- 2016 Director and Senior Executive Officer



Hideaki Tsuchioka
Director and Senior Managing Executive Officer

Supervising Household Products Division and responsible for National Chain Store Sales

- 1980 Joined Snow Brand Milk Products Co., Ltd.
- 2003 General Manager, Sapporo Sales Office of Nippon Milk Community Co., Ltd.
- 2006 General Manager, Marketing Group, Generalized Marketing Dept.
- 2007 General Manager, Product Marketing and Development Group, Generalized Marketing Dept.
- 2009 Deputy General Manager, Integration Strategy Dept. of Megmilk Snow Brand Co., Ltd.
- 2011 Executive Officer
- 2015 Director and Managing Executive Officer
- 2016 Director and Senior Managing Executive Officer



Hisa Anan
External Director

- 1991 Director of CO-OP TOKYO
- 1999 Director of Tokyo Consumers' Co-operative Union
- 2001 Director of Japanese Consumers' Co-operative Union
- 2003 Director of National Federation of Workers and Consumers Insurance Cooperatives
- 2007 Secretary of SHODANREN
- 2008 Secretary General
- 2012 Secretary-General of Consumer Affairs Agency
- 2014 Retired from position as Secretary General
- 2015 Representative Director of Association to Create a Society with Consumers (current position)
- 2015 External Director of Megmilk Snow Brand Co., Ltd.

Voice



Daiki Ito
Captain of Ski Team
Megmilk Snow Brand Co., Ltd.

Doing My Best to Live Up to Your Support

This season, the Megmilk Snow Brand Ski Team participated in many ski jumping competitions in and outside of Japan. We won 12 out of the 23 domestic events. One of our younger athletes, Keiichi Sato, made an impact with four wins, including his first win as a member of the company team. In the group competitions at the World Cup held in Finland in February and at the Nordic World Ski Championships in Austria, Junshiro Kobayashi, Yukiya Sato, and I (the three Megmilk Snow Brand members among the four members representing Japan) were able to bring home two bronze medals for Japan. It was the first time in 10 years for Japan to reach the podium in team competition in the Nordic World Ski Championships. Megmilk Snow Brand has started supporting a junior team in my hometown of Shimokawa-cho, Hokkaido. I will continue to do my best to live up to this support.

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 Japan's Corporate Governance Code and details the Megmilk Snow Brand corporate governance structure and status of response.

Basic Policy on Corporate Governance (in Japanese)

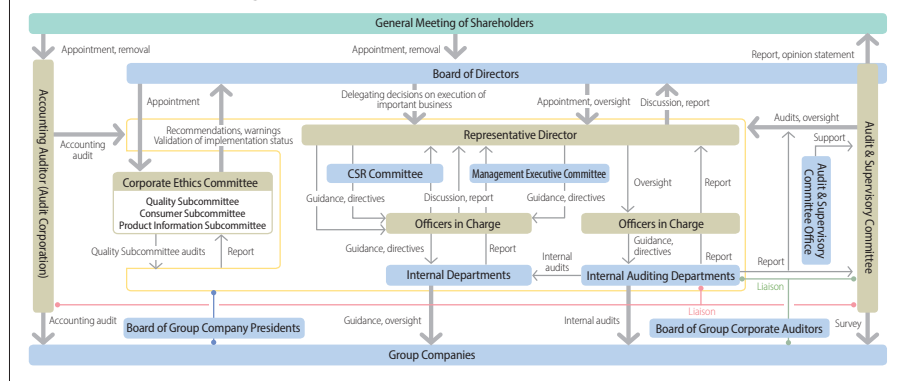
<https://www.meg-snow.com/ir/governance/>

Corporate Governance Report (in Japanese)

<https://www.meg-snow.com/ir/governance/pdf/governance.pdf>

Corporate Governance Organization Chart

(As of June 26, 2019)



Board of Directors 9 External Directors 3 Audit & Supervisory Committee 3 External Directors 2

Message from External Director



Hisa Anan
External Director

Fulfilling My Role as an Outside Observer and Striving to Improve Corporate Credibility

The Corporate Ethics Committee is holding dialogues with the top management of Group companies to address the violation by Snow Band Seed Co., Ltd. of Japan's Plant Variety Protection and Seed Act, which involved breed falsification, and an attempt to conceal this misconduct. These talks have shown me the importance of doing more to ensure familiarity with the Megmilk Snow Brand Group's corporate philosophy and compliance. I believe that everything that the Group achieves—product development, manufacturing and sales, distribution, materials procurement, affiliations with dairy farmers, communication with the community and consumers—depends on each individual employee's approach to corporate ethics and compliance and their job performance. We will continue to address this issue. I will also fulfill my role as an outside observer in promoting the Group's CSR policies and its efforts on important CSR issues that address the Sustainable Development Goals (SDGs), with a focus on eradicating poverty, addressing climate change and building a peaceful and inclusive society.



Shinobu Chiba
Director serving as Audit & Supervisory Committee Member

1978 Joined Snow Brand Milk Products Co., Ltd.
2003 General Manager, Corporate Communication Dept. of Nippon Milk Community Co., Ltd.
2004 General Manager, Sales Promotion Dept.
2007 General Manager, Product Marketing and Development Group, Generalized Marketing Dept.
2007 General Manager, General Affairs & Personnel Group, Generalized Administration Dept.
2009 Executive Officer and General Manager, Generalized Administration Dept.
2011 Executive Officer of Megmilk Snow Brand Co., Ltd. Director and Executive Officer
2015 Audit & Supervisory Board Member
2016 Director serving as Audit & Supervisory Committee Member



Ikuo Nishikawa
External Director serving as Audit & Supervisory Committee Member

1974 Joined Eiko Accounting Audit Corporation (currently Ernst & Young ShinNihon LLC)
1990 Representative Partner of KPMG Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
1993 Japanese Representative, Board of Directors, International Accounting Standards Committee (IASC)
1995 Executive Director of The Japanese Institute of Certified Public Accountants
1998 Retired from position as Japanese Representative, Board of Directors, International Accounting Standards Committee (IASC)
2001 Retired from position as Executive Director of The Japanese Institute of Certified Public Accountants
2001 Retired from ShinNihon LLC (currently Ernst & Young ShinNihon LLC)
2007 Chairman of The Accounting Standards Board of Japan
2012 Professor of Faculty of Business and Commerce, Keio University
2014 Audit & Supervisory Board Member of Megmilk Snow Brand Co., Ltd.
2016 Outside Director of Daiwa Securities Group Inc. (current position)
2016 Outside Audit & Supervisory Board Member of Mitsubishi Corporation (current position)
2017 Director serving as Audit & Supervisory Committee Member of Megmilk Snow Brand Co., Ltd.
2017 Guest Professor, Faculty of Business & Commerce of Keio University (current position)
2019 Audit & Supervisory Board Member, Tokio Marine & Nichido Fire Insurance Co., Ltd. (current position)



Akito Hattori
External Director serving as Audit & Supervisory Committee Member

1989 Registered as an attorney
Joined Miyake, Hatazawa & Yamazaki Law Office
1991 Joined Ozaki Law Office
2006 Representative of Akito Hattori Law Office
2013 Representative Director and President of Hagiwara Timber Co., Ltd. (current position)
2016 External Auditor, Anabuki Kosan Inc. (current position)
2018 Director serving as Audit & Supervisory Committee Member, Megmilk Snow Brand Co., Ltd.

Executive Officer

Katsuyuki Shirohata
Senior Managing Executive Officer
Responsible for Production and Production Technology

Masato Koitabashi
Managing Executive Officer
Responsible for Dairy (General Manager, Dairy Dept.)

Yasuo Ikeura
Managing Executive Officer
Responsible for Hokkaido Headquarters, Research & Development Center for Dairy Farming, Deputy General Manager responsible for Dairy Farming (General Manager, Hokkaido Headquarters, General Manager responsible for Research & Development Center for Dairy Farming)

Akihiko Uchida
Managing Executive Officer
Responsible for Functional Food Marketing and Purchasing

Toshio Itabashi
Managing Executive Officer
Responsible for Marketing, Dairy Foods Marketing, and Milk Beverages & Desserts Marketing

Ryoichi Sueyasu
Managing Executive Officer
Responsible for International Dept.

Yoshihiro Kawasaki
Managing Executive Officer
Responsible for Research & Development Planning, Products Development, Milk Science Research Institute, Quality Assurance

Kohei Ogai
Managing Executive Officer
Responsible for Institutional Foods Dept.

Shigeru Watanabe
Managing Executive Officer
Responsible for PR, IR and CSR, and Deputy General Manager responsible for Affiliated Company Control

Takao Nakashima
Managing Executive Officer
Responsible for Accounting and IT Planning, and Deputy General Manager responsible for Corporate Planning Div.

Kazuo Hokura
Managing Executive Officer
Senior General Manager, Kansai Regional Sales Headquarters

Yuji Kuramochi
Managing Executive Officer
Senior General Manager, Kanto Regional Sales Headquarters

Takahiro Shibata
Executive Officer
General Manager, Personnel Dept.

Atsushi Serizawa
Executive Officer
General Manager, Milk Science Research Institute

Corporate Governance

Corporate Governance Organization

Board of Directors

The Board of Directors of Megmilk Snow Brand Co., Ltd. consists of six directors (excluding directors also serving as Audit & Supervisory Committee members) and three directors who are concurrently Audit & Supervisory Committee members. Out of the total of nine directors, three are external directors. 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.

The Company stipulates in its 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, the Company adopted an executive officer system to separate the execution and oversight of business operations. Excluding certain important issues that have a significant impact, the Board of Directors consigns the execution of business to executive directors and executive officers to ensure dynamic business execution.

The Board of Directors devises 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 decisions regarding personnel serving in corporate management positions, to continuously monitor the effectiveness of the internal control and risk management systems, to brief the Audit and Supervisory Committee when decisions are made over the appointment and dismissal of chief executive officers and to make final decisions based on the Committee's views, 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 strives to increase corporate value.

Audit & Supervisory Committee

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

Recommendations Made on Consultation P.64

The Corporate Ethics Committee was established in 2002 as an advisory body to the Company's Board of Directors and is comprised of external experts, representatives of the Megmilk Snow Brand Labor Union, and internal committee members. In principle, the Corporate Ethics Committee holds regular monthly meetings, and it serves as an external oversight entity for all aspects of business management. The validation work and recommendations conducted by the Corporate Ethics Committee are applied to the Company's business activities. In addition to regular committee meetings, members of the Corporate Ethics Committee also meet in its three subcommittees.



Corporate Ethics Committee



Quality Subcommittee

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 proposals in response to audit recommendations and issue reports to the Corporate Ethics Committee. During fiscal 2018, audits were conducted at seven 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 fiscal 2018, the subcommittee held meetings in the Kanto and Kansai regions in March, receiving evaluations and opinions regarding the *Megmilk Snow Brand Report 2018*.

Product Information Subcommittee

External experts in the field of labeling apply a consumer perspective while performing 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 easily comprehensible information is being provided. As necessary, the subcommittee also reviews voluntary standards. During fiscal 2018, the subcommittee met six times.

Board of Directors' Efficacy Assessment

The Company's Board of Directors conducts an annual self-assessment to ensure and improve the efficacy of the Board of Directors and a summary of the self-assessment results is made public.

Summary of the Fiscal 2018 Assessment

Assessment Details

A survey of all directors was conducted and anonymous responses on the following topics were received from every director. The results of this self-assessment were discussed by the Board of Directors.

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 Board of Directors is largely functioning effectively and that in general its efficacy continues to be ensured. In addition, the results confirmed that ongoing efforts have been made to improve the issues recognized in the previous fiscal year.
- (2) At the same time, we also confirmed that the following points are issues to address going forward and that they will continue to be considered to further improve the Board of Directors' efficacy:
 - 1) initiatives related to oversight of Group companies' governance in light of the "pursuit of Group management" in the Long-term Group Vision 2026;
 - 2) structuring the Board of Directors in order to improve their oversight function;
 - 3) initiatives to streamline the amount of materials and to further stimulate deliberations;
 - 4) continued information provision to external directors and further augmentation; and
 - 5) enhanced discussions that take the perspective of stakeholders and address non-financial information.

Future Initiatives

The Board of Directors will endeavor to further enhance its efficacy and work to raise corporate value continually by resolving confirmed issues in a process of analysis and discussion of evaluation results and by reviewing its administration based on directors' opinions and other information.

External Directors — Reason for Appointment

The Company appoints three external directors to ensure oversight from a position independent of business execution. The Company outlines criteria for judging the independence of external directors,

based on the standards outlined in Japan's Companies Act and by securities exchange markets. The three directors who fulfill these criteria are registered as independent directors.

Name	Reason for Appointment	Board of Directors Meeting Attendance
Hisa Anan	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 to the operations of Megmilk Snow Brand Co., Ltd.	18/18
Ikuo Nishikawa	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 to the oversight and audit of business execution by directors of the Company.	18/18
Akito Hattori	Mr. Hattori is an expert in corporate legal affairs, and we determined we can apply his advanced expertise to the oversight and audit of business execution by directors of the Company.	13/13

Decisions on Compensation for Directors and Corporate Management and Process

Prior to the Board of Directors voting on compensation for directors* of the Company, the Board provides an explanation of compensation details to the Audit & Supervisory Committee, which consists of a majority of external directors. Decisions are then made based on the opinions of 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 the Company's

performance. Profit-linked bonuses are judged based on consolidated operating income for the Megmilk Snow Brand Group as indicated in the Medium-term Management Plan and paid to executive directors. 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.

* Excludes directors serving as Audit & Supervisory Committee Members

Corporate Ethics Committee

Recommendations Made on Consultation and Key Initiatives in Fiscal 2018

Consultation 1 Management that Prioritizes Consumers

Recommendation	Initiatives
1. Provide more opportunities for dialogue with consumers, who are important stakeholders	<ul style="list-style-type: none"> The Corporate Ethics Committee's Consumer Subcommittee met.
2. Continue to listen attentively to consumers' voices, opinions and requests and respond with sincerity	<ul style="list-style-type: none"> Meetings on improving customer satisfaction were held, customers' opinions with the relevant departments were shared, and improvements to products and labeling were made. The form for sending email inquiries on the website was updated so that it would be more convenient for customers to make inquiries. Megmilk Snow Brand Report 2018 was prepared with reference to the opinions of consumer groups.
3. In product labeling and advertising, appropriately assess the information that consumers want and the information that should be conveyed to them, and ensure accuracy in labeling to prevent consumer errors and misunderstandings.	<ul style="list-style-type: none"> The Product Label Manual, the Company's standards on labeling, was revised based on current conditions. Based on the revised new standards, the Corporate Ethics Committee's Product Information Subcommittee confirmed labeling on product packages and also carried out a legal check* of product packaging, advertising leaflets and POP signage.

Consultation 2 Thorough "Food Safety and Reliability (Quality Management)" and "Corporate Ethics (Compliance)"

Recommendation	Initiatives
1. Improve education and training with a view to cultivating successors in plants in order to raise each employee's skills in manufacturing techniques, preservation techniques, sanitation management, and analysis techniques	<ul style="list-style-type: none"> Employees at all plants received food sanitation training. Training in line with the training system was given, and individual employees' technical and management skills were raised.
2. Share product problems and product complaints with employees, and pursue countermeasures that will be effective in terms of product characteristics and the consumer's perspective to resolve quality issues	<ul style="list-style-type: none"> All plants shared information on the causes of quality problems and examples of countermeasures, examples of good solutions, and progress with quality issues. Voluntary inspections of quality management were carried out based on quality management plans. Information on customer opinions was shared with employees via intranet and email.
3. As 5S* is the foundation of quality management, continue to participate in activities aligned with 5S guidelines	<ul style="list-style-type: none"> 5S inspections were carried out at Megmilk Snow Brand Group plants. The status of improvements carried out to address points noted and recommendations made by the Quality Subcommittee was confirmed
4. Ensure that all officers and employees have a deeper understanding of the Megmilk Snow Brand Code of Conduct and put it into practice	<ul style="list-style-type: none"> The Code of Conduct was read through in all group activities on CSR.

Consultation 3 Corporate Climate and Energizing the Organization and Employees

Recommendation	Initiatives
1. Raise awareness and take steps to deepen internal communication	<ul style="list-style-type: none"> The Group management meetings were shared with employees using videos and distribution of materials. "Costs for strengthening teamwork" was added to the budget to strengthen internal communication, and this funding was used for internal events.
2. Pursue initiatives so that each employee can achieve the Megmilk Snow Brand Values (self-motivated, challenge and teamwork)	<ul style="list-style-type: none"> The Value Book, reflecting the views of officers and employees, was issued and distributed to employees of the Megmilk Snow Brand Group. The Value Book was read through in group activities on CSR and discussed by the groups in order to deepen understanding of the Megmilk Snow Brand Values.
3. Raise work productivity to improve work-life balance	<ul style="list-style-type: none"> Good examples of activities in which the Company's operations were revised were shared with employees. The telecommuting program was expanded nationwide and efforts were made to ensure the program was well-established. In addition, operations were systematized by setting up equipment for Web-based meetings and electronic whiteboards and establishing a system for document management.
4. Create an environment in which all employees can perform with energy and pursue diversity	<ul style="list-style-type: none"> Job-grade-based training and education for female employees were provided. The Forum for Promoting Diversity in Human Resources was held with the aim of raising awareness of the importance of diversity in employees. e-learning was given to managers with the aim of deepening understanding of initiatives that encourage the participation of female employees. Career support workshop and new appointment training, management programs for diversity in human resources, were introduced.

Consultation 4 Other Issues, and the Three CSR Issues (Economy, Environment and Society)

Recommendation	Initiatives
1. Ensure that all employees and officers work to achieve the Megmilk Snow Brand Corporate Philosophy and fulfill CSR	<ul style="list-style-type: none"> We carried out CSR Group activities addressing the violation by Snow Brand Seed Co., Ltd. of Japan's Plant Variety Protection and Seed Act, which involved breed falsification, and an attempt to conceal this misconduct, and employees exchanged views. A compliance questionnaire was given to Megmilk Snow Brand Group employees.
2. Continue and expand initiatives to resolve social issues through business activities to meet social responsibilities	<ul style="list-style-type: none"> The views of the Corporate Ethics Committee, the Consumer Subcommittee and experts were incorporated, CSR policies were revised and CSR material issues were identified.

*1 Review and confirmation to determine whether labeling is legally appropriate and there are no risks.

*2 The 5S stands for Seiri (sort), Seiton (set in order), Seisou (shine), Seiketsu (standardize), and Shitsuke (sustain).

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 it strives to fulfill its 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 the Company's 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.

Snow Brand Milk Products Food Contamination Incident

In the year 2000, there was a food poisoning incident linked to low-fat milk manufactured at the Osaka Plant of Snow Brand Milk Products Co., Ltd. On June 27 of that year, the Osaka Public Health Office received an initial report regarding a consumer suffering from food poisoning. An investigation showed that powdered skim milk had become contaminated after manufacturing due to a power outage at Snow Brand Milk Products' Taiki Plant, and that this powdered skim milk was then used in part to manufacture low-fat milk at the Osaka 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 people suffered from food poisoning. Not only did this incident cause great distrust among consumers regarding milk, dairy products, and processed foods in general, it 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*1 etc. and the apparent gap with society in terms of the understanding of this ordinance.

Snow Brand Food Fraudulent Beef Labeling Incident

In the year, 2002, there was an 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*2 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 of that year. 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 that year, three months after the fraud was discovered.

*1 The Ministerial Ordinance on Milk and Milk Products Concerning Compositional Standards is based on Japan's Food Sanitation Act.

*2 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.

Violation of the Plant Act, Breed Falsification and Concealment by Snow Brand Seed

Submission of a Report Based on Report Collection Order from the Ministry of Agriculture, Forestry and Fisheries by Our Subsidiary (Snow Brand Seed Co., Ltd.) on April 27, 2018
<https://www.meg-snow.com/english/cms/wp-content/uploads/20180427-1195.pdf>

Overview

In February 2018, Snow Brand Seed Co., Ltd., a consolidated subsidiary of Megmilk Snow Brand Co., Ltd., received a Report Collection Order from Japan's 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 those acts.

Violations of the Plant Variety Protection and Seed Act

The names of the registered breeds were not labeled on seed for grazing and feed crops.

Preventing Recurrence

Snow Brand Seed has been taking the following measures to prevent recurrence since April 2018 and had implemented all of the planned steps by March 2019. Going forward, the entire company will work together to continue reforming its corporate culture, ensure thorough management of labeling, and strengthen internal controls. Megmilk Snow Brand has reinforced its support and oversight of management at Snow Brand Seed to prevent recurrence, and is enhancing its system of checking for legal violations in the Group, reaffirming its commitment to compliance.

Snow Brand Seed's Recurrence Prevention Measures

1. Reform of Corporate Culture

- The Compliance Committee, to which external experts and the Company's officers responsible for audits have been added, and the Product Information Subcommittee meet every month.
- Corporate principles, visions and a code of conduct were considered and reformulated by a task force to create awareness of the importance of refraining from inappropriate behavior.
- An operating manual and regulations were put together by a working team to create a system that protects against pressures to engage in inappropriate behavior.
- Group discussions and exchanges of views with officers were held to work through the issues so that all officers and employees treat the violation of the Plant Act, breed falsification and concealment as their own issue.
- The causes and background of the violation of the Plant Act, breed falsification and concealment by Snow Brand Seed were identified, and a corporate overview laying out initiatives for the future was devised to ensure ongoing improvements.

2. Drastic Improvement and Reconstruction of the Governance Structure

- Board of directors system with emphasis on oversight
- Establishment of an Audit Office; stronger oversight functions in collaboration with the Company's Internal Audit Department
- Measures to strengthen the functions of compliance, quality guarantees and legal work
- Development of collaborative and restraining functions through reorganization



Product Information Subcommittee (Snow Brand Seed)



Task force formed, made up of representatives from all departments (Snow Brand Seed)



Dialogue held between the Corporate Ethics Committee and Group companies

Breed Falsification and Concealment

Falsification, in which seeds other than those ordered were sold, was carried out constantly and in an organized manner through 2002. After the fraudulent beef labeling incident at Snow Brand Food Co., Ltd. (see page 65) in the year 2000, the Group resolved to put an end to all such conduct, but measures were not implemented thoroughly enough, and similar misconduct — this time related to seeds — occurred again in 2012 and 2013. Many cases in which it was difficult to confirm whether breeds had been falsified or not were also confirmed. In addition, an internal survey, which was carried out in 2014, revealed concealment and record falsification.

Causes

Management did not truly understand the importance of Japan's Plant Variety Protection and Seed Act and the obligation to label accurately. Employees were not given adequate opportunities for education, and rules on the process for determining labeling were not adequately formulated and followed. In addition, management did not take the seed breed falsification and internal complaints seriously, and were negligent in their efforts to reform the corporate culture.

3. Policies to Prevent Illegal Labeling

- Improve level of knowledge and awareness with legal training and tests of degree of understanding
- Establish internal regulations and manuals and thorough familiarity with them
- Clarify divisions that are responsible for and confirm product labeling
- Formulate steps for the product labeling process and thorough familiarity with the process

4. Policies to Prevent Breed Falsification

- Ensure familiarity with the content of the third-party committee's report and exchange views on the causes behind the incident and measures to make improvements
- Move to a system in which inappropriate product management and shipments are not possible

5. Other

- Improve mobility with HR assignments through personnel transfers and personnel rotations
- Improve access to the internal whistleblower hotline

Main Initiatives by Megmilk Snow Brand

1. Reinforcement of Structure to Check for Violations of the Law in the Group

- On-site inspections of quality management and operation oversight conducted at Group companies by the Company's Internal Audit Department
- Interviews of group companies carried out by the Company's Audit Committee

2. Efforts to Reconfirm thorough Compliance in the Group

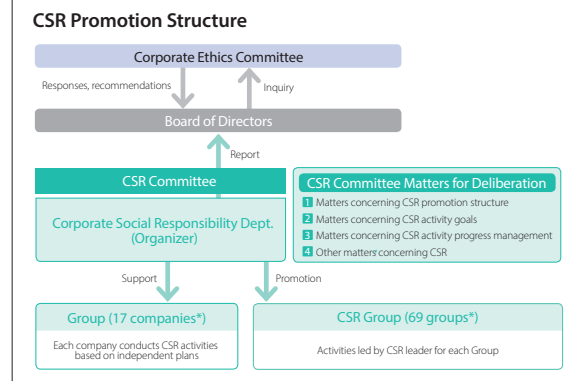
- Questionnaire on compliance given to all employees of the Company and 16 Group companies in August–September, and issues identified shared with the Company's officers and with Group company presidents.
- Dialogues held between the Corporate Ethics Committee and Group companies.

3. Reinforcement of Control and Supervision to Prevent the Recurrence of the Problems at Snow Brand Seed

Corporate Governance

CSR Promotion Structure

The Megmilk Snow Brand Group 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.



* Belle Neige Direct Co., Ltd. became a subsidiary in January.



CSR leaders

Commitment Day — Taking Ownership of Our Responsibilities as a Food Provider and Never Forgetting Past Incidents Involving the Megmilk Snow Brand Group

The Group uses the food contamination incident at Snow Brand Milk Products and the fraudulent beef labeling incident at Snow Brand Food as lessons, ensuring that they are not forgotten and working to strengthen awareness of the responsibilities involved in handling food. These activities have been carried out every year in June and January since June 2003, the respective months in which the two incidents occurred, and were held for the 32nd time in fiscal 2018. In light of Snow Brand Seed's violation of the Plant Act, breed falsification and concealment, discovered in 2018, in June officers and employees held discussions to ensure that the incident would be seen as an issue that faces the entire company and each individual. In January, Eiji Masuda of Masuda & Partners Law Office gave a talk entitled "Shifting from Top-Down Compliance to Compliance Driven by Individuals." Mr. Masuda spoke of addressing compliance in the organization as a change in mindset from a determination not to do anything "bad" to a determination to do the right thing. Following this, participants exchanged opinions on case studies.



Discussion between officers and employees (June)



Talk by attorney Eiji Masuda (January)



Exchange of views using case studies (January)

CSR Group Activities

The Megmilk Snow Brand Group has carried out CSR Group Activities since fiscal 2003 as a means of deepening employees' understanding of CSR and providing opportunities for discussion that lead to action. The CSR leaders appointed in each division play the central role in these activities. Fiscal 2018 marked the sixteenth year of these activities, which are held at each workplace. All employees participate, regardless of employment type.

In these annual activities, Megmilk Snow Brand Co., Ltd. pursues either company-wide standardized themes or themes specific to the workplace, changing every month. In the months with company-wide themes in fiscal 2018, participants gained a better understanding of Megmilk Snow Brand Group's Long-Term Vision 2026 and the *Megmilk Snow Brand Report*, helping to build awareness of the Company's direction, while also discussing issues such as promoting CSR in the workplace. In June and January, remembering the Snow Brand Milk Products food contamination incident and the Snow Brand Food fraudulent beef labeling incident, employees looked back on the causes and background, and also watched a video report made at the time including interviews with the employees who handled the incident. Exchanging views about this renewed their sense of responsibility and ethics as employees of a food

provider. In months devoted to workplace-specific themes, employees shared and discussed issues and information related to operations, such as knowledge of SDGs, response to human resource diversity, information on CSR activities at other companies, and harassment training. In all Group Activities, employees read the conduct standards aloud to reinforce compliance awareness. These activities have the secondary benefit of providing employees with the opportunity to interact with people in different jobs and positions, thereby stimulating the workplace in a way that differs from everyday activities.

Group companies also conduct CSR Group Activities that are based on compliance and other issues relevant to each company.



CSR Group activities
(Snow Brand Kodomo-no-Kuni Ranch)

Archival Footage to Pass on Our History

As of September 2019, 60% of the Company's employees had joined the Company after the Snow Brand Milk Products food contamination incident. The Megmilk Snow Brand Group believes that it is important for employees to see the fundamental problems involved in the contamination incident and the Snow Brand Food's fraudulent beef labeling incident. The Group strives not to allow the impact of these lessons fade away, and continuously works to instill a sense of food responsibility and corporate ethics. To do so, the Group has created Incident Records, archival footage that provides Snow Brand Milk's history and an overall picture of the incidents. In addition, the Group's Interview Library consists of interviews of employees who communicated with the customers and business partners who were harmed by these incidents. The interviews convey the feelings of customers whose trust was betrayed, the specific damage done, and the feelings of employees who had to respond. The videos are important materials that pass down the lessons of the incidents to future generations, and are also tools used in CSR Group Activities that encourage employees to see, think and act as if the incident were their own issue.



Incident Records

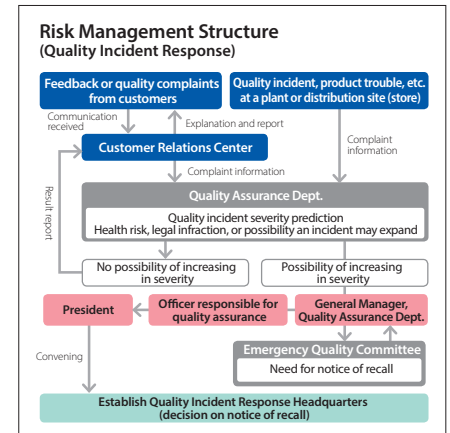


Interview Library

Risk Management Structure

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 the possibility the incident may expand, the Emergency Quality Committee is convened to ascertain the facts and rapidly implement necessary response. If the results of the committee assessment indicate 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, overseeing the response.



Risk Liaison Committee

In principle, Risk Liaison Committee meetings are held weekly at the Company's headquarters to manage risks and issues across the entire Group. 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. The meetings among managers responsible for group crises are held regularly to confirm the response to any crises facing the Megmilk Snow Brand Group overall.

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. We use our internal CSR Information Journal and other media to encourage employees to utilize the hotline. We distributed a revised version of the employee pamphlet and portable hotline card in March.

Number of hotline calls (in Japanese)
<https://www.meg-snow.com/csr/policy/risk/>



Hotline card

Policy on Information Disclosure

- (1) We provide accurate information in a timely fashion to earn the trust of customers, consumers, shareholders, investors and other stakeholders. We also disclose information in English within reasonable parameters.
- (2) We are careful to ensure fairness in disclosing information.
- (3) We strive to ensure that the information disclosed by the Company, such as the Medium-term Management Plan, is articulated so that it is easy to understand and provides specifics with clear numerical targets. We strive to raise the transparency of our management.

Structure and Initiatives

- (1) Communication with shareholders and investors

Communication with shareholders and investors is overseen by the Director Responsible for 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 reports on the details of communication with shareholders and investors to directors and other key people. No insider information (undisclosed important information) is conveyed during communication with shareholders and investors.

- (2) Information provision via the internet and pamphlets

We publish materials concerning earnings, business operations and corporate policies on the Megmilk Snow Brand website, and also publish the Megmilk Snow Brand Report, shareholder report and other information in printed form. We updated the English website in fiscal 2018 to improve visibility.



Megmilk Snow Brand Report



Shareholder Report



Website in English



Briefing for individual investors

Analysis of Operating Results

Status of Operations

In accordance with the Megmilk Snow Brand Group Medium-term Management Plan 2019, the 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. Despite these efforts, profit declined in the term under review due to sluggish sales of mainstay products in an environment marked by harsh competition and insufficient results from our efforts to address higher costs.

As a result, for the fiscal year under review, consolidated net sales were up 1.2% year on year to 603.3 billion yen, operating profit was down 11.0% to 17.2 billion yen, ordinary profit was down 9.4% to 19.0 billion yen, and profit attributable to owners of parent was down 19.7% to 10.7 billion yen.

Net Sales

Net sales in the Dairy Products segment were up 0.5% year on year to 241.0 billion yen, despite higher costs, including a hike in the price of raw milk for cheese.

In the Beverages and Desserts segment, net sales were up 1.5% to 279.7 billion yen. Although the beverage market showed sluggish growth, promotional efforts to familiarize consumers with the functions of our *Lactobacillus gasseri* SBT2055 yogurt, which uses a Megmilk Snow Brand proprietary lactic acid bacterium, were reinforced and sales were solid.

In the Feedstuffs and Seed Products segment, net sales rose 3.0% to 46.0 billion yen due to higher sales prices charged for compound feeds.

The Other segment, which includes real estate rental and joint distribution center services, contributed 36.6 billion yen, up 1.2%, bringing total consolidated net sales to 603.3 billion yen, a 1.2% increase of 7.2 billion yen over the previous year.

Operating Profit

We endeavored to absorb costs with price revisions, but operating profit fell 11.0% year on year, or 2.1 billion yen, to 17.2 billion yen due to sluggish sales of some products amid harsh competition and insufficient effectiveness of some attempts to address rising distribution costs and other factors. In addition, EBITDA was down 4.0%, or 1.3 billion yen, to 33.1 billion yen.

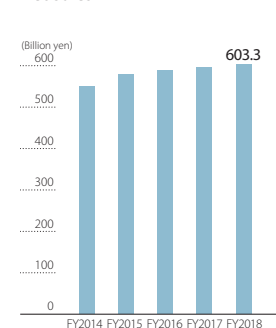
<Reference> Net Sales and Operating Profit by Segment

	FY2018	
	Net Sales	Operating Profit
Dairy Products	241.0	11.7
Beverages and Desserts	279.7	3.1
Feedstuffs and Seed Products	46.0	1.1
Other	36.6	1.0
Total	603.3	17.2

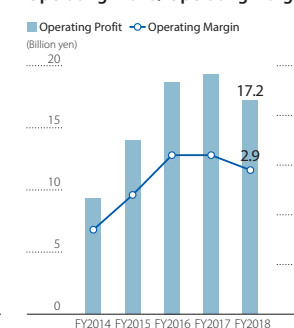
<Reference> Net Sales in Nutrition Business (Reported under Dairy Products Segment)

	FY2018
	Net Sales
Nutrition	19.4

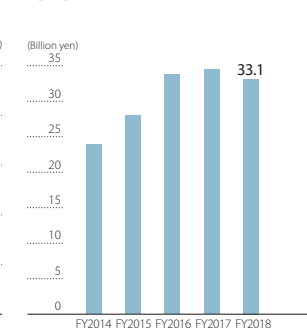
Net Sales



Operating Profit / Operating Margin



EBITDA*



* Earnings before interest, taxes, depreciation and amortization

Analysis of Financial Status

Assets

Total assets at the end of this consolidated fiscal year were up 8.2 billion yen compared to the end of the previous fiscal year. This was primarily due to a reduction in property, plant and equipment, which offset an increase in investment securities and notes and accounts receivable–trade.

Liabilities and Net Assets

Total liabilities as of the end of the consolidated fiscal year were down 3.2 billion yen year on year. This was primarily due to an increase in corporate bonds and long-term loans payable, offsetting a decrease in the current portion of long-term loans payable and short-term loans payable.

Total net assets as of the end of the consolidated fiscal year were up 11.4 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

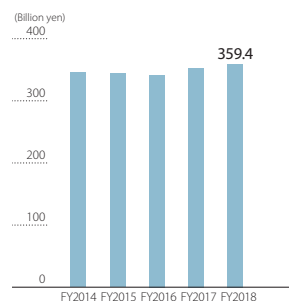
Cash Flows from Operating Activities

Net cash provided by operating activities was 21.9 billion yen (compared to 22.8 billion yen in the previous fiscal year). The 800 million yen decrease was mainly attributable to lower inventories and income tax paid, and lower notes and accounts payable–trade.

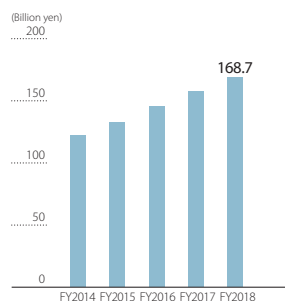
Cash Flows from Investing Activities

Net cash used in investing activities was 14.2 billion yen (compared to 11.7 billion yen in the previous fiscal year). The 2.4 billion yen increase was mainly attributable to an increase in purchase of property, plant and equipment and intangible assets.

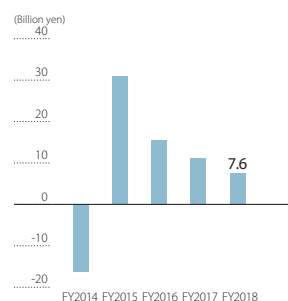
Total Assets



Net Assets



Free Cash Flow*



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

Corporate Data

Consolidated Financial Statements

Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	14,620	14,366
Notes and accounts receivable–trade	69,302	74,727
Merchandise and finished goods	39,632	40,673
Work in process	1,423	991
Raw materials and supplies	12,857	14,026
Accounts receivable–other	2,506	2,562
Other	2,187	1,883
Allowance for doubtful accounts	(405)	(368)
Total current assets	142,125	148,863

Non-current assets		
Property, plant and equipment		
Buildings and structures	48,039	46,970
Machinery, equipment and vehicles	56,095	53,225
Tools, furniture and fixtures	4,020	3,906
Land	50,396	49,849
Lease assets	5,419	5,165
Construction in progress	822	3,186
Total property, plant and equipment	164,794	162,304

Intangible assets		
Lease assets	22	50
Software	3,115	2,433
Right of using facilities	736	677
Other	46	45
Total intangible assets	3,921	3,206

Investments and other assets		
Investment securities	29,326	35,491
Long-term prepaid expenses	553	420
Net defined benefit assets	1,519	2,163
Deferred tax assets	4,859	2,925
Other	4,744	4,455
Allowance for doubtful accounts	(604)	(384)
Total investments and other assets	40,398	45,072
Total non-current assets	209,114	210,582
Total assets	351,240	359,445

	(Millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	60,475	58,930
Electronically recorded obligations–operating	4,021	5,091
Short-term loans payable	19,774	16,731
Current portion of long-term loans payable	22,052	3,226
Lease obligations	1,121	1,238
Accounts payable–other	13,467	12,218
Income taxes payable	2,259	1,848
Accrued expenses	7,900	7,886
Deposits received	385	490
Provision for bonuses	5,208	4,990
Other	4,003	5,273
Total current liabilities	140,670	117,924

Non-current liabilities		
Bonds payable	—	10,000
Long-term loans payable	27,089	35,835
Long-term deposits received	5,173	5,084
Lease obligations	5,013	4,673
Deferred tax liabilities	651	1,291
Deferred tax liabilities for land revaluation	3,981	3,956
Provision for directors' retirement benefits	20	20
Provision for gift token exchange	190	88
Net defined benefit liabilities	8,667	9,396
Asset retirement obligations	1,699	1,713
Other	744	677
Total non-current liabilities	53,231	72,738
Total liabilities	193,901	190,662

Net assets		
Shareholders' equity		
Capital stock	20,000	20,000
Capital surplus	17,585	17,586
Retained earnings	108,186	116,474
Treasury stock	(4,643)	(4,942)
Total shareholders' equity	141,128	149,117

Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,322	10,471
Deferred gains or losses on hedges	(163)	(154)
Revaluation reserve for land	8,951	8,818
Foreign currency translation adjustment	382	8
Remeasurements of defined benefit plans	(1,600)	(1,966)
Total accumulated other comprehensive income	13,892	17,177
Non-controlling interests	2,317	2,487
Total net assets	157,338	168,782
Total liabilities and net assets	351,240	359,445

Consolidated Statements of Income

	(Millions of yen)	
	Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)	Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)
Net sales	596,158	603,378
Cost of sales	452,218	460,868
Gross profit	143,940	142,510
Selling, general and administrative expenses		
Selling expenses	106,899	107,188
General and administrative expenses	17,677	18,091
Total selling, general and administrative expenses	124,577	125,279
Operating profit	19,363	17,230
Non-operating income		
Interest income	20	18
Dividend income	874	755
Equity in earnings of affiliates	837	961
Other	991	1,154
Total non-operating income	2,724	2,889
Non-operating expenses		
Interest expenses	538	488
Contribution	100	194
Other	452	422
Total non-operating expenses	1,091	1,105
Ordinary profit	20,996	19,014
Extraordinary income		
Gain on sales of non-current assets	127	25
Gains on sales of investment securities	53	391
Other	14	115
Total extraordinary income	196	533
Extraordinary loss		
Loss on sales of non-current assets	110	0
Loss on retirement of non-current assets	1,221	1,216
Impairment loss	488	1,690
Disaster-related loss	—	595
Other	305	770
Total extraordinary loss	2,126	4,273
Profit before income taxes	19,066	15,273
Income taxes - current	4,714	3,788
Income taxes - deferred	955	554
Total income taxes	5,669	4,343
Profit	13,396	10,930
Profit attributable to non-controlling interests	10	176
Profit attributable to owners of parent	13,386	10,754

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)	Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)
Profit	13,396	10,930
Other comprehensive income		
Valuation difference on available-for-sale securities	916	4,157
Deferred gains or losses on hedges	35	9
Foreign currency translation adjustment	131	(393)
Remeasurements of defined benefit plans	(1)	(350)
Share of other comprehensive income of entities accounted for using the equity method	36	(8)
Total other comprehensive income	1,119	3,414
Comprehensive income	14,516	14,345
(Breakdown)		
Comprehensive income attributable to owners of parent	14,504	14,172
Comprehensive income attributable to non-controlling interests	12	172

Corporate Data

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, 2017 to March 31, 2018)					
Balance at beginning of term	20,000	17,583	97,336	(4,571)	130,348
Changes during term					
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 scope of equity method			177		177
Net changes other than shareholders' equity					
Total changes during term	—	2	10,849	(71)	10,780
Balance at end of term	20,000	17,585	108,186	(4,643)	141,128

	(Millions of yen)					
	Accumulated other comprehensive income					
	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 term	5,400	(199)	8,954	250	(1,574)	12,831
Changes during term						
Cash dividends						(2,713)
Profit attributable to owners of parent						13,386
Purchase of treasury stock						(73)
Disposal of treasury stock						4
Change in scope of equity method						177
Net changes other than shareholders' equity	922	35	(3)	131	(25)	1,061
Total changes during term	922	35	(3)	131	(25)	1,061
Balance at end of term	6,322	(163)	8,951	382	(1,600)	13,892

	(Millions of yen)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)					
Balance at beginning of term	20,000	17,585	108,186	(4,643)	141,128
Changes during term					
Cash dividends			(2,712)		(2,712)
Profit attributable to owners of parent			10,754		10,754
Purchase of treasury stock				(300)	(300)
Disposal of treasury stock		0		0	1
Change in scope of equity method			113		113
Reversal of revaluation reserve for land			133		133
Net changes other than shareholders' equity					
Total changes during term	—	0	8,288	(299)	7,989
Balance at end of term	20,000	17,586	116,474	(4,942)	149,117

	(Millions of yen)					
	Accumulated other comprehensive income					
	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 term	6,322	(163)	8,951	382	(1,600)	13,892
Changes during term						
Cash dividends						(2,712)
Profit attributable to owners of parent						10,754
Purchase of treasury stock						(300)
Disposal of treasury stock						1
Change in scope of equity method						113
Reversal of revaluation reserve for land						133
Net changes other than shareholders' equity	4,148	9	(133)	(374)	(365)	3,285
Total changes during term	4,148	9	(133)	(374)	(365)	3,285
Balance at end of term	10,471	(154)	8,818	8	(1,966)	17,177

● Consolidated Financial Statements

Consolidated Statements of Cash Flows

	(Millions of yen)	
	Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)	Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	19,066	15,273
Depreciation and amortization	15,157	15,901
Impairment loss	488	1,690
Disaster-related loss	—	595
Equity in (earnings) losses of affiliates	(837)	(961)
Increase (decrease) in allowance for doubtful accounts	(285)	(256)
Increase (decrease) in provision for bonuses	(78)	(215)
Decrease (increase) in net defined benefit asset	(740)	(642)
Increase (decrease) in net defined benefit liability	436	224
Increase (decrease) in provision for gift token exchange	(13)	(101)
Increase (decrease) in provision for directors' retirement benefits	(117)	—
Loss (gain) on sales and retirement of non-current assets	1,203	1,191
Interest and dividend income received	(895)	(773)
Interest expenses	538	488
Decrease (increase) in notes and accounts receivable—trade	(4,175)	(5,545)
Decrease (increase) in inventories	(5,402)	(2,187)
Increase (decrease) in notes and accounts payable—trade	4,566	(399)
Other	(1,501)	1,424
Subtotal	27,409	25,707
Interest and dividend income	1,187	1,086
Interest expenses paid	(540)	(444)
Payments for disaster-related loss	—	(239)
Income taxes paid	(5,238)	(4,171)
Net cash provided by (used in) operating activities	22,817	21,938
Cash flows from investing activities		
Payments into time deposits	(90)	(22)
Proceeds from withdrawal of time deposits	262	502
Payments of loans receivable	(371)	(177)
Collection of loans receivable	410	91
Purchase of property, plant and equipment and intangible assets	(12,222)	(15,881)
Proceeds from sales of property, plant and equipment and intangible assets	435	84
Purchase of investment securities	(32)	(258)
Proceeds from sales of investment securities	156	1,036
Proceeds from sales of shares of subsidiaries and associates	—	300
Other	(347)	76
Net cash provided by (used in) investing activities	(11,799)	(14,248)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,125)	(3,043)
Proceeds from long-term loans payable	2,500	11,972
Repayment of long-term loans payable	(9,169)	(22,052)
Proceeds from issuance of bonds	—	9,936
Purchase of treasury stock	(73)	(300)
Cash dividends paid	(2,712)	(2,711)
Cash dividends paid to non-controlling interests	(0)	(2)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,410)	(116)
Other	(911)	(1,078)
Net cash provided by (used in) financing activities	(12,904)	(7,396)
Effect of exchange rate on cash and cash equivalents	21	(65)
Net increase (decrease) in cash and cash equivalents	(1,864)	227
Cash and cash equivalents at beginning of period	15,940	14,076
Cash and cash equivalents at end of period	14,076	14,303

Corporate Data

Corporate and Stock Information

Megmilk Snow Brand Corporate Overview

(As of March 31, 2019)

Corporate name	MEGMILK SNOW BRAND Co., Ltd.	Established	October 1, 2009
Business	Production and sales of milk, dairy products, beverages, and other foods	Representative Director and President	Keiji Nishio
Registered head office	1-1, Naebocho 6-chome, Higashi-ku, Sapporo City, Hokkaido	Capital	20 billion yen
Head office	5-1, Yotsuya-Honshio-cho, Shinjuku-ku, Tokyo	Fiscal year closing date	March 31
		No. of employees (consolidated)	5,105
		Stock exchange listing	Tokyo Stock Exchange, Sapporo Securities Exchange
		Securities code	2270
		Shareholder ledger trustee	Mizuho Trust & Banking Co., Ltd.



Status of the Company's Stock (As of March 31, 2019)

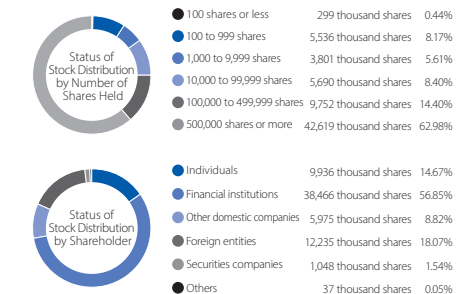
Total number of shares	280,000,000 shares
Total number of issued shares	70,751,855 shares
Number of shareholders	44,512

Major Shareholders (Top 10) (As of March 31, 2019)

Shareholder Name	Shares Held (1,000 shares)	Investment Ratio (%)
National Federation of Agricultural Cooperative Associations (ZEN-NOH)	9,237	13.64
The Norinchukin Bank	6,728	9.93
Japan Trustee Services Bank, Ltd. (in trust of Sumitomo Mitsui Trust Bank, Limited, trust account for retirement benefits of ITOCHU Corporation)	3,703	5.47
Japan Trustee Services Bank, Ltd. (Trust account)	3,188	4.71
The Master Trust Bank of Japan, Ltd. (Trust account)	3,027	4.47
Megmilk Snow Brand Employee Shareholding Association	1,108	1.63
MUFG Bank, Ltd.	1,083	1.59
HOKUREN Group	1,074	1.58
Government of Norway	1,037	1.53
Zenrakuren Cooperative	1,008	1.48

(Note 1) Number of shares displayed rounded off to nearest 1,000 shares.
(Note 2) Although the Company holds 3,051,487 shares of common stock, the Company is excluded from the above list of major shareholders.

Status of Stock Distribution (As of March 31, 2019)



(Note 1) Number of shares displayed rounded off to nearest 1,000 shares.
(Note 2) Although the Company holds 3,051,487 shares of common stock, the Company is excluded from the above list.

Websites



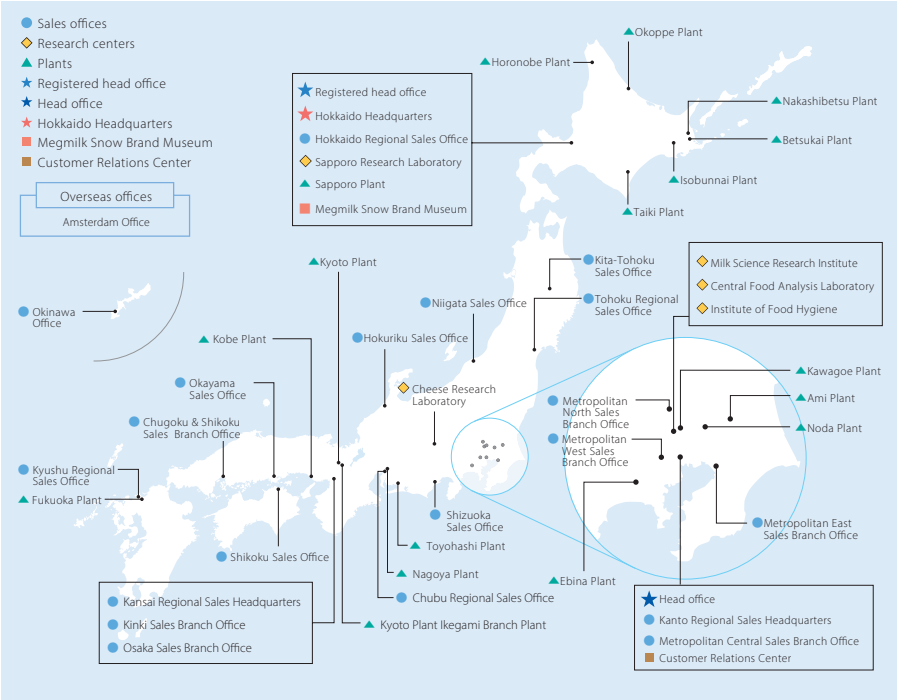
Megmilk Snow Brand Home
<https://www.meg-snow.com/english/>



About Us <https://www.meg-snow.com/english/about-us/>
 Business <https://www.meg-snow.com/english/business/>
 Investors <https://www.meg-snow.com/english/investors/>
 Sustainability <https://www.meg-snow.com/english/sustainability/>

Megmilk Snow Brand List of Offices

(As of April 30, 2019)



Main Group Companies P.37

Megmilk Snow Brand Overseas Group Companies

(As of April 30, 2019)

