

Message from the President

Strengthening the Foundation
for Gaining Resilience and Sowing
New Seeds for Growth to Achieve
Food Sustainability



MEGMILK SNOW BRAND Co., Ltd.
Representative Director and President
Masatoshi Sato

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Past One Year of Ongoing Dialogue with Stakeholders

It has been just over a year since I was appointed as the Chief Executive Officer in April 2022 and later took on the role of Representative Director and President in June. Initially, I thought the economy would revive as we entered the third year of the COVID-19 pandemic and approached a “with-COVID” phase. However, the conflict in Ukraine and the ensuing economic upheaval have, contrary to expectations, worsened the business environment. The year since my appointment as President has been one where I have striven to achieve the various visions and plans I had in mind while also contending with these rapid changes in the external environment.

Since taking office, I have devoted myself to crafting new business strategies and enthusiastically engaged in dialogue with our stakeholders. Besides meeting with industry figures in dairy farming and public administration, as well as domestic and international business partners and investors, I visited over 100 locations, including production, sales, and distribution centers in our Megmilk Snow Brand Group. I listened attentively to the voices of stakeholders and front-line employees. What struck me during the dialogue I had

with these individuals was a strong sense of expectation directed toward our Megmilk Snow Brand Group from our stakeholders.

I was particularly impacted by my conversations with dairy farmers. Dairy farming production sites are grappling with a sharp rise in feedstuff and energy costs, leading to a highly challenging operational environment. During these discussions, I could keenly feel both the severity of their situation and their strong expectations for us. It was deeply gratifying for me to understand that dairy farmers trusted that Megmilk Snow Brand could overcome these challenges precisely because it had roots in dairy farming and the history that its founders had advanced the dairy industry. This relationship is an invaluable asset for us, and it rekindled my sense of responsibility to live up to their expectations. Fueled by these heightened expectations from our stakeholders, our commitment to contribute to dairy farming production and strengthen dairy farming production infrastructure will remain one of the core pillars of our newly released Megmilk Snow Brand Group Medium-Term Management Plan 2025.

Megmilk Snow Brand's Purpose

Our Group is approaching a significant milestone: our 100th anniversary in 2025. As we prepare to embark on a new century, we revisited our founding mission. In the context of the Meiji era, Japan had to strengthen its national power to compete against Western powers. The government had set up the Hokkaido Development Agency to foster industrial growth. However, the region lacked sufficient resources and population, making rapid industrial growth unfeasible. With land unsuitable due to infertility for both rice and field cultivation and buried in snow for half the year, dairy farming was identified as a promising industry. At the time, Japanese society still faced the difficult challenge of securing sufficient nutrition and rich dietary lifestyles. Against this backdrop, dairy products presented a promising solution to the nutritional challenges Japanese people were facing. Our founders commenced operations in 1925, distilling the aim of achieving stable and abundant food lifestyles through the dairy farming industry into the phrase *Kendo Kenmin* “a healthy earth ensures human health” as a response to the social issues of the day. This encapsulated the spirit and goals of the company at its founding.

Turning to the present day, what social issues do we face today, 100 years later? Currently, challenges in the procurement of various goods have been rising worldwide, but there is no doubt that one of the aspects countries are most focused on is food. Particularly in Japan, where the food self-sufficiency rate is only 38% in terms of calories, we cannot



meet the required volume if procurement of food and raw materials from overseas becomes difficult. This is also the case in the dairy farming industry. The demand for fresh milk and dairy products in Japan is equivalent to about 13 million tons of raw milk annually, with approximately 40% relying on imports. Is this situation really sustainable? It seems painfully clear to me that there is a need to expand raw milk production infrastructure to improve Japan's food self-sufficiency rate.

The food that is readily available now may not be so in the future. Based on this current understanding, we have articulated a new “Purpose of the Megmilk Snow Brand Group.” The goal is to achieve food sustainability by leveraging our extensive insights and functions (the milk value chain) developed through dairy, in line with our founding spirit of *Kendo Kenmin* “a healthy earth ensures human health”.

Synchronizing Social Value with Economic Value

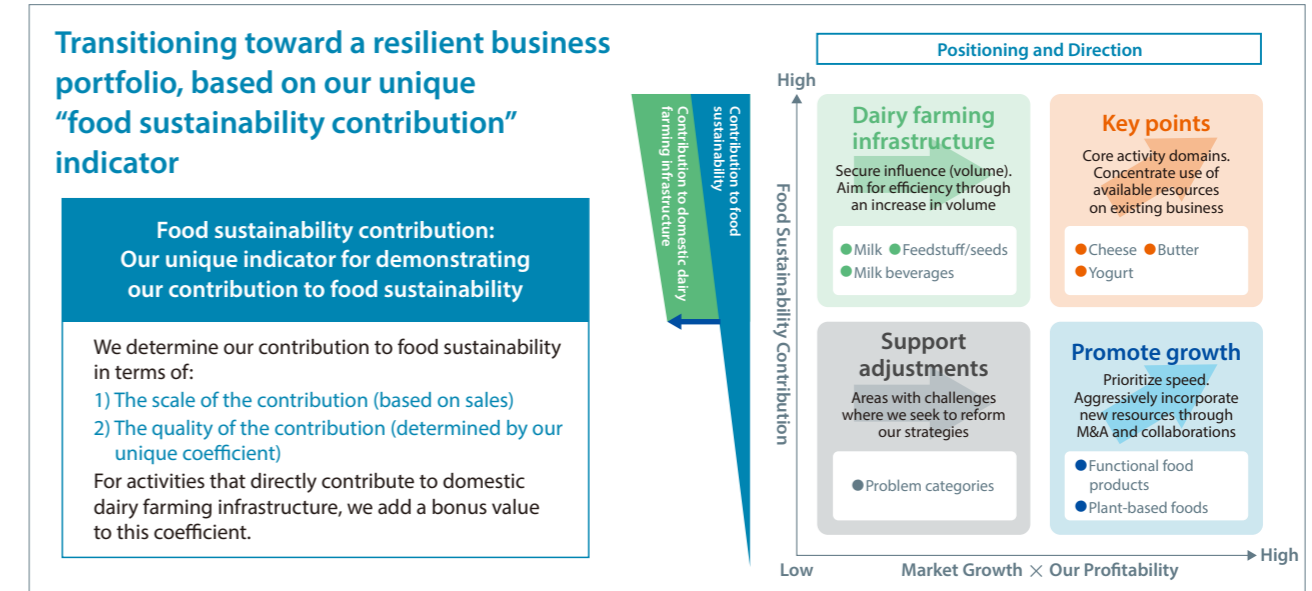
While defining our Group's Purpose, we have also reviewed material issues that should be prioritized to simultaneously achieve (synchronize) social and economic value through our core business and enhance corporate value. We have added “providing a sustainable food supply” and “contributing to health through food” to our material issues and set key themes that include offering appealing milk and dairy products and providing new options developed through dairy expertise and functionality. To enhance social value through these measures and demonstrate the pursuit of economic value in doing so, we have set KPIs such as having overseas business account for 20% of our operating profit and sales of 20 billion yen in alternative foods such as plant-based foods.

We have also reexamined our business portfolio. To achieve food sustainability, our own management foundation must be strengthened furthermore. In other words, we believe there is a need to transition to a portfolio that would allow us to gain even greater resilience.

Generally, when contemplating a new business portfolio, the main considerations are market growth rate, market share, and one's own profitability. However, these perspectives alone cannot measure food sustainability.

Therefore, we have decided to use a matrix that sets “food sustainability contribution,” a unique indicator to show contributions to food sustainability, and “market growth x our profitability” as another axis for contemplating our business portfolio.

For example, the milk business faces challenges in terms of profitability. However, about half of raw milk production in Japan is consumed as milk. Taking both aspects into account, I believe the milk business is indispensable to achieving food sustainability. Therefore, we will simultaneously pursue economic improvement, which is vital for gaining resilience and growing as a company, after confirming that the business is indispensable for food sustainability. We have reconfirmed this approach within the portfolio matrix. In the future, we will actively invest resources in priority categories like yogurt and cheese, for which market expansion is expected and profit margins are high, as well as growth-promoting categories like PBF and functional food products, which are small in terms of market size but expected to grow significantly. We have just embarked on our journey to achieve food sustainability based on this new portfolio.



Planting Trees to Foster Food Sustainability

Please take a look at the Value Creation Process diagram on pages 15-16 that summarizes our ideal position.

The large tree on the left is what we call the Milk Tree. Dairy products like fresh milk, cheese, and butter are created from raw milk, and we make the tree grow bigger. This tree is

our mainstream business. Here, we firmly connect the value chain from dairy farming to consumers and stakeholders to make the tree even more robust. In this process, we aim to synchronize social and economic values, thereby enhancing our corporate value. Protecting and expanding the value-

circulating system we have nurtured will act as the nucleus for achieving food sustainability.

However, relying solely on this Milk Tree might not be sufficient for future food sustainability. For example, the world's population is expected to rise from the current 8 billion to 10 billion by 2050. This may lead to a protein crisis due to an imbalance in food supply and demand. This is not someone else's problem; it directly affects us. A backup strategy based on diversification is essential in case there are interruptions in securing milk, an important protein source.

Focusing on Building a Foundation to Turn Risks into Opportunities

A number of risks exist in the business environment surrounding Megmilk Snow Brand. However, depending on how these risks are perceived and approached, they hold the potential to transform into opportunities. Facing these risks squarely should be key to seizing the next opportunity.

Food must be supplied continuously; reacting only when a procurement crisis arises will be too late. To this end, from now on, we must concentrate on building this foundation.

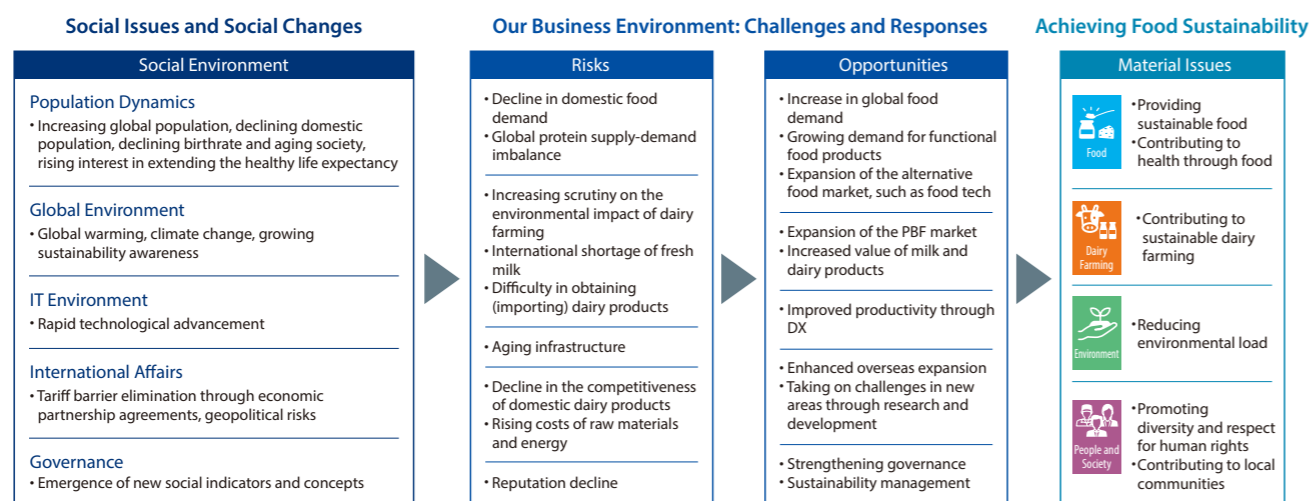
In doing so, we will discern both risks and opportunities,



The smaller tree on the right side of the diagram symbolizes this. Leveraging the insights and functionalities that we have cultivated in dairy over the past 100 years, we aim to nurture this new tree and create a new value chain. This is the value creation story that we envision. One tree is for alternative foods such as Plant-based Foods (PBF), and the other focuses on overseas markets, primarily in the Asia and Oceania regions. These are still in the "seed," "sapling," or "small tree" stages, but we plan to grow them into substantial trees that will not be overshadowed by the Milk Tree on the left.

reevaluate the societal role of the dairy farming industry we are involved in, and implement our future business strategies accordingly. However, we cannot accomplish this foundational work on our own. The understanding of our efforts from a long-term perspective by all of our stakeholders, including not only dairy farmers and government officials, but also suppliers, customers, consumers, shareholders and investors, is essential as we move forward. We are well aware that this is a major undertaking. Nevertheless, we anticipate that Japan's food environment will soon become much more stringent, and we believe that if we do not start building our foundation now, it will be too late. With the future becoming ever more uncertain, we aim to move forward in the direction we believe is the correct one.

At present, dairy farmers are already facing a number of crises. Our immediate priority is to join hands with dairy farmers and draw upon governmental support to escape this situation and establish a stable foundation for raw milk production. To achieve this, we are determined to do our part by delivering consistent value through our products to our customers, thereby facilitating further market growth.



Plant-Based Foods (PBF) and Overseas Expansion as New Growth Opportunities

In our quest to enhance corporate value, we have come to realize that we have not adequately communicated our future vision to our stakeholders.

Taking this into account, as part of our effort to create new seeds for growth, we declared entering the PBF market and enhancing overseas expansion as one of the three pillars of our business strategy in the Group Medium-Term Management Plan 2025. We believe that sharing progress on these fronts with shareholders and investors at an early stage will have a positive influence on the evaluation of our Group.

Regarding our entry into the PBF market, we have heard concerns that it contradicts our Group's image as a company deeply ingrained in the dairy farming industry and that we are leaving the dairy world behind. However, I believe that PBF and milk are not mutually exclusive. Rather than viewing plant-based ingredients and food tech as being in conflict with dairy, I think we should focus on the potential for new value creation through synergies and advanced technologies. Effective communication with all our stakeholders is crucial for understanding this perspective, and we will continue to engage in dialogue with you all.

We also consider establishing a foundation for dairy farming production to be another critical element in increasing future corporate value. Currently, many dairy farming production sites import costly blended feeds from overseas to feed their cows, and rising import prices in

recent years have had a direct impact on their operations. If this continues, the dairy farming foundation may continue to degrade. To prevent this, it is essential that dairy farmers increase the proportion of self-produced feedstuff. Within our Group, there is Snow Brand Seed Co., Ltd., which engages in the development of grass and feed seeds and the provision of feedstuff supplies for cattle. We are also conducting research and development in adding lactic acid bacteria to feedstuff, and we plan to make various proposals in the feed supply sector going forward. This initiative supports dairy farming behind the scenes and focuses strongly on social value, and we are expanding our business based on this foundation. We consider it the very source of our Group's value creation and a cornerstone for enhancing our corporate value.



The Latter Half of FY2022 Showed Signs of Hope

As I mentioned at the beginning, fiscal 2022 presented unprecedented challenges for the dairy farming industry due to significant global environmental changes. The rise in energy and raw material prices, along with disruptions in resource procurement, occurred against the backdrop of the COVID-19 pandemic and international conflicts.

Immediately upon assuming the role of President, I focused on responding to cost increases and expanding volume. However, the speed at which costs rose exceeded our expectations, making Q1-Q2 particularly difficult. We

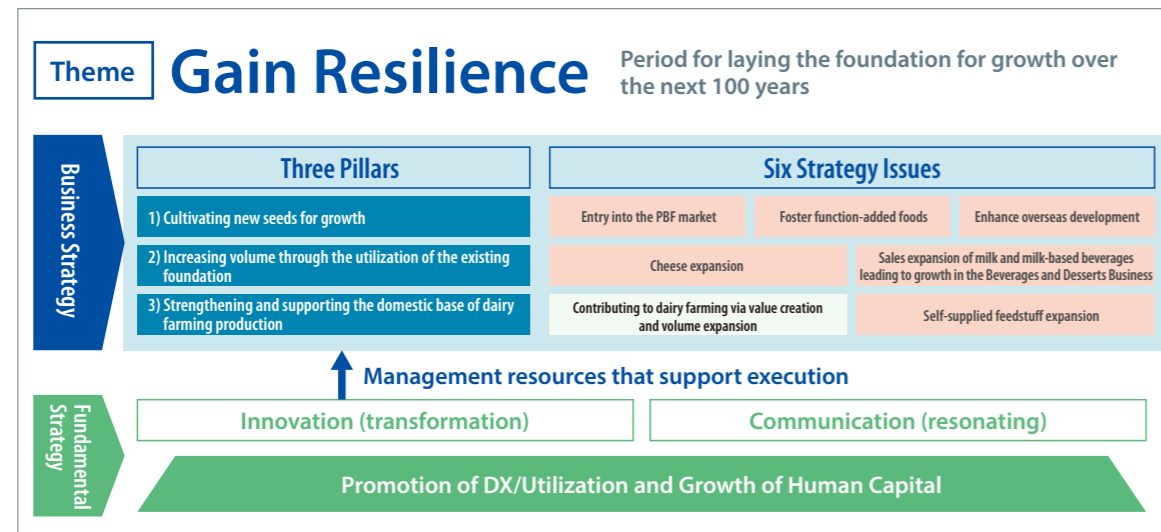
implemented price adjustments and changed product sizes to absorb the costs that we couldn't mitigate through our efforts. Though these actions ensured revenue growth, we were unable to absorb all the rising costs within the fiscal year, resulting in an operating profit lower than the previous year.

However, the effects of price adjustments began to materialize, enabling us to set both net sales and profits on an upward trajectory in the latter half of the year, which serves as a positive indicator for fiscal 2023.

The Group Medium-Term Management Plan 2025 Theme: Gain Resilience

In alignment with the establishment of our Purpose and the review of our material issues, the theme we have set for the Group Medium-Term Management Plan 2025 is “gain resilience.” The plan is positioned as a period for building the foundation for another century of growth. The three pillars

of our business strategy include creating new seeds for growth, expanding volume through foundational use, and strengthening and supporting the domestic dairy farming production foundation.

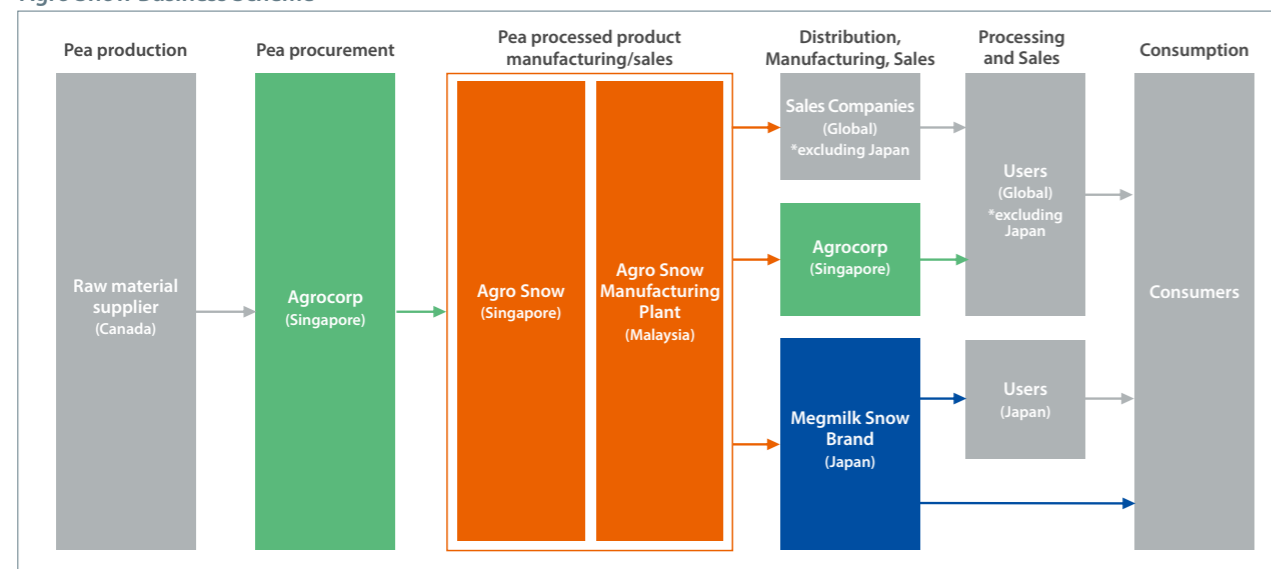


We are also advancing specific initiatives aimed at the goals outlined in our Group Medium-Term Management Plan 2025. Our entry into PBF is not based on the assumption that our company merely manufactures and sells PBF. In May 2023, we established Agro Snow, a joint venture with Agrocorp, a grain trading company in Singapore. This new venture will engage in the manufacturing and selling of raw materials for plant-based food processing. Our goal is to create a new value chain that spans from upstream to downstream operations in the PBF sector. From among the various plant-based ingredients, Megmilk Snow Brand has focused on peas due to their low environmental impact

during cultivation, specifically in terms of water usage. Utilizing the global procurement capabilities of Agrocorp, we will source peas. Agro Snow will be responsible for processing them, and we will manufacture and sell PBF products using these processed peas as raw materials. We are also considering selling pea-based processed goods produced by Agro Snow as raw materials to plant-based meat producers, other food manufacturers, and the dining industry. In this manner, we aim to establish both BtoC and BtoB businesses in Japan by building a new value chain for PBF centered around peas in collaboration with Agrocorp and Agro Snow.

Furthermore, in January, we opened the Megmilk

Agro Snow Business Scheme



Snow Brand Innovation Center in Kawagoe City, Saitama Prefecture. By integrating our R&D centers across different business segments, we intend to drive innovation by combining various forms of expertise, thereby strengthening our product development. Moreover, in April 2023, we established the Milk Nutrition Research Course, a joint research course with Hirosaki University. This course leverages the university’s world-class big data on healthcare to research new health benefits of milk. Combined with the launch of the Innovation Center, we expect products beyond our wildest imagination to emerge in the near future. Our company already owns proprietary functional materials and functional lactic acid bacteria, such as MBP® and the Gasseri Bacteria SP strain. By fully leveraging the Innovation Center and the Milk Nutrition Research Course, we plan to further advance our research on these unique functional materials and functional lactic acid bacteria to continuously develop products that contribute to the health of our customers.

In our financial strategy, we have newly established cash allocations. First, we aim to generate more than 80 billion yen in operating cash flow over the next three years.

Additionally, we plan to secure over 25 billion yen through asset sales, which includes strategic equity holdings, and by procuring interest-bearing debt. Of this amount, more than 70 billion yen will be allocated toward achieving food sustainability, which will be used for foundational and growth investments in existing businesses. Additionally, as one of the pillars of our Group Medium-Term Management Plan 2025, we will actively focus on “future value creation investments” aimed at creating new growth drivers. This includes research and development as well as business development that generates new value. For the “future value creation investment,” we will consider capital alliances and mergers and acquisitions. We plan to allocate more than 12 billion yen to shareholder returns and intend to maintain a dividend payout ratio of over 30%.

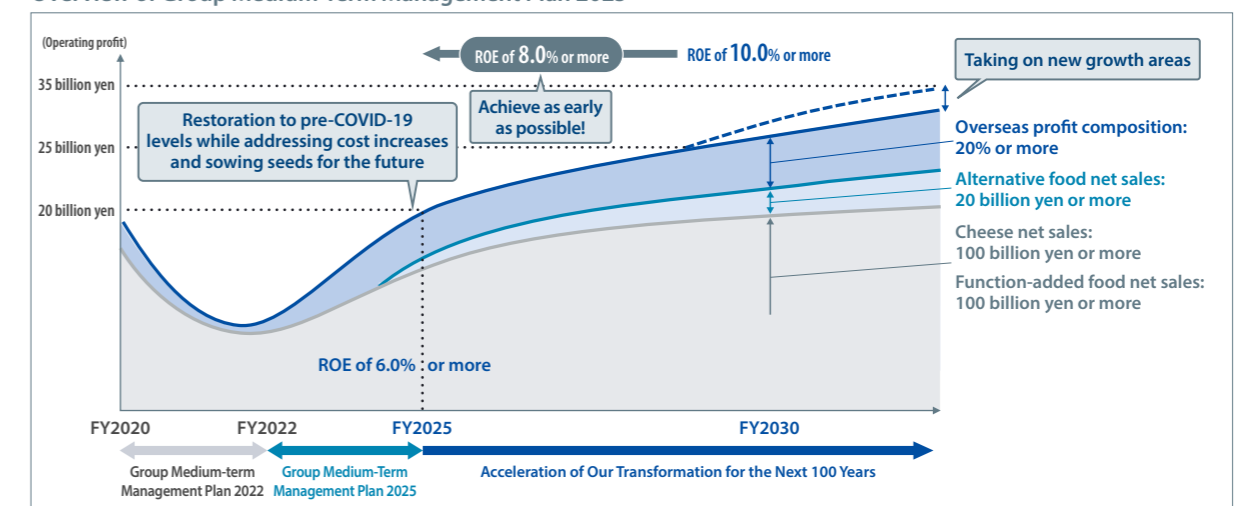
Through disciplined financial management that includes this asset-light orientation, we are targeting an ROE of over 6.0% for fiscal 2025 within the Group Medium-Term Management Plan 2025. We aim to achieve this target as quickly as possible and then set our sights on a subsequent target of an ROE of 8.0%.

Financial strategy

Basic Policy		Consolidated management KPIs		FY2022 Results	FY2025 Targets
Maintaining financial stability	Profitability	Net sales		584.3	665.0
		Operating profit (operating margin)		13.0 (2.2%)	20.0 (3.0%)
		Profit*1		9.1	14.0
Foundation and growth investment through asset compression	Financial health	EBITDA		30.2	38.5
		Equity ratio		51.9%	50.0%
		D/E ratio		0.33x	0.5x or less
Stable shareholder returns	Capital expenditures	Capital expenditures*2		Approx. 65 (over a 3-year period)	Approximately 70 or more (over a 3-year period)
	Shareholder returns	Dividend payout ratio		44.4%	30.0% or more
	Capital efficiency	Return on equity (ROE)		4.4%	6.0% or more

*1 Profit attributable to owners of parent *2 The investment amount is decision-making-based and differs from cash-out-based figures.

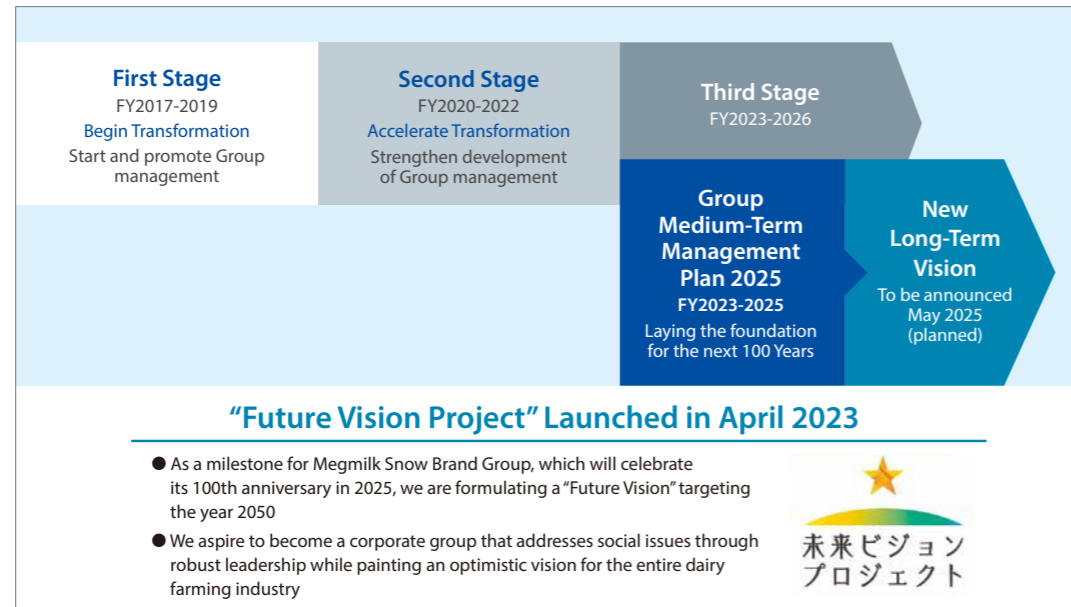
Overview of Group Medium-Term Management Plan 2025



Future Vision Project for 2050

The previous Group Medium-Term Management Plan, lasting up to the fiscal year ended March 31, 2023, was based on the “2026 Long-term Vision” that we formulated in 2017. However, the external environment has changed dramatically compared to when the vision was created.

Therefore, to coincide with the significant milestone of our Group’s 100th anniversary in May 2025, we have launched the “Future Vision Project” as a milestone for our next 100 years, with the goal of drafting a vision for 2050 (scheduled to be announced May 2025).



In contemplating what the world will be like in 2050, what we should do in response, and the kind of company and society we want to create, this project, which is under my direct supervision as the president, is made up of young employees who are poised to shape the future of our Group companies. Although we started with a small team of just six people, we are committed to involving like-minded stakeholders both within and outside the company to co-create a future vision that embodies not just strategies

based on future projections, but also our own will and aspirations. We expect the vision that emerges from this collaborative process to be a highly compelling one. The objective of this project is to unveil a future vision that both inspires confidence among our stakeholders and provides a supportive framework within which our employees can work with hope and aspiration. Our new long-term vision will be formulated based on this future vision.

Developing People and Organizations on a Foundation of Trust



For any company, the most valuable asset is its human resources. Corporate growth is only possible when individuals within the organization grow and enliven their work. For the sustainable growth of our Group, developing and utilizing human resources capable of creating value is crucial. Human capital is also positioned as a foundational strategy in our Group Medium-Term Management Plan 2025. We aim to foster an environment where diverse talents can fully express their abilities and individuality. By advancing HR initiatives, we aim to enhance job satisfaction for each employee and nurture personnel who can create added value across the milk value chain.

With regard to work style reform, a crucial initiative, our focus until now has primarily been on creating a safe and efficient working environment amid the COVID-19 crisis. Going forward, we intend to promote fundamental work style reforms that center around Digital Transformation (DX) and accommodate a variety of needs, including mechanisms that allow employees to freely choose their work locations.

Additionally, to improve employee work engagement, we have been implementing the Megmilk Snow Brand Award starting since fiscal 2021. This award system is designed to raise awareness about the Megmilk Snow Brand Values, which consist of being Self-motivated, Taking Challenges, and Teamwork. It honors exceptional initiatives by employees who embody these values. By presenting what has been achieved over the past year, we aim to foster a company-wide understanding and sharing of these values and to channel this understanding into future actions. This award also serves the purpose of boosting engagement and uplifting the abilities of employees by conferring awards. I am delighted to report that not only our regular employees, but also our contract staff are taking an active part in our initiatives. There have even been cases where regular employees help proposals put forth by contract workers to become a reality. On the sales front, we have initiated

For Stakeholders

We are living in an age clouded by uncertainty, where predicting the future is increasingly difficult. Those of us in the business of providing food must be keenly aware that the global demand for food will continue to fluctuate with ever-increasing volatility and change at an ever-accelerating rate. Over the past year, we have had dialogue with various parties and verified that there is a shared sense of crisis and a mutual understanding of the direction in which we should move. That is why we have positioned the achievement of food sustainability at the core of our new growth strategy. With a focus on “delivering nutrition, being mindful of the environment, and utilizing human resources,” this approach embodies our unique perspective on sustainability management.

It has been 100 years since our founding in 1925. We take great pride in the milk value chain we have built—a value chain we believe stands second to none and for which we have received recognition. As we look toward the next 100 years, we aim to utilize what we have cultivated thus

activities more extensive than what we initially envisioned, including social contributions through educational food programs and initiatives that involve our business partners. I find this to be a highly meaningful endeavor. Rather than our Purpose of solving social issues being communicated top-down from the corporate level, it is being shared among the employees themselves.

I was once a member of Snow Brand Milk Products’ ice hockey team, serving for two years as a player-coach while also managing the team and the organization. What I learned from this experience is the importance of trusting your colleagues when building an organization. Trusting your team, staff, and all those who support you is essential. However, entrusting people with responsibility is not easy. No matter how much trust in yourself, trust can only be established if the other party also has faith in you. And the more critical the task, the harder it is to delegate. The only way to build such a trust relationship is for everyone to avoid arrogance and act with sincerity. If we could bring in more people one by one who trust one another and deliver their best performance at this moment, wouldn’t that naturally lead to a strong organization? That is the kind of company I aspire to create.

far to create new value chains. We firmly believe that by diligently advancing toward the realization of the blueprint laid out based on our declared aspirations, we will be able to enhance the overall value of our corporate group. As we stand at this juncture, we hope to launch into the next century with the continued understanding and support of all our stakeholders. I hope that we can count on your continued support for the Megmilk Snow Brand Group.

