

Solving Social Problems by Drawing Out Milk's Potential While Maintaining the Founder's Spirit of *Kendo Kenmin*

Message from the President

PRESIDENT MESSAGE

On Taking Up the Position of President

Clarifying and responding to pressing problems based on our experience

I am Masatoshi Sato, the Representative Director and President of Megmilk Snow Brand. I would like to once again express my appreciation to all stakeholders who have always provided massive support.

Megmilk Snow Brand was launched in 2011 through the merger of Snow Brand Milk Products and Nippon Milk Community, which had merged their management in 2009. Going back even further, Snow Brand Milk Products (Hokkaido Cooperative Creamery Association), the predecessor to Megmilk Snow Brand, was founded in 1925, and thus the Company has a history of almost 100 years. We are now steadily moving forward to achieve the vision touted in the Group Long-term Vision 2026 (see p. 4), which was created as a new compass for the ten years starting in 2017. For the Group Long-term Vision 2026, we formulated a medium-term management plan by breaking the ten years from 2017 into three stages. In

addition to being my first year as President, this fiscal year is the last fiscal year of Medium-term Management Plan 2022, the second stage. Recently, in addition to changes in the structure of society due to the COVID-19 pandemic and environmental problems, an issue that impacts the whole world, the price of resources and energy have risen as a result of the situation in Ukraine and exchange rates have been volatile.

Under these various difficult conditions, I would like to make this a year in which we clearly indicate and are sure to respond to issues that should be resolved considering our performance through fiscal 2021 and move forward with formulating a new medium-term management plan for the third stage to respond to the new social environment.

Founder's Spirit, *Kendo Kenmin*

The unchanging spirit that forms the core of the Group

What should we make management decisions and execute business under this environment in which the correct answer is not evident, conditions are uncertain, it is also difficult to predict what will happen. I think that precisely because things are unclear and it is difficult to predict what will happen, I think it is important to return to our origins, reconfirm the reason for our existence with all Group employees, and continue to possess that spirit. That is *Kendo Kenmin* (a healthy earth ensures human health), the founding spirit of Snow Brand Milk Products, the predecessor to Megmilk Snow Brand. This spirit that has been passed down for almost a century is not only our core mind-set that stays the same regardless of the era or management but also the foundation of Megmilk Snow Brand Group's corporate philosophy.

Based on the spirit of *Kendo Kenmin*, the idea that "dairy farms strengthen the soil, and that the milk and dairy products produced from this rich earth are the

ultimate nutritious food that can foster healthy minds and resilient bodies," we want to become a "company that society needs regardless of the age" as it solves social problems.

Torizo Kurosawa, one of the founders of the Company, worked to spread "circular farming" as an actual way to achieve *Kendo Kenmin*. This is an agricultural method in which people and nature live in harmony and make cyclic use of materials and energy, "from soil to grass, from grass to cow, and then the waste from cows becomes fertilizer for the soil." I think that the dairy farming business not only solves social problems and preserves a sound, rich environment but can also contribute to the construction of a sustainable society that we can pass on to future generations. In addition, I would like to face the next century after reconfirming that this is the Group's DNA and the source of value we create.

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

Masatoshi Sato

Potential of Milk

Potential that has yet to be fully realized

One of the Company's strengths is in the milk value chain that we have constructed over the years and the potential of milk. Our corporate slogan is "make the future with milk." Based on the technology we have acquired, we have introduced numerous products that consumers are familiar with, including Snow Brand Hokkaido Butter, 6P Cheese, and Torokeru Sliced Cheese, and built a robust value chain centered on milk. The milk value chain includes everything related to the Group promoting its business. This is a broad field that starts with the feedstuffs and seed products business, continues on to chilled distribution for the transportation of milk, and ends with the delivery of products to customers through such assets such as facilities and the production know-how and software of our plants. This also includes knowledge of development possible only by the Group and the potential of milk that has yet to be fully realized. The Group's Milk Science Research Institute has conducted research on not only lactic-acid bacteria, which we hold more than 3,000 strains of, but also milk's functional ingredients. One of those is the ingredient MBP, our unique substance that increases bone density, and while this substance accounts for a mere 0.005% of milk, we have learned that it is a valuable ingredient for human bones.

I would like to develop products with customers by leveraging our technical capabilities, incorporating, at times, knowledge and information from outside the Company through open innovation, and accelerate their development and market launch. Furthermore, as we reinforce our overseas expansion, it will be possible to find new knowledge and innovations that were not possible within Japan.



Milk and Dairy Products that Are Part of Your Lives

Our lineup of products that can be found everywhere in daily lives

Another one of our strengths is that the Company's milk and dairy products are a part of consumers' daily lives. When I joined Snow Brand Milk Products, the predecessor to Megmilk Snow Brand, in 1985, what I felt the most was that the line up of the Company's products could be found everywhere in our daily lives. People drink milk during breakfast. Children drink milk during school meals. People eat yogurt and custard pudding for snacks and dishes prepared with butter and cheese for dinner. I feel that a major strength of ours is that regardless of time of day or age of consumer, our products, such as infant

formula for babies and products with MBP for healthy bones for the elderly, are right there.

Our products are also important tools for communicating with customers. It is important, therefore, to increase the value added of our products and strengthen their functions. Our mission is always to supply fresh products, including milk, the most basic of our products, butter, cheese, and yogurt to customers. When I played on the the ice hockey team I belonged, I was hospitalized with major injuries in two consecutive years. For about one and a half months I could not

eat solid food, and when I examined the nutritional supplements supplied by the hospital, I saw that they were enteral nutrition introduced by the then Snow Brand Milk Products' pharmaceutical product business. I remember that I was really surprised, at the same time I felt happy. The fact that our products are used in employees' daily lives is a point of pride for them, and I want to continue to create a world in which our products are sure to be in stores and in your family's refrigerator.

On the other hand, I am aware that because our products are such an integral part of consumers' lives, we have a great responsibility. The food contamination incident caused by Snow Brand Milk Products in 2000 and the fraudulent beef labeling incident involving Snow

Brand Food Co., Ltd., in 2002 were major betrayals of the trust that customers had in the Company as our products were part of their lives. This made me think deeply about what we should be like as a company. Because of the weight of our responsibility for undermining food safety and reliability and the strong desire to ensure that such incidents never occur again, we hold Days of Pledging to Strongly Recognize and Fulfill Food Responsibility twice a year so that the memory of those incidents never fades. While ensuring that new members who were not around when those incidents occurred learn of them, it is also a time for all employees, including those of Group companies, to think about what they can do for customers.

Creating a Corporate Culture that Inspires a Spirit of Challenge

History and tradition should be recreated by each generation and passed on to the next generation, not simply protected

While we will pass on the spirit of *Kendo Kenmin* and initiatives to ensure that the memory of these incidents does not fade, we must also foster a spirit of challenge.

Dairy farming is done in harsh nature, and our founder surely possessed an adventurous and frontier spirit as he started such as a business. We must be sure to fully demonstrate this spirit of challenge even though it is a tradition over a hundred years old. Therefore, I want to transform our corporate culture so that it is one in which both people who take on challenges and those who take on a challenge but fail are actively praised. My role as the leader is to draw out the potential possessed by each person as much as possible. I want to cultivate the soil in which numerous buds that draw the attention of and receive the support of stakeholders grow.

Even the Megmilk Snow Brand Values, the stance and values that we should cherish, include the keyword "challenge," but the elements that I think people should be most conscious of are not only "challenge" but also "speed" and "empathy." When you move forward and take on major challenges on your own in this world of rapid change while protecting history and tradition, you sometimes find yourself in unexpected situations. If you think something is wrong, it is important to quickly pull back. At any rate, speeding up decision-making,

judgment, and action is indispensable for future growth. Another is empathy. When people around someone doing their utmost to achieve a goal feel that person's passion, they are transformed into a supporter of that person. That is empathy. If you have clear ideas and vision, you will find that more people have empathy with you. People with empathy focus on the process of how far you got, even if you fail. Then, if the person with empathy takes it one step further or the two of you share new ideas and advice, they will give you the power to move closer to your goal. You can achieve not only goals that are impossible on your own but even greater results. Be self-motivated and take your own action that draws empathy by fully demonstrating a spirit of challenge. Such action creates strong teamwork.

Team Management Learned through Ice Hockey

Leadership that supports action by respecting discussions among members and autonomy

I learned a lot about team building from ice hockey. For eleven years after joining the company, I belonged to the ice hockey team and was able to play in the Japan Ice Hockey League. During my final two years with the team, I was entrusted with managing the team and organization as a player-coach, and every day, I dealt with issues on a trial-and-error basis while experiencing the feeling of not only a player but also management, which includes the company and staff. In fact, the experiences I had during those two years form the foundation for my present management style.

For teams in the top league, leading athletes who have fought for 1st or 2nd place mentally struggle if they are continually not permitted to play at games. Management wants to give all members a chance by finding opportunities. For example, there were times when even if it was a foregone conclusion that we would lose, I would suddenly put someone in at the end of the game. Some substitute players do not prepare at all as if it has nothing to do with them, but others think about the meaning of being put in the game at that time and use that limited opportunity to do all they can to change the flow of the game. It is just like Thomas Edison said, “Opportunity is dressed in overalls and looks like work,” and whether you catch an opportunity or let it escape depends on you. If I had not understood the feelings

of each person supporting the team, I would not have noticed this.

When I was young, I wanted to be a captain that stood at the front and served as a role model, but after being a player-coach, I wanted to become a different type of leader. The leadership I want is to clearly indicate a vision of our future, make it possible for individual members to make the most of their abilities to realize that vision, and support actions by respecting discussions among and the independence of members. You cannot create a strong team if individual players are weak. As for my thoughts on human capital, in order to create a powerful organization, I want to focus on fostering leaders who pursue strong individuals but at the same time bind those individuals when cooperation is necessary.



Review of Fiscal 2021 and Issues to Solve

Responding to dramatic increase in costs, such as materials and transportation

Looking back at fiscal 2021, net sales rose but profit fell with consolidated net sales increasing 0.7% year on year to 558.4 billion yen, but operating profit declining to 18.0 billion yen on account of the greater-than-expected increase in raw material and operation costs.

Although consolidated net sales are trending upward and hit a ten-year high, net sales for Megmilk Snow Brand only continued to fall. This is because of a decline in volume due to structural reforms, and in fiscal 2022, the final year of Medium-term Management Plan 2022, we will focus on increasing sales volume while

responding to the dramatic increase in such costs as raw materials and logistics. Because of this, we will work to increase sales volume through the use of restrutured production facilities and reinforce our competitiveness by cutting inventory of raw material dairy products and capturing a larger market share. At the same time, we are working to establish a profit platform for our four business fields by moving forward with the three pillars of Medium-term Management Plan 2022—advancing productivity improvement reforms, advancing business structure reforms, and promoting innovation in the

production structure.

Turning to fiscal 2022 earnings, sales are forecast (as of August 2022) to rise but profit to fall because of the dramatic increase in the cost of raw materials and operations and aggressive investments in marketing.

The Medium-term Management Plan includes the targets of a capital ratio of 50% or more and dividend

payout ratio of 30% through the third stage, and for fiscal 2021, we recorded an equity ratio of 51.5% and dividend payout ratio of 33.6%, which was earlier than expected. Because of the previous fiscal year’s performance, the dividend per share for shareholders was raised 20 yen to 60 yen. We will continue to stress shareholder return and expect the dividend to remain at 60 yen for fiscal 2022.

Toward Stage 3

Pursuing potential starting with but not limited to milk and creating new demand

In the third stage of the Group Long-term Vision 2026, we will generally move forward with making thorough use of our business foundation and expanding new growth fields and acquire resilience to changes in the environment. Of these, we are currently broadly examining three pillars to the growth strategy.

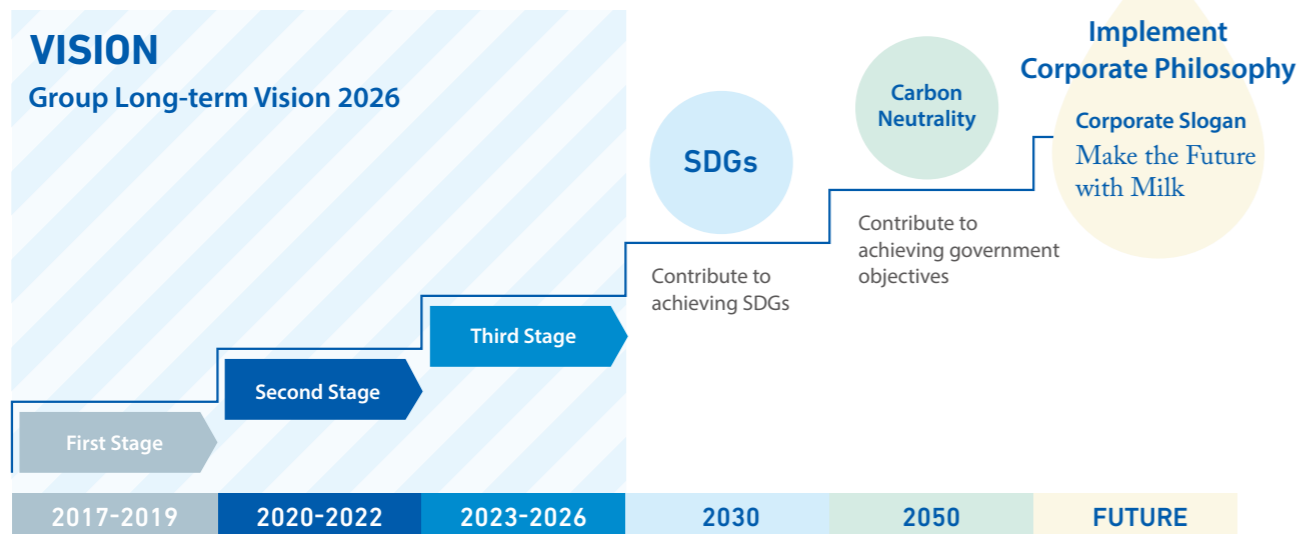
The first is maximizing the volume of our mainstay products through the use of our production platform, which we have made more efficient. As for dairy products, we will expand sales volume of butter made at the Isobunnai Plant, processed cheese made at the Ami Plant, and natural cheese made at the Taiki Plant. As for milk and beverages, we will expand sales volume of products in new containers that offer value added for the milk market. In the spring of 2023, we will launch a new Sakeru cheese production line at the Taiki Plant, which will reinforce our expansion of volume.

The second involves strengthening overseas business for economic growth. For this too, we have expanded production bases for cheese and infant formula in Indonesia and Australia, respectively, and opened a new Asian strategic hub in Singapore to expand business in the Asia/Oceania region and coordinate future business. The hub will open in fiscal 2022. Boasting a massive market with a population of 2.3 billion people and GDP of 26 trillion yen, Asia/Oceania accounts for around 30% of the global market and is forecast to see additional population and economic growth. We will accelerate our business expansion with an eye on M&As too, particularly for the Cheese Business and Nutrition Business.

The third is creating new value. We are working to renovate the R&D facilities of the Milk Science Research Institute (Kawagoe City, Saitama) and transform it into the Megmilk Snow Brand Innovation Center, construction of which is expected to be completed in January 2023. This development hub will integrate knowledge and

result in co-creation. By concentrating R&D facilities, which used to be dispersed, and working to integrate technologies, we will create new value and move forward with launching products through the integration of miraculous milk, which much is still unknown, and functional materials and lactic-acid bacteria, which there are more than 3,000 strains of.

We will also expand into plant-based foods, which can be expected to grow in the future. Despite holding up “creating a food future through milk,” we are not limiting our business fields to milk. For plant-based materials and food technology, too, we are broadly moving forward with research based on the idea that it is not in conflict with our milk business but could complement the milk business, generate synergies, and result in the creation of new demand by advanced technology. Plant-based food are not new at all. For example, Neo Soft, which boasts the top market share for margarine, is plant-oil-based food, an alternative to butter. Since its introduction in 1968, it has played an important role as it was provided to customers as an alternative when there were shortages of butter and supports the stable supply of milk and dairy products, for which there is said to be little surplus supply capacity. As for global environmental problems, it is expected that the dairy farming industry will have to confront various issues, such as cow burps being considered a problem as they contribute to global warming. Discovering as much as we can about milk, we should pursue the possibilities offered by providing milk’s outstanding value—that is, nutrition, deliciousness, and function—to customers in a new form. This is because we are examining entering new fields, such as plant-based foods, and our work on alternative products will also draw out the goodness of milk.



Resolving Social Problems through Business

Our major mission is to stimulate stable demand by adding value to raw milk

Society now faces many problems. Having set material issues and key performance indicators (KPI) in order to solve social issues, the Megmilk Snow Brand Group is working to achieve those targets. As we become an ultra-aging society, what we are aiming for with the material issue of "milk for contributions to food and health" is to extend healthy lifespans and improve the quality of life (QOL) through the stable supply of nutritious milk and dairy products and spread of functionality. Furthermore, our goal for "contributing to sustainable dairy farming" is maintaining and developing the whole dairy farming industry so that the stable supply of milk and dairy products never ends. There has been much talk of the issue of food security as a result

of international conflicts and other developments. Even for dairy products, Japan relies on imports for about 40% of domestic demand. It is said that the current world population of 7.8 billion will grow to 9.7 billion by 2050, and it has been pointed out that milk production places a heavy burden on the environment, primarily through greenhouse gas emissions, and expanding production is forecast to be difficult.

Considering Japan's current state where it covers about 40% of demand with imports, it will become even more difficult to undertake purchasing, and it is our important mission to stimulate stable demand by adding value to raw milk in order to reinforce and then maintain the dairy farming production foundation in Japan.

Working to Achieve Sustainability Management

Creating a system for group-wide decision making while ensuring effectiveness

Our founder aimed to create sustainable dairy farming through the spread of circular farming, and this same idea can be found in present-day sustainability. To promote this sustainability, the Company has created a system to make prompt decisions through cross-sectional deliberation of issues by establishing both the Group Sustainability Committee, which is under the Board of Directors and chaired by me, and a Sustainability Promotion Workgroup, which the executive in charge of sustainability chairs. The Sustainability Promotion Workgroup is moving forward with monthly deliberations by various study groups on the three topics of decarbonization, plastic reduction, and human rights. Furthermore, after expressing our support for the Task Force on Climate-related Financial Disclosure (TCFD) in October of last year, we are disclosing climate change related-information in line with TCFD recommendations through this report.

In July of last year, we also joined the Hokkaido Hydrogen Business Platform, which aims to build a hydrogen supply chain in Hokkaido, and are working to realize a hydrogen society in Hokkaido and carbon neutrality. Furthermore, in February 2022, we announced that the Taiki Plant was able to extract a useful ingredient from whey created during the cheese making process. By transforming that byproduct and other items into methane gas, it could be used as energy, which will lead

to reductions in both CO₂ emissions and water use. We are also moving forward with initiatives to achieve decarbonization on various fronts, such as concluding an 8.0 billion yen syndicated loan agreement with the Norinchukin Bank in March 2022. The agreement stipulates a fiscal 2030 target of 50% reduction in CO₂ emissions compared to fiscal 2013 as a sustainability performance target.

After identifying human rights risks, a priority issue, in March 2022, we will conduct a survey regarding work conditions for non-Japanese workers and at small-scale palm farms in the supply chain starting in fiscal 2022.

Even regarding governance, the foundation for promoting sustainability, we are working to increase transparency by having four of the twelve directors on the Board of Directors external directors in order to strengthen diversity and the supervisory function of the Board of Directors. We will also continue to work to build an effective governance system.

Solving social problems through business activities that leverage the strengths of the Company and creating a governance system to support that is tied to our sustainable growth, which in turn makes it possible to promote solutions to other social problems. This kind of "creating cycles" is the sustainability management that we are aiming for.

For Stakeholders

Transforming into a company that can contribute even more to extending healthy lifespans in an ultra-aging society and improving quality of life (QOL)

By signing the United Nations Global Compact in June 2020 and implementing other measures, we have strived to deepen our efforts to contribute to realizing a world in which we "leave no one behind," a goal touted in the SDGs, and a sustainable society. Our sustainability management involves running through the PDCA cycle to solve problems based on corporate ethics (compliance). We will pursue sustainability for both society and the Company while working to implement the ten principles in the four fields of human rights, labor, environment, and

anti-corruption of the UN Global Compact. Then we will evolve the founder's spirit of *Kendo Kenmin* into the sustainability management that the present era requires.

Milk possesses many functions and appealing aspects that have yet to be discovered. We want to transform the Company into one that can make greater contributions to "extending health lifespans" and "improving QOL" by steadily drawing out this potential of milk. I hope for the continued support of all stakeholders for the Megmilk Snow Brand Group.

