

# Why Can the Megmilk Snow Brand Group Help with Food Sustainability?

At the Megmilk Snow Brand Group, we are clear about our purpose and have set up mechanisms for implementing sustainable management. We are positioned to integrate multiple assets to address the challenge of food sustainability. Our dominant R&D and technological capabilities make the Group highly competitive and earn the trust of our customers. Our production system is high-quality and efficient, and our solid governance system leads and supports sound management. Finally, our people and organizations creatively support daily operations and pave the way for the future.

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# Insatiable R&D That Supports Food Sustainability

Message from the Executive Officer Responsible for R&D

## Supporting Food Sustainability by Pursuing Sustainable R&D

**Yoshihiro Kawasaki**  
Managing Executive Officer



### Role of the R&D Departments

Megmilk Snow Brand's R&D is carried out by three departments with different roles: the Milk Science Research Institute, which is responsible for basic research; the Research & Development Planning Dept., which is responsible for planning and promoting R&D while collaborating with each business and production department; and the Products Development Dept., which is responsible for new product development and the refinement of existing products. In R&D that requires a market-in approach, the Research & Development Planning Dept. takes on the planning for each business, the Milk Science Research Institute handles basic research and technological development, and the Products Development Dept. is in charge of commercialization. In R&D that adopts a product-out approach, the Products Development Dept. adapts the research results to create products and makes proposals to each business through the Research & Development Planning Dept. Recently, we have also been examining big data on health in the Department of Precision Nutrition for Dairy Foods at Hirosaki University. In addition, the Intellectual Property Group of the Research & Development Planning Dept. is in charge of managing intellectual property, and we are strategically utilizing intellectual property in our business activities. In 2023, we began operating the Innovation Center as an R&D base to encourage exchanges between researchers and the fusion of knowledge.

### Maximizing Our Strengths in R&D

Megmilk Snow Brand's R&D is focused on enhancing the value of milk. One of our core competencies is "MBP," a rare protein that

makes up only 0.005% of milk and is effective in strengthening bone density. With our research on "MBP," we are proud to be an industry leader in research into the relationship between dairy products and bone health. The impact of our research has spread around the world, and we have recently received many inquiries from overseas. Another core competency is our technology for controlling the physical properties of cheese. Cheeses with a fibrous texture, such as Sakeru Cheese, have existed for some time, but no one can create products with a unique texture and crunchiness quite like we can. In addition, we expect plant-based foods to become a new core competency in the future. We will develop plant-based foods using the pea protein produced by Group company Agro Snow and our unique dairy product manufacturing technology.

### Sustainable R&D

Sustainable R&D is supported by people. As the Managing Executive Officer responsible for R&D, my mission is to create an environment where researchers can immerse themselves in their work and remain highly motivated. In recent years, the number of women working as researchers and managers has grown, increasing the diversity of our team. We are focusing on creating career plans for researchers. It is also important to allocate management resources based on a timeline. In addition to the R&D we are currently carrying out, I also have the important mission of considering research in the near and distant future, and linking this to sustainable growth. I will continue to support Megmilk Snow Brand's goal of contributing to food sustainability by pursuing sustainable research and development.

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### R&D Structure

Megmilk Snow Brand's R&D functions are organized under the Milk Science Research Institute, Products Development Dept., and Research & Development Planning Dept.



### Key Research Areas

#### Food Function Research

In this area, we conduct research into the health functions of milk and lactic acid bacteria that contribute to improving QOL and extending healthy life expectancy for people from infants to senior citizens. We are also exploring the health functions of plant-based foods and new technologies such as food tech.

#### Food Processing Research

Here, we carry out research into the health functions of milk components (protein, fat, carbohydrates), research into the development of materials, and research into the structure and physical properties of food.

#### Technology Development Research

In this area we analyze milk flavor and design products based on this analysis, develop equipment and membrane separation technology processes, and develop containers and packages that reduce environmental impact.



### Research Topics in the Spotlight

## Hirosaki University and Megmilk Snow Brand's Collaboration Research Laboratory Department of Precision Nutrition for Dairy Foods

The Department of Precision Nutrition for Dairy Foods seeks to examine the effects of dietary patterns, including the intake of milk and dairy products, and the gut microbiome on the health of Japanese people. We aim to clarify the role that the gut microbiome plays in people's health through analysis of the super-multi items on health from the Iwaki Health Promotion Project\*1 that Hirosaki University has been implementing. In a study conducted in 2023, the amount of milk and yogurt consumed by residents of the Iwaki district of Hirosaki City in Aomori Prefecture was studied in relation to bone turnover markers (BTM)\*2 and bone structure parameters. The results indicated that the daily consumption of milk and yogurt is associated with BTM and bone structure parameters that indicate bone health, and that it contributes to nutritional supplementation for bone health. Megmilk Snow Brand is continuing to explore the health benefits of milk and dairy products in Japanese through big data analysis as well as the R&D pipelines of dairy and probiotic products, which are the heritage of the Company's roughly 100 years of history.

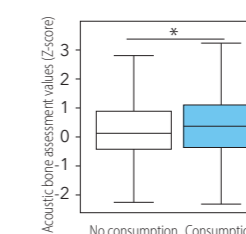
\*1 A large-scale joint health survey that has been conducted annually in the Iwaki district of Hirosaki City, Aomori Prefecture, since 2005.  
\*2 Substances related to bone metabolism (bone formation and bone resorption)

### Research Summary

The 2015 Iwaki Health Promotion Project analyzed data from 1,063 participants who had undergone health checkups and had test results for milk and dairy product intake, bone metabolism markers, and acoustic bone evaluation values (Osteo sono index: OSI).\* The results showed a correlation between milk and dairy product intake and bone metabolism markers and bone strength values, suggesting that daily dairy product intake contributes to the nutritional support necessary for bone health.

\* This is an indicator that evaluates bone strength, calculated based on the ultrasound speed transmitted through the calcaneus (heel bone) and the transmission index. There are two types of score: T-score calculated from the average value (YAM value) and standard deviation (SD) of bone strength in young adult women, and the Z-score calculated from the average value and SD of bone strength in the same age group of the subject.

### Daily Consumption of Low-Fat Milk and Dairy Products and Acoustic Bone Assessment Values



\* p < 0.05, Mann-Whitney U-test  
(Source) Nakano et al., Bone Reports. 2024, 21, 101770

## Solid Trust and Brand Strength

Our corporate value is built upon strengths like the resounding support we receive from consumers due to the high quality and great taste of our products, and the sincerity our employees show as they apply consumer feedback to create even better products.

### Unparalleled Recognition from Consumers

The Megmilk Snow Brand Group's mainstay product brands, most notably Snow Brand Hokkaido Butter, 6P Cheese, and Snow Brand Coffee, possess very high consumer recognition. This product category has been commoditized to the point that differentiation is typically difficult to achieve, yet we have been able to earn the consistent support of consumers for these products thanks to their reliably high quality and great taste. Their market position was won by our deep insight into consumer needs and preferences, advanced product development capabilities, and advanced production technology. In recent years, appealing products that help extend healthy life expectancy by utilizing various functional ingredients, such as our proprietary ingredients "MBP," *Lactobacillus gasseri* SBT2055 and *Lactobacillus helveticus* SBT2171, have also been attracting attention. We expect the Megmilk Snow Brand Group's product

brands to earn even greater trust, going forward.

This trust in individual product brands has led to an increase in the value of the "Megmilk Snow Brand" corporate brand, and we expect this to serve as a strong tailwind for the Group as we take on the challenge of crafting a new business model for the future.



Snow Brand Hokkaido Butter

6P Cheese

Snow Brand Coffee

### Ability to Transform Consumer Feedback into Value

All of the feedback offered to the Megmilk Snow Brand Customer Relations Center is a valuable source of information for our operations, and a key asset that supports our future sustainable growth. We have set up various mechanisms to make the most of the feedback we receive.



Consumer satisfaction improvement meeting

#### 1 Ensuring All Employees See Consumer Feedback

Customer complaints and suggestions about products and advice to management reach the Group via toll-free calls and e-mails to the Customer Relations Center, as well as via posts on social media and the Group's website. This feedback is shared with all employees via the Group's intranet, helping to increase each employee's consumer awareness.

#### 2 Promptly and Appropriately Reporting

**Consumer Opinions to Management**  
We promptly and appropriately consider consumer opinions about our business activities and management approach by ensuring they are reported to the weekly head office general manager meetings and officer meetings.

#### 3 Holding Consumer Satisfaction Improvement Meetings

We hold monthly consumer satisfaction improvement meetings attended by the relevant head office departments, and we use the results to make product improvements and enhance consumer satisfaction, based on the feedback we receive.

## Sharing and Spreading Values

In order to ensure sustainable management growth, it is crucial that employees share and empathize with the corporate culture and the values held by management, and that they see these values as their own and use them to make judgments on a daily basis.

### Spreading Understanding of *Kendo Kenmin* and Food Sustainability

We launched the "officer caravan" as our first step in familiarizing Group employees with the *Kendo Kenmin* ("a healthy earth ensures human health") spirit of Megmilk Snow Brand's founders and the ideas behind food sustainability. The officers visited each business site and Group company, including subsidiaries outside Japan, spending about three months in total sharing their thoughts on the spirit of *Kendo Kenmin* and our aspiration to help achieve food sustainability, as well as the ideas behind the Group Medium-Term Management Plan 2025. Gaining the complete understanding of all employees will take time, but we will keep working at it. In addition, we hold the "Days of Pledging to Strongly Recognize and Fulfill Food Responsibility" under the theme of "To Solve Social Issues for the Future" every year in January in order to encourage officers and employees to think about "food sustainability" and sustainability in general as topics that affect them personally and work on these issues proactively.

### Convening of Megmilk Snow Brand Awards 2023

This system recognizes initiatives that contribute to the enhancement of corporate value by demonstrating the Megmilk Snow Brand values of "self-motivation, challenge, and teamwork." Forty entries were received in fiscal 2023, and Megmilk Snow Brand's West Japan Logistics Center received the President's Award for their work to build a competitive logistics system in Shikoku. The award was given in recognition of the logistics center, sales section, and logistics company's efforts to establish a stable product supply system by building a new warehouse for stock, and of their work to solve the problems related to lack of transport capacity anticipated to hit Japan within 2024. They collaborated closely together to establish an efficient logistics system by establishing a new base and practicing joint delivery with other companies.

In fiscal 2024, we are expanding the scope of the awards to include Group companies as well, aiming to spread the values behind the Megmilk Snow Brand Awards.



Megmilk Snow Brand Awards 2023 Ceremony

#### VOICE

### Implementing Megmilk Snow Brand Values

I believe that the essence of the Megmilk Snow Brand Values is to take on challenges without fear. Although men make up a large share of the workforce at my firm, Chokuhan Haisou Co., Ltd., I was selected as a member of the Women's Activity Promotion Project, which was launched in 2022 to ensure that both men and women play active roles in the company as we look to the future. Surveys of women in the workforce and networking events have given us a better understanding of the concerns of women that had not been apparent until now. This led to the implementation of training for managers designed to promote understanding of physical problems specific to women, and to the distribution of crime prevention buzzers. These initiatives were firsts for the company, and although it was a process of trial and error, we will continue to work with team members and involve the company as we focus on creating an environment in which all employees can work comfortably and play an active role.



**Yuki Yamada**  
Deputy Chief, Personnel Section,  
General Affairs Department  
Chokuhan Haisou Co., Ltd.

# Our Solid Financial Strategy to Support Food Sustainability

Message from the Executive Officer Responsible for Finance

## Continuing to Invest in Creating Future Value While Maintaining a Sound Financial Position

**Shin Kawamoto**  
Managing Executive Officer

[P.77, 78](#) Refer to Financial Summary



### Review of Fiscal 2023 Results

In fiscal 2023, Japan's economy gradually recovered, in part because the COVID-19 pandemic was subsiding. However, the economy stalled slightly in the second half of the year.

In the food industry, there was an increase in demand in the food service industry due to an increase in inbound demand, which was a positive factor. On the other hand, raw material and energy prices continued to spike around the world, and price increases continued for food and other products. This had an impact on consumer behavior. In addition, there were further cost increases due to problems related to lack of transport capacity anticipated to hit Japan within 2024 and the further depreciation of the yen, among other factors.

In this environment, the Group delivered higher sales and profits. In the Group Medium-Term Management Plan 2025, we have set a target of 20 billion yen in operating profit for the final year. Recording 18.4 billion yen in operating profit in the current fiscal year gives us a solid start on our target for the final year of the plan, fiscal 2025.

The effects of price increases have been effective in addressing higher costs, and they have helped to restore profits. We believe that the new prices represent customers' recognition of the value of the Group's products, and we have demonstrated a certain degree of resilience to higher costs. The price changes made in fiscal 2023 have almost covered the cost increases of the past two years. On the other hand, data on sales volume shows some products where growth is sluggish, so improving volume is a challenge we need to address in the future. Even so, sales of Sakeru Cheese, for which we expanded production capacity, increased by

double digits compared to the previous fiscal year. In addition, in the beverages and desserts category, sales of milk-based beverages such as Mainichi Honebuto and MBP Drink were strong, achieving double-digit growth compared to the previous fiscal year. We will continue to actively expand these products in the future.

We have set a target of 19 billion yen in operating profit for fiscal 2024, and we plan to achieve this by increasing sales volume through promotions and other means.

### Progress on the Group Medium-Term Management Plan 2025

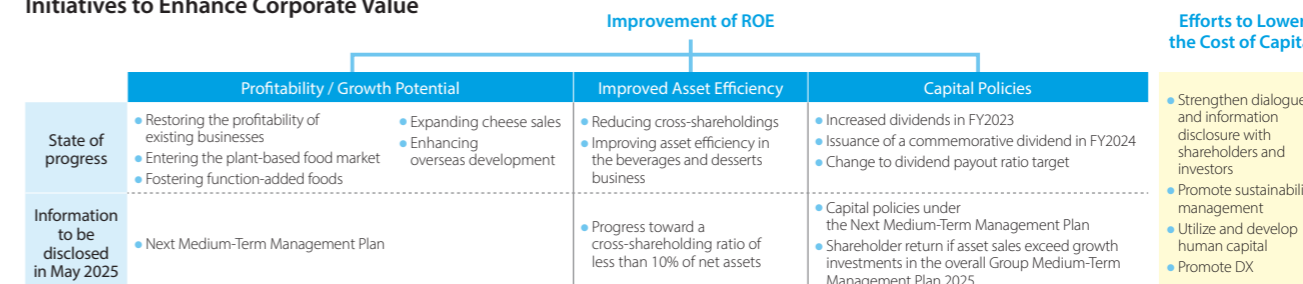
#### Progress with Business Strategies

Our company will celebrate its 100th anniversary in 2025. We have designated the Group Medium-Term Management Plan 2025 as a period to build a foundation for the next 100 years. It is a plan for the corporate Group to gain resilience, that is, to build a strong business structure and the robust foundation essential for growth. As mentioned earlier, we are aiming for operating profit of 20 billion yen in fiscal 2025. Our ROE target is 6% or more, but we will aim for 8% or more as soon as possible after the end of the Group Medium-Term Management Plan 2025.

Our business strategy is supported by three pillars: cultivating new seeds for growth, increasing volume through the utilization of the existing foundation, and strengthening and supporting the domestic base of dairy farming production. We are also working on six strategic themes. So far, we have made steady progress in areas that could become drivers of growth, such as launching

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### Initiatives to Enhance Corporate Value



### Cash Allocation Forecast



new plant-based food products, starting construction of a plant-based food ingredient production plant in Malaysia to be operated by Agro Snow, expanding the overseas deployment of functional ingredients, making Yoshida Corporation a subsidiary, and establishing a local cheese production company in Vietnam.

### Progress on Financial Strategy

As part of the financial strategy in the Group Medium-Term Management Plan 2025, we will maintain a sound financial position while actively investing in infrastructure and growth areas using operating cash flow and asset reductions as funding sources. At the same time, we will provide stable shareholder returns with a target dividend payout ratio (excluding gains on sales of assets) of 40% or more.

In fiscal 2023, the level of ROE excluding gains on sales of assets was in the 5-6% range due to the recovery in operating profit, and we believe that we are making steady progress toward achieving the 6% target in fiscal 2025, the final year of the plan. The equity ratio was 53.8%, exceeding the target of 50% for the second consecutive year. This shows that our financial position has grown even more sound, and we believe that we have reached a stage at which we can actively take on the challenges of investing for growth, or in other words, cultivating new seeds for growth, one of the pillars of the Group Medium-Term Management Plan 2025.

In terms of shareholder returns, we have increased dividends by 20 yen per share to 80 yen, taking into account a variety of factors, including the improvement in consolidated financial results and the more sound financial position. Based on our

current financial situation, we have changed our dividend payout ratio target from 30% to 40% or more for fiscal 2024, excluding gains on the sale of assets. Furthermore, in anticipation of our 100th anniversary, we are planning to pay a commemorative dividend of 20 yen to express our gratitude to our shareholders, so we forecast a dividend of 100 yen in total, including the ordinary dividend. As part of our efforts to improve the efficiency of our assets, we are also reducing the number of shares we hold as strategic investments. The cash generated from this will be used in principle to make solid investments for growth, and we will use this to drive further growth. However, if the cash generated from the sale of these shares exceeds the Group's growth investments, our policy of returning this to our shareholders will not change.

We are also reviewing our cash allocation in light of the increase in cash inflows from these earnings and the sale of assets and the increase in shareholder returns. With regard to the total amount of investment during the period of the Group Medium-Term Management Plan 2025, we are aiming to allocate a total of 100 billion yen to base and growth investment targeting existing businesses, and future value creation investment targeting new businesses. Of this, 20 billion yen will be allocated to M&As, with the aim of accelerating growth. Future value creation investments are investments in areas that will become new growth drivers for our Group. We will continue to invest in the plant-based food area, as already underway, as well as in fostering function-added foods and enhancing our overseas development.

## ■ Key Themes

The Group operates its business with a focus on two standards: increasing the profitability and growth potential of our business and contributing to food sustainability, especially in the domestic dairy industry. We believe that contributing to sustainable dairy farming will reliably lead to an increase in our corporate value in the long run, and we intend to continue our dialogue with our stakeholders until they understand this point.

## Management with an Awareness of Capital Efficiency

In terms of our share price valuation, we recognize that it is problematic that our PBR is below 1. We believe that the main reasons for this are factors keeping profitability down and the fact that we have not yet fully executed our specific initiatives for future growth strategies and our capital policy.

We aim to achieve a PBR of more than 1 as soon as possible by taking specific actions to address issues such as reaching an ROE of 8% or more, and communicating better with our shareholders to earn high praise.

## ■ Improving ROE

### ① Improving Profitability and Growth Potential

In existing businesses, the effects of price revisions and other measures taken to date have absorbed the impact of higher costs, and profitability is steadily recovering. With these steps, we believe that we have demonstrated a certain degree of resilience to higher costs. We will firmly implement measures to improve profitability in businesses that are facing challenges. In terms of improving growth, we will steadily implement our plan to drive growth with plant-based foods and other alternative foods, function-added foods, cheese, and overseas development.

### ② Improving Asset Efficiency

As a result of the reduction in cross-shareholdings currently underway, the percentage of net assets to total assets in fiscal 2023 decreased by 1.9% from the previous year to 17.9%, and the number of stocks held decreased by 14 to 53. We will continue to reduce the value of shares held to less than 10% of net assets by the end of fiscal 2025. In the Beverages and Desserts Business, the site of the Nagoya Plant, which was integrated with the Toyohashi Plant to improve asset efficiency and ceased production, was sold in April 2024.

### ③ Capital Policies

As I have already mentioned, in fiscal 2023 we plan to increase the dividend by 20 yen per share, and in fiscal 2024 we plan to add a 100th anniversary commemorative dividend (20 yen per share), bringing the dividend per share to 100 yen.

We have also started to formulate a new management plan. In this plan, we will consider the capital policy for the next management plan and the return of profits to shareholders from the sale of assets in the Group Medium-Term Management Plan 2025. We plan to disclose this in May 2025.

## ■ Lowering Cost of Capital

We will reduce cost of capital by strengthening dialogue with stakeholders, including shareholders and investors, and by enhancing information disclosure, including not only financial information but also information on our efforts to improve sustainability, utilize human capital, and promote DX.

## Steps to Increase Corporate Value

In order to help achieve food sustainability, we will increase growth, profitability and capital efficiency while maintaining financial soundness, and direct the funds obtained through our business toward investment in new growth and the enhancement of shareholder returns. Guiding these efforts is my most important mission as the executive officer responsible for finance. You can expect the Group's financial strategy to achieve great results as we work to continuously improve corporate value.

# Sustainability Management to Help Achieve Food Sustainability

Message from the Executive Officer Responsible for Sustainability

## Pursuing Sustainability Management to Help Achieve Food Sustainability and Fulfill the Megmilk Snow Brand Group's Mission

Fumi Hatamoto  
Managing Executive Officer

Having learned from two past incidents, the Megmilk Snow Brand Group today places corporate ethics (compliance) at the heart of its sustainability management. The most unique organization on the compliance side is the Corporate Ethics Committee. Chaired by an outside director, it is made up of outside experts, representatives of the labor union, and internal committee members. In its role as an advisory body, it verifies overall management from an outside perspective and makes recommendations to the Board of Directors. In addition, our sustainability group activities (see page [P.59](#)) are a steady effort characteristic of the Group. We have continued with these initiatives for over 20 years since the incidents, reflecting our strong commitment to sustainability and compliance.

In order to help achieve food sustainability, the Group focuses on providing nutrition (which is the basic value of the dairy industry), considering the environment (which is a prerequisite for business continuity), and making the most of human resources (who are the driving force behind business continuity and development), all based on compliance (which is the main axis of our group's sustainability management).

The spirit of *Kendo Kenmin* ("a healthy earth ensures human health"), which was the aspiration of our founders, is still deeply rooted in the management and business activities of the Megmilk Snow Brand Group. Our current objective of helping to achieve food sustainability certainly inherits this founding spirit. Today, as the world is confronted by a looming global protein crisis, the Group is contributing to society by mobilizing its extensive knowledge and unique functions developed in the milk business. We call this the "milk value chain," and it is the

very essence of our business activities. In this sense, we can say that every aspect of management that supports our business activities is sustainability management for our Group.

For a company like ours working to build a sustainable world by helping to achieve food sustainability, the greatest challenge and responsibility is to ensure the sustainability of our business. If we cannot maintain the sustainability of our business, we will not be able to make use of the milk value chain or support the dairy industry in the future. I believe that my mission as the executive officer responsible for sustainability is to create an awareness within the company that our future corporate value will be created precisely by helping to achieve sustainability as we continue to grow our business and increase profitability, while also helping to solve social issues.

## Basic Approach to Sustainability

For the Megmilk Snow Brand Group, which carries on the spirit of *Kendo Kenmin* ("a healthy earth ensures human health"), we believe that contributing to food sustainability through our business activities helps build a more sustainable society. The Megmilk Snow Brand Group's sustainability is based on its efforts to strengthen sustainability management and continuously enhance corporate value by ensuring compliance to sustain our business and synchronizing social and economic values.

## Sustainability Promotion Structure

The Group Sustainability Committee, chaired by the president of Megmilk Snow Brand, has been established to promote the sustainability of the entire Group at the management level. The Sustainability Promotion Department and Group Sustainability Committee confirm the progress of KPIs for material issues, conduct discussions on achieving them, and report to the Board of Directors. In addition, the Sustainability Promotion Subcommittee has been established under the Group Sustainability Committee to examine specific measures to resolve material issues based on reports from the workgroups on decarbonization, plastic reduction, and human rights.

In December 2023, the TNFD Workgroup was added to address natural capital and biodiversity.

In addition, we promote understanding of sustainability among employees and other specific initiatives, including the sustainability Group activities that are led by sustainability leaders assigned to each department and Group company of Megmilk Snow Brand.



## Sustainability Group Activities

At Megmilk Snow Brand, all officers and employees have been working on Sustainability Group Activities since 2003, after the two incidents (P.71), in order to strengthen compliance and foster greater awareness around sustainability. Sustainability leaders assigned to each department take the lead in organizing lively discussions on activity themes. Communication is strengthened by sharing opinions and experiences with each other. Group companies also carry out Sustainability Group Activities that are tailored to the issues facing each company, with a focus on compliance.



Month	Theme in fiscal 2023
May	Watching a video of people involved in the Snow Brand Milk Products incident and exchanging opinions
Jun.	Discussing the activities of the 1st Megmilk Snow Brand Group Award <a href="#">P.54</a>
Jul.	Company-wide activities on the "Days of Pledging to Strongly Recognize and Fulfill Food Responsibility" under the theme of "To Keep the Snow Brand Incidents from Fading Away" <a href="#">P.72</a>
Aug.	Considering the environment that would make it easier to demonstrate the Megmilk Snow Brand Values based on the results of the employee awareness survey
Sep.	Understanding the health issues of employees and Megmilk Snow Brand's health management
Oct.	Preventing misconduct and violations, and ensuring understanding of and familiarity with the Code of Conduct
Nov.	Understanding the company's value creation and sustainable growth by reading the Snow Brand Megmilk Report 2023 (Integrated Report)
Dec.	Considering the Megmilk Snow Brand Values through the Megmilk Snow Brand Award 2023 <a href="#">P.54</a>
Jan.	Thinking about harassment
Feb.	Company-wide activity on the "Days of Pledging to Strongly Recognize and Fulfill Food Responsibility" under the theme of "To Solve Social Issues for the Future" <a href="#">P.72</a>

## Code of Conduct for Sustainability

### Megmilk Snow Brand Group Charter of Corporate Behavior

Established on June 1, 2021

The Megmilk Snow Brand Group respects the letter and spirit of applicable laws and international rules at all stages of the supply chain, in accordance with the Megmilk Snow Brand Group Charter of Corporate Behavior. We act honestly and in good faith, living up to high ethical standards.

#### 1. Sustainably Improving Corporate Value and Resolving Social Issues

The Megmilk Snow Brand Group works to improve corporate value by engaging in business activities to achieve its Corporate Philosophy, while striving to help build a sustainable world by working to solve social issues.

#### 2. Trusting Relationship with Consumers

The Megmilk Snow Brand Group strives to ensure quality management and provide society with effective and safe products and services. Based on Japan's Basic Consumer Act, we recognize consumer rights and our responsibilities as a business operator, and we provide accurate information on products and services and communicate in good faith to ensure consumers' satisfaction and earn their trust. In the event that an accident does occur with a product we have provided, we respond appropriately, with consumer safety as our top priority.

#### 3. Equitable Business Activities

The Megmilk Snow Brand Group maintains a high sense of morals and responsibility, observes corporate ethics, strives to ensure compliance throughout the Group, and carries out business activities based on fair, transparent and free competition. Moreover, we do not tolerate any transactions or relationships with organized criminal groups or other anti-social forces.

#### 4. Fair Information Disclosure and Dialogue with Stakeholders

The Megmilk Snow Brand Group proactively, effectively and appropriately discloses information in a timely manner to earn the understanding and trust of all stakeholders, including consumers, dairy producers and shareholders. In addition, we implement transparent management by engaging in ongoing dialogue with stakeholders in order to raise corporate value.

#### 5. Workstyle Reforms and Enhancement to Work Environment

The Megmilk Snow Brand Group approaches work in a way that raises employees' skills and respects personal attributes, diversity and individuality. Moreover, we build a corporate culture that offers freedom and vitality and establish workplace environments that are motivating and take health and safety into full consideration.

#### 6. Initiatives on Environmental Issues

The Megmilk Snow Brand Group views environmental issues such as addressing climate change, effectively using water resources and appropriately managing waste as shared issues for humankind. We practice environmental conservation by working with everyone in the supply chain to develop environmentally friendly technologies, products and services.

#### 7. Respect for Human Rights

Throughout its supply chain, the Megmilk Snow Brand Group respects basic human rights, bans discrimination on the basis of race, nationality, gender, religion, ideology or other such characteristics, prohibits human trafficking and child labor, and strives to provide safe, healthy work environments.

#### 8. Thorough Crisis Management

The Megmilk Snow Brand Group has made thorough preparations for the possibility of emergencies. In the event of emergencies such as fires, natural disasters and accidents, the Group prioritizes human life and then strives to maintain, sustain and quickly restore its business activities. We value the company's assets and respectfully manage confidential information, including personal information.

#### 9. Partnerships with Local Communities

The Megmilk Snow Brand Group actively participates in society and promotes communication at all of its business sites as a good corporate citizen. This helps to build ties of trust and contributes to local community development.

#### 10. Thorough Implementation of This Charter

Those involved in the management of the Megmilk Snow Brand Group embrace as their own role ensuring that the Group lives up to this Charter, taking the lead to ensure that it is fully implemented by all Group companies. In addition, all involved in the supply chain are encouraged to take action based on this Charter.

## Our Approaches to Consumers—Our Focus on Consumers Based on the Basic Consumer Act

The Megmilk Snow Brand Group will strive to uphold its four basic approaches so as to respect the basic rights of consumers as stipulated in the Basic Consumer Act and fulfill its business responsibilities.

### Basic Consumer Act

#### Fundamental Principles (Eight Basic Rights) Article 2

- the satisfaction of the basic demands of consumers,
- a healthy living environment,
- consumer safety, and
- the opportunity for consumers to make autonomous and reasonable choices about products and services shall be guaranteed,
- the opportunity for consumers to receive the necessary information and
- education shall be provided,
- the opinions of consumers shall be reflected in the Consumer Policies, and
- 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.

#### Responsibilities, etc., of Business Operators Article 5

- Duty to secure the safety of consumers and fairness in transactions with consumers.
- Duty to provide necessary information to consumers in clear and simple terms.
- Duty to consider the state of consumers' knowledge, experience, and the status of their assets, etc. in dealings with consumers.
- Duty to endeavor to establish systems necessary to appropriately and promptly process complaints by consumers, and to appropriately process said complaints.
- Duty to cooperate with the Consumer Policies implemented by the State and local governments.

Our Response

\* Numbers added for clarification of content

### Megmilk Snow Brand Group's Initiatives

#### Expanding Education about Food

- Communicating the importance of food and milk
- Understanding dairy farming

#### Website Operation

- Proactively disclosing information
- Clarity in business operations

#### Establishing a Quality Assurance Structure

- Megmilk Snow Brand Quality Assurance System (MSQS)

#### Establishing a Risk Management System

- Regular reporting of calls received by the Customer Relations Center
- Risk Liaison Committee

#### Megmilk Snow Brand Group's Four Approaches

Providing safe and reliable products and services

Establishing a risk management system to rapidly and appropriately respond to unexpected incidents

Basic Consumer Act

Proactively disclosing information and reflecting it in management

Embracing consumers' feedback and reflecting it in management

#### Customer Relations Center

- Open 365 days per year
- Meetings to improve customer satisfaction

#### Corporate Ethics Committee

- Quality Subcommittee (plant quality audit from outside the company)
- Consumer Subcommittee (opinions on consumer-focused business operations)
- Product Information Subcommittee (consideration of product labeling from a consumer perspective)

# Ensuring Governance Supports Sustainability Management

Conversation between External Director and Representative Director and Executive Vice President

The Megmilk Snow Brand Group has made a sharp shift in direction to contribute to food sustainability. The Board of Directors identifies the wide range of risks that threaten business continuity and provides oversight to control and avoid these risks, and also encourages management to pursue new business possibilities. External Director Akito Hattori and Executive Vice President Tomomi Ishii sat down to discuss the Group's management and governance approach, including the vision that the Group's management and board of directors have for food sustainability and how the Group should pursue it.



**Tomomi Ishii**  
Representative Director and Executive Vice President

**Akito Hattori**  
External Director, Audit & Supervisory Committee Member

Why Can the Megmilk Snow Brand Group Help with Food Sustainability?

predecessors who founded this company with a strong sense of purpose during a time when it was difficult to obtain food and supplement nutrition, we felt that those of us living through these times need to be motivated to help achieve food sustainability. Moreover, the Group must move on to the next stage of growth by taking on new challenges in order to reinforce our management foundation for the next 100 years. However, we believe that it is extremely important to make management decisions while taking into account the balance between existing businesses and new businesses. Our management capital is limited, and it is important that we aggressively allocate capital to new businesses, while the Beverages and Desserts Business is closely linked to the Group's goal of contributing to dairy farming production, and is also essential in contributing to food sustainability. Investing in updates to our aging beverages and desserts plants is also an

## Approach to Megmilk Snow Brand

**Ishii** Up until this point, the Group has worked on strengthening corporate governance to improve our corporate value, primarily by ensuring management transparency, strengthening the external oversight function, and establishing a management system that can adapt quickly to market changes. Today, I'll be talking with Akito Hattori, who has served as external director for the Group for six years since 2018. In his work as an attorney, he has the experience and knowledge that comes from long involvement with corporate law. He shares this expertise when speaking at board meetings. Director Hattori also serves as an Audit & Supervisory Committee Member and has a deep understanding of the Group's management and business. In addition, he is a member of the Nomination Advisory Committee and the Compensation Advisory Committee, and has offered his expertise to the Group in many areas. He often makes statements at board meetings that show a real grasp of the key points, and always give me insights.

**Hattori** As you kindly mentioned, I have worked as an attorney for a long time. I am often involved in work related to corporate restructuring, and I have had many opportunities to witness for myself the importance of decisions made by top management and the need for open, broad-minded discussions among senior executives. In our board meetings, I try to make the most

of my own experiences and knowledge to make constructive comments from the perspective of compliance and risk management in particular. As an Audit & Supervisory Committee Member, I am involved in auditing business execution overall, including that of Group companies. In my role as a member of the Nomination Advisory Committee and the Compensation Advisory Committee, I provide opinions from my position as an independent external director. Executive Vice President Ishii, you are involved in the execution of internal operations, and at board meetings, you provide succinct explanations of the operations you are responsible for. You also closely examine the company's proposals in advance at the two advisory committees. You have, of course, had many years of experience with the National Federation of Agricultural Cooperative Associations, giving you a broad understanding of the livestock business, and I am always struck by the statements you make at board meetings based on these experiences.

### Approaches to Management Strategy, Corporate Culture and Business Strategy

**Hattori** I am particularly impressed with the way that, under

## Group's Management and Governance

the strong leadership of President Masatoshi Sato, officers take responsibility for the duties they are assigned. I have observed the Group's management for the past six years, and I feel that there was a major change in the management system and the very approach to management since the appointment of President Sato in 2022. On the management side, there is a focus on the Company's significance, and officers are again emphasizing *Kendo Kenmin* ("a healthy earth ensures human health"), a phrase that expresses the founders' vision. The new management team's clear declaration of what they will prioritize is a very positive development because it clarifies the underlying intentions. On the business side, I have high hopes for the growth strategy laid out in the Group Medium-Term Management Plan 2025. I'm really looking forward to the plans to expand cheese sales, foster function-added foods, and enhance overseas development. The challenge to develop plant-based foods is also very worthwhile. This clear willingness to take up new challenges is part of the new management system led by President Sato, and shows one of the ways that the Group has changed the most. I feel that the Company is quickly making very positive changes.

**Ishii** Thank you for those encouraging words. We decided to once again focus on *Kendo Kenmin* because, just like our

urgent issue, and we must also tackle the reorganization of the production system to improve production efficiency. There is no doubt about the direction we should take, but we need to carefully discuss how we use our management capital.

**Hattori** One of our management challenges, including how to balance existing and new businesses, is the lack of collaboration and exchange of opinions on cross-cutting themes within the company. Therefore, for agenda matters, I try to ask questions at board meetings to clarify what discussions have taken place within the company so far, and what the nature of those discussions and the related issues are. I think it is important to listen to the comments and opinions of not only the relevant directors, but also the other directors.

### Corporate Governance, Board of Directors Efficacy Assessment

**Ishii** We are focusing on augmenting discussions in board meetings to reinforce governance. Every year, we compile the opinions of board members about the Board of Directors' efficacy and consider how they can be addressed. Over the past few years, members have pointed out that internal directors

rarely give their opinions and that there should be more discussion of management strategy. To resolve this, we have set up informal sessions to exchange opinions at times other than board meetings. In particular, discussions around management strategy have become more fulfilling now that we have increased opportunities to exchange opinions, so that external directors can participate from the stage at which management strategy is being established. However, we still have room for improvement when it comes to our response to sustainability issues and discussions of stakeholder and non-financial information. We need to have more meaningful discussions and make improvements in those areas. I am hopeful that the opinions of external directors will help with these issues, and in particular, I would like to hear their frank feedback on reinforcing the governance of Group companies.

**Hattori** The Company's governance has changed significantly over the past two to three years. I think the opinion sessions that Vice President Ishii just mentioned have had particularly impressive results. This has been an extremely meaningful opportunity for external directors as well, since we can organize the key points on the important themes that should be discussed at board meetings. In addition, on the executive side, it is also a great advantage to be able to reflect a wide variety of opinions on issues before they are put on the agenda for the Board of Directors' meetings. Having these discussions first and then bringing them up at the Board of Directors' meetings

enhances the quality of the discussion and helps in forming the final opinions. The Group's overall governance and non-financial information should also be discussed more at Board of Directors' meetings and opinion sessions. These sessions are significant precisely because they put a range of opinions on the table. Even if the meeting ends without a final agreement, the robustness of the output will certainly be enhanced thanks to the exchange of opinions from multiple perspectives. Moreover, admonishing myself, I would venture to say that the Board of Directors could be more active. President Sato's facilitation as chairman of the board is very skilled; he is also good at moving the meeting forward and drawing out opinions, and is well organized. I think that directors should speak more freely without hesitating and worrying that their statements are not perfect. Executive officers should also speak up more, even on matters that are not under their jurisdiction. This is a barrier that must be overcome, including by me. I also feel that the ratio of reportable items on the Board of Directors' agenda is somewhat high, but it is difficult to improve this. The Corporate Ethics Committee meets once every two months, and a summary of its deliberations is reported to the Board of Directors. Time is given to reporting on the results of the Committee's review of product quality and labeling, as well as problems at production sites from the consumer's perspective. This report is extremely important for the Company's compliance, and I think it is an important activity that must be continued into the future.

## We Are Working to Enhance the Quality of Discussions and Further Energize Board of Directors' Meetings.

— Akito Hattori

## Debate Is Crucial in Terms of Our Contribution to Food Sustainability.

— Tomomi Ishii

### Megmilk Snow Brand's Future, and Ideal Direction

**Ishii** At Board of Directors' meetings, we engage in meaningful discussions to enhance corporate value, while respecting investors' viewpoints. I have been particularly impressed with the board discussions on cash allocation. Strengthening our business portfolio is a topic on which we receive a lot of advice from investors. The Group Medium-Term Management Plan 2025 clearly lays out our direction, and we have made significant progress in our discussions over the past year on how to use cash for this purpose. There was a wide range of views on how to approach capital policy and strategic investment. Earlier, I mentioned the balance between existing and new businesses, and in fact, when we had very heated discussions on the need for growth investment and investment in future value creation, the external directors made a strong case for investing in updating aging infrastructure in existing businesses, so we were able to come to an understanding on these investments. Looking back on these discussions, I think they were extremely useful in considering the future direction of the Group.

**Hattori** That really was a useful debate. I think it provided an opportunity to have a serious discussion about what we need to do now to help contribute to food sustainability. The discussions at the Board of Directors' meetings on building up human capital were particularly striking for me. Discussions on improving wages and other employment conditions and on promoting recruitment activities to ensure human resources at plants were extremely substantive. I felt that the discussions were not

simply about salary levels and other treatment issues, but also touched on the difficulty of hiring at the plants. This made for a very productive discussion. We also discussed personnel rotation for human resource development, managerial positions for women, and issues related to the training of women to serve in officer roles, but I felt that the exchange of opinions here was inadequate and that we did not go deeply enough into these issues.

**Ishii** There can be no sustainable growth for the Group without the growth and success of our employees. We will continue to focus on each individual employee's growth and create opportunities for them to thrive. Director Hattori mentioned the key phrase "food sustainability," and I have realized anew how important it is to consider how we can contribute to food sustainability when discussing the issue in board meetings. At first glance, the issue of boosting profitability and raising capital efficiency by expanding new businesses may seem different than the issue of contributing to sustainable dairy farming and building a robust milk value chain, but their connections become clear if we look at them through the lens of contributing to food sustainability. The Board of Directors will continue to strive for improvement, to increase effectiveness, and to ensure discussions are even more fruitful.

Please continue to provide your honest opinions.

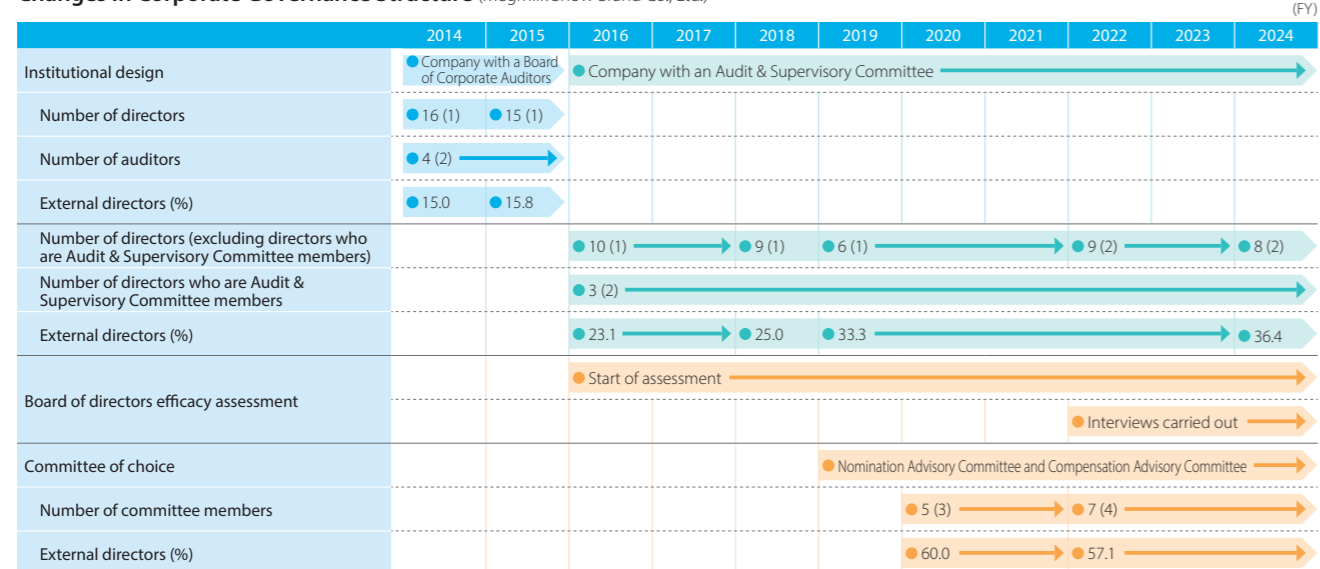


# Corporate Governance

## Corporate Governance Basic Policy

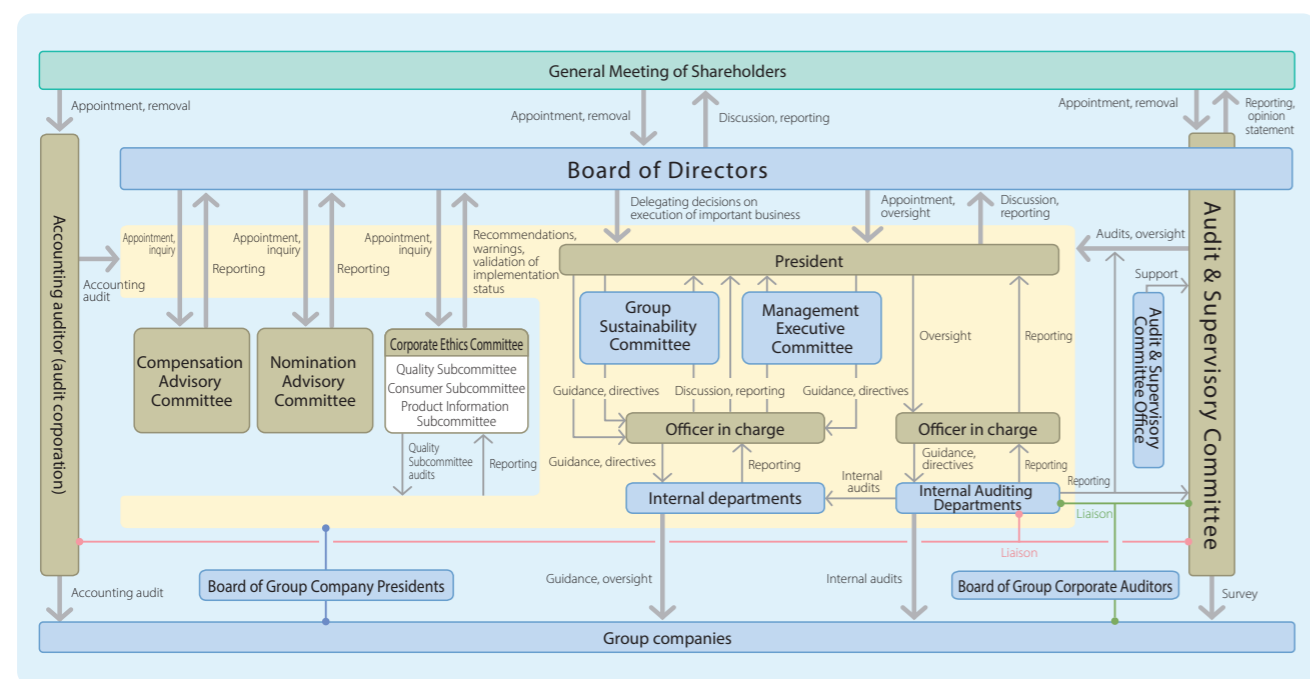
Our basic policy is to enhance our corporate value by ensuring transparency in management, strengthening oversight functions from outside the Company, and establishing a management structure that can respond swiftly to changes in the market. In accordance with this basic policy, we actively work to strengthen governance in order to fulfill all our responsibilities to our shareholders and stakeholders. Furthermore, as a Company with an Audit & Supervisory Committee, we have established a Board of Directors and an Audit & Supervisory Committee as stipulated in the Companies Act. We have also adopted an executive officer system in which individual business execution is delegated to executive officers, including executive directors.

Changes in Corporate Governance Structure (Megmilk Snow Brand Co., Ltd.)



(Note) Figures in parentheses indicate the number of external directors

## Corporate Governance Organization Chart



## Corporate Governance Organization

### Board of Directors

In fiscal 2024, the Megmilk Snow Brand Board of Directors consists of 11 directors (including three directors also serving as Audit & Supervisory Committee members). Among the total, four are external directors (including two Audit & Supervisory Committee members). In addition, in accordance with the provisions of the Articles of Incorporation and resolutions of the Board of Directors, the majority of important business execution decisions are delegated to the directors, with the exception of legal matters. This system allows the Board of Directors to concentrate on matters stipulated by law as well as particularly important decisions on basic management policies and on supervising the execution of business by executive officers. In principle, the Board of Directors meets once a month, and additionally as needed. The Board met a total of 17 times in the fiscal year ended March 31, 2024.

### Management Executive Committee

The Management Executive Committee, consisting of the representative directors, the executive officers in charge of each topic, and the heads of headquarters departments, has been established as a body to discuss important matters related to business execution.

### Audit & Supervisory Committee

The Committee comprises three directors serving as Audit & Supervisory Board Committee members, two of whom — the majority — are external directors. The Audit & Supervisory Committee conducts audits of the overall status of business execution, including that of Group companies, utilizing the internal control system. In addition, to ensure the effectiveness of these activities, one full-time Audit & Supervisory Committee member is elected from among the Audit & Supervisory Committee members to attend important management meetings to appropriately understand and monitor the status of management execution. The Committee conducts close cooperation with regular exchanges of information and opinions with the Internal Audit Dept., Internal Control Dept., accounting auditor, representative directors, and others. To support these activities of the Audit & Supervisory Committee, the Audit & Supervisory Committee Office has been established and assists in the smooth execution of audits and other work.

### Nomination Advisory Committee and Compensation Advisory Committee

The Nomination Advisory Committee and the Compensation Advisory Committee are established as voluntary advisory bodies to the Board of Directors. Each committee consists of at least three members, the majority of whom are independent external directors. In addition, the chairperson of each committee is elected by resolution from among the Committee members who are independent external directors. The Nomination Advisory Committee deliberates on the nomination of candidates for directors (including directors who are Audit & Supervisory Committee members),

the executive structure and division of duties, and issues to be addressed as the Nomination Advisory Committee. The Compensation Advisory Committee deliberates on revisions to the executive compensation system including performance-linked compensation under the next Group Medium-Term Management Plan, setting compensation for external directors, and issues to be addressed as the Compensation Advisory Committee.

### Corporate Ethics Committee

Refer to FY2023 Recommendations of the Corporate Ethics Committee and the Results of Initiatives

The Corporate Ethics Committee was established in 2002 to serve as an advisory body to the company's Board of Directors and is composed of external experts including one external director, a representative of the Labor Union, and internal committee members. The Corporate Ethics Committee holds regular meetings bimonthly, and serves as an external oversight entity for all aspects of business management. The validation work and recommendations for the Board of Directors conducted by the Corporate Ethics Committee are applied to the Company's business activities. In fiscal 2023, to increase the effectiveness of its recommendations, the timing of counseling to the Board of Directors was moved earlier than usual. In addition to regular committee meetings, members of the Corporate Ethics Committee also meet in its three subcommittees.

#### Quality Subcommittee

This subcommittee comprises external experts in quality and hygiene management and 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 2023, audits were conducted at five plants in Japan, including Group company plants.



Plant audit by the Quality Subcommittee (Kyoto Plant Ikegami Branch Plant)

#### Consumer Subcommittee

This subcommittee introduces the Group's various initiatives to representatives of consumer groups and opinion leaders on consumer issues, and receives evaluations and opinions from the consumer perspective. In fiscal 2023, meetings were held in the Kanto area in November and the Kansai area in December, where the subcommittee received evaluations of the Megmilk Snow Brand Group's corporate activities and opinions on sustainable dairy farming.

#### Product Information Subcommittee

This subcommittee comprises external experts in the field of labeling and performs checks of product package labeling to ensure it is easily comprehensible to consumers and information is being properly conveyed, thereby providing external oversight. As necessary, the subcommittee also shares information about internal labeling rules and reviews and updates the Voluntary Product Labeling Basic Manual. In fiscal 2023, 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 their efficacy, and a summary of the self-assessment results is made public. An overview of the results of the assessment of fiscal 2023 is as follows.

### Summary of the Fiscal 2023 Assessment

#### Assessment Details

All directors (including directors who are Audit & Supervisory Committee members) were given a questionnaire on the following broad topics, and answers were received from all. The Board of Directors Secretariat compiled the questionnaire results and reported to the Board of Directors, where the evaluation results were discussed.

#### Survey Topics

- (1) Structure of the Board of Directors
- (2) Director operations
- (3) Self-assessment
- (4) Roles and responsibilities of Board of Directors
- (5) Relationship with stakeholders
- (6) Summary
- (7) Nomination Advisory Committee and Compensation Advisory Committee

#### Summary of Results of Evaluation of the Fiscal 2023 Board of Directors Efficacy Assessment

##### (1) Self-assessment analysis results

Indicated that the Board of Directors largely functioned effectively in fiscal 2023.

##### (2) Response to issues identified in the previous fiscal year's Board of Directors efficacy assessment

We are continuously working to improve governance by implementing and validating improvement measures to address issues identified in the previous fiscal year's assessment.

##### ① Continue discussions about the diversity of the composition of the Board of Directors and other topics that will contribute to the achievement of medium- and long-term goals

The Nomination Advisory Committee discussed the skills required and the desirable composition of the Board of Directors of Megmilk Snow Brand.

##### ② Continue efforts to invigorate deliberations further and enhance discussions related to management strategies

- a. Provided prior explanations to outside directors on important matters and held prior meetings to exchange opinions on agenda items for the Board of Directors.
- b. The Board clarified the issues and worked to ensure lively discussions, and from July 2023 the Secretariat implemented a paperless system for materials to improve the efficiency of operations.

##### ③ Augment discussions on governance of Group companies

Reports continued to be made at the Board of Directors meetings on topics such as Group companies' quarterly earnings. In addition, important matters pertaining

to Group companies were reported at each Board of Directors meeting.

##### ④ Efforts for sustainability issues

The Board discussed the content of the revised Megmilk Snow Brand Group Sustainability Policy. The Board also discussed the Group's approach to sustainability issues, using reports from the Group Sustainability Committee (including progress on KPIs for material issues).

##### ⑤ Enhanced discussions that take the perspective of stakeholders and address non-financial information

The Board discussed non-financial information, including stakeholder relations, health, dairy farming, the environment, people and society, from the perspective of improving corporate value over the medium to long term.

##### (3) Future initiatives

As a result of the fiscal 2023 Board of Directors efficacy assessment, the following five key issues were identified as issues that the Board of Directors should continue to address.

- ① Continue discussions about the diversity of the composition of the Board of Directors and other topics that will contribute to the achievement of medium- and long-term goals
- ② Continue efforts to invigorate deliberations further and enhance discussions related to management strategies
- ③ Augment discussions on governance of Group companies
- ④ Efforts for sustainability issues
- ⑤ Enhanced discussions that take the perspective of stakeholders and address non-financial information

Megmilk Snow Brand's Board of Directors will endeavor to further enhance its efficacy in order to achieve sustained growth and raise corporate value. It will do this 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.

## Policy Related to Decision on Concept of Compensation for Individual Directors

At the Board of Directors meeting held on February 24, 2021, Megmilk Snow Brand decided to adopt the Policy on Decisions on Compensation for Individual Directors, and then revised it at the Board of Directors meeting held on May 15, 2023. These resolutions of the Board of Directors are discussed in advance by the Compensation Advisory Committee, which is mainly composed of independent external directors. In addition, the Board of Directors confirmed that decisions on the content of the compensation for each individual director for the fiscal year under question as well as the content of the compensation decided is consistent with the policies on such decisions, and that the discussion in the Compensation Advisory Committee has been respected. Accordingly, the compensation is consistent with this policy.

The policy related to decisions on content of compensation for individual directors is as follows.

#### (1) Basic Policy

- ① The compensation for directors (excluding directors who are Audit & Supervisory Committee members) is within the range resolved by the General Meeting of Shareholders. This level is benchmarked against compensation at other manufacturers and food companies of a similar size and amounts are determined based on the Company's performance. Compensation for each position reflects the weight of work responsibilities and the extent to which they contribute to and achieve the Group's consolidated earnings results. The compensation for directors who are Audit & Supervisory Committee members is within the range resolved by the General Meeting of Shareholders. This level is set at an appropriate amount in comparison with other companies of the same size based on an external survey.
- ② The compensation consists of base compensation and performance-linked compensation. Base compensation consists of a salary for oversight as compensation for overseeing management and an executive salary component for the execution of operations. Performance-linked bonuses consist of a short-term incentive (cash bonus) that is determined based on the consolidated operating profit for the Megmilk Snow Brand Group and a long-term incentive (stock-based compensation) based on the financial indicators related to the Group's medium- and long-term performance.

#### (2) Policy on Setting the Ratios for the Compensation for Individual Directors

The ratio of the base compensation, short-term incentive (cash bonus) linked to performance and long-term incentive (stock-based compensation) is approximately 6:2:2 (in the event that earnings indicators for the performance-linked bonus are achieved).

#### (3) Policies on Deciding on the Substance, Amount and Calculation Methods for Performance-Linked Compensation and Non-Financial Compensation

##### ① Short-term incentive (cash bonus)

This is paid as an incentive in line with the extent to which the Group's consolidated earnings are achieved in each fiscal year. The earnings indicator is the Group's consolidated operating income.

##### ② Long-term incentive (stock-based compensation)

The earnings indicators linked to performance are EBITDA and ROE, which assess improvements in profitability and capital efficiency. When including the portion not linked to performance, the weighting is 4:4:2 for EBITDA, ROE, and the portion not linked to performance, respectively (if each performance indicator is achieved).

#### (4) Policy for Setting Timing and Conditions for Payment of Compensation to Directors

- ① **Base compensation:** The monthly amount is set and paid on the salary payment date for employees.
- ② **Performance-linked compensation, short-term incentive (cash bonus):** Paid within one month after the completion of the regular general meeting of shareholders
- ③ **Performance-linked compensation, long-term incentive (stock-based compensation):** Paid separately based on internal regulations on stock issuance

#### (5) Matters Related to Decisions on Content of Compensation for Individual Directors

The compensation for each individual is resolved at the Board of Directors meeting after being discussed in advance by the Compensation Advisory Committee, which is mainly composed of independent external directors. An Audit & Supervisory Committee member selected by the Audit and Supervisory Committee may give his/her opinion on compensation for directors who are Audit & Supervisory Committee members at the general meeting of shareholders.

#### Total Amount of Compensation in Fiscal 2023

Director Category	Total Compensation (¥ million)	Total Compensation by Type (¥ million)			Number of People
		Base Compensation	Short-Term Incentive (Cash Bonus)	Long-Term Incentive (Stock-Based Compensation)	
Directors (excluding Audit & Supervisory Committee members) (external directors in parentheses)	346 (19)	242 (19)	57 (—)	46 (—)	9 (2)
Directors (Audit & Supervisory Committee members) (external directors in parentheses)	42 (19)	42 (19)	—	—	3 (2)
Total (external directors in parentheses)	388 (38)	284 (38)	57 (—)	46 (—)	12 (4)

## Standards for Appointing and Dismissing Officers

The guidelines for nominating candidates for director are as follows. Resolutions by the Board of Directors concerning the appointment of directors are first referred to the Nomination Advisory Committee and then finalized based on the results of the committee's deliberations.

Candidates for director (excluding directors serving as Audit & Supervisory Committee members) are appointed based on the prerequisite that they are not subject to any of the reasons for disqualification set out in Japan's Companies Act. They are also selected candidates with the excellent character, insight, skills and wealth of experience needed to monitor management overall and supervise the execution of operations while possessing a high sense of ethics.

Candidates for director positions who are Audit & Supervisory Committee members are appointed based on the prerequisite that they are not subject to any of the reasons for disqualification set out in the Companies Act. They are also selected based on whether they can remain independent from executive officers and can remain unwaveringly impartial from among a pool of candidates with the excellent character, insight, skills and wealth of experience needed to monitor management overall and

supervise the execution of operations, while possessing a high sense of ethics. Furthermore, candidates for director positions who are Audit & Supervisory Committee members shall include one or more people with knowledge of finance and accounting. In addition, the rationale for their nomination is appropriately disclosed in the notice of General Shareholders Meeting, etc.

Directors (including the chief executive officer) shall be subject to a proposal of dismissal in the event that they meet any of the following conditions: acknowledged to have a relationship with anti-social forces subject to criticism by society; caused the Group large losses or hindered the performance of business duties by violating laws, regulations, the Articles of Incorporation, or other regulations of the Group; caused significant hindrance to the execution of duties; or it is revealed they no longer satisfy the conditions of policies for nomination of candidates. Resolutions by the Board of Directors concerning dismissal of directors (including the chief executive officer) are first referred to the Nomination Advisory Committee and then finalized based on the results of the committee's deliberations. If a proposal of dismissal is approved, the Company shall disclose the information in a timely and proper fashion.

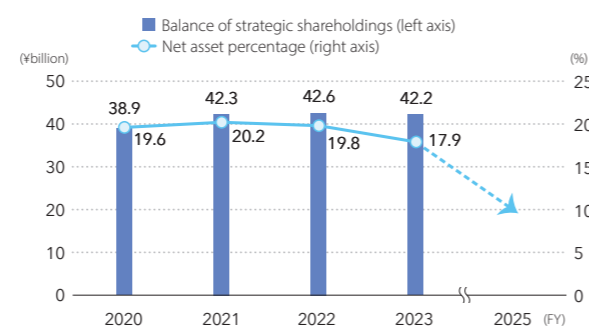
## Strategic Shareholdings (Methods of Verifying Policy and Rationales for Holding)

The Company does not hold the shares of related parties and business partners unless it determines that it is reasonable to maintain shareholdings for the purpose of strengthening the Company's business and functions. Every year, the Board of Directors makes comprehensive decisions by examining the shares of listed companies that the Company owns to verify the qualitative reasons for holding each individual stock (background of purchase, stable supply of raw materials or use of distribution routes, joint development, and other transactional plans, etc.) and the quantitative benefits anticipated from ownership (confirmation of economic rationale). To verify the economic rationale for holding the shares, the Company compares the business revenues, the increase in BPS and dividends of the issuer whose shares have been acquired to the Company's targeted ROE benchmark of 8% and evaluates these factors.

Even for stocks that are recognized as reasonable to hold based on the abovementioned decision-making, we will gradually reduce the amount to less than 10% of net assets, and use the proceeds of sales to fund growth investments as determined in the Group Medium-Term Management Plan 2025, after holding dialogue with business partners.

### Results of Initiatives in Fiscal 2023

In fiscal 2023, the Company sold seven listed stocks (including deemed holdings) in part and 12 in full, and two unlisted stocks. As a result, the net asset percentage decreased by 1.9 points compared to the previous year to 17.9%, and the number of issues decreased by 14 issues compared to the end of the previous year to 53 issues.



## FY2023 Recommendations of the Corporate Ethics Committee and the Results of Initiatives

[https://www.megmilk-snow.com/csr/pdf/2023\\_Initiative\\_report.pdf](https://www.megmilk-snow.com/csr/pdf/2023_Initiative_report.pdf) (in Japanese)

Consultation	Recommendation	Results of initiatives
<b>1</b> <b>Material Issue Initiatives</b>	<b>1</b> In order to contribute to the achievement of SDGs, qualitative and quantitative progress management should be carried out and specific measures taken to ensure that Group companies and divisions achieve their KPIs.	A Group Sustainability Committee meeting was held, and progress on KPIs confirmed. Discussions were lively, with the time primarily allocated to a question-and-answer session and the exchange of opinions.
	<b>2</b> In addition to the KPIs already set, initiatives for the material issues should be specified for each company and division, and employees' specific activities should be encouraged.	The Third Megmilk Snow Brand SDGs Action Awards was held, in which the 132 entries from all of the departments of Megmilk Snow Brand Co., Ltd. and 17 Group companies were screened and some chosen for awards. The Grand Prize was given to a joint initiative by the Noda Plant, the National Chain Store Sales Department, the Production Department and the Dairy Department.
	<b>3</b> Environment, society, and governance (ESG) information should be actively disclosed to earn the understanding and trust of a wide range of stakeholders.	New disclosure on sustainability-related items was included in the Group Medium-Term Management Plan 2025 in May 2023 and the securities report in June 2023.
<b>2</b> <b>Consumer-Focused Management</b>	<b>1</b> In order to earn more trust from consumers, products that proactively meet consumer desires and needs should be developed and provided by collecting and analyzing information and utilizing the wide-ranging knowledge that the Group has built up in the dairy industry thus far as its unique strength.	We responded to consumer questions about melto, which came onto the market in March 2023, by adding a label specifying that it could be eaten without heating it up.
	<b>2</b> The Group should make additional efforts to communicate with consumers and respond faithfully to consumer feedback. Executives and employees need to prioritize the consumer perspective in their actions.	The Group endorsed the "consumer-oriented management" that Japan's Consumer Agency is promoting and posted the Voluntary Declaration of Consumer Orientation on Megmilk Snow Brand's website and the Consumer Agency's website.
	<b>3</b> Information that is beneficial to consumers should be displayed and disseminated using appropriate and easy-to-understand methods via product labelling, advertising, the website and other means. Expressions must be appropriate to prevent any misunderstandings among consumers.	Legal checks of new and upgraded products, advertising and promotional designs were carried out in relevant departments. Any problems were pointed out and instructions given so that labels could be accurately displayed.
<b>3</b> <b>Food Safety and Security (Quality Control)</b>	<b>1</b> Each employee should be given training on quality so that they have the deep knowledge of quality and strong awareness of safety and security that will ensure that these priorities become a natural part of their daily activities. In addition, employees working in plants should receive training on hygiene management and manufacturing technology.	Understanding of quality assurance was checked (number tested: about 4,800 employees of Megmilk Snow Brand Co., Ltd. and Bean Stalk Snow Co., Ltd.). Training on food hygiene was provided (number participating: 3,231 employees of Megmilk Snow Brand Group).
	<b>2</b> Information on problems and complaints about products and services should be promptly shared and addressed appropriately, with an emphasis on the consumer's perspective and safety and security. Measures to identify risks and prevent the occurrence of problems should be taken.	Quality management conditions, including 5S activities (sort, set in order, shine, standardize, and sustain) for product delivery depots and warehouses were checked and efforts made to maintain and improve logistics quality.
<b>4</b> <b>Thorough Corporate Ethics (Compliance)</b>	<b>1</b> Initiatives should be taken so that every executive and employee behaves fairly and faithfully with a high sense of ethics and without ever forgetting the Group's two past incidents, in accordance with the Megmilk Snow Brand Group Charter of Corporate Behavior and each Group company's own voluntary code of conduct.	The Megmilk Snow Brand Code of Conduct is read aloud together at every sustainability group activity held in the workplace. These read-alongs are also held at Group companies.
	<b>2</b> All employees should be familiar with the hotline so that any behavior that deviates from the voluntary code of conduct or that is at risk of violating the code can be discovered quickly.	The Megmilk Snow Brand Group carried out a compliance questionnaire. The results of the questionnaire for Megmilk Snow Brand were posted on the intranet so that all employees could see them.
	<b>3</b> To prevent all types of harassment, education should be provided via training and other means so that executives and employees recognize differences in each other's values, respect each other's uniqueness, and recognize the importance of creating an environment in which it is easy to work.	In the new manager training, which includes Group company managers, the importance of compliance and whistleblower systems was explained, and case studies on power harassment and sexual harassment were also reviewed. Case studies were also reviewed by all managers at Megmilk Snow Brand Co., Ltd.
<b>5</b> <b>Respect for Human Rights and Diversity in Human Resources</b>	<b>1</b> Based on the approach set forth in the Megmilk Snow Brand Group Human Rights Policy, responsibility should be fulfilled for respecting human rights in every stage of the supply chain.	Evaluations of the human rights impact (internal confirmation) were carried out (Kyoto Plant, Taiki Plant of Megmilk Snow Brand Co., Ltd., Higashi Urawa Center of Chokuhan Haisou Co., Ltd. and Kobuchizawa Plant of Yatsugatake Milk Industry Co., Ltd.). No human rights risks were identified.
	<b>2</b> Efforts should be made to create a workplace that is conducive to work, regardless of the type of employment, which means having a place for sufficient communication and considering employees' mental and physical health.	Mental health training for management was provided. An initiative was started in which a theme is set for each participating department (such as ChatGPT) as part of a new workstyle project.
	<b>3</b> The environment should be set up so that a diverse pool of employees can demonstrate their abilities and perform well and also balance their work and personal lives. In particular, systems should be put in place to encourage women's success at work, raise the percentage of management positions held by women, and encourage men to take parental leave.	The Forum Promoting Employee Diversity was held to ensure an accurate understanding of gender bias and LGBTQ+ biases (all managers participated, including at Group companies).
	<b>4</b> All executives and employees should be encouraged to behave in a way that is aligned with the Megmilk Snow Brand Values (self-motivation, taking on challenges, and teamwork).	In conjunction with the release of the Group Medium-Term Management Plan 2025, executives visited Megmilk Snow Brand Group companies, including all offices of Megmilk Snow Brand Co., Ltd. and companies outside Japan.

# Compliance

## Approach to Compliance

In order to realize the Megmilk Snow Brand Group Corporate Philosophy, the Group conducts its business activities in accordance with the Megmilk Snow Brand Group Charter of Corporate Behavior, which includes observing corporate ethics (compliance). We believe that compliance is the foundation of sustainability management, which in turn leads to improvements in the Group's corporate value by contributing to food sustainability.

### Approaches to Thorough Compliance

#### Overall Management

- Corporate Ethics Committee: External verification and recommendations to the Board of Directors [P.66](#)

#### Executives and Employees

- Sustainability group activities [P.59](#)
- Activities of the Days of Pledging to Strongly Recognize and Fulfill Food Responsibility
- Compliance-related questionnaire
- Dissemination of the Code of Conduct
- Signing of the Megmilk Snow Brand Code of Conduct compliance pledge
- Raising awareness through the Sustainability Information Journal
- Compliance e-learning
- Harassment prevention

### Harassment Prevention

At Megmilk Snow Brand, we raise awareness about harassment throughout the workplace by holding case study review sessions for all management staff and having all employees exchange views in sustainability group activities. We also hold lectures and case study review sessions on preventing harassment in training for newly appointed management staff.

### Tax Compliance

The Megmilk Snow Brand Group complies with tax laws and pays appropriate taxes in all countries and regions in which it operates. In order to respond appropriately and in a timely manner to annual tax system revisions and changes in international tax rules, such as tax treaties and OECD guidelines, the entire Group is working to improve tax compliance by taking steps such as carrying out employee education and creating and maintaining appropriate accounting procedures and records (ledgers and account books).

## Two Incidents

### ■ 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, due to a power outage, *staphylococcus aureus* had proliferated in part of the process for powdered skim milk manufacturing at Snow Brand Milk Products' Taiki Plant, and that this was then re-dissolved to produce powdered skim milk that was used 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 apparent gap between the milk industry's interpretation of the Ministerial Ordinance on Milk and Milk Products Concerning Compositional Standards\*<sup>1</sup> and the way it was seen in society.

### ■ 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\*<sup>2</sup> 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 outbreak of BSE among cattle that occurred in 2001, which caused widespread consumer pessimism about 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 current Milk Ordinance (Ministerial Ordinance on Milk and Milk Products Concerning Compositional Standards, etc. based on the Regulations for Enforcement of the 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.

### Activities to Ensure That the Incidents Are Not Forgotten and Passing on Accounts of the Incidents

The Megmilk Snow Brand Group will not forget the food contamination incident at Snow Brand Milk Products and the fraudulent beef labeling incident at Snow Brand Food, and has been holding Days of Pledging to Strongly Recognize and Fulfill Food Responsibility every year since fiscal 2003 in June and January, the respective months in which the two incidents occurred. These activities were held for the 42nd time in fiscal 2023 since the incidents' occurrence in fiscal 2003. In addition, since fiscal 2020, activities have been held under the theme of "what is needed to properly understand the two incidents and prevent them from recurring" in June, while activities have been held under the theme of "solutions to social issues that the Megmilk Snow Brand Group will address in the future to achieve sustainable growth" in January. At the Sustainability Group Activities held the following month, all employees watched the video and exchanged opinions.



Q&A session after the lecture (January 2024)

Month of Implementation	Lecture Theme	Lecturer
June 2023	The Snow Brand Incident and Corporate Hygiene Management, from the perspective of government administration	Mitsuru Fujita, head of Quality Subcommittee, Corporate Ethics Committee
January 2024	Riding on the Shoulders of Giants: Considering <i>Kendo Kenmin</i> in the present day Social issues we are tackling	Kazuo Ataku, Professor Emeritus, Rakuno Gakuen University Takashi Mori, Managing Executive Officer, Megmilk Snow Brand

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

### ■ Overview

An incident involving a violation of the Plant Variety Protection and Seed Act, breed falsification, and concealment came to light in April 2018, triggered by information provided by individuals believed to be internal whistleblowers, and was pointed out by Japan's Ministry of Agriculture, Forestry and Fisheries, in August 2014 and July 2017. Snow Brand Seed conducted internal investigations based on both pieces of information, but due to the large number of labeling violations discovered in the relevant seed products, the company received a Report Collection Order from Japan's Ministry of Agriculture, Forestry and Fisheries in February 2018. To ensure an objective and thorough investigation, a third-party committee was set up. The investigation 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.

The third-party committee made recommendations for reforms to corporate culture, drastic improvements and restructuring of the governance system, measures to prevent labeling violations and product falsification, more mobility of personnel, activation of a hotline, etc. The company took the findings of the third-party committee investigation report seriously and made a concerted company-wide effort to fully implement the recommended measures to prevent a recurrence. It announced the report both internally and externally. The contents of the announcement were widely reported by the media, resulting in a significant loss of trust from customers and society.

### ■ Efforts to Prevent Recurrence

In accordance with the recommendations of the third-party committee, Snow Brand Seed, through its own will and sense of responsibility, formulated specific measures to prevent recurrences along with a process chart, and it implemented these

measures by the end of March 2020 as planned.

In April of the same year, the company submitted a Report on the Implementation of Reoccurrence Prevention Measures, etc. to the Ministry of Agriculture, Forestry and Fisheries, which was accepted in May of the same year.

In 2023, the April and May theme of Compliance Promotion Activities, which are held monthly with the participation of all officers and employees, was "activities to prevent the incident from fading from memory," which began in 2020. In April, the company asked employees to reflect on materials regarding the violation of the Plant Variety Protection and Seed Act, breed falsification, and concealment, while in May, it asked them to read the investigation report submitted by the third-party committee. Views were exchanged on both occasions, and efforts were made to solidify an improved awareness of compliance to ensure that the same mistakes would never occur again. "Activities to prevent the incident from fading from memory" have been established as a compliance promotion activity theme and will continue to be implemented.

The Compliance Committee, which was established in 2018 as an advisory body to the Board of Directors, convened in 2023 as well and provided recommendations as an external oversight entity on the initiatives of Snow Brand Seed. In addition, the Seed Product Information Subcommittee and Feedstuff Product Information Subcommittee, subcommittees of the Compliance Committee, continue to meet and have expanded their scope to include all Snow Brand Seed products and goods for labeling inspections.

Moreover, the company conducted compliance-related e-learning for all officers and employees. In addition, the Compliance Office explained the details of the whistleblowing system while participating in "compliance promotion activities" at all sites, and worked to improve internal understanding and trust in the system.

# Risk Management

## Risk Management Structure

With regard to risks that may have an unfavorable impact on management, the Megmilk Snow Brand Group has established the Megmilk Snow Brand Group Crisis Management Basic Policy to minimize the losses incurred and to prevent or reduce adverse impacts. The aim is to ensure stable management and maintain the Group's ability to grow in a sound and sustainable manner.

"Crisis management" is divided into the following two categories and we address it based on the organization chart at the right.

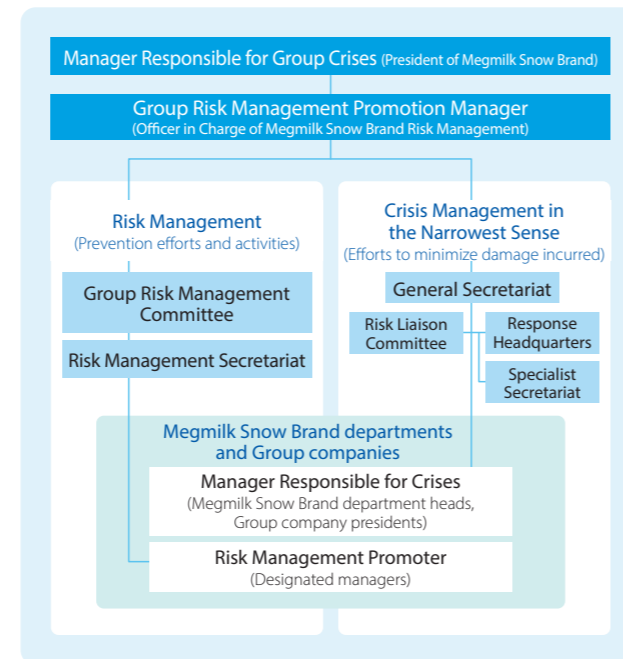
### ► Risk Management (Prevention Efforts and Activities)

The Group Risk Management Committee has been established to manage the entire Group and to confirm the direction of risk management. Each location receives direction from the committee, promotes risk assessment, and manages daily risks.

### ► Crisis Management in the Narrowest Sense (Efforts to Minimize Damage Incurred)

In the event of a risk that has or may have a significant impact on the Group, a task force will be established within Megmilk Snow Brand to share information and respond rapidly. Any risks that arise will be promptly reported, and risk management for the entire Group will be carried out at Risk Liaison Committee meetings held regularly within Megmilk Snow Brand.

## Megmilk Snow Brand Group Risk Management Structure



## Quality Incident Response

Information related to product quality received via daily customer feedback, as well as information on quality incidents and product trouble at plants or in the distribution process is 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 the 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, the Quality Incident Response Headquarters is established and the president serves as the general manager of the headquarters, overseeing the response.

## Quality Incident Response



## 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. The Megmilk Snow Brand Group protects whistleblowers by clearly prohibiting any disadvantageous treatment of whistleblowers in the rules governing the handling of internal reports, and by allowing whistleblowers to report anonymously. The information reported is strictly managed as confidential and dealt with appropriately, with the results of investigations reported to the Corporate Ethics Committee. If a compliance violation is identified through an internal report, we promptly take corrective measures, and also take appropriate disciplinary action against those involved in the violation. In addition, we use our internal Sustainability Information Journal and other media to encourage employees to utilize the hotline.

## Main Risk Responses

Items	Risks	Responses
Dairy Farming Industry	<ol style="list-style-type: none"> <li>Impact on raw milk procurement due to the weakening of the raw milk production base, such as the decline in the number of dairy farms</li> <li>Reduction in tariff levels for dairy products</li> </ol>	<ul style="list-style-type: none"> <li>Engage in milk price negotiations and take supply/demand adjustment measures with a sincere attitude based on a diverse range of perspectives, such as production costs and demand trends</li> <li>Consider making the most of the benefits (such as lower raw material procurement costs) that can be gained from importing dairy products as a result of tariff reductions</li> </ul>
Supply and Demand Fluctuations	<ol style="list-style-type: none"> <li>Milk supply and demand in Japan               <ul style="list-style-type: none"> <li>When there is an excess: Harsher sales competition due to excess dairy product inventory</li> <li>When there is a shortage: Reduced production, missed sales opportunities, drop in production efficiency</li> </ul> </li> <li>International supply and demand               <ul style="list-style-type: none"> <li>During a period of tight supply: Difficulty in procuring dairy products and feedstuff ingredients, and steep price hikes</li> <li>During a period of ample supply: Decrease in demand in Japan due to the influx of cheap imported dairy products, and a fall in feed prices</li> </ul> </li> </ol>	<ul style="list-style-type: none"> <li>Reduce the impact of supply and demand fluctuations on earnings by reorganizing our business portfolio, and diversify our profit base while placing it on a firm footing</li> <li>Strengthen profitability and establish an efficient production system by continuously improving our product mix</li> </ul>
Infectious Diseases in Livestock	<ol style="list-style-type: none"> <li>Effect on our business performance if we must dispose of a large amount of raw milk and products made from raw milk from cows with infectious diseases</li> <li>Decrease in consumption of Japanese milk products due to reputational damage, etc., decrease in milk production due to a decrease in the number of animals raised, decrease in feedstuff sales due to a decrease in demand for feedstuff</li> </ol>	<ul style="list-style-type: none"> <li>In the event of an outbreak of infectious diseases in livestock, swiftly gather information and take appropriate action in accordance with laws and regulations, the Megmilk Snow Brand Quality Assurance System (MSQS), and other rules</li> <li>Provide accurate information through industry organizations such as J Milk</li> </ul>
Market Contraction, etc.	<ol style="list-style-type: none"> <li>Decrease in consumer confidence and market contraction due to economic recession and rising prices</li> <li>Impact on sales of feedstuff and feedstuff seeds due to decrease in the number of livestock in the livestock market</li> <li>Decrease in sales of beverages and desserts due to unseasonable weather and cool summers</li> </ol>	<ul style="list-style-type: none"> <li>In Japan: Strengthen and establish the profit base by reinforcing the development and expanding the sales of functional and high-value-added products</li> <li>Outside Japan: Accelerate borderless development and strengthen the business by expanding cheese sales using production bases outside Japan and expanding the functional ingredient business</li> <li>Reduce the impact of supply and demand fluctuations on earnings by reorganizing our business portfolio, and diversify our profit base while placing it on a firm footing</li> <li>Strengthen profitability and establish an efficient production system by continuously improving our product mix</li> </ul>
Increasing Oligopoly among Sellers and Intensifying Competition among Manufacturers	<ol style="list-style-type: none"> <li>Impact of changes in purchasing and sales policies and business performance trends among specific sellers</li> <li>New entrants from other industries and intensifying product development and price competition among manufacturers</li> </ol>	<ul style="list-style-type: none"> <li>Create new profit opportunities by expanding the scale of our functional food business and generate profits through the mail-order channel of the Nutrition Business</li> </ul>
Food Safety	<ol style="list-style-type: none"> <li>Product recalls and factory shutdowns due to quality problems, as well as the burden of liability under the Product Liability Law and a decline in social trust</li> <li>Occurrence of quality and health problems in and outside Japan, as well as the spread of rumors</li> </ol>	<ul style="list-style-type: none"> <li>Operate our own quality assurance system, MSQS, which is based on the concepts of ISO 9001 and HACCP</li> <li>Obtain certification under international food safety schemes and implement thorough quality control</li> <li>Provide accurate information through industry organizations such as J Milk</li> </ul>
Legal Regulations	<ol style="list-style-type: none"> <li>Incurrence of costs for disposal or recall of products due to legal violations, and loss of social trust (this applies to dairy products, infant formula, functional foods, feedstuff, seeds, etc.)</li> <li>Costs incurred in order to comply with new ingredient standards and manufacturing methods due to revisions to laws and regulations</li> <li>Increased costs and lost sales opportunities due to a lack of personnel for long-distance transport in the transport and logistics industry, and a decline in transport capacity</li> </ol>	<ul style="list-style-type: none"> <li>Comply with laws and regulations based on the Megmilk Snow Brand Group Charter of Corporate Behavior and other Group policies such as the Sustainability Policy</li> <li>Respond appropriately to revisions to laws and regulations, and absorb costs by improving productivity and taking measures</li> <li>Build a sustainable logistics system by reviewing transport routes and encouraging pallet transport to improve transport efficiency</li> </ul>
Protection of Personal Information	<ul style="list-style-type: none"> <li>Decrease in social trust due to leakage of personal information, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Establish a Personal Information Protection Policy and related regulations, and practice strict management, including employee education</li> </ul>
Intellectual Property	<ul style="list-style-type: none"> <li>Impact of litigation activities and their consequences due to infringement of intellectual property rights of a third party or infringement of intellectual property rights by a third party</li> </ul>	<ul style="list-style-type: none"> <li>Establish a management system with a dedicated department, and implement monitoring and checks to prevent infringement of rights</li> <li>In the event that intellectual property-related risks materialize, take action to minimize the impact on our business</li> </ul>
Human Rights	<ul style="list-style-type: none"> <li>Negative impact on procurement, production and business relationships and damage to brand value due to insufficient human rights due diligence</li> </ul>	<ul style="list-style-type: none"> <li>Discuss the results of our response and future direction, share information throughout the Group, and disclose information externally to prevent and mitigate negative impacts on human rights throughout the Group and supply chain</li> </ul>
Occurrence of Large-Scale Earthquakes, Fires, etc., and the Spread of Infectious Diseases	<ol style="list-style-type: none"> <li>Impact on production and supply systems due to long-term suspension of operations at manufacturing bases</li> <li>Prolonged slump in sales due to economic stagnation and deterioration of the economy, and rising costs including raw material prices</li> </ol>	<ul style="list-style-type: none"> <li>In the event of an infectious disease outbreak, give top priority to the safety of customers, business partners and employees, and strive to continue business operations based on our business continuity plan, while implementing thorough hygiene management to prevent infection</li> </ul>
Environment	<ul style="list-style-type: none"> <li><b>P.39</b> Refer to "Addressing Climate Change"</li> </ul>	
Fundraising	<ul style="list-style-type: none"> <li>Rising financing costs due to changes in the financial market environment and worsening business performance</li> </ul>	<ul style="list-style-type: none"> <li>Secure low-cost, stable funding while considering the balance between long-term and short-term funding</li> <li>Secure sufficient liquidity by concluding commitment line agreements and overdraft agreements with financial institutions</li> </ul>
Exchange Rate Fluctuations	<ul style="list-style-type: none"> <li>Fluctuations in exchange rates (a weaker yen has a negative impact, while a stronger yen has a positive impact)</li> </ul>	<ul style="list-style-type: none"> <li>Endeavor to reduce the impact of fluctuations in exchange rates through forward exchange contracts and foreign currency settlements</li> </ul>
Information Systems	<ul style="list-style-type: none"> <li>Temporary suspension of business or loss of public trust due to the suspension or temporary disruption of information systems, or the loss, leakage or falsification of internal information, among other events</li> </ul>	<ul style="list-style-type: none"> <li>Implement appropriate security measures by establishing the Basic Policy on Information Security and related regulations and formulating a business continuity plan</li> <li>Reduce risk through employee education</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>Risk of being unable to secure a diverse range of human resources or the human resources we require, risk of not being able to improve each individual employee's motivation and growth, and risk of falling into an organizational structure that is the opposite of the Megmilk Snow Brand Values</li> </ul>	<ul style="list-style-type: none"> <li>Create an environment where diverse human resources can demonstrate their individuality and abilities, and develop human resources</li> </ul>
Other	<ul style="list-style-type: none"> <li>Risks associated with changes in economic conditions and compliance-related risks</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the risk management system in order to avoid or minimize risks</li> </ul>