

Why Do We Aspire to Food Sustainability?

There is a growing sense today that the world faces a food crisis. Amid these concerns, there are certain issues that the Megmilk Snow Brand Group, as an enterprise that delivers the value of milk to so many people, is best positioned to help with. We can provide unique solutions unlike any other, given our advantages in food business operations. We are committed to contributing to food sustainability as we live up to our founders' spirit of *Kendo Kenmin* ("a healthy earth ensures human health") and enhance our corporate value while helping to build a sustainable world.

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Issues and Expectations for the Future of Food

With the world's population expected to grow, especially in emerging economies, the possibility that it will become more difficult to acquire the protein and raw milk that people need is a real and growing risk. Solving this kind of social problem is an important issue for the Megmilk Snow Brand Group, but it is also a business opportunity.

▶ Protein Crisis Looms

The possibility that the supply of protein human beings need to be healthy would fail to keep up with the world's growing population is known as the "protein crisis." There are real concerns that if the population continues to increase as it is now, the balance between the demand and supply of protein will collapse and it will be impossible to secure enough protein. Demand for protein could begin to outstrip the supply as early as 2025-2030.

This crisis can only be avoided if humanity develops new sources of protein, in addition to the main protein sources relied upon thus far, such as meat, fish, milk and other dairy products. R&D and product development related to alternative protein—specifically plant-based protein, protein derived from insects, and seaweed proteins—is already underway. There is also growing interest in cultured meat, in which meat is produced by culturing animal cells.

▶ Issues Facing the Dairy Industry Today

Japan's food self-sufficiency rate is only 38% on a calorie basis, which is extremely low compared to other developed countries. This means that if it becomes difficult to obtain food from overseas, Japan would be unable to secure the food the population needs. The dairy industry is no exception, and it faces similar risks. Demand for milk and dairy products in Japan is said to be about 13 million tons per year in terms of raw milk, but Japan depends on imports for about 40% of this. However, if we look at global supply/demand for dairy products, we find that less than 10% of the approximately

900 million tons of raw milk produced in the world goes to exports. Given the upward trajectory of the world population, the possibility that global supply/demand conditions for dairy products could tighten even further is a real concern.

It will be too late if we wait for a crisis in procurement to hit to actually find a solution. This means that we have to begin the work involved in building the foundation for a stable food supply system immediately. Reinforcing the dairy production base is essential in ensuring a stable supply of milk and dairy products.

▶ Growing Potential for New Business Opportunities

Our mission is to address the growing global concern about a protein crisis by providing accurate information to people on the impressive value that milk offers as a prime protein source and offering a stable and consistent supply of milk and dairy products to people in Japan and around the world. We believe this is a social issue that our advanced knowledge and reliable system for the manufacture and supply of milk and dairy products, as well as our superior product supply functions, position us uniquely to address, and we also see it as a business opportunity. In overseas markets, we have already developed a manufacturing and sales business in Indonesia for cheese, and we are planning to establish

a production base in Vietnam. Meanwhile, we have already begun selling plant-based foods as substitutes for animal protein in Japan.

Concerns over tighter global supplies of raw milk and dairy products actually represent a major business opportunity for a company like ours that already has the systems in place to meet heightened demand. Going forward, we will address these social problems by treating them as business opportunities and expanding sales of dairy products outside Japan. In Japan, we will keep supporting dairy farmers with a supply of self-sufficient feed, while also striving to raise the value of milk and dairy products and generate new demand.

Our Advantages in Contributing to Food Sustainability

RESEARCH & DEVELOPMENT



Research & Development

Basic Approach

The R&D department is building a system that can flexibly respond to the needs of existing businesses, including the dairy products, beverages and desserts, commercial products, nutrition, and overseas businesses, and is engaged in technological development. This enables the Group to live up to the spirit of *Kendo Kenmin* ("a healthy earth ensures human health") and contribute to food sustainability. We also create new values and technologies that lead to seed research and the creation of new businesses, thereby contributing to the sustainable development of the Group and the strategic expansion of our business.



The Megmilk Snow Brand Innovation Center

Strengths and Potential

Unique R&D

We have a collection of over 3,000 strains of lactic acid bacteria, which we use as a base for developing high-value-added products in health-related research. We have impressive advantages in bone-related research, most notably "MBP," which is based on nutritional function research. In terms of research on taste, we carry out original research utilizing the functions of lactic acid bacteria and manufacturing expertise, such as cheese with a rich flavor. Our research on reducing environmental impact includes the development of containers that use less plastic and technology to extend shelf life. We are also taking on challenges in new fields with the development of plant-based foods. We believe that we can gain an advantage in the field of plant-based food by utilizing the fermentation technology that Megmilk Snow Brand has developed in the field of milk.

Mobilization of Knowledge, Open Innovation

The Milk Science Research Institute, which carries out basic research, the Products Development Department, which directs the development of dairy products and beverages and desserts, and the Research & Development Planning Department, which establishes and promotes R&D strategies based on business strategies, all collaborate together to create new demand, add higher value, and strengthen product appeal. In addition, the Megmilk Snow Brand Innovation Center is located on the site of the Milk Science Research Institute, encouraging the exchange of opinions and the sharing of ideas across organizational boundaries.

We also collaborate with external groups and organizations on R&D. We have established a joint research course with Hirosaki University, and we are working with the university on R&D to deliver the delicious taste and health-giving properties of milk and dairy products.

PROCUREMENT



Procurement

Basic Approach

Raw Milk Procurement

The Group values its cooperation with the National Federation of Agricultural Co-operative Associations, National Federation of Dairy Co-operative Associations, and local producers' organizations, especially designated milk producers' organizations. These relationships ensure stable procurement of raw milk. In addition, the Group contributes to sustainable raw milk production by continuously purchasing raw milk and producing and selling it with added value.

Procurement of Raw Materials

We purchase cheese, dairy products, fruit juices, packaging materials, and other raw materials directly from trading companies, manufacturers, and other suppliers in and outside Japan. We engage in direct dialogue with suppliers on a wide range of issues, such as quality control and technical aspects, to ensure stable procurement of superior quality raw materials and to make improvements to reduce environmental impact.

Strengths and Potential

Supporting Sustainable Development of Dairy Farming

The Research & Development Center for Dairy Farming, the Group's unique dairy research organization, is engaged in daily research to support sustainable development of the dairy industry and secure the future of dairy farming. In addition, the Group serves as the secretariat of the Japan Young Dairy Farmers Research Association, and provides a range of support, such as providing helpful information and holding training sessions on technical innovation for the dairy farmers who will lead the future.



Raising the Sustainability of Raw Material Procurement

We directly visit the production sites of raw materials to enhance the sustainability of the entire supply chain. For example, palm oil has gotten a lot of attention from the public due to environmental and social problems, so we visited production sites in Indonesia and spoke with farmers to confirm that there are no human rights issues, such as child labor or forced labor, and no illegal logging.



Palm seeds



Dialogue with farmers

PRODUCTION



Production

Basic Approach

Megmilk Snow Brand's production processes are handled by its own 16 plants as well as manufacturing partners with whom we have contracts, including some Group companies. Currently, approximately 60% of our employees work in plants and other production organizations, and we are constantly striving to improve both productivity and quality.

Our keywords for value creation for production organizations are commitment to high quality, pursuit of delicious taste, and solution of environmental issues. Impressive quality and good taste are achieved by using high-quality raw materials, such as milk that exceeds quality standards, in addition to utilizing proprietary expertise and skills cultivated through our R&D.

In recent years, we have also focused on reducing the environmental impact of our products by curbing greenhouse gas emissions and waste emitted during the production process.



Production line for Natulait Megumi Born from Plants

Strengths and Potential

■ Strict Quality Management and Commitment to Delicious Taste

We ensure quality in the production process by operating HACCP based on the Megmilk Snow Brand Quality Assurance System (MSQS), our proprietary quality assurance system. We have also accelerated the acquisition of GFSI* certification, the global standard for food safety, and have already earned certification for 25 of the Group's 27 production facilities. In the pursuit of good taste, we have introduced our own sensory evaluator system and are working to rank and improve the skills of our sensory evaluators. Currently, 41 people are working at the highest rank of sensory evaluators at our plants nationwide.

■ A Corporate Culture That Honors Our People's Strong Passion for Self-Improvement

The willingness of individuals to steadily acquire knowledge and skills related to manufacturing, and a workplace culture that respects this, are among the strengths of our corporate culture. The approximately 50,000 improvement proposals made by plant staff each year demonstrates this. We give awards for the best proposals for improvements. We also create skill maps for our employees, which are helpful for human resource development and staff rotations.

* Global Food Safety Initiative: A global forum on food safety that is promoted jointly by companies around the world that work in the food industry with the aim of continuously improving food safety systems. Certification standards include FSSC 22000 and SQF.

Number of Improvement Proposals Per Year and Winner of the Top Prize in Each Year

Fiscal Year	Number of Proposals (per year)	Winner of the Top Prize	
		Workplace Winning Award	Details
2021	51,161	Toyohashi Plant	Saving energy and reducing cost by introducing shrink wrapping machines that do not use heat
2022	47,879	Horonobe Plant	Improving yield and ensuring stable operation of butter manufacturing machines
2023	47,602	Ebina Plant	Improving work efficiency by automating adjustment functions for fermented food filling equipment

LOGISTICS



Logistics

Basic Approach

Megmilk Snow Brand's distribution network extends throughout Japan and is centered on the Beverages and Desserts Business and Dairy Products Businesses. We not only handle transport and storage ourselves, but also outsource to logistics companies. Quality control of distribution is an extremely important issue, and we pay close attention to temperature control during the transport and storage process, including loading and unloading. We also carefully manage temperature in our warehouses. In addition, the Megmilk Snow Brand Group supports the concept of "white logistics," which aims to resolve issues such as the excessive working hours of truck drivers, which is a problem in the logistics industry in Japan. We are actively working to resolve social issues in the logistics field.



Cargo handling at Chokuhan Haisou Co., Ltd.

Strengths and Potential

■ Promoting Rationalization and Efficiency

In order to reduce distribution costs, which is an important issue, we are making use of "consolidation," which involves transporting multiple loads that are traveling in the same direction at the same time. We are adjusting deliveries so that they can be carried out using just one truck instead of two, thereby increasing loading efficiency. In addition, the prediction and management of distribution volumes, taking into account daily fluctuations and differences between days of the week, as well as the pursuit of joint distribution and storage with other companies, are also important steps we can take to reduce distribution costs. We are addressing the problems related to lack of transport capacity anticipated to hit Japan within 2024 by improving the working environment in conjunction with these improvements in delivery efficiency. In addition, we are engaged in a modal shift to use more rail and sea transport to supplement truck transport, with the aim of reducing CO₂ emissions. We are working to streamline and improve the efficiency of our logistics by making the most of this logistics infrastructure and expertise.



Logistics using railways (containers with the Eco Rail Mark and Megmilk Snow Brand products)



Marketing / Sales

Basic Approach

In addition to marketing activities for individual products, we are also focusing on marketing activities from the consumer's perspective, such as making proposals based on maintaining and improving health and providing varied meals at home. For example, in recent years we have been actively involved in activities focused on reducing salt intake and stressing the need to compensate for the decline in bone density and bone mass that occurs with age. In addition, we are increasingly focusing on social issues that are specific to different regions and collaborating with local governments and local mass retailers on activities. The aim is to help solve the issues facing local communities and revitalize local economies. This effort also contributes to the achievement of the SDGs. As such, the knowledge possessed by the Megmilk Snow Brand Group and the bonds of trust with consumers are leading to the revitalization of local communities.



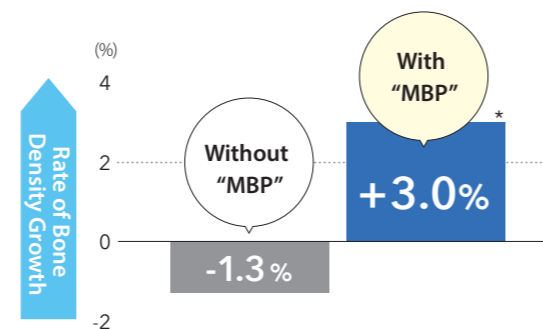
Collaborative agreement with Toyama Prefecture

Strengths and Potential

Use of Proprietary Materials, Local Affiliations

The Group works with functional ingredients with high health-promoting effects, such as "MBP" which increases bone density, and *Lactobacillus gasseri* SBT2055, which suppresses the absorption of fat. This means that we can expect our activities focused on health issues to have an impressive marketing effect. In addition, it is important to achieve results by taking concrete action in marketing activities in collaboration with local governments and local mass retailers. The Group has taken the lead in this industry in forming local collaborations, and based on this track record, we are actively proposing initiatives to solve social issues together with local communities and further expanding our regional marketing activities.

"MBP" Function: Increases Bone Density



(Source) Biosci. Biotechnol. Biochem. Vol. 66, pages 702-704, 2002 data
33 women in their 20s to 50s, given 40mg of "MBP" per day for six months
There was a significant difference compared to the group that did not take "MBP" (non-consumption group) *p<0.05

(Note) Results may vary from person to person.



Customer Service

Basic Approach

The Megmilk Snow Brand Group practices consumer-focused management by following four basic principles and the initiatives based on them.

- Providing safe, reliable products
- Providing and disclosing information to consumers
- Listening to consumers' opinions and reflecting them in management
- Responding quickly and appropriately by developing a crisis management system

The Customer Relations Center addresses customer inquiries with information that is prompt and accurate. In addition, we have a system in place to organize the opinions and requests we receive from customers on a

daily basis and convey them to management and the relevant departments. The Center functions as a bridge between customers and corporate activities.



Customer Relations Center of Megmilk Snow Brand Co., Ltd.

Strengths and Potential

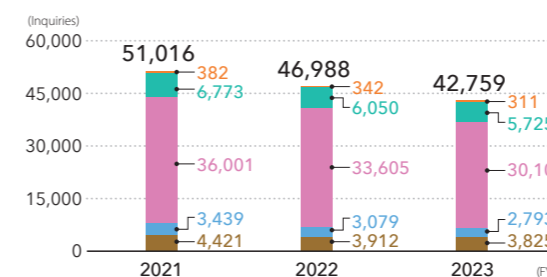
Focusing Squarely on the Consumer

Our thorough system for practicing consumer-oriented management is one of the Group's strengths. The Megmilk Snow Brand Customer Relations Center accepts customer feedback 365 days a year, including during the year-end holidays. We have introduced a system that can detect serious process-related defects and multiple complaints about the same product, and have put in place a system to prevent an increase in product

defects. Customer feedback is not only shared with the relevant departments, but also made available to all employees. In addition, customer feedback is reported at weekly officer meetings and head office general manager meetings, and ways to improve our products and services are discussed at monthly consumer satisfaction improvement meetings. These measures help us to make company-wide efforts to improve customer satisfaction.

Responding to customer feedback (in Japanese) ▶ <https://www.meg-snow.com/customer/center/voice/>

Number of Inquiries Received by Customer Relations Center



■ Satisfaction: Praise, thanks, encouragement
■ Interest, curiosity: Home delivery request, retailer information, sample or material requests
■ Inquiries: Questions regarding product raw materials, manufacturing method, storage methods, usage methods, etc.
■ Dissatisfaction, suggestions: Requests concerning dissatisfaction with products or services
■ Complaints: Complaints requiring product buyback, visit, inspection, etc.

Details of Complaints Received

