



lacto

Financial Results for
the Fiscal Year Ended
November 2021
(FY11/2021)



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**Consolidated Financial Results for FY11/2021
and
Forecasts for FY11/2022**

Despite the impact of the COVID-19 pandemic throughout the year, consolidated net sales remained flat year-on-year.

Ordinary income also increased slightly after foreign exchange adjustment.

Consolidated Net Sales: +0.0% YoY / -3.6% vs. Forecast (revised forecast)

- In the Dairy Ingredients and Cheese Business, stagnant commercial demand and high inventories of domestic dairy ingredients resulted in a decrease in bids from the Agriculture and Livestock Industries Corporation ("ALIC") and sales to major dairy companies. However, the impact was kept to a minimum by selling domestic dairy ingredients and selling imported ingredients by making use of low-rate tariff quotas.
- In the Meat Products Business, sales increased YoY due to strong demand for pork as well as growth in sales of beef and other new products.
- In the Asian Business, the Dairy Ingredient Sales Division struggled mainly due to a decrease in sales of raw materials for dairy preparation ingredients for the Japanese market. However, as sales in the Cheese Manufacturing and Sales Division increased YoY, both sales value and volume reached record highs.

Consolidated Ordinary Income: -3.6% YoY / -4.6% vs. Forecast (revised forecast)

- As the highly profitable Asian Cheese Manufacturing and Sales Division performed well, the gross margin improved in the first half. In the second half, however, temporary cost-boosting factors such as a sudden rise in international market prices of dairy ingredients and an increase in logistical costs pushed down the gross margin, leading to a YoY decline in ordinary income.
- During the fiscal year under review, there was a negative foreign exchange impact on ordinary income of ¥77 million, and after factoring this in, ordinary income reached ¥2.758 billion, marking a slight increase of 0.3% YoY on a similarly adjusted basis.

FY11/2021 Consolidated Financial Results



(Millions of Yen)

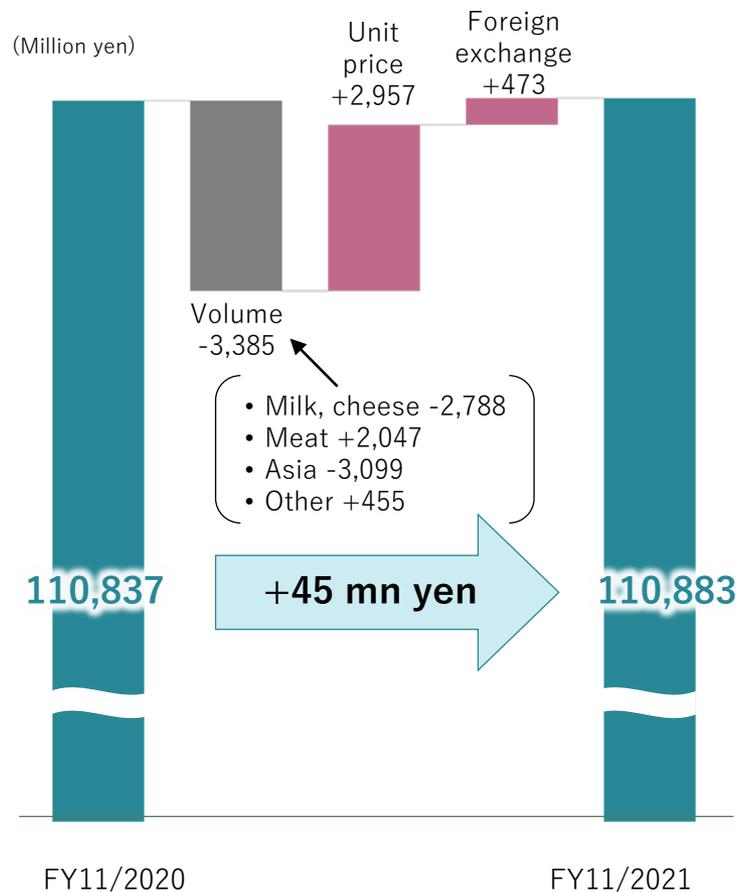
	FY11/2020	Forecast	FY11/2021		
			Actual	YoY Change (%)	vs. Forecast Change (%)
Net sales	110,837	115,000	110,883	0	-3.6
Ordinary income	2,780	2,810	2,681	-3.6	-4.6
Ordinary income ratio (%)	2.5	2.4	2.4		
(Foreign exchange impact on ordinary income*)	(29)	—	(-77)		
Net income attributable to owners of the parent	2,062	2,010	1,959	-5.0	-2.5
Net income ratio (%)	1.9	1.7	1.8		
Net income per share (Yen)	209.47	204.11	198.73		
Exchange rate (Yen/USD)	107.27	—	108.97		
Exchange rate (Yen/EUR)	121.40	—	129.68		

Note: Amounts have been rounded down to the nearest million yen, and the ratios have been rounded to the first decimal place.

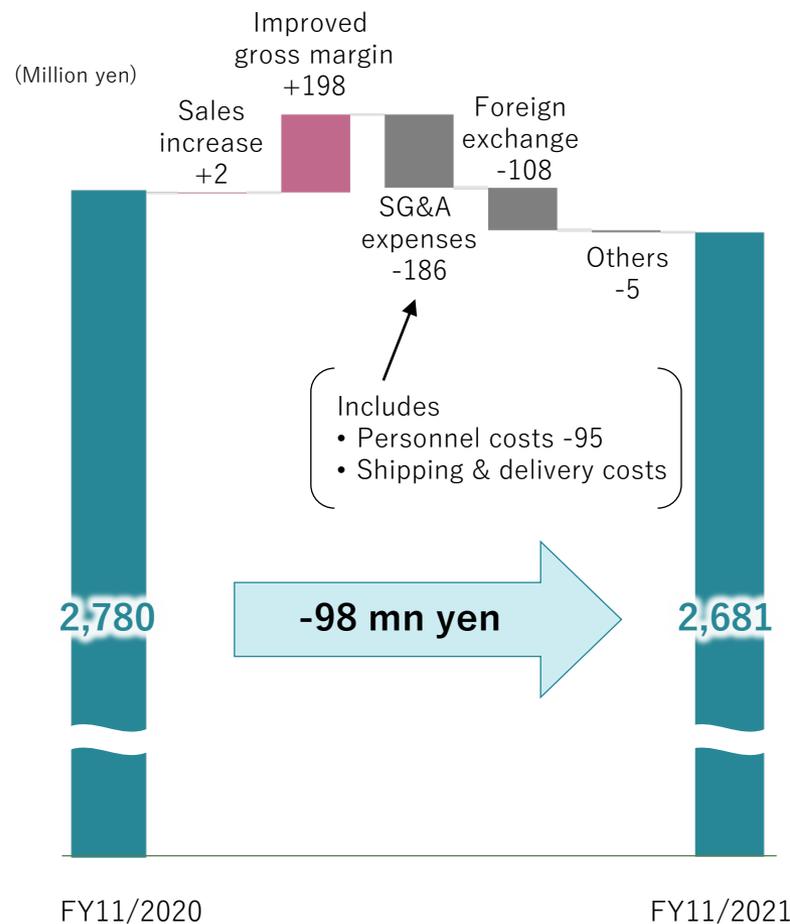
*Foreign exchange impact on ordinary income: As Lacto Japan applies "Separate accounting treatments," the impact of foreign exchange hedging is recorded in both cost of goods sold and non-operating income/loss. Therefore, the amount of impact of foreign exchange hedging on both cost of goods sold and non-operating income/loss is shown.

Factors Contributing to Increase/Decrease in Sales and Ordinary Income

Net sales



Ordinary income



Consolidated Balance Sheets

(Million yen)

	FY11/2020- end	FY11/2021- end	Difference
Current assets	40,623	50,018	9,394
Cash and cash equivalents	5,004	5,510	506
Trade notes and accounts receivable	13,849	19,277	5,427
Inventories	21,383	24,839	3,455
Other	386	390	4
Non-current assets	2,746	2,881	135
Property, plant and equipment	690	709	18
Intangible assets	20	44	24
Investment and other assets	2,035	2,128	92
Total assets	43,369	52,899	9,529
Accounts payable	9,739	12,202	2,462
Interest-bearing liabilities	14,314	19,531	5,217
Other	1,724	1,586	-137
Total liabilities	25,777	33,320	7,543
Net assets	17,592	19,578	1,986
Total liabilities and net assets	43,369	52,899	9,529

Main factors of change

Increase in trade notes and accounts receivable

Increase in inventories

- Increase in products (cheese) due to increased orders from customers in preparation for rising market prices
- Increase in products related to the Project to Mitigate Supply and Demand Conditions for Domestic Dairy Ingredients

Increase in accounts payable

- Same as reasons for increase in inventories

Increase in interest-bearing liabilities

- Increase in short-term loans and CP due to increase in working capital

Note: Amounts of less than one million yen have been rounded down and the breakdown shows only major items.

*Interest-bearing liabilities include lease liabilities.

Consolidated Cash Flow Statements

(Million yen)

	FY11/2021
Cash flows from operating activities	-4,037
Cash flows from investing activities	-291
Cash flows from financing activities	4,658
Effect of exchange rate changes on cash and cash equivalents	175
Change in cash and cash equivalents	505
Cash and cash equivalents at beginning of period	4,508
Cash and cash equivalents at end of period	5,014

Main factors of change

Decrease in cash flows from operating activities

Increase in products (cheese) due to increased orders from customers in preparation for rising market prices, increase in products related to Project to Mitigate Supply and Demand Conditions, and increase in trade notes and accounts receivable associated with increased transactions

Decrease in cash flows from investing activities

Investment related to renovation of Singapore plant, etc.

Increase in cash flows from financing activities

Increase in short-term loans and CP due to increase in working capital.

Note: Amounts of less than one million yen have been rounded down and the breakdown shows only major items.

FY11/2022 Estimated Net Sales and Sales Volume by Business Division

Net sales

(Million yen)

	FY11/2021			FY11/2022
	1 st Half	2 nd Half	Full Year	Forecasts
Dairy ingredients and Cheese	36,952	39,528	76,481	85,000
Meat Products	6,769	7,509	14,278	15,000
Asian Business (Dairy Ingredients)	6,809	8,944	15,754	18,000
Asian Business (Cheese)	1,689	1,635	3,324	3,650
Other	427	617	1044	4,350

Sales volume

(Tons)

	FY11/2021			FY11/2022
	1 st Half	2 nd Half	Full Year	Forecasts
Dairy ingredients and Cheese	91,993	92,364	184,358	190,000
Meat Products	12,567	13,132	25,699	28,300
Asian Business (Dairy Ingredients)	22,690	25,126	47,817	50,000
Asian Business (Cheese)	2,334	2,301	4,635	5,000

Note: Amounts of less than one million yen have been rounded down.

FY11/2022 Consolidated Earnings Forecasts

(Million yen)

	FY11/2021 Actual	FY11/2022		
		Forecasts	YoY Difference	YoY Change (%)
Net sales	110,883	126,000	+15,116	+13.6
Ordinary income	2,681	2,900	+218	+8.1
Ordinary income ratio (%)	2.4	2.3		
Net income attributable to owners of the parent	1,959	2,100	+140	+7.2
Net income ratio (%)	1.8	1.7		
Net income per share (Yen)	198.73	212.95	+14.22	
Dividends per share (Yen)	32.00	37.00	+5.00	

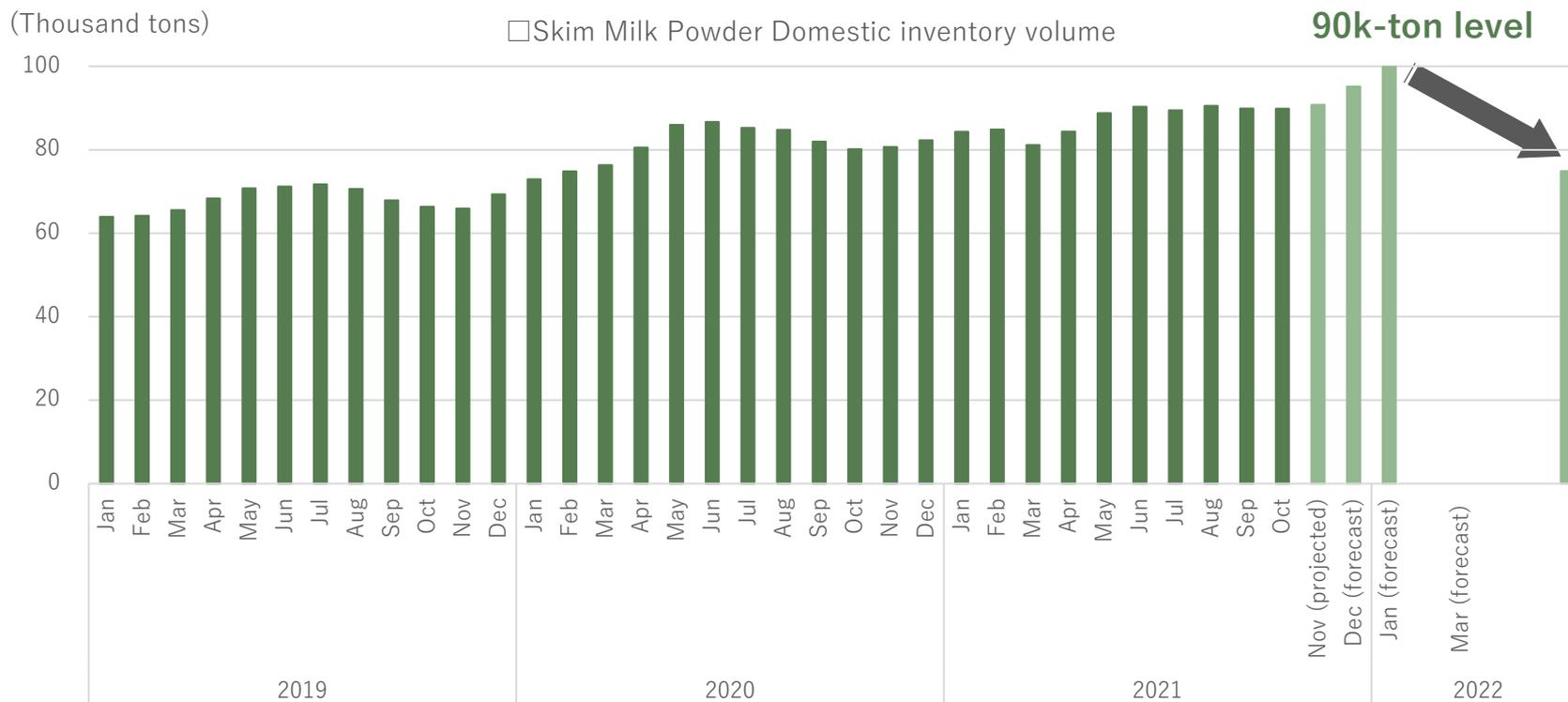


Overview of Business Divisions and Outlook in FY11/2022

- **Although the domestic business continues to be affected by the domestic inventory surplus, demand for imported raw materials will turn to a recovery trend along with the recovery of commercial demand.**
 - Commercial demand is projected to recover gradually due to the abatement of the COVID-19 pandemic.
 - Among domestic dairy ingredient inventories, we expect skim milk powder will take time to adjust, but butter should move toward an appropriate level.
 - Countermeasures to Mitigate Supply and Demand Conditions for Domestic Dairy Ingredients are expected to continue.
 - We assume that international market prices for dairy products will remain at high levels in the near term. (Abatement of global COVID-19 pandemic led to rapid increase in demand, higher dairy farming costs such as feed and energy prices, and logistical disruptions)

- **Although fear of infection remains, we foresee a relatively fast economic recovery in the Asian market.**
 - In China and ASEAN countries, we expect home meal demand as well as a recovery in commercial demand.

Changes and estimates for domestic skim milk powder inventories and overview of measures



FY2020-FY2021

[Ministry of Agriculture, Forestry and Fisheries (MAFF), ALIC]

- Project to Promote Improvement of Raw Milk Supply and Demand, Emergency Countermeasures Project to Expand Demand for Domestic Dairy Products, etc. (¥6.7 billion approx.)

[HOKUREN (Federation of Agricultural Cooperatives)]

- Raw milk sales countermeasures, etc. (¥10 billion)

From FY2022

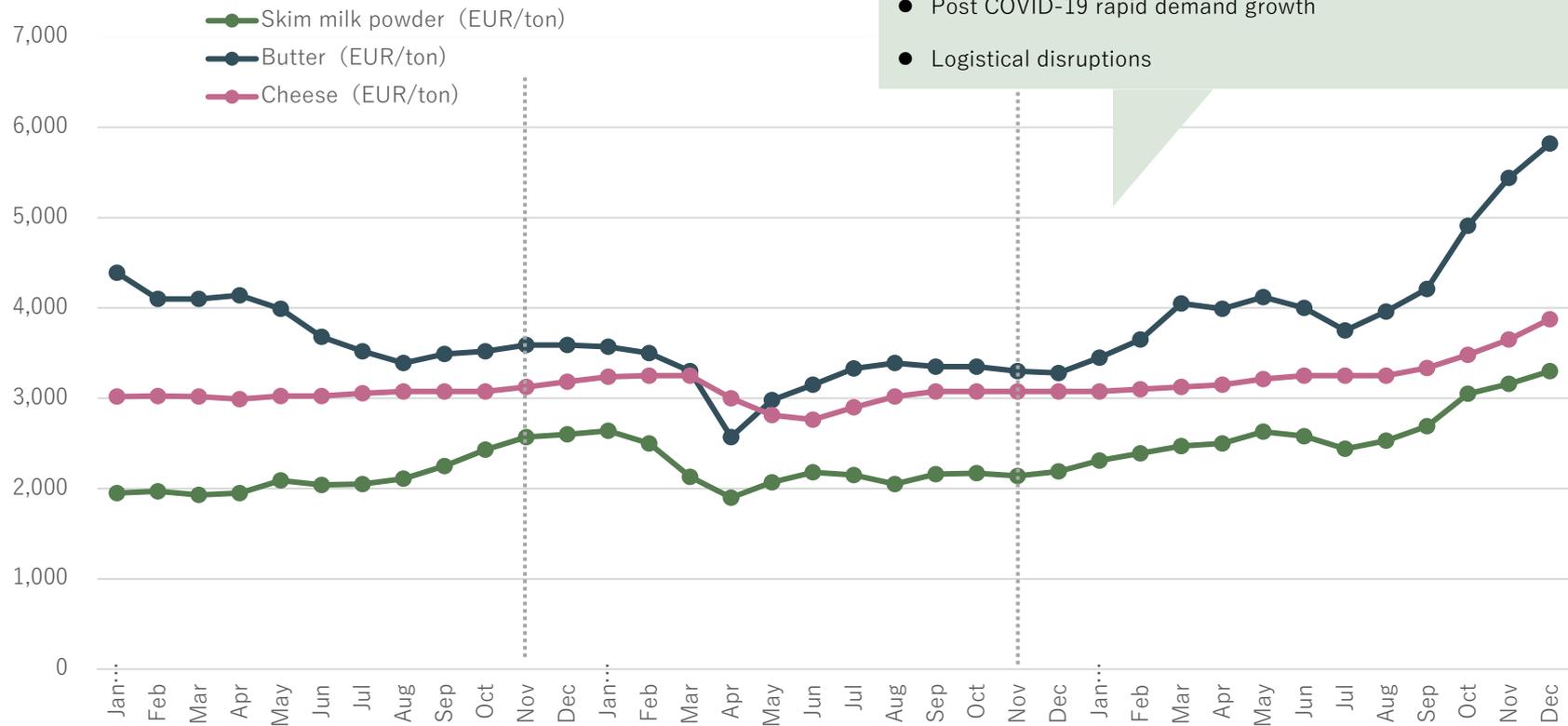
New measures expected to begin in dairy farming, dairy industry and central government to reduce skim milk powder by 25,000 tons

- + • Study of state of raw milk production
- + • Study of state of demand growth

International Prices of Dairy Products (last 3 years)

[Factors behind rise in international market prices in 2021]

- Decrease in raw milk production volume in major production areas (feed and energy prices/climate)
- Post COVID-19 rapid demand growth
- Logistical disruptions



Note: Skim milk powder and butter: Dutch official price (pre-factory price) Cheese: German Edam cheese

Overview of FY11/2021

The impact of COVID-19 pandemic was felt throughout the year, and both sales value and sales volume were sluggish. There was a decrease in the volume of tenders by the government due to excess inventories of domestic dairy ingredients and the replacement of some imported materials with domestic materials had a negative impact, but sales of domestic dairy ingredients and sales that made use of low-rate tariff quotas provided support.

By business partner, sales to feed makers increased due to the handling of domestic raw materials, and sales to some confectionery makers were favorable.

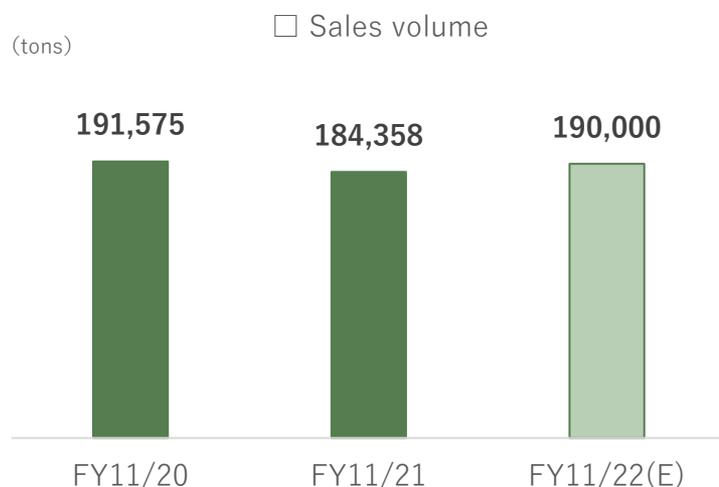
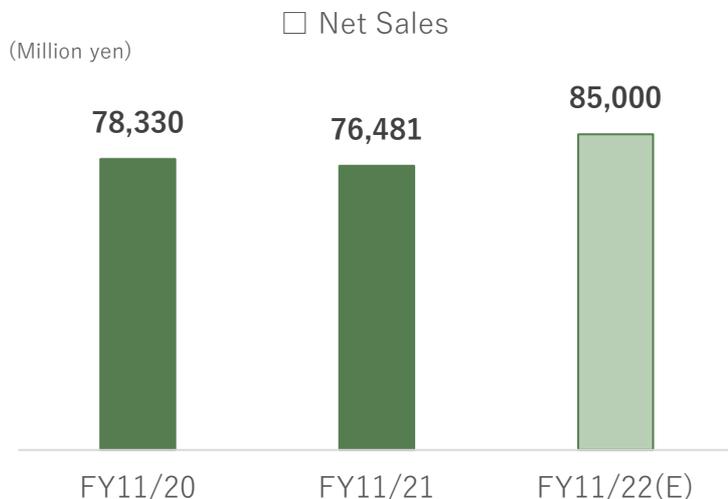
Forecasts for FY11/2022

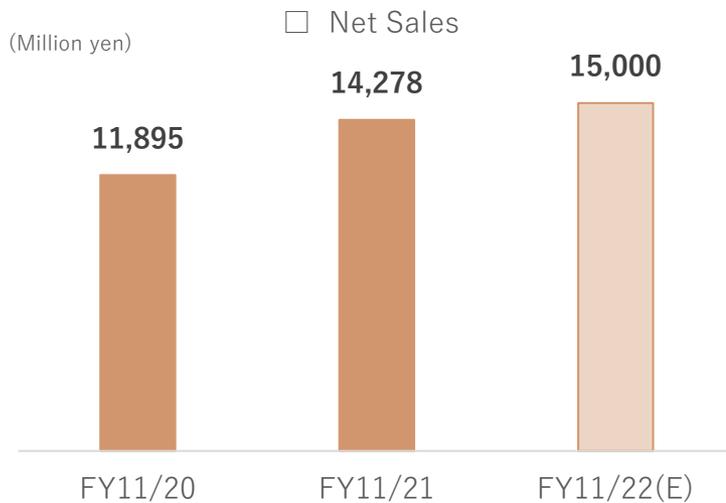
We anticipate a gradual recovery in commercial demand as infections subside.

We will continue to actively sell domestic ingredients with a view to contributing to inventory reduction. In addition, we will expand sales of imported ingredients based on low-rate tariff quotas.

We will aggressively promote our export business with a view to developing new businesses in the future.

We will actively sell functional food ingredients by collaborating with the Business Development Division.



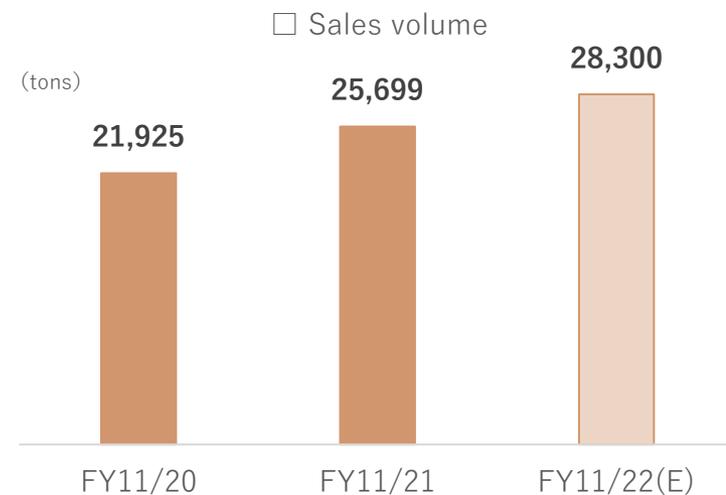


□ Overview of FY11/2021

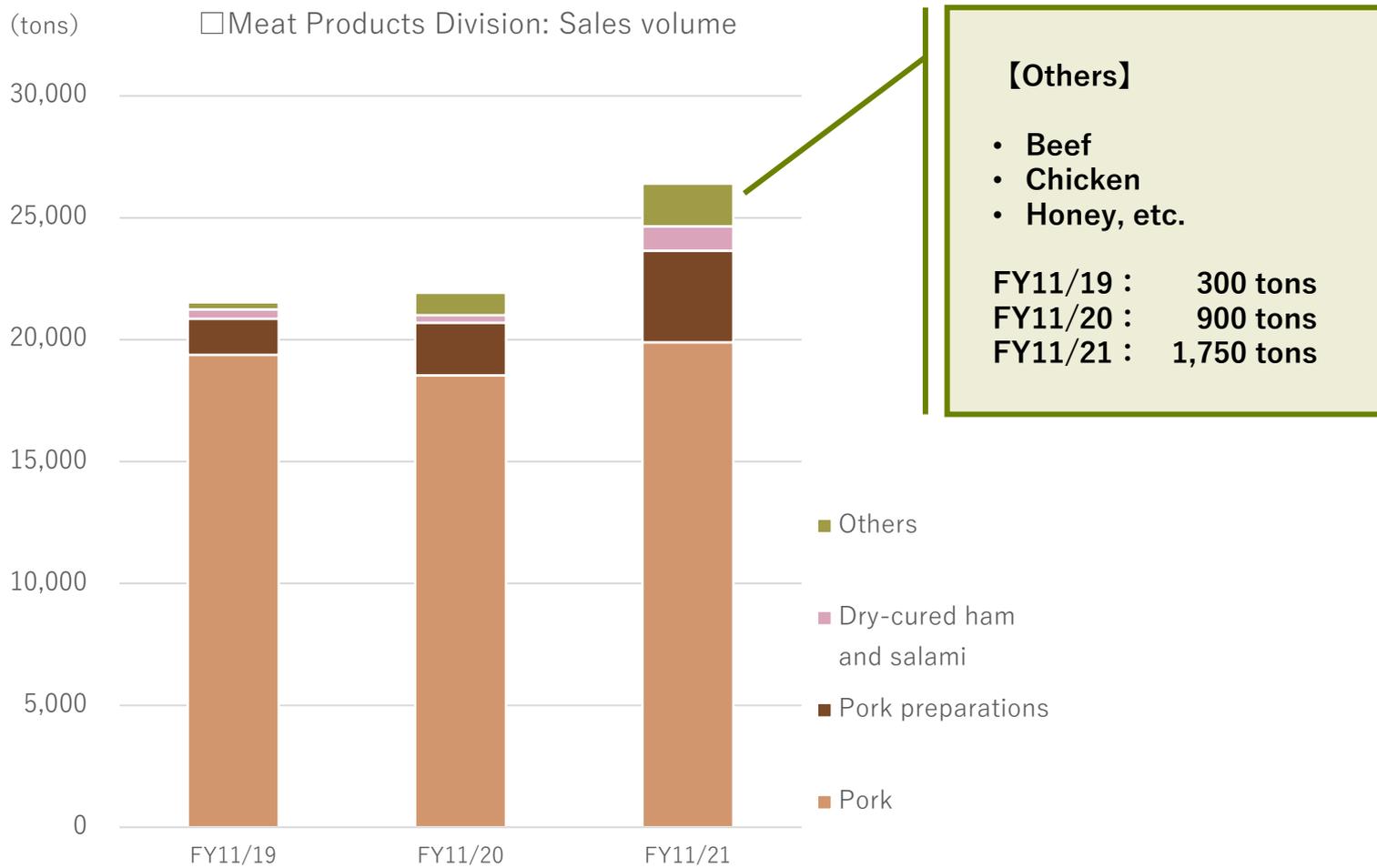
- | In the imported pork business, sales of ingredients for ham and sausages, etc. were buoyant, supported by strong home meal demand.
- | Sales of meat products such as dry-cured ham and salami were sluggish due to soft demand from restaurants. However, beef sales, which became full-scale from the previous fiscal year were robust and contributed to divisional sales.

□ Forecasts for FY11/2022

- | We will focus efforts on diversifying the products we handle and cultivating new customers through such diversification.
- | We will continue to strive to cultivate suppliers. While maintaining the relationship with our main supplier in the U.S., we will develop suppliers in Canada, Europe, and South America to stabilize raw material procurement.



(ref.) Breakdown of Meat Products (Sales volume)



□ Overview of FY11/2021

Despite the acquisition of new business and expansion of transactions with existing customers, sales of raw materials for dairy ingredient preparations to Japan declined due to high inventories of domestic dairy ingredients in Japan.

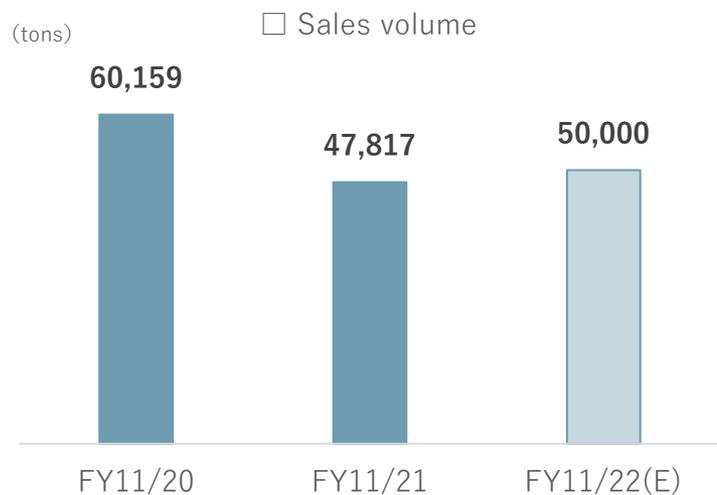
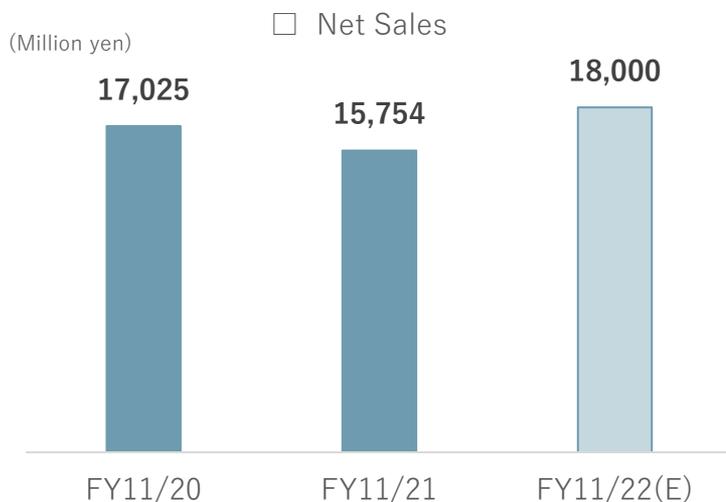
Part of the decline in sales value and sales volume includes the impact of delayed deliveries due to shipping delays.

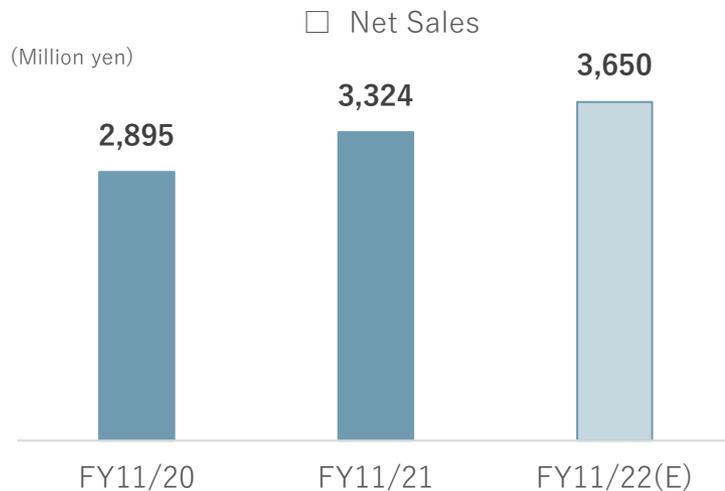
□ Forecasts for FY11/2022

Although sales of raw materials for dairy ingredient preparations to Japan will remain affected for the time being this fiscal year as well, we will continue to expand sales to China, where business is expanding due to its quick recovery from the effects of the pandemic, and to local companies in Southeast Asia, where sales remain strong.

By strengthening our local sales system, we will bolster dairy ingredient sales in China and Indonesia especially.

Through collaboration with the Dairy Ingredients Division at the head office, we will establish a system to expand sales of Japanese dairy products in the Asian region.



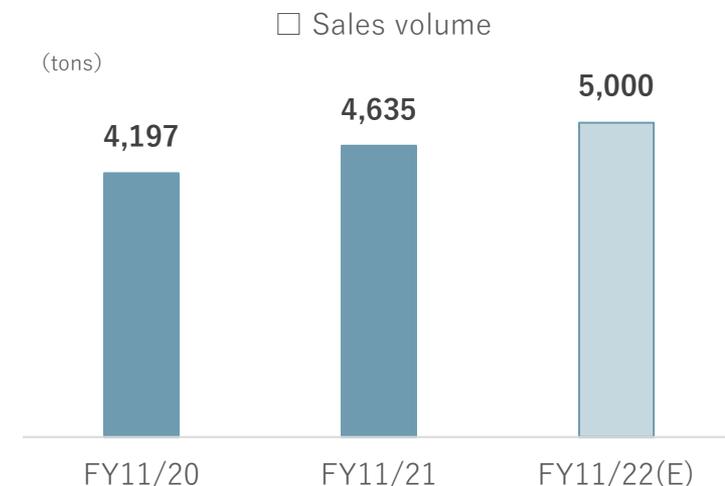


□ Overview of FY11/2021

- | Owing to the impact of severe lockdowns in countries such as Thailand and Malaysia, food service-related sales, including restaurants and bakeries, were sluggish but sales of ingredients for home meal and exported food product use grew.
- | Despite the effects of the pandemic, the Cheese Manufacturing and Sales Division recorded both all-time high net sales and sales volume.

□ Forecasts for FY11/2022

- | We will focus efforts on expanding sales and market share based on the timing of the recovery of the restaurant and bakery-related market.
- | We aim to expand sales by introducing new products that can be differentiated in the market, following heat-resistant cheese. (Low-price cheese, vegan cheese, etc.)
- | We intend to raise productivity by reviewing ingredients, introducing automated machinery, etc.
- | We will improve profit by negotiating price increases.



(10k tons, kg/person)

	2017	2018	2019	2020	2021 (forecast)	2030 (forecast)	Change vs. 2020 (%)
Raw milk production volume	3,149	3,177	3,305	3,546	3,591	4,389	+23.8%
(of which, production by cows)	3,039	3,075	3,201	3,440	—	—	—
Import volume	1,461	1,559	1,660	1,823	1,886	2,563	+40.6%
Consumption volume	4,109	4,264	4,949	5,354	5,462	6,933	+29.5%
Per capita consumption	29.6	30.6	35.4	38.11	38.74	47.90	+25.7%

(Source) Based on website of the Agriculture & Livestock Industries Corporation (ALIC)

Materials: Compiled by ALIC based on Ministry of Agriculture and Rural Affairs of the People's Republic of China's "Agricultural Outlook Report 2021-2030," "Agricultural Outlook Report 2020-2029," "Agricultural Outlook Report 2019-2028," and "Agricultural Outlook Report 2017-2026"

Note 1: "Dairy products" include products made from sheep's or yak milk as well as cow's milk.

Note 2: "Import volume" and "consumption volume" have been calculated on a raw milk equivalent basis.



New Corporate Business Plan “NEXT-LJ2024”

■ General view

- Soaring raw material prices against the backdrop of post COVID-19 rapid demand growth
- Rise in transportation costs due to soaring energy prices
- Increasing demand for functional food ingredients based on the keyword “health”

■ Japanese market

- We expect a recovery in demand for imported dairy products based on a recovery in the commercial dairy product market.
- Domestic raw milk production is expected to remain firm in Hokkaido, while the number of milking cows in other prefectures may decrease.

■ Asian market

- Dairy product demand in China is expected to expand.
- Demand for commercial dairy products is expected to expand in ASEAN countries along with a recovery in tourism business
- Progress of Westernization of food will continue

Capturing the post COVID-19 market recovery and growth of Asian business Accelerate building next-generation businesses at the same time

	FY11/2021 Actual	FY11/2022 Forecasts	FY11/2024 Targets
Net sales	110.8 billion yen	126.0 billion yen	150.0 billion yen
Ordinary income	2.68 billion yen	2.90 billion yen	3.90 billion yen
Net income attributable to owners of parent	1.95 billion yen	2.10 billion yen	2.85 billion yen

	Base Existing business “evolution”	Growth Expansion of Asian business	Challenges Build next-generation businesses
Business growth	Strengthen sales of imported ingredients by using free trade agreements	Expand cheese manufacturing and sales business	Accelerate development of functional food ingredients business
	Develop Japanese dairy product export business	Reinforce local sales system	Build new businesses that contribute to realization of sustainable society
Strengthening of management base	Sophistication of governance / Initiatives aimed at sustainable growth / human resource development		

Medium- to long-term capital requirements and financial targets

- Capital requirements for Asian Business, pillar of growth strategy**

Establishment of bases in promising sales markets

- Capital requirements for expansion of Cheese Manufacturing and Sales Division in Asian Business**

Enhancement of facilities (automation and expansion of manufacturing lines, establishment of new factories, etc.)

- Funds for launch of new businesses**

Establish new businesses related to "food" (Upstream, downstream, horizontal development)

Build new businesses that contribute to realization of sustainable society

- Reinforcement of financial position**

Reinforcement of shareholders' equity in preparation for diversification of business structure (from mainly trading company to trading company + manufacturer)

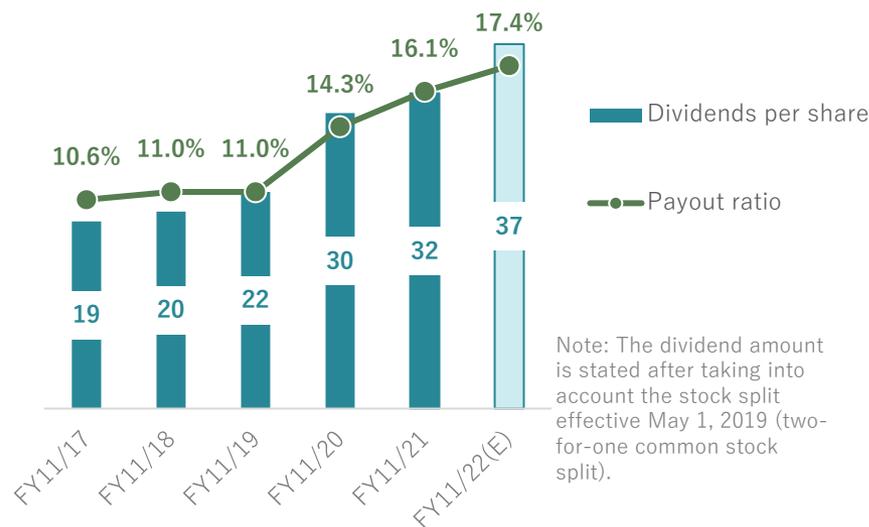
Targeted shareholders' equity ratio: 40%

Dividend policy

In order to achieve medium- to long-term growth, we will combine investment in the Asian Business with the reinforcement of our financial position. At the same time, we aim to continue to increase dividends based on stable dividends, positioning the return of profits to shareholders as a key management issue.

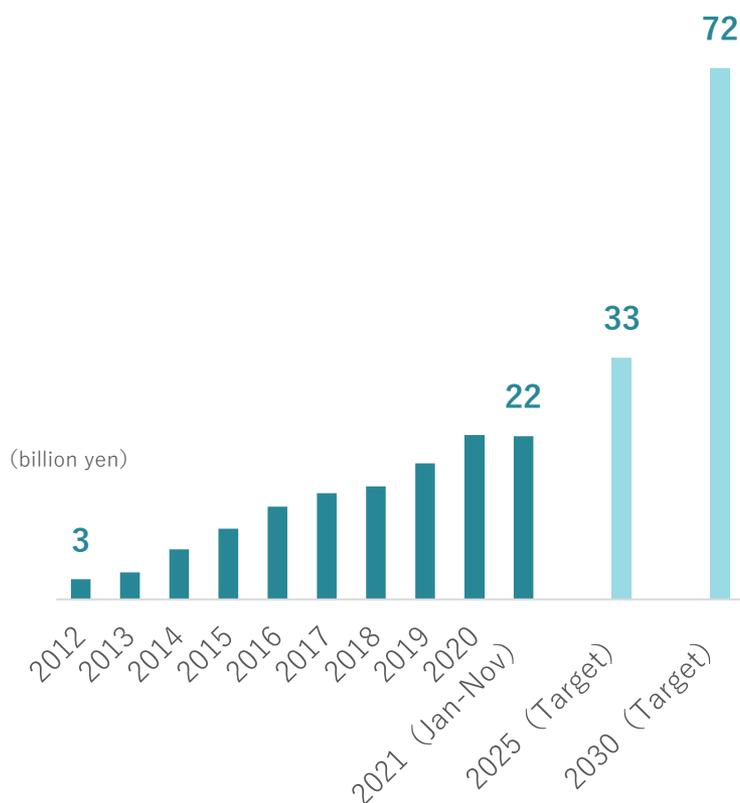
In FY11/2023, which will mark the company's 25th anniversary, we aim to achieve a payout ratio of 20%.

- Dividends per share and payout ratio



We will build an export and sales business for “domestically produced dairy products” by leveraging Lacto Japan's dominance

□ Export value of Japanese milk and milk products



(Sources) Ministry of Agriculture, Forestry and Fisheries website
Materials: Ministry of Finance, "Trade Statistics"

Japanese government to strengthen dairy product exports

- The target for dairy product exports in FY2030 is ¥72 billion.

Export target is Asia

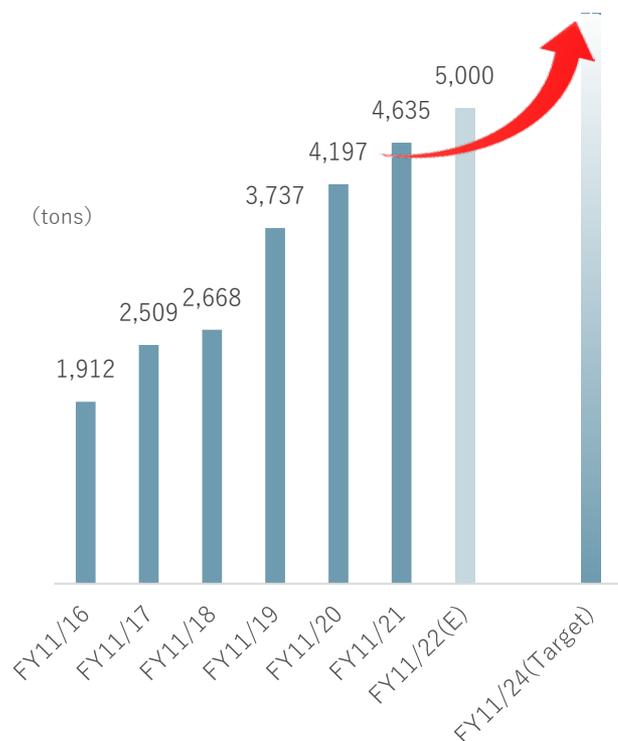
- Aiming to develop ASEAN and Chinese markets in Lacto Group
 - ✓ The quality of Japanese products is highly evaluated in Hong Kong and Taiwan
 - ✓ Increasing health awareness
 - ✓ Rapid expansion of wealthy and middle class population

Leverage the dominance of Lacto Group

- Leverage the sales network in Asia
- It will be possible to source competitive products by utilizing good relationships with Japanese dairy manufacturers.

Steadily implementing growth-oriented initiatives in line with the medium-term plan despite the challenging environment

□ Asian Business (Cheese Div.)
Sales Volume



Sales expansion strategy in major regions

- **China:** Use powerful agents, strengthen cooperation with Group companies
- **Thailand:** In addition to home meal demand, add restaurant demand after COVID-19
- **Malaysia:** Bring competitive products to market by developing new products and reducing raw material and production costs

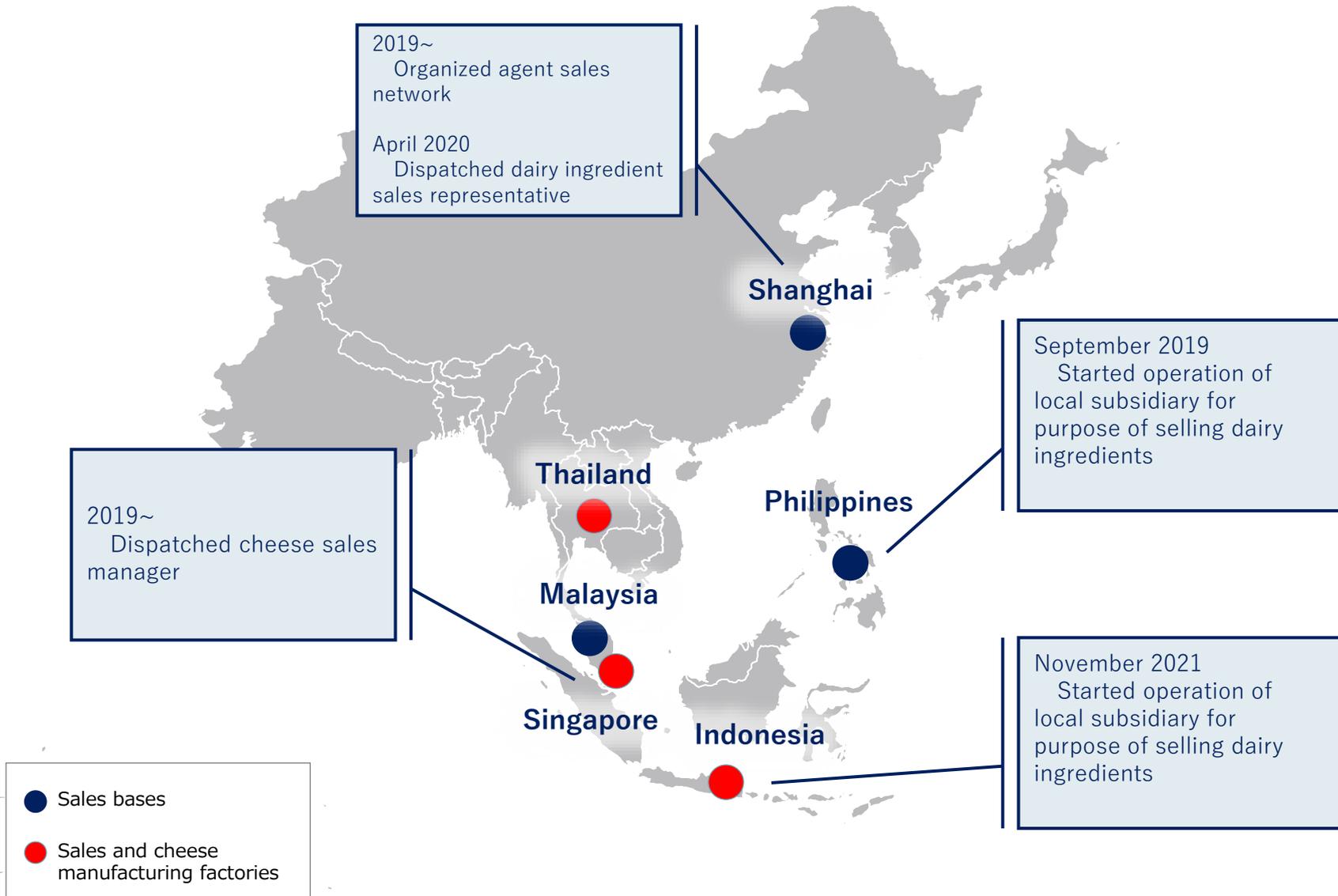
Bring new products to market

- Launch of low-cost diced cheese
- Plan to launch several new products from 2H of this FY to next FY

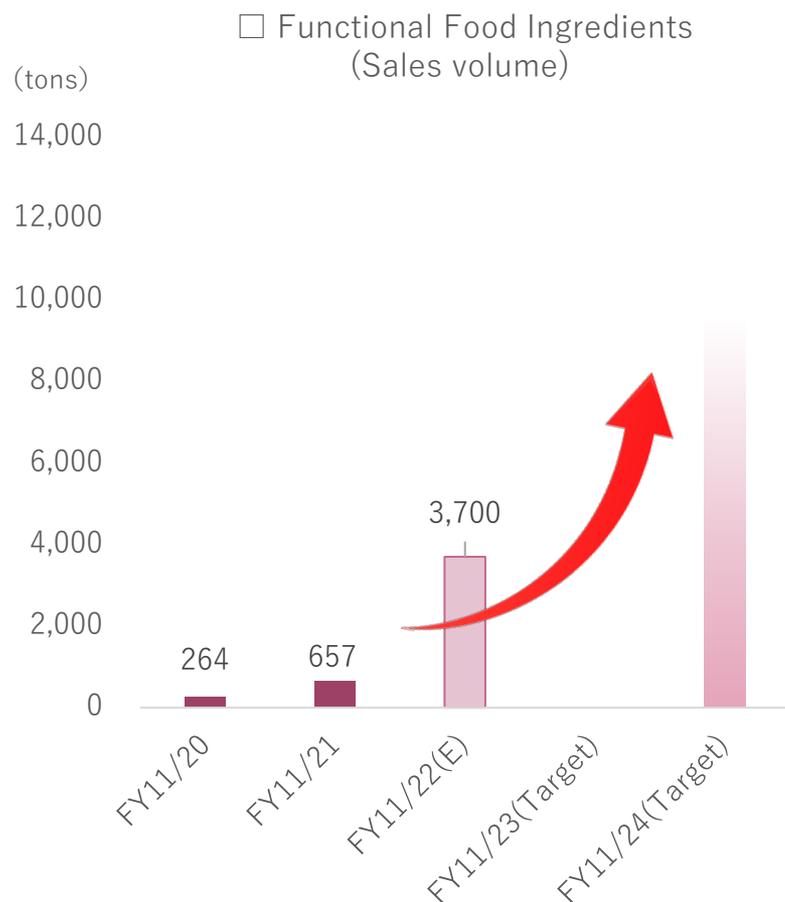
Reinforcement of production system

- Singapore factory: Introduction of automated lines

Priority Measure: Reinforcement of local sales system



Accelerate development of functional food ingredients business and establish it as “pillar of growth businesses”



■ Aggressive development of marketing activities

- Develop new customers (in particular, sports nutrition-related sales will be strengthened)
- Collaboration between Business Development Division and Dairy Ingredients Division (cross-selling to existing customers)
- Proposals combining "sales of raw materials + added value"

■ Expansion of products handled

- Strengthen development of new products with dairy protein ingredients and cultivation of suppliers in cooperation with overseas bases
- Expand new product items (plant derived ingredients)

[Our Purpose]

To contribute to the nutrition and health of people and the enjoyment of food through the stable supply of safe and reliable ingredients and to continue growing and developing as a company that makes a difference to society

[Value creation through business activities]

Collaborating for sustainable dairy and livestock farming with low environmental impact

Supplying safe and reliable food ingredients to ensure a rich diet and well being

Contributing to the penetration of dairy products in Asia with our cultivated know-how

[Megatrends and social issues]

- Increasing health awareness
- Asia's economic growth
- Domestic population decline and super-aging society
- Progress of free trade agreements
- Climate change problems
- Innovations in digital technology

[Management resources]

<p>Human capital</p> <p>Highly professional employees</p>	<p>Intellectual capital</p> <p>Know-how regarding dairy products</p>
<p>Social capital</p> <p>Suppliers around the world</p>	<p>Manufacturing capital</p> <p>Own factories in Asia</p>

[Business model]

Best matching

Suppliers ↔ Customers

Lacto Japan

↕

Dairy and livestock farming industries

[Materialities]

- Supplying safe and reliable food
- Contributing to a healthy and enriched life
- Stable supply through sustainable dairy and livestock farming
- Adaptation to climate change and reduction of environmental impact
- Creating workplaces where diverse human resources can work with pride
- Sophistication of governance

<p>Supplying safe and reliable food</p>	<ul style="list-style-type: none"> ● Selection of suppliers (audit, inspection, sample testing) ● Thorough quality control (traceability, food defense, temperature control, etc.) ● Reinforcement of processed cheese manufacturing system (review of physical and non-physical aspects, employee training) 	 
<p>Contributing to a healthy and enriched life</p>	<ul style="list-style-type: none"> ● Sourcing dairy products that contribute to nutrition and health from around the world ● Expansion of plant-based food ingredients (to accommodate veganism, dairy allergies, etc.) ● Proposal of foods and raw materials that match diverse lifestyles 	  
<p>Stable supply through sustainable dairy and livestock farming</p>	<ul style="list-style-type: none"> ● Diversification of supply sources (quality, origin characteristics, price, etc.) ● Best matching (customers: proposing and procuring optimal raw materials / business partners: proposing sales opportunities and creating new demand) ● Dairy farmer development (supporting international human resource exchange, considering entering the dairy industry, etc.) ● Improving efficiency and labor saving in procurement and supply through promotion of digitalization 	   
<p>Adaptation to climate change and reduction of environmental impact</p>	<ul style="list-style-type: none"> ● Diversification of supply sources (mainly diversifying climate change risks, prioritizing and supporting environmentally conscious dairy farmers) ● Contributing to reduction of greenhouse gases (collaboration with dairy and livestock industries, provision of information and services to suppliers) ● Reduction of food loss (efforts to extend product life, setting appropriate expiration dates, reducing waste loss) ● Waste reduction (review of packaging materials) ● Optimization of logistics (best matching of logistics to reduce environmental impact) ● Reduction of environmental impact at our own offices and factories 	   
<p>Creating workplaces where diverse human resources can work with pride</p>	<ul style="list-style-type: none"> ● Promotion of diversity (women, localization/globalization, employment of people with disabilities, etc.) ● Development of good working environment (childcare leave and other systems, telework, etc.) ● Strengthening of human resource development (enhancement of education and training) 	   
<p>Sophistication of governance</p>	<ul style="list-style-type: none"> ● Corporate governance (proactive response to Corporate Governance Code) ● Risk management (BCP, information security, compliance) ● Responsible supply chain management 	  

A wide-angle photograph of a rural landscape at sunset. A herd of approximately ten cows is scattered across a lush green field. In the background, a large barn with a corrugated metal roof sits on a slight rise. The sky is filled with dramatic, wispy clouds, and the sun is low on the horizon, casting long, soft shadows across the grass. Power lines and poles are visible in the distance.

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections as a result of changes in the business environment and other risks and uncertainties.