

NH Foods Group Integrated Report 2022

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Editorial policy

Integrated Report 2022 was published with the aim of informing shareholders, investors, and other stakeholders about the annual results of the NH Foods Group, as well as the Group's value creation potential, the challenges that we have taken up as we work toward the realization of Vision2030, our progress under the Medium-Term Management Plan, and practical initiatives relating to our Materialities. We hope that stakeholders will use this report to expand their understanding as the basis for a further deepening of dialogue. When compiling this report, we referred to the Integrated Reporting Framework issued by the Value Reporting Foundation (VRF).

Coverage

NH Foods Ltd. and its 72 consolidated subsidiaries in Japan and overseas (as of March 31, 2022)

Period covered

April 1, 2021–March 31, 2022. Some of the information contained in this report refers to times before or after this period.

Notes concerning accounting standards

In the fiscal year ended March 2022, we sold our entire shareholding in Marine Foods Corporation, a consolidated subsidiary. As result, Marine Foods Corporation and its subsidiaries, etc., are now classified as non-continuous businesses. Figures for non-continuous businesses have been excluded from net sales and profit for the period before income taxes, etc., for the fiscal year ended March 2022 and the fiscal year ended March 2021.










NH Foods Ltd. voluntarily applied International Financial Reporting Standards (IFRS) beginning with its Consolidated Financial Statements for the First Quarter of the fiscal year ended March 31, 2019.

Starting in the first quarter of fiscal year ended March 2022, the NH Foods Ltd. will disclose information about the baseball club business, new businesses, and other activities under the "Others" category. The purpose of this change is to prepare for expansion into new business fields. Since the first quarter of the fiscal year ended March 2022, we have changed the method used to calculate net sales in order to provide a more appropriate representation of performance in our reporting segments. Figures for the previous fiscal year and earlier have been adjusted to reflect these changes. However, we have not yet completed our analysis of figures for the fiscal year ended March 2020 and earlier years.

Forward-looking statements

This integrated report includes forecasts regarding targets, strategies, and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as the economic environment, market trends, and exchange rates. Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.

Information disclosure structure and the positioning of the Integrated Report

PDF				WEB (HTML)
Integrated Report 	Annual Financial Report 	Brief Statement of Accounts 	Medium-Term Management Plan 2023 	Investor 
Sustainability Report 	Data Book 	Corporate Governance Report 		Sustainability 

Overview

Processed Foods Business Division



The Processed Foods Business Division develops, manufactures, and sells ham, sausages, processed foods, dairy products, seafood, and extract seasonings. It uses its advanced product development capabilities to contribute to the enjoyment of food in many areas through the development of long-selling products that have achieved top market shares, including *Schau Essen*, *Chuka Meisai*, and *Vanilla Yogurt*.

Products handled



No.1 Products with No. 1 market share
Note: SCI Data

Our advantages in each value chain



Fresh Meats Business Division



The Fresh Meats Business Division has built a vertical integration system covering all stages from the production of fresh meats through to sales, together with fresh meat procurement networks and food company sales networks in Japan and overseas. We currently handle approximately one-fifth of all meat sold in Japan in volume terms.

Domestic fresh meat brands

- 島原和牛** (Shimabara-Wagyu): domestically produced beef from Nagasaki Prefecture
- 玄米牛** (Genmai-gyu): Domestically produced beef
- 美肌豚** (Mugikomachi): Domestically produced pork
- 桜姫** (Sakurahime): Domestically produced chicken

Imported fresh meat brands

- オムギ** (Omugi-gyu): Australian
- アンデス高原豚** (Andes Kogen Buta): Chile-produced (pork)
- ハーブ爽育鶏** (Herb Soiku Chicken): Thai-produced
- サフォーククロスラム** (Suffolk-Cross Lamb): Australian

Our advantages in each value chain



Overseas Business Division




The activities of the Overseas Business Division include cattle and chicken breeding and production, trading of various meat types, and the manufacture and sales of processed products in Asia, Europe, the Americas, Australia, and other regions. In addition to local and third-country sales and exports to Japan, it also offers products and services to match diverse local dietary culture and values in various countries and regions.

Overseas bases / Brands handled



Baseball Club and Other Business



Baseball Club Business
One of our Five Materialities calls for “co-creation and shared prosperity with local communities and society as a whole through food and sports.” In addition to our role in the management of the Hokkaido Nippon Ham Fighters, a professional baseball team, we are also working toward this goal through the Hokkaido Ballpark F Village scheme. The centerpiece of the scheme is ES CON FIELD HOKKAIDO, a new ballpark scheduled to open in March 2023.

Other Businesses
We are developing D2C activities in the new Entertainment, Wellness, and Ethical business areas. For the Entertainment Business, we have established the “Meatful” website, which is based on the concept of expanding the potential of meat in response to dietary diversification, through the development of products and services inspired by cooking experiences, and through food culture diversification. For the Wellness Business, we have launched the “Table for All” site as a comprehensive support platform for allergy-related products and information, based on the concept of responding to everyone’s food preferences. Our concept for the Ethical Business is to use proteins to create the future. In addition to pursuing new horizons in flavor with new ingredients and technologies, we will also take up the challenge of creating sustainable business models.



History

Innovative products and services

1968

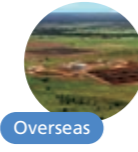
Entry into the farming business, full-scale launch of the fresh meats business



Our vertical integration system is the key to the NH Foods Group's ability to supply safe, high-quality meats reliably. The farming business, in which we have been involved on a significant scale since 1968, forms the upstream part of this system. We continued to expand the scale of this business until the 1990s, and today our chicken production company Nippon White Farm and our pork producer Interfarm both boast the highest production volumes in Japan.

1977

Start of overseas business expansion



In 1977, we commenced our overseas business expansion with the acquisition of the North American company Day-Lee Meats, Inc*. This company now plays an important role that encompasses local sales of processed meats, procurement of fresh meat for export to Japan, and exports to third countries. In 1987, we expanded into processing plant operation under a strategy that anticipated the liberalization of beef imports, and in 1988, we acquired Whyalla Feedlot in Australia, paving the way for the creation of an integration system for beef.

* Now Day-Lee Foods, Inc.

1985

Launch of *Schau Essen* coarse-ground pork wieners for authentic sausage aficionados



Schau Essen pork wieners were developed in response to demand from consumers seeking authentic gourmet sausages. Using a German manufacturing method, we made the sausages by filling sheep casings with coarse-ground pork, which at the time was new to most Japanese consumers, and then smoking them. This totally new product became a major hit thanks to its unique crisp texture and soon claimed the biggest share of the market as a flagship brand for NH Foods Ltd.

1997

Launch of the *Apilight* range of allergen-free products



In 1996 we began to research food allergies, and in 1997 we launched the *Apilight* range of allergen-free products. The creation of these products was inspired by comments received by our consumer support desk from people pleading with us to develop foods that could be given safely to children with food allergies. While expanding the product range, we have also developed test kits and continued to disseminate information.

2002

Launch of the *Sakurahime* Japanese chicken brand, expansion of brand meats business



With its translucent pink color, *Sakurahime* chicken contains over three times more vitamin E* and has a much fainter odor than standard chicken. Developed in 2002 under our vertical integration system, it has become a flagship brand for the NH Foods Group. We have continued to introduce our own meat brands, including *Mugikomachi* domestic pork.

* Based on a comparison with the 2015 value in the Standard Tables of Food Composition in Japan

2020-

Responding to expanding demand for meat substitutes



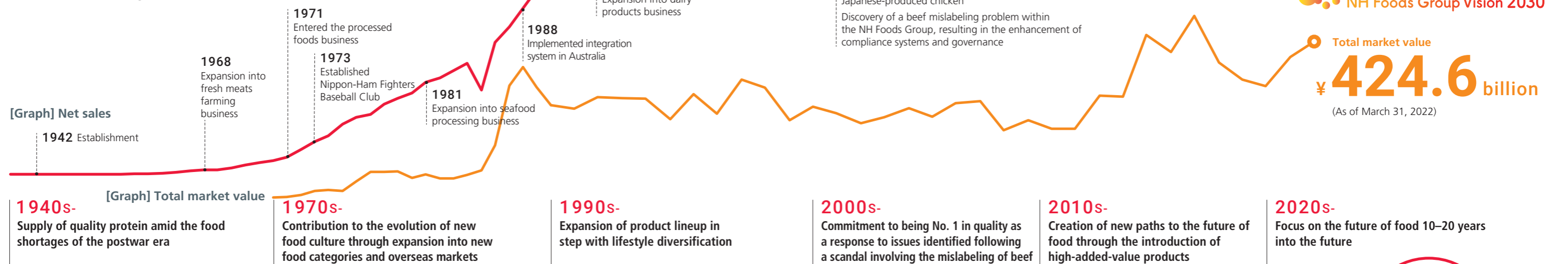
Demand for meat substitutes is expanding for a variety of reasons, including concerns about food shortages, environmental awareness, and health consciousness. In 2020, the NH Foods Group launched a number of plant-based products under the *NatuMeat* brand. Made from soybeans and konjak instead of meat, the range includes sausages, ham, and hamburgers. We are also engaged in research and development in preparation of the future introduction of cultured meats.

History

Providing Value to Meet Changing Needs

In March 2022, the NH Foods Group marked the 80th anniversary of its founding in 1942 as the Tokushima Meat Processing Plant. During this 80-year history, the NH Foods Group has expanded into a wide variety of categories, including fresh meats, processed foods, dairy products, seafood, and extract seasonings.

By responding to changing food needs and issues, the NH Foods Group has continued to achieve growth in each successive era.



No.1 quality / safety and security

Delivery of “great tastes” to the dinner table

A stable supply of protein that makes up the body

Corporate philosophies Joy of Eating

- Social environment**
 - Rapid economic growth
 - Westernization of the Japanese diet
- Shift to nuclear family lifestyle
 - Growth of the restaurant industry
- Liberalization of pork imports
 - Shift of women into the paid work force
- Liberalization of imports of beef and oranges
 - Growth of the ready-made meal market
- Growing consumer pressure for improved food safety and reliability
 - Japan's first BSE outbreak
- UN Sustainable Development Summit
 - Signing of the Paris Agreement
- COVID-19 pandemic

Value creation process

VALUE CREATION

Sharing the *Joy of Eating* through the pursuit of improvement in social value and business value

- Changes in food demand due to Japan's falling birthrate and demographic aging
→ Japan's population of children aged under 15 has been falling continuously for **41 years**.^{*1}
*1 Based on a May 2022 press release by the Ministry of Internal Affairs and Communications

- Changes in the supply-demand balance for food driven by global population growth
→ World population: **7.954 billion**
Increase of **79 million** compared with 2021^{*2}
*2 From The State of World Population (2022)

- Intensification of competition with other companies as trade agreements come into force

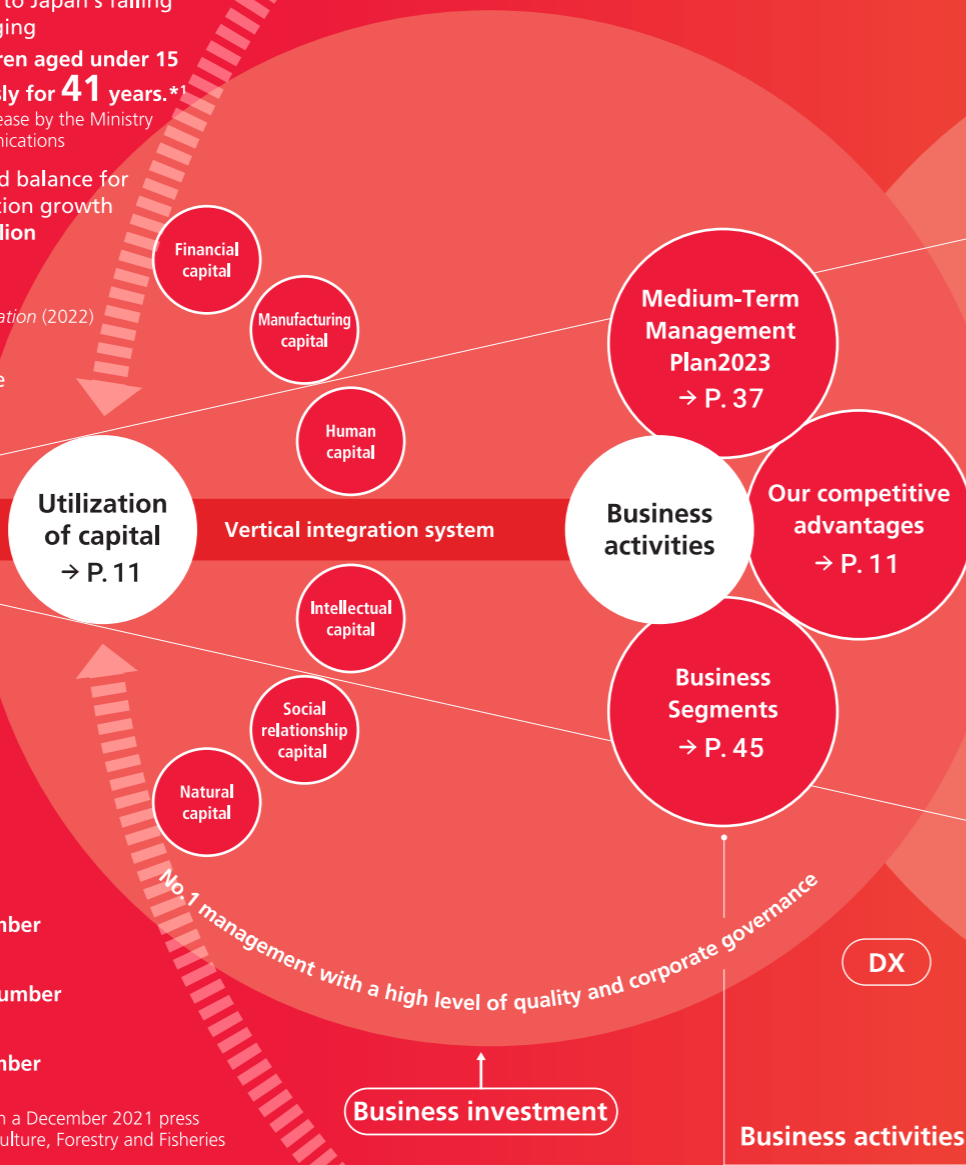
External environment (risks and opportunities)
→ P. 32

- Environmental risks, including climate change risks and water risks
- Food safety risks
- Diversification of food needs due to lifestyle diversification
- Decrease in the number of domestic livestock farmers^{*3}

- **4.1%** decline in the number of cattle farmers
- **10.9%** decline in the number of pig farmers
- **4.0%** decline in the number of broiler chicken farmers

*3 Compared with 2020, based on a December 2021 press release by the Ministry of Agriculture, Forestry and Fisheries

- Soaring resource prices (grain, crude oil, etc.)
- Changes in consumer behavior due to the global pandemic
- Increasing focus on work style modification



Defining Our Five Materialities

After reviewing issues in the social environment, the NH Foods Group defined the Five Materialities in April 2021 as a framework for our efforts to realize our Medium-Term Management Plan and reach our medium- to long-term targets for 2030.

The NH Foods Group will continue to contribute to the creation of a sustainable society through efforts focused on the Five Materialities.

Link for more details:

<https://www.nipponham.co.jp/eng/csr/nhgroup/process/>

Our Five Materialities

- Stable procurement and supply of proteins
- Food diversification and health
- Contributing to a sustainable environment
- Co-creation and shared prosperity with local communities and society as a whole through food and sports
- Employee development and respect for diversity

Gaining new strengths and value
Increase business value

Vision2030

Corporate philosophy
Joy of Eating

Solution of social issues
Increase social value

Solve social issues
→ P. 61

ESG investment

Business activities

Medium-Term Management Plan 2023 Management Policies

- Shift to a sustainable business model with profitability
- Establish a growth model for Overseas Business
- Provide new value through new products and services
- Strengthen corporate functions to achieve the Vision

Our competitive advantages

1. Procurement and production networks that support safe, secure, and reliable supply
2. Developing products from a customer perspective
3. Nationwide sales and distribution network
4. Strong supply capacity and advanced processing technology re-ected in high market share
5. Management commitment to leadership in quality backed by highly effective quality assurance structures

Business Segments

- Processed Foods Business Division
- Fresh Meats Business Division
- Overseas Business Division
- Baseball Club and Other Business



Using and enhancing six types of capital to support value creation

The unique value chains of the NH Foods Group



Protein provides the energy for life, and value chains that reliably supply protein are key to the value creation capacity of the NH Foods Group. We are able to supply safe, dependable products reliably thanks to our global procurement and production structures, our nationwide sales and distribution network, and our quality assurance systems. In the area of processed foods, our advanced product development systems and processing technologies enable us to create delicious new products, while our vertical integration system for fresh meats provides a framework for dependable and highly efficient production structures. These systems and structures allow us to reliably supply high-value-added products that match market needs, while also eliminating disease risks and other risk factors.

Manufacturing capital

Strong supply capacity and advanced processing technology reflected in high market share

The NH Foods Group manufactures ham, sausages, processed foods, processed seafood products, lactic acid probiotic beverages, dairy products, and other items at 92 production facilities in Japan and overseas. In the fresh meats category, our involvement in the breeding and production of pork and chicken in Japan, together with reliable access to supplies from our partners in Japan and overseas, enables us to supply high-quality branded meats and other products reliably, and we have built a market share of around 20%. Many of our processed foods are number one in their categories thanks to our nation-wide supply structures.

One of our goals under Medium-Term Management Plan 2023 is to optimize our manufacturing base by reassessing its functionality and organization from an overall optimization perspective.

All NH Foods Group production facilities have obtained HACCP and ISO certification and maintain effective quality control regimes.



Social relationship capital

Nationwide marketing and distribution networks, unique quality assurance structure

We have developed regional food infrastructure in the form of highly responsive supply structures with direct links to production facilities and a strong focus on the needs of customers in various industries. Our comprehensive strengths, including these extensive logistics and marketing structures, have further enhanced our market competitiveness through the development of stronger relationships with raw material suppliers. However, we also recognize the need to improve efficiency by resolving issues in our logistics operations, and we have already launched initiatives for this purpose.

We have created quality audit, safety assessment, and safety inspection systems to support our management commitment to being No. 1 in quality. The unique monitoring structure that we introduced in 1969 was updated in 2022 as the Consumer Delegate Committee. Input from various perspectives is used in product enhancement and development.



Natural capital

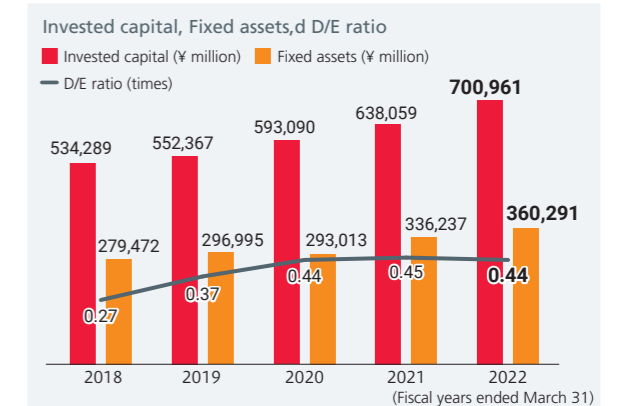
Production and breeding facilities—the source for reliable meat supplies in Japan and overseas

The NH Foods Group produces and breeds cattle, pigs and chickens mainly in Japan, but we also have cattle breeding operations in Australia and chicken production and breeding operations in Turkey. Our natural capital includes 128 company-owned farms in Japan and 23 overseas.

Financial capital

Achieving a healthy balance between debt and equity while investing in growth

In the fiscal year ended March 2022, invested capital increased by ¥62.9 billion to ¥701.0 billion. This amount represents the difference between total assets of ¥909.2 billion and total interest-free debt of ¥208.2 billion. Fixed assets, including intangible fixed assets, which make up approximately 40% of total assets, increased by ¥24.1 billion year on year to ¥360.3 billion. Under Medium-Term Management Plan 2023, we will invest ¥248.0 billion in business infrastructure enhancement, the construction of a ballpark, DX initiatives, and other projects. The fixed asset balance is expected to increase further as this investment peaks in fiscal 2022. At the same time, we will take steps to improve the efficiency of our fixed assets, including the recycling of assets with profitability issues, and the improvement of profit margins. These measures will lead to the improvement of ROIC. The Group's debt-to-equity ratio, which we consider a primary financial indicator, reached 0.44 in fiscal 2021. This figure falls within the 0.4 to 0.5 range, which we see as indicative of a debt-equity structure that will enable us to minimize WACC.

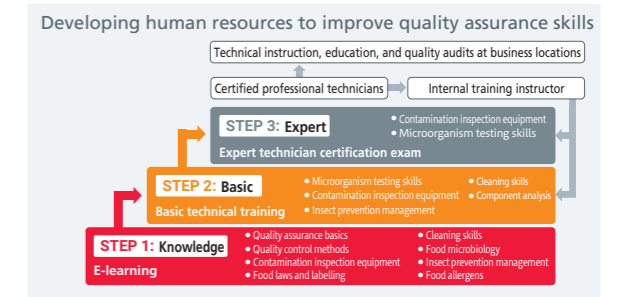


Human capital

Driving force for the realization of Vision2030

Our recognition that our employees are the driving force for these efforts is reflected in the adoption of "employee development and respect for diversity" as one of our Five Materialities. We will ensure that every individual employee can reach his or her full potential and achieve growth, by reforming our systems and improving working environments. We are also promoting health management under our Health and Safety Declaration.

We are training specialist personnel through training initiatives, including rank-based training programs designed to raise the overall level of IT literacy. We also provide advanced technical training with the aim of enhancing quality control in our manufacturing facilities. As of March 31, 2021, a total of 62 NH Foods Group employees had passed exams to qualify as specialist technicians.

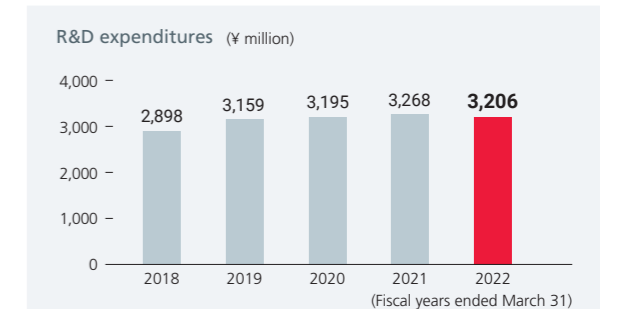


Intellectual capital

R&D capabilities vital to business development and the solution of social issues

We engage in research and development from a number of perspectives, including the fulfillment of our long-term responsibilities as a supplier of animal protein, the future development of the livestock industry, health promotion and the mitigation of allergy problems, and responses to environmental problems.

Our R&D efforts in relation to the reliable supply of protein are focusing on development of new protein sources based on microorganisms, and the use of animal cells to produce cultured meat for use as food. In December 2021 we obtained a patent for our research concerning the use of imidazole dipeptide to alleviate cognitive impairment. This work also resulted in the development of *IMIDEA*, a food with functional claims, which contains imidazole dipeptide.



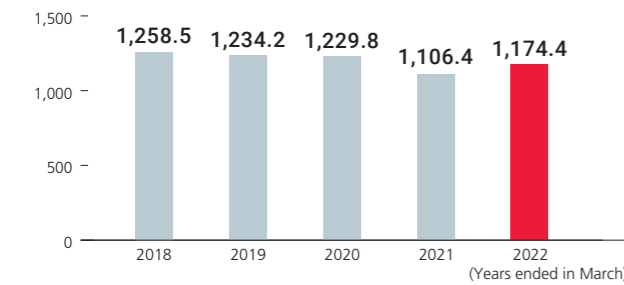
Financial and non-financial highlights

In the fiscal year ended March 2022, we decided to sell our entire shareholding in Marine Foods Corporation, a consolidated subsidiary. As a result, Marine Foods Corporation and its subsidiaries, etc., are now classified as non-continuous businesses. Figures for non-continuous businesses have been excluded from net sales for the fiscal year ended March 2021.

■ Financial ■ Non-financial

Net sales

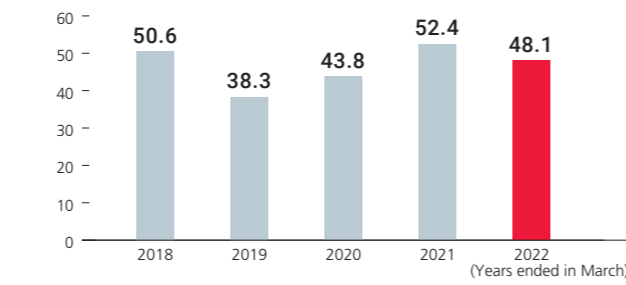
¥ **1,174.4** billion



Net sales benefited from a recovery in demand from commercial users and the restaurant business, thanks to the waning impact of COVID and changes in consumer behavior. There was an increase of 6%, resulting in part from price increases to pass on higher beef procurement costs.

Business profit*1

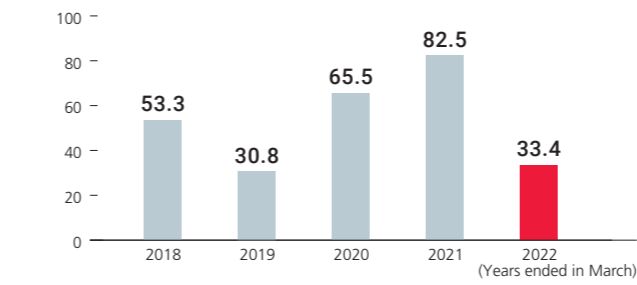
¥ **48.1** billion



Business profit declined by 8.2% due to a global surge in raw material and feed prices and rising procurement and production costs.

Cash flows from operating activities

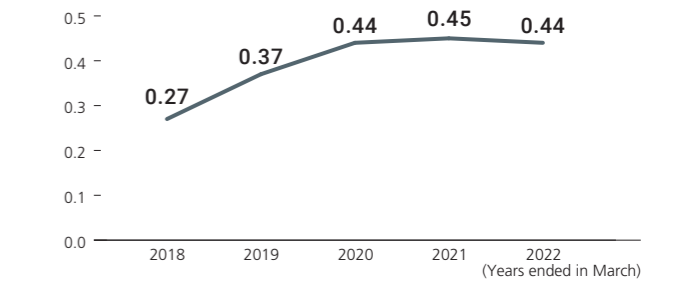
¥ **33.4** billion



Despite an increase in inventory assets and the payment of corporate income taxes, net profit before tax amounted to ¥51.4 billion, while depreciation and amortization totaled ¥36.5 billion, resulting in net cash from operating activities of ¥33.4 billion.

Interest-bearing liabilities / Equity ratio

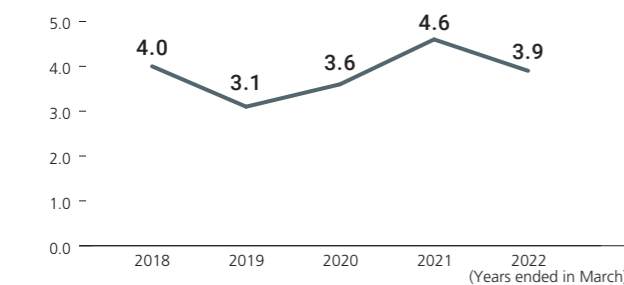
0.44 times



We regard 0.4 to 0.5 as the level for an optimal capital structure. We maintained the ratio at an appropriate level.

Business profit ratio*2

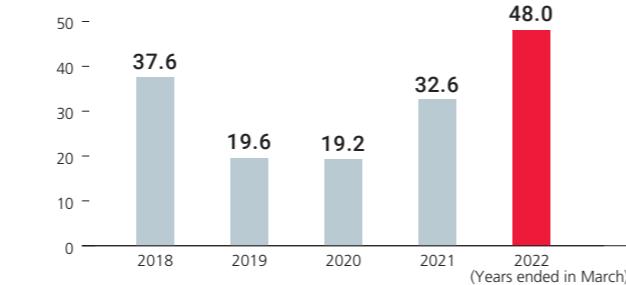
3.9%



Despite an improvement in our overseas performance thanks to increased earnings from the Australian beef business, the Processed Foods Business was impacted by surging raw material prices, and the Fresh Meats Business by sharply higher feed prices. These factors caused profit to decline, resulting in a lower business profit ratio.

Profit attributable to owners of the parent

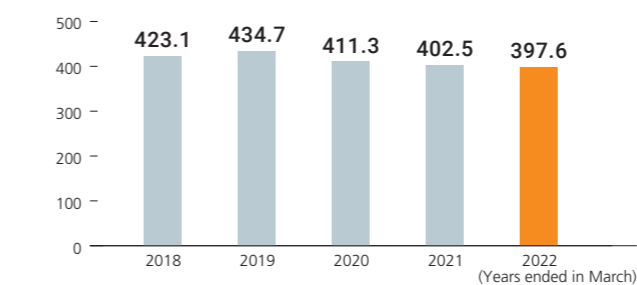
¥ **48.0** billion



There was a 47.3% increase in profit. Contributing factors included a gain on the sale of the seafood business Marine Foods Corporation, which was a consolidated subsidiary, and its subsidiaries, etc., and higher returns from overseas equity-method affiliates.

Waste volume

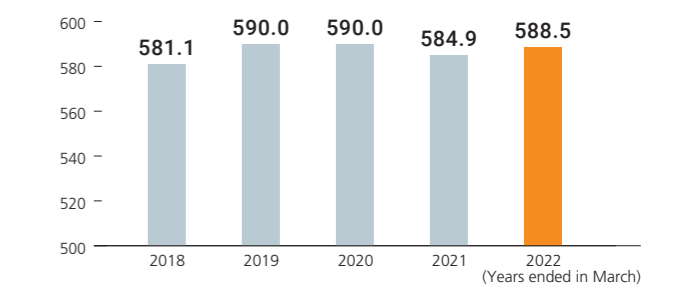
397.6 (thousand t)



The NH Foods Group aims to reduce waste from business sites in Japan per unit of production by 5% compared with the fiscal 2019 level by fiscal 2030. We are working to reduce the amount of plastic used and address other issues, such as food losses.

Electricity consumption

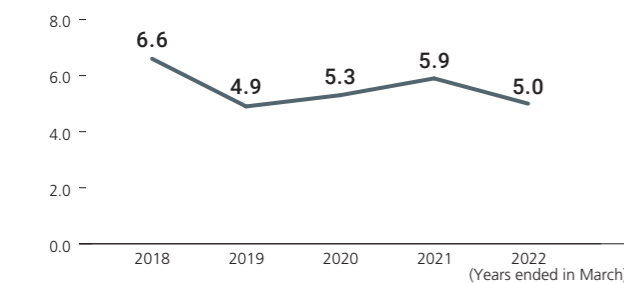
588.5 million kWh



In addition to energy-saving activities, we installed solar power equipment in our plants.

Return on invested capital (ROIC)

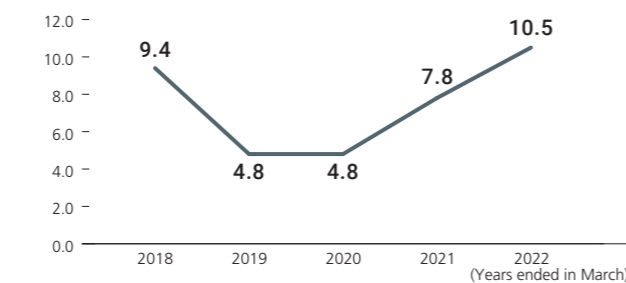
5.0%



An increase in invested capital resulted in a lower ratio of invested capital turnover to net sales, causing ROIC to decline to 5.0%.

Return on equity (ROE)*3

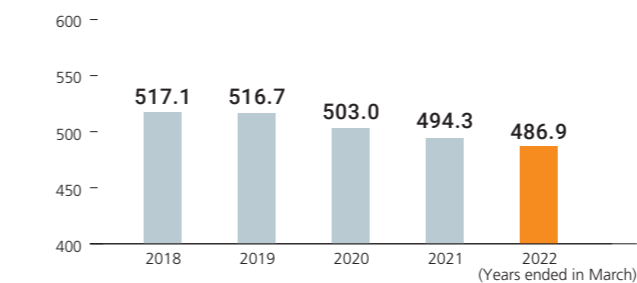
10.5%



Business profit reached the target level, and there was a substantial increase in profit attributable to owners of the parent, in part because of a gain on the sale of Marine Foods Corporation. The ratio increased by 2.7%.

CO₂ emissions

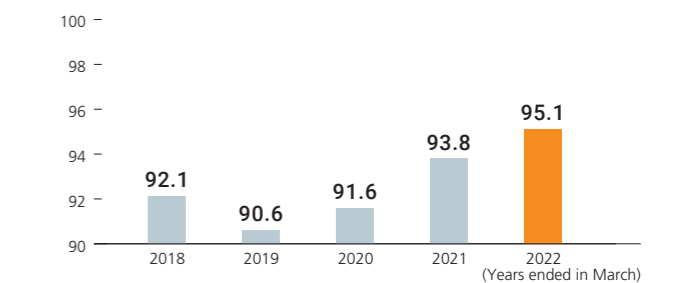
486.9 (thousand t-CO₂)



The NH Foods Group aims to reduce fossil fuel-derived CO₂ emissions by at least 46% (compared with the fiscal 2013 level) by fiscal 2030. We are working to reduce CO₂ emissions across our entire supply chains.

Fuel consumption

95.1 thousand kl



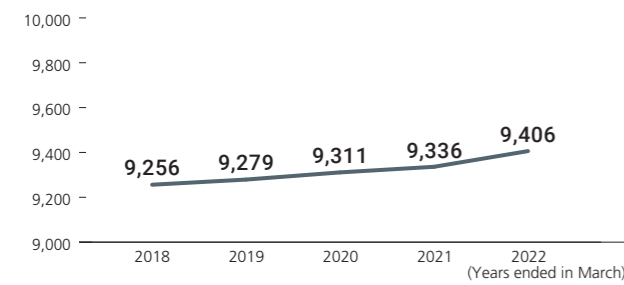
Initiatives include energy-saving activities, the installation of solar power equipment, and the use of waste-oil boilers and renewable energy, such as biomass power generation.

*1 Business profit was calculated by subtracting the cost of sales and selling, general and administrative expenses from net sales and adjusting for exchange gains and losses, as determined by the NH Foods Group, adjusting to an IFRS basis, and adjusting for non-recurring items.

*2 The ratio of business profit to net sales was calculated using business profit after adjustment for non-continuing businesses.
*3 ROE (%) = Profit attributable to owners of the parent / Average total equity attributable to owners of the parent × 100

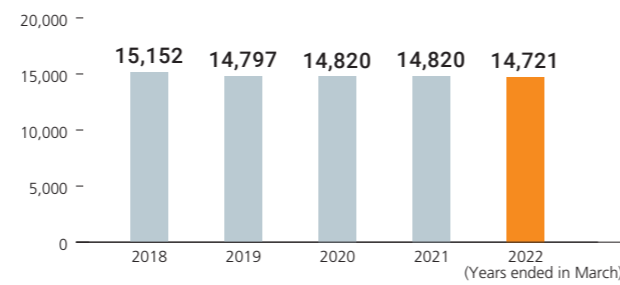
Financial and non-financial highlights

Energy use
9,406 TJ



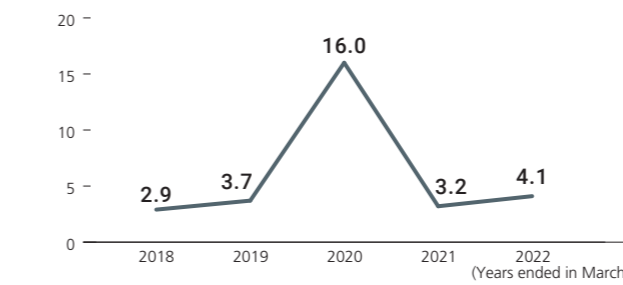
We are implementing resource conservation measures as part of our response to climate change. Initiatives include energy-saving activities, and the introduction and use of renewable energy.

Water consumption
14,721 (thousand m³)



The NH Foods Group aims to reduce its water consumption per unit of production by 5% (compared with the fiscal 2019 level) by fiscal 2030. In addition to initiatives to reduce the amount of water used in manufacturing processes, we have also implemented water recycling measures.

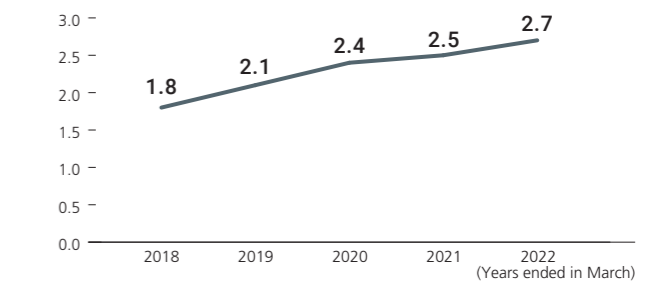
Turnover rate*4, 5
4.1 %



In addition to initiatives to create a corporate culture and systems that support employee motivation and encourage people to take up new challenges, we are also implementing workstyle reforms and measures to develop good working environments.

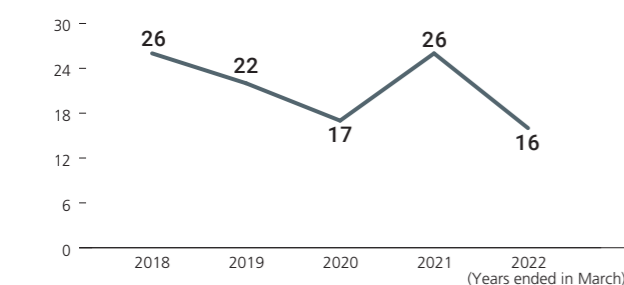
Note: In fiscal 2020, NH Foods Ltd. expanded the optional retirement system as a temporary measure.

Percentage of workers with disabilities*4, 6, 7
2.7 %



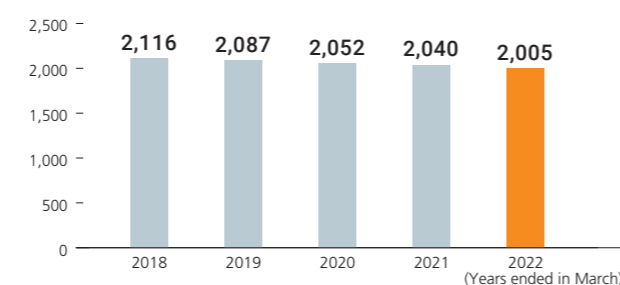
We help workers to develop careers that are appropriate for the nature of their disabilities. We are also working to create working environments in which diverse people can contribute and succeed. In fiscal 2021, the percentage of people with disabilities employed by NH Foods Ltd. was 2.7%, which is above the statutory ratio.

Mid-career hiring rate of workers*4, 5
16 %



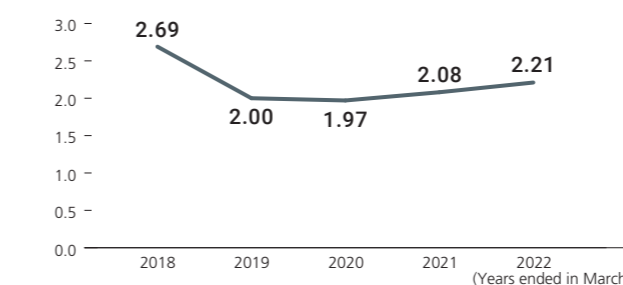
We engage in mid-career recruitment activities throughout the year with the aim of securing personnel with advanced specialist skills and wide-ranging experience. The ratio is based on the total number of new graduates and mid-career hires.

Annual actual working hours*4
2,005 hours



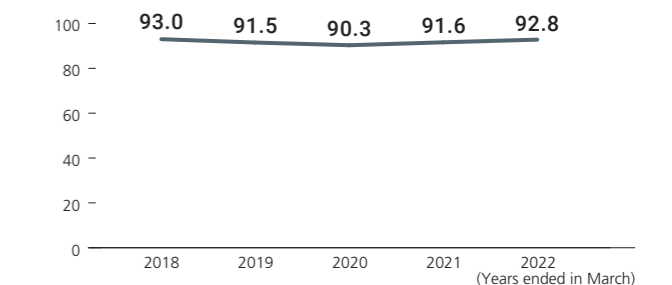
We have established a Working Hours Committee. Time management meetings are also held in individual divisions as part of efforts to reduce overtime hours. In addition, employees are encouraged to use their annual paid leave.

Frequency of occupational accidents
2.21



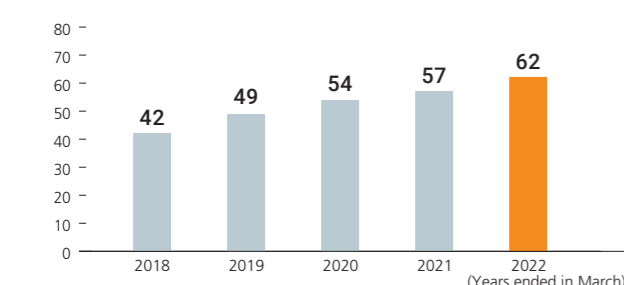
In addition to accident prevention initiatives, we have also established systems to support timely sharing of information about the circumstances of occupational accidents and the response actions taken. We regularly hold seminars and study sessions led by safety officers as part of our efforts to maintain safe working environments.

Stress check examination rate
92.8 %



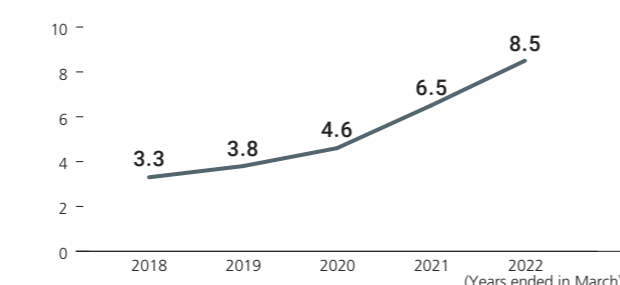
All group employees undergo annual stress checks as part of our efforts to foster good mental health. Aggregated analysis results are fed back to each organizational unit and used to create good working environments.

Number of employees with specialist technical qualifications
62



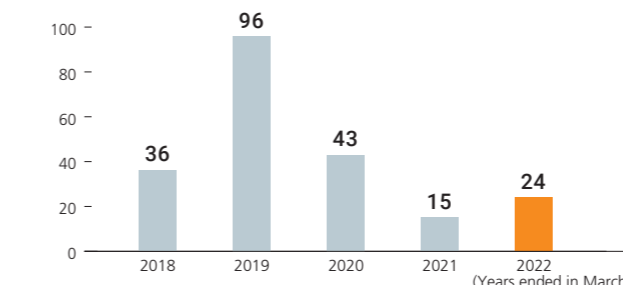
The business activities of the NH Foods Group encompass all areas of the food industry. We help employees to achieve and maintain official qualifications. In addition, we encourage people to update their knowledge and acquire specialist skills through business activities, and we provide appropriate recognition for those who acquire such knowledge.

Percentage of female managers*4, 5
8.5 %



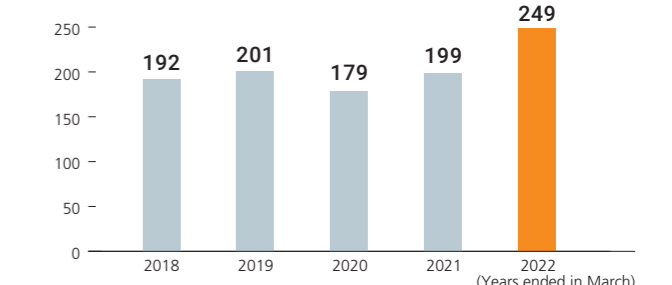
We are creating an environment in which it is easier for women to advance their careers by developing various systems and mechanisms to help employees balance childcare and nursing care responsibilities with work. These efforts are reflected in an upward trend in the percentage of female managers.

Number of visits to business sites by Compliance Department staff
24



Compliance Department staff visit business sites to implement measures to avoid, reduce, and prevent risks. They hold hearings with employees to discuss the situation at each site, work-related issues, inter-personal relationships, and other matters.

Number of requests for advice about compliance matters
249



We restructured our advice and support systems in October 2021. This resulted in the creation of internal and external helplines for matters relating to regulatory compliance, dishonesty, and safety, and another helpline for general inquiries about workplace problems. We attribute the increase in the number of requests for advice to this expansion of the systems.

*4 The figures apply to NH Foods Ltd. (non-consolidated). *5 Based on the number of current employees as of March 31st in each fiscal year *6 Includes non-regular employees. *7 Calculations are based on the employment ratio stipulated in Act to Facilitate the Employment of Persons with Disabilities.