

## Message from the President

# Challenges

We remain firmly committed to the realization of Vision2030 despite rapid and unpredictable environmental changes.

Yoshihide Hata

President and Representative Director

### Question 1 |

The NH Foods Group has reached the 80<sup>th</sup> anniversary of its founding. What are your thoughts about the future in this milestone year?

## Our challenges in this time of unprecedented environmental change

In March 2022 the NH Foods Group marked the 80<sup>th</sup> anniversary of its founding. In retrospect, our history can be seen as a series of successes resulting from our determination to overcome adversity and crises. Our key focus in this time of dramatic change in the world and society is sustainability. We see contribution to the solution of social and environmental issues through business as the key to maintaining support for the NH Foods Group.

Food is essential to human life. The NH Foods Group is a key player in the food industry and will continue to provide the *Joy of Eating* by unleashing new potentials for protein as we take up new challenges on our path to becoming a sustainable company through the realization of Vision2030. We will continue our efforts to raise awareness of this commitment through corporate messaging centered on the words “Unleash new potentials for protein”.

An event that we must never forget as we work to move forward and achieve further growth is the beef mislabeling scandal that erupted in 2002. Officers and employees who directly experienced this scandal, which happened 20 years ago, today make up only about 20% of our work force. To achieve meaningful successes as we face the challenges of the future, I believe we must first share the lessons of the past. To ensure that we never again betray the trust of our stakeholders, we have made commitments to being number one in quality and maintaining effective corporate governance the cornerstones

of our management. These commitments encompass not only product quality, but also the enhancement of our systems and structures, including our compliance structures.

In fiscal 2021, food production and procurement problems emerged as a result of the combined impact of the COVID-19 pandemic and the Ukraine crisis. In the future, population growth and climate change are expected to cause shortages of food and protein. This situation has given us a renewed awareness of the importance of our role as a corporate group responsible for food supply infrastructure in ensuring stable procurement and supplies of food. Russia is the world’s fourth largest producer of grain for livestock feed, while Ukraine is ranked ninth. The full consequences of the present situation have not yet emerged, and the improvement of our access to supplies will become increasingly important as we work to ensure the availability of food for consumers by strengthening our procurement capabilities.

The path to the realization of our Vision2030 is likely to be a steep one in the present environment. However, provided that all employees continue to improve their skills and remain focused on our goals, the NH Foods Group will be able to realize its corporate philosophy as a place where employees can feel truly happy and fulfilled. We face great challenges, but we will move forward with renewed determination to overcome those challenges.

### The Philosophy and Mission of the NH Foods Group

#### Corporate Philosophies

1. Under the basic theme of *Joy of Eating* our company creates a culture that marks an epoch and contributes to society.
2. Our company is a place where employees can feel truly happy and fulfilled.

#### Management Principles

1. Act with noble ideals and the determination to achieve them.
2. Learn from others, teach others, and be willing to be taught by others.
3. Create the times by meeting the needs of the times.
4. Expand relationships through quality and service, and take responsibility for all people with whom we have relationships.
5. Strive for a highly functional organization.

#### Vision2030

 Unleash new potentials for protein  
NH Foods Group Vision 2030



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### Question 2 |

What are your priorities under the new plan and vision launched in fiscal 2021?

### Fostering shared awareness within the company, building understanding and resonance through dialogue

Since announcing Vision2030—Unleashing new potentials for protein—our Medium-Term Management Plans for 2023 and 2026, and the Five Materialities in 2021, we have worked to raise awareness of our Vision and Five Materialities among our employees. I have also engaged in continual dialogue with employees and other stakeholders.

My impression from this dialogue is that our investors and business partners now have a better understanding of our strategic direction and policies. However, I feel that we need to work harder to share this information with consumers. We want as many people as possible to prefer our products. To achieve that, we need to earn understanding of and recognition for our efforts to overcome the protein crisis, solve social and environmental problems, and support diverse and healthy lifestyles. Going forward, we will use every possible opportunity to enhance our information-sharing activities.

We also prioritize information sharing and the achievement of resonance in our dialogue with employees.

We selected “employee development and respect for diversity” as one of our Five Materialities because we see efforts in these areas as directly relevant to the realization of

our Vision2030 and the achievement of targets. In fiscal 2021, we held 22 meetings to inform all employees throughout Japan and engage in discussions about our vision and materialities, and to share the background factors and ideas that led to their development, including the goals that we aim to achieve through our business activities, and the type of organization, company, and workplace that we want the NH Foods Group to be. At each meeting I engaged in dialogue with around 10 employees. These events were valuable as opportunities to talk freely about their opinions and ideas. We will continue to hold town hall meetings.

We have also created new systems to support efforts toward the realization of Vision2030. Our vision of “unleashing new potentials for protein” cannot be achieved without the freedom to express ideas and take up new challenges. We have therefore included challenge items in our new management by objectives system. Other new systems created for this purpose include programs to encourage employees to contribute product development ideas and new business ideas. We have also established an awards system for positive initiatives that contribute to the realization of Vision2030.

### Question 3 |

How would you assess progress under Medium-Term Management Plan 2023? What are the challenges?

### First-year results largely on-target

#### Going forward, we will take a more flexible approach and step up the pace of our initiatives

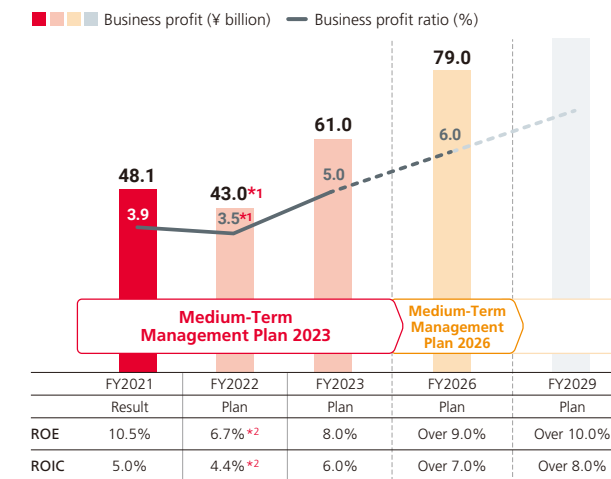
In fiscal 2021, the first year of the plan, we faced soaring raw material prices and higher procurement and production costs. However, the financial results were generally in line with our targets, thanks to price revisions, efficiency improvements, and the pursuit of brand and channel strategies. Consolidated net sales increased 6.1% year on year to ¥1,174,389 million, while business profit decreased 8.2% to ¥48,116 million. Profit before tax increased 7.9% to ¥51,366 million, and profit attributable to owners of the parent increased 47.3% to ¥48,049 million. ROE reached 10.5% and ROIC 5.0%. Unfortunately, our business profit ratio was only 3.9%, compared with a target of 4.1%.

Our business environment has changed dramatically over the past year, resulting in increased uncertainty. However, our goals and strategic direction remain unchanged. While adapting to these unprecedented shifts in the external environment, we

will increase the flexibility of our strategies and tactics and step up the pace of initiatives to transform our business structure and enhance our profitability.

As the largest supplier of protein in Japan, the NH Foods Group plays a vital role in meeting Japan’s food needs. One of the management strategies in our management plan calls for a shift to a sustainable business model with profitability. As part of our efforts to realize that shift, we aim to strengthen our meat procurement capability. We see that as our most important priority for both the short-, medium-, and long-term future. We will need to focus in particular on initiatives relating to imported meats, including the development of closer relationships with existing suppliers, and the discovery of new suppliers in new source countries. To improve profitability, we will need to enhance our sales capabilities, restructure our production operations, and use technology

### Outlook for the Medium-Term Management Plan 2023/2026



\*1 Revised in August 2022 \*2 Revised in May 2022

from our processing business to develop new products. In fiscal 2021, we enhanced our ability to respond to customer needs by shifting from a function-based divisional system to one based on value chains for each livestock category. We also began to build a leaner structure by consolidating our production and processing operations. We plan to reduce the number of production sites for fresh meats and processed products by 20% by 2030. In the processed food segment, we are currently restructuring the Nippon Food Packer Group. Nippon Food Packer Shikoku, Inc. will be absorbed by Nippon Food Packer, Inc. in October 2022, while operations at Nippon

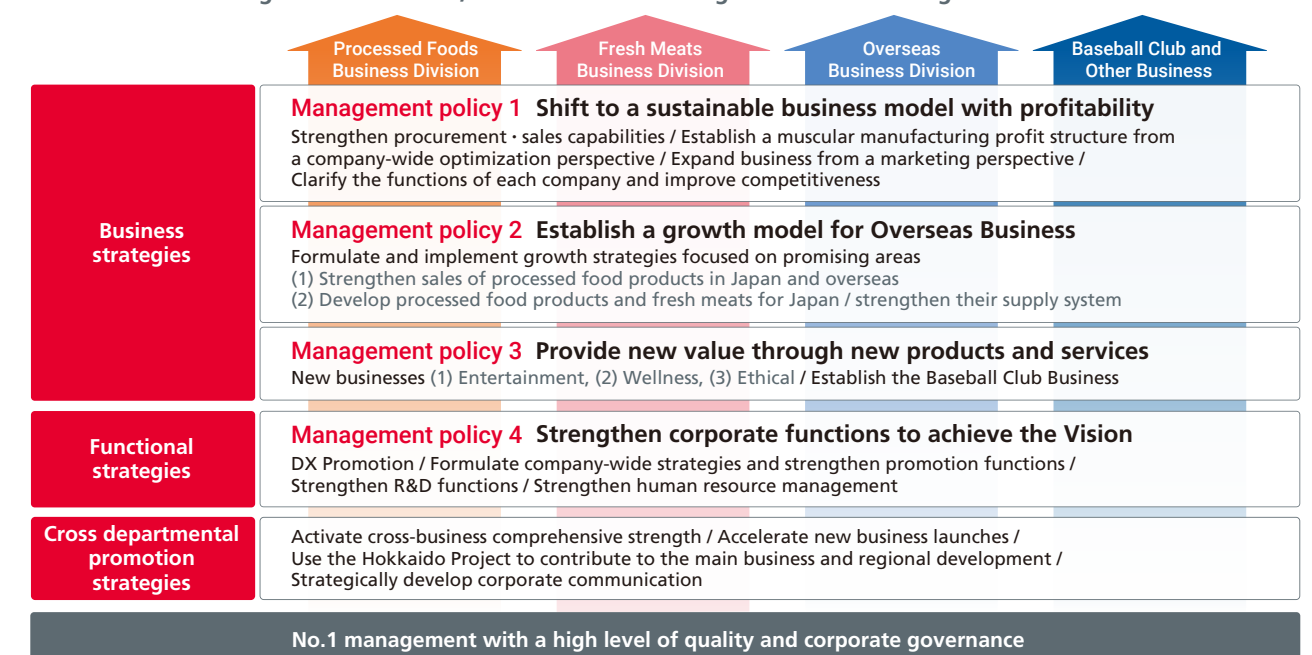
Food Packer Kagoshima, Inc. and Nippon Food Packer Tsugaru Co., Ltd. will cease in March 2023 and March 2024 respectively. The Kagoshima Plant of Nippon Pure Food, Inc. will also close as a result of these moves.

In fiscal 2022 we will commence a new initiative based on “co-creation” with other companies. We aim to overcome these challenges by building a co-creation network with companies in a number of fields, including machinery, livestock feed, and IT.

We received numerous questions following the announcement of the sale of Marine Foods Corporation to Sojitz Corporation, a general trading company. Marine Foods still has significant growth potential, as demonstrated by the fact that it achieved record profit in the fiscal year ended March 2022. We have invested considerable management resources, including capital expenditure, in the company. However, to achieve further growth and development, it will need to strengthen its upstream operations, including aquaculture. The decision to sell the company was also influenced by our desire to optimize our group portfolio.

Our second management policy focuses on our overseas business. In Australia we will strengthen our marketing capabilities for branded beef, including grain-fed beef. In Uruguay we will strengthen the branding of high-added value meats. We will also optimize our production operations to reflect market prices. In North America, we will further expand our processed food initiatives. Day-Lee Foods, which is based in Los Angeles, will increase production capacity for its flagship Mandarin Orange Chicken range and develop plant-based

### Medium-Term Management Plan 2023, Three Business Strategies and Four Management Policies



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products. Additionally, it will establish a research and development unit to utilize Japanese food processing expertise. We will also prepare for growth in demand for gluten-free rice flour bread, which is already on the market.

Under our third management policy, which focuses on the provision of new value through new products and services, we have moved forward on schedule with the launch of the Wellness Business and Entertainment Business. For the Wellness Business, we created the “Table for All” website as a comprehensive platform for allergy-related products and information. For the Entertainment Business we established the “Meatful” website to provide new food experiences and value. The “Meatful” site resulted from an idea submitted by an employee through one of the suggestion systems outlined earlier in this message. Our business operations have traditionally centered on mass markets. The new “Table for All” and “Meatful” channels will allow us to work directly with consumers as we work to expand the scope of our DtoC business. We are currently preparing for the launch of the Ethical Business in fiscal 2022. These new businesses, together with the Baseball Club Business and the Health Support Business of the Research and Development Center, are included in the “Baseball Team and Others” business segment. We are determined to maximize business profit from these activities.

Our fourth management policy relates to digital

### Question 4 |

What progress have you made on the Materialities, and what issues have arisen?

## Making steady progress while tackling difficult issues head-on

We are making steady progress on the Five Materialities.

As noted earlier in this message, the employee-related materiality focuses on employee growth and respect for diversity. We are working under this materiality to enhance motivation by encouraging individuals to take up challenges, and by providing appropriate recognition of their efforts. We believe that both individuals and organizations grow in a culture



Attendees listen to a presentation at the Tokyo Nutrition for Growth Summit 2021

transformation (DX) initiatives. We aim to use digital technology to rebuild our core systems, optimize operations, create new business, and enhance our management systems. We are starting to make significant progress toward the use of AI in supply-demand and production adjustment processes, which have hitherto depended on experience. We also believe that AI can be an effective tool for solving the problems faced by livestock farmers. In fiscal 2021 we began to develop a smart pig farming package, and we have already completed trademark registration for the “PIG LABO” package. We expect this product to drive business innovation in the NH Foods Group.

Our cross-departmental promotion strategies address the need for major improvements, especially in the logistics area. There is significant scope for rationalization from a company-wide perspective, and we are steadily implementing individual measures to enhance our capacity to cope with the “2024 problem,” which is expected to affect the logistics industry following the passage of workstyle reform legislation in that year.

The NH Foods Group will continue to implement structural reforms while vigorously pursuing growth strategies, including the expansion of new areas within existing business domains, the expansion of overseas processing operations, and the creation of new businesses.

in which challenges can be taken up without fear of failure.

A broader analysis from a talent management perspective indicates that we have a skill diversity issue. I believe that we need to take urgent action to train and utilize people with digital skills and the ability to work overseas. The parent company has made considerable progress on career development for women, but we recognize that further effort is needed at the group level. We will implement effective measures to ensure that we can realize benefits from our investment in human resources. We will also ensure that employees receive proper recognition for their efforts.

Our efforts to stable procurement and supply of proteins have also brought progress in relation to animal welfare. We formulated a policy and guidelines in fiscal 2021, and we adopted a target of eliminating gestation crates for sows by 2030.

We are making significant progress in the area of food diversification and health. At the Tokyo Nutrition for Growth

Summit 2021 in September 2021, we made a commitment to develop foods that would contribute to the extension of healthy lifespans. One such product that we have already released is *IMIDEA*, a food with functional claims containing a patented substance that affects cognitive functions. In addition, in June 2022 we launched a range of delicious, *Tender Sirloin Steak* developed using expertise developed for our commercial products. We believe that these products will help to prevent motor function deterioration caused by a lack of protein in the diet. One of our new business initiatives is the “Table for All” website outlined in the section on new businesses. We are developing this website into a comprehensive resource for people with allergy problems, including a newly established helpdesk through which users can obtain free advice about diet-based allergy management.

We place particular importance on climate change in our efforts to contribute to a sustainable environment. In Japan, the incidence of concentrated intense rainfall events has increased 2.2 times over the past 45 years. We aim to reduce the NH Foods Group’s emissions of fossil fuel-derived CO<sub>2</sub> by 46% by 2030, and we are currently implementing measures that will enable us to achieve carbon neutrality.

A particular challenge for the NH Foods Group is the reduction of GHG emissions from livestock. The livestock

### Question 5 |

What message would you like to convey to stakeholders?

## We will continue to fulfill our mission as a food manufacturer and supplier by bringing new ideas and initiatives to the creation of new value.

Medium-Term Management Plan 2023/2026 addresses issues encountered under the previous Medium-term Management Plan and changes in the external environment over a six-year time frame. Our goal under this plan is the optimization of our business portfolio from an ROIC perspective through KPI management and DX-based restructuring of existing businesses. By linking our business strategies to our materialities, we aim to achieve growth and development for the NH Foods Group while contributing to the solution of social issues.

On many occasions I have seen clear evidence of the NH Foods Group’s tenacity in adversity. I would like to take this opportunity to reaffirm our commitment to the generation of new value through the combined efforts of all members of our organization, as well as co-creation with outside partners, in order to fulfill our mission as a food manufacturer by freely taking up the challenge of new ideas.

We look forward to the continuing support of our shareholders and investors as we move forward with new challenges for the future.

industry accounts for around 14% of world CO<sub>2</sub> emissions, and we also need to address the problem of livestock-related emissions of methane, which is 25 times more potent than CO<sub>2</sub> as a greenhouse gas. We regard methane emissions from livestock, especially cattle, as a major problem, and we are working with various institutes and universities in Japan and Australia to modify animal feed and develop methane recovery systems. We are also engaged in collaborative industry-academia research relating to pigs.

On May 13, 2022, we disclosed information about these initiatives in accordance with the TCFD recommendations. We have developed simulations based on 1.5°C/2°C and 4°C scenarios, and we are determined to take effective action. In fiscal 2021 we modified the packaging for *Schau Essen* brand products, resulting in a 28% reduction in the amount of plastic used and a 30% reduction in CO<sub>2</sub> emissions. This initiative has become an impetus for industry-wide changes.

Another of our materialities calls for co-creation and shared prosperity with local communities and society as a whole through food and sports. The opening of our new Hokkaido Ballpark F Village is now less than a year away. We aim to work with a variety of stakeholders to provide totally new value to the community through this project.



**Yoshihide Hata**  
President and Representative Director