

[Translation]

May 29, 2015

Name of the Company: NH Foods Ltd.  
Name of the Representative: Juichi Suezawa  
President and Representative Director  
(Code No.: 2282 Listed on 1st Section of Tokyo Stock Exchange)  
Person to contact: Shigeru Nakajima  
Executive Officer, General Manager  
of Public & Investor Relations  
Department,  
Corporate Management Division

To whom it may concern:

**Report on Internal Investigations about Data for Application for Patent for "Lactic Acid Bacterium for Animal Feed"**

With regard to a lactic acid bacterium for animal feed (the "Lactic Acid Bacterium") for which the Research & Development Center (Tsukuba City, Ibaraki Prefecture; the "R&D Center") of NH Foods Ltd. (the "Company") obtained a patent (Patent No. 4565057 "new lactic acid bacterium having high inducibility of immunoglobulin A") in 2010, it is found that in spite of the fact that researches conducted after the application of the patent but before the grant thereof had revealed that the efficacy as described in the application was not ascertained, the R&D Center moved forward with the patent procedure and obtained the patent and also entered into a license agreement with a client pharmaceutical company (the "Client") manufacturing and distributing feed for pig using the Lactic Acid Bacterium, which still remains effective.

We hereby release a report on the details of the incident, responses, causes and preventive measures.

The feed for pig using the Lactic Acid Bacterium poses no safety issues. Any meats of pigs reared and produced using the Lactic Acid Bacterium pose no safety issues.

We most humbly apologize for causing so much trouble to all customers and related parties in relation to the incident.

1. Facts found by the internal investigations:

- It is found that in spite of the fact that researches (development of improved strains) on the Lactic Acid Bacterium conducted by the R&D Center after the application of the patent but before the grant thereof had revealed that the "efficacy of remarkably boosting immune functioning of pigs" as described in the

patent application was not ascertained, it moved forward with the patent procedure and obtained the patent.

- The R&D Center entered into a license agreement for exclusive distributorship with the Client, which manufactures and distributes feed for pig using the Lactic Acid Bacterium, after the patent application. The Company has received the license fees of 22.68 million yen from the Client (in total sum for the period from May 2009 to February 2015). We have not entered into any other license agreement for the patent.

Developments up until now:

April 2005	The development of the Lactic Acid Bacterium started.
November 28, 2008	The transaction of the Lactic Acid Bacterium with the Client started.
March 30, 2009	The R&D Center filed an application for a patent for the Lactic Acid Bacterium (see Reference (1)).
April 17, 2009	The Company entered into a license agreement with the Client.
August 2009	Upon request from the Client, researches to improve the Lactic Acid Bacterium started.
August to September, 2009	Improved strains of the Lactic Acid Bacterium were developed. However, the efficacy of boosting immune functioning of pigs in the same degree as described in the patent application was not ascertained and investigations for the cause started.
November 2009	It was found that the Lactic Acid Bacterium had no efficacy of remarkably boosting immune functioning of pigs because other bacteria had remained in the lactic acid bacterium used when the patent application was filed (see Reference (2)).  (An examination request was moved forward without taking remedial actions.)
May 24, 2010	An examination request was filed.
August 6, 2010	The patent was registered.
March 23, 2015	Internal reporting was made to the Compliance Department of the Company.
March 24 to April 30, 2015	Internal investigations (including hearings of the reporter) were conducted.

May 1 to 6, 2015	The investigation team conducted on-the-spot investigations (including preservation of evidence, such as PCs, servers and data, and collection of company-provided cell-phones and other related materials)
May 7 to 25, 2015	The preserved evidence underwent scrutiny and the hearings of 47 employees with five years or more of service at the R&D Center were conducted on the initiative of attorneys (members of the 14-member investigation team).

Reference (1):           Content of the application for a patent of the Lactic Acid Bacterium

The application for a patent of the Lactic Acid Bacterium was filed, stating that the Lactic Acid Bacterium, which was extracted from intestinal bacteria of pigs, would enhance immune competence in the intestine of pigs more than other lactic acid bacteria and have remarkable efficacy of making pigs less prone to illness when it was fed to pigs. The Lactic Acid Bacterium is manufactured by the Client under the license agreement and used as feed for pig.

Reference (2):           Cause of erroneous data for the patent application

Upon request from the Client for the improvement of the Lactic Acid Bacterium, further research was started. As a result of the research and development, however, no efficacy of boosting immune functioning was ascertained. Upon scrutiny, other bacteria, which should be excluded completely in the process of extracting only the Lactic Acid Bacterium from the intestinal bacteria of pigs, remained in the lactic acid bacteria used for the patent application because of a simple mistake.

Outline of the result of the investigations by the investigation team:

Members of the investigation team:

Managing Executive Officer and Leader of the Risk Management Committee (in charge of the Administrative Division, Human Resources Department, Legal Affairs Department and Engineering Department), Executive Officer and General Manager of the Compliance Department, General Manager of the Legal Affairs Department, seven employees from the Legal Affairs Department, Compliance Department and IT Strategy Department of NH Foods Ltd.; three attorneys; and one patent attorney, totaling 14.

Outline of the result of the investigations:

- With the presence of the attorneys, strict on-the-spot investigations were conducted. PCs and other electronic data and documents related to the research were completely preserved.

- Based on the preserved evidence, investigations were conducted to take hold of the incident.
- On the initiative of the attorneys and with the help of the patent attorney in technical aspects, hearings of the employees at the R&D Center were conducted.
- According to the facts found as a result of the investigations, three employees in charge of the development of the Lactic Acid Bacterium reported to their superiors, Section Manager and Deputy General Manager, the fact that the Lactic Acid Bacterium had no "efficacy of remarkably boosting immune functioning of pigs" but they did not make any judgment by themselves. Consequently, the fact itself was passed to the General Manager of the R&D Center (the "General Manager") but the General Manager did not take any adequate remedial action. Thus, six employees, including the General Manager, were found to have been involved, directly or indirectly.

2. Reason for the R&D Center's failure to take any adequate measure in November 2009:

The R&D Center had entered into a license agreement with the Client then. The Lactic Acid Bacterium (including improved strains), though it was not ascertained to have the "efficacy of remarkably enhancing immune functions of pigs" more than other lactic acid bacteria, as claimed in the patent, was ascertained to have a certain level of efficacy by tests in which pigs were actually fed with it at farms and the General Manager concluded without careful consideration that it was good because it produced some efficacy. After all, their lack of research ethics and awareness of compliance was the principal cause.

3. Current responses:

- (1) The Company has started a procedure to withdraw the patent (the procedure started on May 22, 2015).
- (2) The Company will temporarily suspend any activity of the R&D Center with outside parties (for three months from June 1, 2015 (expected)).
- (3) The Company filed a report to the Client (on May 25, 2015). The Company will carry out all necessary procedures to repay the license fees, among others.

4. Preventive measures (expected to be implemented within three months):

- (1) The Company will shake up the management system of the R&D Center and review its organization and responsibility-taking system to strengthen its system of checking the contents of researches and examinations.

- (2) The Company will establish a system of mutual supervision through a two-team research system, among others.
- (3) The Company will institute a checking system by outside parties (the Company is considering the establishment of a Research Evaluation Committee).
- (4) The Company will make its employees receive research ethics training at outside specialized institutions.
- (5) The Company will appoint a Research Compliance Officer at the R&D Center.
- (6) The Company will provide compliance training to all employees at the R&D Center.

5. Disciplinary measures:

We will take impartial disciplinary measures (expected to be taken within one month).

6. Future outlook of business results, etc.:

The incident is considered to have no significant effect on the consolidated financial statements of the Company for the year ending March 31, 2016. In the event that any new fact is found to be publicized, it will be disclosed promptly.

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