Nipponham Group

NH Foods Ltd.
4-9, Umeda 2-chome, kita-ku,
Osaka, 530-0001, Japan

May 11, 2020

BRIEF STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED MARCH 31, 2020

(Under IFRS) (Consolidated)

Name of listed company:	NH Foods Ltd. (the “Company”)
Listing exchange:	Tokyo Stock Exchange
Code number:	2282
URL:	https://www.nipponham.co.jp/eng/
Representative:	Yoshihide Hata President and Representative Director
Further inquiries:	Yoshitaka Hasegawa General Manager of Accounting & Finance Department
TEL:	+81-6-7525-3042
Scheduled date of the Ordinary General Meeting of Shareholders:	June 25, 2020
Scheduled date of payment of dividends:	June 2, 2020
Scheduled date of filing of securities report:	June 26, 2020
Preparation of supplementary information on statement of accounts:	Yes
Holding of results briefing:	Yes (results briefing for institutional investors and analysts)

(Figures are indicated by counting fractions of 1/2 or more of a million yen as one and discarding the rest.)

1. Consolidated business results for the year ended March 31, 2020 (April 1, 2019 through March 31, 2020):

(1) Consolidated operating results:

(The percentages indicate the rates of increase (decrease) from the previous fiscal year.)

	Net sales		Business profit		Profit before tax		Profit		Profit attributable to owners of the parent		Total comprehensive income	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
Year ended March 31, 2020	1,229,826	(0.4)	43,772	14.3	27,039	(10.7)	18,933	(0.4)	19,214	(1.8)	12,686	(6.0)
Year ended March 31, 2019	1,234,180	(1.9)	38,311	(24.3)	30,267	(42.7)	19,017	(49.6)	19,561	(47.9)	13,491	(64.2)

	Earnings per share (basic)	Earnings per share (diluted)	Ratio of profit to total equity attributable to owners of the parent	Ratio of profit before tax to total assets	Ratio of business profit to net sales
	(yen)	(yen)	(%)	(%)	(%)
Year ended March 31, 2020	186.70	186.64	4.8	3.6	3.6
Year ended March 31, 2019	183.21	181.48	4.8	4.1	3.1

(For reference) Share of profit (loss) in investments accounted for using the equity method:
Year ended March 31, 2020: ¥1,355 million
Year ended March 31, 2019: ¥918 million

(Note) Business profit is calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales, and accounting for foreign exchange gains and losses determined by the Group, while deducting adjustments in accordance with IFRS and non-recurring items.

(2) Consolidated financial position:

	Total assets	Total equity	Total equity attributable to owners of the parent	Equity ratio of owners of the parent	Equity per share attributable to owners of the parent
	(millions of yen)	(millions of yen)	(millions of yen)	(%)	(yen)
Year ended March 31, 2020	768,861	416,597	404,414	52.6	3,929.43
Year ended March 31, 2019	741,388	405,358	401,014	54.1	3,896.64

(3) Consolidated cash flows:

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of the year
	(millions of yen)	(millions of yen)	(millions of yen)	(millions of yen)
Year ended March 31, 2020	65,464	(36,728)	(3,077)	72,399
Year ended March 31, 2019	30,844	(45,110)	2,932	48,108

2. State of dividends:

	Annual dividend (yen)					Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of the parent (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total	(millions of yen)	(%)	(%)
Year ended March 31, 2019	—	—	—	90.00	90.00	9,262	49.1	2.3
Year ended March 31, 2020	—	—	—	90.00	90.00	9,263	48.2	2.3
Year ending March 31, 2021 (forecast)	—	—	—	91.00	91.00		46.8	

3. Forecast of consolidated business results for the year ending March 31, 2021 (April 1, 2020 through March 31, 2021):

(The percentages indicate the rates of increase (decrease) from the previous fiscal year in respect of the whole-year period, and from the second quarter (cumulative) period of the previous fiscal year in respect of the second quarter (cumulative) period, respectively.)

	Net sales		Business profit		Profit before tax		Profit attributable to owners of the parent		Earnings per share (basic)
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
Second quarter (cumulative)	580,000	(5.9)	13,000	(40.5)	13,000	(13.1)	9,500	(8.0)	92.31
Whole-year period	1,200,000	(2.4)	34,000	(22.3)	27,500	1.7	20,000	4.1	194.33

* Notes:

(1) Changes in significant subsidiaries (changes in specific subsidiaries involving a change in the scope of consolidation) during the year under review: Yes

New subsidiaries: 1 (Name: Fighters Sports & Entertainment Co., Ltd.)

Excluded subsidiaries: - (Name:)

(2) Changes in accounting policies and accounting estimates:

1) Changes of accounting policies required by IFRS: Yes
2) Changes of accounting policies other than 1) above: None
3) Changes in accounting estimates: None

(Note) For details, please refer to [Attachment] “3. Consolidated Financial Statements and Primary Notes (7) Significant Matters Forming the Basis for Preparing Consolidated Financial Statements 3. Changes in the accounting policy” on page 32.

(3) Number of shares issued (shares of common stock):

1) Number of shares issued (including shares of treasury stock) as of the end of the fiscal year:
Year ended March 31, 2020: 102,958,904 shares
Year ended March 31, 2019: 102,958,904 shares

2) Number of shares of treasury stock as of the end of the fiscal year:
Year ended March 31, 2020: 39,542 shares
Year ended March 31, 2019: 46,288 shares

3) Average number of shares outstanding during the fiscal year:
Year ended March 31, 2020: 102,914,325 shares
Year ended March 31, 2019: 106,765,426 shares

(For reference) Summary of the non-consolidated business results

1. Non-consolidated business results for the year ended March 31, 2020 (April 1, 2019 through March 31, 2020):

(1) Non-consolidated operating results

(The percentages indicate the rates of increase (decrease) from previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)
Year ended March 31, 2020	796,143	0.4	3,679	(40.8)	18,001	(16.7)	9,453	(31.4)
Year ended March 31, 2019	793,357	(1.2)	6,215	(21.1)	21,617	(5.7)	13,783	(31.8)

	Basic earnings per share	Diluted earnings per share
	(yen)	(yen)
Year ended March 31, 2020	91.85	91.82
Year ended March 31, 2019	129.09	129.03

(2) Non-consolidated financial position

	Total assets	Total net assets	Equity ratio	Total net assets per share
	(millions of yen)	(millions of yen)	(%)	(yen)
Year ended March 31, 2020	519,509	210,135	40.4	2,041.34
Year ended March 31, 2019	486,859	210,727	43.3	2,047.08

(For reference) Net worth:
Year ended March 31, 2020: ¥210,093 million
Year ended March 31, 2019: ¥210,670 million

2. Forecast of non-consolidated business results for the year ending March 31, 2021 (April 1, 2020 through March 31, 2021):

(The percentages indicate the rates of increase (decrease) from the previous fiscal year in respect of the whole-year period, and from the second quarter (cumulative) period of the previous fiscal year in respect of the second quarter (cumulative) period, respectively.)

	Net sales		Ordinary income		Net income		Basic earnings per share
	(millions of yen)	(%)	(millions of yen)	(%)	(millions of yen)	(%)	(yen)
Second quarter (cumulative)	380,000	(4.8)	14,000	(0.1)	12,600	88.8	122.43
Whole-year period	790,000	(0.8)	16,000	(11.1)	13,700	44.9	133.11

* A brief statement of accounts is outside the scope of audit conducted by certified public accountants or audit firms.

* Explanation for the appropriate use of the forecast of business results and other special instructions

(Cautionary notice on information about the future)

The descriptions herein about the future, including the forecast of business results, are based on the information currently available to the Company and certain assumptions considered reasonable by the Company and are not contemplated to ensure the fulfillment thereof. The actual results may materially differ from such forecast and plans depending on various factors. The Company, therefore, wishes to caution that readers should not place undue reliance on these descriptions to make investment decisions. Further, unless obligated by laws or ordinances or the rules of financial instruments exchanges, the Company will not necessarily, or is not obligated to, revise such descriptions about the future, including the forecast of business results notwithstanding any information or event in the future or any results arising therefrom, or publicize such revised information. For information on the conditions precedent to the forecast of business results and cautionary notes for the use of the forecast of business results, please refer to “1. Overview of Operating Results, etc. (4) Future Outlook” on page 15.

CONTENTS OF ATTACHMENT

1. Overview of Operating Results, etc. 9
(1) Overview of Operating Results 9
(2) Overview of Financial Position 13
(3) Overview of Cash Flows 13
(4) Future Outlook 15
(5) Fundamental Policy of Profit Allocation and Dividends for the Year Ended March 31, 2020 and the Year Ending March 31, 2021 18
2. Fundamental Approach to Selecting Accounting Standards 18
3. Consolidated Financial Statements and Primary Notes 19
(1) Consolidated Statements of Financial Position 19
(2) Consolidated Statements of Income 21
(3) Consolidated Statements of Comprehensive Income 22
(4) Consolidated Statements of Changes in Equity 23
(5) Consolidated Statements of Cash Flows 25
(6) Note on the Premises of a Going Concern 26
(7) Significant Matters Forming the Basis for Preparing Consolidated Financial Statements 26
1. Matters concerning the scope of consolidation and application of the equity method 26
2. Matters concerning accounting policies 26
3. Changes in the accounting policy 32
(8) Notes to Consolidated Financial Statements 34
1. Segment information 34
2. Per share information 37
3. Significant subsequent events 37

* The Company is planning to hold a briefing for investors as follows. All materials to be distributed at the briefing will be disclosed on TDnet and posted on its website today.

  ▪ May 15, 2020 (Friday): Results briefing for institutional investors and analysts

* In addition to the above-mentioned briefing, the Company will hold briefings of its operations and business results for individual investors from time to time. For information on the schedules of such briefings, etc., please make sure on its website.

1. Overview of Operating Results, etc.

(1) Overview of Operating Results

Overview of Operating Results in General

The Japanese economy during the year ended March 31, 2020 slowly recovered as employment and income environment continued to improve, personal spending recovered, and capital investment rose gently. However, the situation became severe recently due to the significant downward pressure resulting from the impact of COVID-19.

In the food and fresh meats industry, the business conditions remained severe with the soaring prices of certain raw materials, increases of costs for distribution and labors due to labor shortages, intensified sales competition and livestock disease in Japan and overseas.

Under these circumstances, NH Foods Ltd. and its subsidiaries (the "Group"), under the "Medium-Term Management Plan 2020" that commenced in April 2018 with the theme "Building systems that pave the way to the future," conducted business development based on its five management policies "Strengthen profitability by improving the efficiency of existing businesses," "Create value through dialog with consumers," "Enhance and develop technological capabilities for conceptualizing and realizing the future of food," "Change gears in overseas market deployment," and "Pursue sustainability." Specifically, in Japan, the Group implemented various measures, including reinforcement of its domestic farm business, increased production at new plants, which started operating in the previous fiscal year, for producing processed food and plants for producing yogurt and lactic acid probiotic beverages, development of human resources, and reinforcing risk management. Further, as to the overseas business, the Group made continuous efforts to reinforce its overseas beef business in Australia. As to the management system, the Group has continued to make efforts for enhancement in line with the "Nipponham Group Fundamental Policy on Corporate Governance."

As a result of these activities, for the year ended March 31, 2020, consolidated net sales amounted to ¥1,229,826 million, decreasing 0.4% from the previous fiscal year. Business profit increased 14.3% to ¥43,772 million, and profit before tax decreased 10.7% from the previous fiscal year to ¥27,039 million due to the recording of additional special payments, and other expenses of ¥8,472 million during the second quarter of the year ended March 31, 2020 in relation to the solicitation conducted based on the expansion of the optional retirement system resolved at the meeting of the Board of Directors held on October 31, 2018. Profit attributable to owners of the parent decreased 1.8% from the previous fiscal year to ¥19,214 million.

Breakdown of consolidated net sales

Category	Year ended March 31, 2019 (April 1, 2018-March 31, 2019)		Year ended March 31, 2020 (April 1, 2019-March 31, 2020)		Rate of increase (decrease) from the previous year (%)
	Amount (millions of yen)	Component ratio (%)	Amount (millions of yen)	Component ratio (%)	
Hams and sausages	128,356	10.4	130,982	10.6	2.0
Processed foods	233,655	18.9	228,833	18.6	(2.1)
Fresh meats	703,557	57.0	711,753	57.9	1.2
Marine products	88,138	7.2	80,724	6.6	(8.4)
Dairy products	33,270	2.7	33,614	2.7	1.0
Others	47,204	3.8	43,920	3.6	(7.0)
Total	1,234,180	100.0	1,229,826	100.0	(0.4)

Overview of Operating Segments

(Processed Foods Business Division)

With regard to the consumer products of the hams and sausages business, sales increased from the previous fiscal year due to the active promotional effort for the main product "*SCHAU ESSEN*" and the promotion utilizing website. For the year end gift blitz, although in-store promotion of the flag ship brand "*Utsukushi no Kuni*" was strengthened, due to the impact of the downturn of the year-end gift market as a whole, sales decreased from the previous fiscal year. For the commercial-use products, the sales to the major restaurant channels decreased. However, the overall sales of the hams and sausages business were higher than that of the previous year.

With regard to consumer products of the processed foods business, in addition to the steady performance of the pizza group to which new products at a new price range were introduced, the products in the hamburger (meat patty) group and the pre fried group such as chicken nuggets for which active in-store promotions were conducted showed strong performance. As a result, sales were higher than that of the previous year. Regarding the sales of the commercial-use products, the sales targeting delicatessen and ready-made meals chains decreased. Consequently, the overall sales of the processed foods business decreased from the previous fiscal year.

With regard to profit, in addition to the improvement of the gross profit rate by the unit price increasing due to the growth of the main brand products, review of indirect costs and mechanization as well as manpower reduction in the manufacturing division led profit to increase.

As a result, for the year ended March 31, 2020, consolidated net sales of the Processed Foods Business Division amounted to ¥353,781 million, increasing 0.2% from the previous fiscal year. Business profit increased 45.7% compared to the previous fiscal year to ¥11,357 million.

(Fresh Meats Business Division)

In the fresh meats business, together with sharing information on social networking services about our branded fresh meats, such as "*Sakurahime*" domestic chicken and "*Mugikomachi*" domestic pork, we implemented sales promotion activities, such as opening sales booths at events, such as those of the Hokkaido Nippon-Ham Fighters and Cerezo Osaka. We also worked to strengthen communication with consumers by conducting activities linked to the cherry blossom front from March to May at mass retailers in various regions. In addition, we focused on proposal-based sales in line with needs for mass retailer, restaurant, and convenience store channels and collaborative business negotiations as a unified Group. As a result, sales increased due to increased sales of domestic beef, imported pork, and imported chicken.

With regard to profit, in the production division, we worked to increase production volume by operating a new farm and to enhance processing capacity by introducing state-of-the-art equipment. However, profit decreased due to a decline in domestic chicken market prices and an increase in pork production costs. In the sales division, efforts were made in the reinforcing of sales of branded fresh meats, the selling of high value-added products such as antibiotic-free pork and chicken, and new proposals for beef and pork from Canada. However, profit decreased overall due to the impact of falling domestic chicken market prices, decreased hot pot demand caused by a warm winter, and increased logistics costs.

As a result, for the year ended March 31, 2020, consolidated net sales of the Fresh Meats Business Division amounted to ¥771,844 million, increasing 2.0% from the previous fiscal year and business profit amounted to ¥32,773 million, decreasing 8.3% from the previous fiscal year.

(Affiliated Business Division)

In the marine products business, sales of crab, which we strengthened during the year-end sales season, and shrimp, which we worked to expand sales of throughout the year, increased. However, sales of tuna and roe decreased as their market prices sagged, and there was an impact from the withdrawal of unprofitable items initiated as part of structural reforms. As a result, sales were lower than that of the previous year.

In the dairy products business, with regard to yogurt and lactic acid probiotic beverages, while sales of lactic acid probiotic beverages centered on smoothies struggled, sales of the main product, "*Vanilla Yogurt*," were steady and drink-type yogurts also grew along with new products introduced to convenience store chains. As a result, sales were higher than that of the previous year. With regard to cheese, in addition to a growth in sales of products targeting desserts for convenience store chains, sales of smoked cheese grew, and we worked to expand sales of "*Baby Cheese*" to mainly mass retailers. As a result, sales were higher than that of the previous year.

With regard to profit, in the marine products business, gross profit increased and was higher than that of the previous year as the profitability of mainstay shrimp and crab improved. With regard to yogurt and lactic acid probiotic beverages in the dairy products business, in addition to an improved gross profit due to a growth in sales, profit was higher than that of the previous year due to improved productivity as a result of the full-scale operation of Takasaki Plant. With regard to cheese, profit was higher than that of the previous year as gross profit increased as a result of a growth in sales.

As a result, for the year ended March 31, 2020, consolidated net sales of the Affiliated Business

Division amounted to ¥142,908 million, decreasing 7.8% from the previous fiscal year and business profit amounted to ¥1,095 million, increasing 148.3% from the previous fiscal year.

(Overseas Business Division)

In Asia and Europe operations, net sales were lower than that of the previous year as sales volumes continued to decline in Thailand and there was a severe recession in the food service industry due to COVID-19 in the fourth quarter in China and Vietnam. In Americas operations, net sales were higher than that of the previous year due to increased pork export volumes in Chile, in addition to increases in pork export volumes and processed food manufacturing and sales volumes in the U.S. In Australia operations, sales were maintained year-on-year due to an increase in sales prices, despite a decrease in the number of collected cattle, and there was a significant increase in the sales price of beef for China in Uruguay. However, net sales were slightly lower than that of the previous year due to the impact from foreign exchange rates.

With regard to profit, for the Asia and Europe operations, profit was higher than that of the previous year due to improved productivity in Thailand and increased sales prices in Turkey. In Americas operations, profit was higher than that of the previous year due to stable pork procurement prices and increased export volumes in the U.S. and Chile, improved productivity in processed food manufacturing, and revised advertising expenses. In Australia operations, profit was significantly higher than that of the previous year due to the establishment of improvement projects that we worked on from the previous fiscal year, stable cattle collection prices, and high sales prices, mainly in China.

As a result, for the year ended March 31, 2020, net sales of the Overseas Business Division amounted to ¥254,987 million, decreasing 0.1% from the previous fiscal year and business profit amounted to ¥1,849 million (a business loss of ¥3,753 million for the previous fiscal year).

(2) Overview of Financial Position

Total assets at the end of the fiscal year increased by 3.7% from the end of the previous fiscal year to account for ¥768,861 million. With regard to assets, cash and cash equivalents increased by 50.5% from the end of the previous fiscal year to account for ¥72,399 million, while trade and other receivables decreased by 15.0% from the end of the previous fiscal year to account for ¥130,213 million, and biological assets decreased by 17.9% from the end of the previous fiscal year to account for ¥21,335 million. As a result, current assets decreased by 0.7% from the end of the previous fiscal year to account for ¥355,751 million. Non-current assets increased by 7.8% from the end of the previous fiscal year to account for ¥413,110 million mainly due to recognition of right-of-use assets based on the application of IFRS 16 “Leases” (“IFRS 16”) starting from the fiscal year.

Liabilities increased by 4.8% from the end of the previous fiscal year to account for ¥352,264 million, as trade and other payables decreased by 10.6% from the end of the previous fiscal year to account for ¥99,802 million, but interest-bearing liabilities increased by 20.1% from the end of the previous fiscal year to account for ¥176,493 million due to the increase of lease liabilities corresponding to the aforementioned recognition of right-of-use assets.

Total equity attributable to owners of the parent increased by 0.8% from the end of the previous fiscal year to account for ¥404,414 million, as retained earnings increased by ¥7,084 million.

As a result, equity ratio of owners of the parent decreased by 1.5 percentage points from the end of previous fiscal year to 52.6%.

(3) Overview of Cash Flows

The states and causes of cash flows are as follows:

	Year ended March 31, 2019	Year ended March 31, 2020	Increase or decrease
	(millions of yen)	(millions of yen)	(millions of yen)
Cash flows from operating activities	30,844	65,464	34,620
Cash flows from investing activities	(45,110)	(36,728)	8,382
Cash flows from financing activities	2,932	(3,077)	(6,009)
Effect of exchange rate changes on cash and cash equivalents	1,152	(1,368)	(2,520)
Net increase (decrease) in cash and cash equivalents	(10,182)	24,291	34,473
Cash and cash equivalents at the end of the year	48,108	72,399	24,291

With regard to operating activities, the decrease of trade and other payables amounted to ¥10,964 million, and income tax paid amounted to ¥9,339 million, while profit before tax amounted to ¥27,039 million, and depreciation and amortization expenses amounted to ¥33,336 million. As a result, net cash provided by operating activities amounted to ¥65,464 million.

With regard to investing activities, acquisition of fixed assets amounted to ¥36,898 million. As a result, net cash used in investing activities amounted to ¥36,728 million.

With regard to financing activities, proceeds from debt amounted to ¥38,714 million, and contributions from non-controlling interests amounted to ¥8,563 million, while cash dividends amounted to ¥9,271 million, and repayments of debt amounted to ¥39,019 million. As a result, net cash used in financing activities amounted to ¥3,077 million.

As a result, cash and cash equivalents at the end of the fiscal year increased by ¥24,291 million in comparison with the end of the previous fiscal year to amount to ¥72,399 million.

The trends in cash flow indices are as shown below:

	Year ended March 31, 2019	Year ended March 31, 2020	Increase or decrease
Equity ratio of owners of the parent (%)	54.1	52.6	(1.5)
Equity ratio of owners of the parent on a fair value basis (%)	55.3	50.4	(4.9)
Years for debt redemption (year)	4.8	2.7	(2.1)
Interest coverage ratio (time)	24.2	40.6	16.4

* Equity ratio of owners of the parent:
Total equity attributable to owners of the parent / Total assets

Equity ratio of owners of the parent on a fair value basis:
Aggregate fair value of listed stock / Total assets

Years for debt redemption: Interest-bearing liabilities / Cash provided by operating activities

Interest coverage ratio: Cash provided by operating activities / Interest payments

(Notes)
1. Each of the indices is calculated based on financial data on a consolidated basis.
2. The aggregate fair value of listed stock is calculated based on the number of issued shares, excluding the shares of treasury stock.
3. As cash provided by operating activities, cash flows from operating activities in the statement of consolidated cash flows are used.
4. For interest payments, the amount of interest paid in the statement of consolidated cash flows is used.

(4) Future Outlook

Regarding the economic outlook for the year ending March 31, 2021, we expect a severe situation to continue in Japan and overseas due to the impact of COVID-19. Under such circumstances, we will aim to increase corporate value and contribute to the realization of a sustainable society through moving forward with the “Medium-Term Management Plan 2020,” launched in April 2018 with the aim of “Building systems that pave the way to the future.” The five management policies of this initiative, which we will promote, are to “Strengthen profitability by improving the efficiency of existing businesses,” “Create value through dialogue with consumers,” “Enhance and develop technological capabilities for conceptualizing and realizing the future of food,” “Change gears in overseas market deployment” and “Pursue sustainability.”

In the Processed Foods Business Division, we expect an adverse operating climate to continue, mainly in commercial-use products, due to the impact of COVID-19. Under such circumstances, in order to strengthen dairy products and the marine products businesses and clarify business areas, in April 2020, we changed the name of the “Affiliated Business Division” to the “Dairy and Marine Products Division” and integrated it into the Processed Foods Business Division. We will create synergies by combining the uniqueness of the Affiliated Business Division with the product development and sales capabilities of the Processed Foods Business Division for mass retailers, convenience stores, restaurants and ready-made meals channels. In addition, in order to optimize the manufacturing system for processed meat products and prepared foods, the processed meat products/extract manufacturing and sales company of the Fresh Meats Business Division was transferred to the Processed Foods Business Division in April 2020. In addition to improving the manufacturing efficiency of the Processed Foods Business Division, we will expand the variety of products that can be provided to customers and enhance our sales capabilities.

In the Fresh Meats Business Division, in addition to the impact of COVID-19, we anticipate that the supply and demand balance of meat both in Japan and overseas will change rapidly as a result of livestock disease in Japan, fluctuations in cattle prices and feed prices due to abnormal weather, advances in trade liberation and rising demand in emerging countries. Under such circumstances, the domestic production division will minimize the impact of market fluctuations by strengthening product development and brand development that will lead to improved profitability of “*Sakurahime*,” “*Mugikomachi*” and “*Kurohanagyu*,” while strengthening cost competitiveness through various measures to improve productivity and disease control on farms, such as through the “Smart Hog Farming Project.” With regard to imports, we will enhance stable procurement capabilities by expanding our lineup of differentiated products and expanding suppliers and the countries of which products we handle. In the logistics and sales divisions, we will increase our share of domestic sales by strengthening our approaches to growth channels, while continuing to streamline operations and work on existing channels.

The Overseas Business Division will strengthen the value chain within the Group in order to ensure the revenue produced by its existing businesses. Not only will the Group reinforce its functions for procuring raw materials for Japan, but it will also expand sales share in countries where it operates to secure stable revenues in each area, and companies of the Group in these markets will collaborate to expand sales channels to third countries. They will drive growth by harnessing the Group’s comprehensive strengths in each area, such as by leveraging product development capabilities and quality control techniques cultivated in Japan, and will deliver an array of products and services. Furthermore, we will bolster manufacturing and sales sites over the medium to long term while continuing to focus on reinforcing governance in compliance with the laws and regulations in the countries where the Group operates.

Moreover, in April 2020, we established the “Corporate Planning Division” to strengthen the functions for formulating and promoting management strategies and to respond swiftly and appropriately to Group management issues and changes in the external environment. In addition to promoting Group collaboration and reform, we will build the foundations for promoting a digital transformation, which aims to transform the business system of the entire Group.

Furthermore, the status of business activities and expected risks due to the spread of COVID-19 are as follows.

(Status of Business Activities)

The Group deals in foodstuffs, mainly fresh meats and processed meat-related products, and in order to fulfill our obligation of a stable product supply to maintain social living, we are implementing infection prevention measures for our customers and Group employees and performing business activities with the utmost care paid to safety considerations. Moreover, in February 2020, the Group established a Crisis Management Committee, which is engaged in activities such as ensuring the safety of Group employees and taking measures for business continuity.

(Expected Risks)

The Group conducts business activities in countries around the world, including Japan. In these business activity areas, the supply chain of our Group may be affected, such as through difficulties in procurement from suppliers and the suspension of operations at production and distribution bases due to social turmoil spreading and extending over a long period of time as a result of the spread of COVID-19. In addition, a decrease in sales due to the prolongation of the emergency declaration and uncertainties in the creditworthiness of business partners may affect the business performance and financial position of the Group.

With the harsh operating climate posing numerous challenges, the Group will make a concerted effort to optimize synergies through Group collaboration with the aim of “Building systems that pave the way to the future” under the “Medium-Term Management Plan 2020.”

Forecast of consolidated net sales

Category	Year ending March 31, 2021 (April 1, 2020-March 31, 2021)	Rate of increase (decrease) from the previous fiscal year
	(billions of yen)	(%)
Hams and sausages	132.9	1.5
Processed foods	224.8	(1.8)
Fresh meats	691.0	(2.9)
Marine products	78.1	(3.3)
Dairy products	33.1	(1.5)
Others	40.1	(8.7)
Total	1,200.0	(2.4)

The forecast of net sales for the year ending March 31, 2021 has been revised to ¥1,200.0 billion from ¥1,410.0 billion planned in the "Medium-Term Management Plan 2020" (the "current plan"), based on a decline in sales of commercial-use products and overseas sales due to the spread of COVID-19, in addition to the situation that the meat market has become weaker than expected at the time of the formulation of the current plan. Meanwhile, business profit is also expected to deteriorate due to the impact of COVID-19, in addition to trends in fresh meat market and feed prices and has been revised to ¥34.0 billion from ¥56.0 billion planned in the current plan. Accordingly, the business profit ratio has been revised to 2.8% from 4.0% planned in the current plan.

ROE is expected to be 4.9% due to profit attributable to owners of the parent being revised to ¥20.0 billion from ¥35.0 billion planned in the current plan, mainly due to a revision of business profit.

The above forecasts of consolidated business results for the year ending March 31, 2021 are estimated by reflecting various assumptions including the impact of the COVID-19 outbreak. However, it is difficult to predict the development of the pandemic. If the plague should evolve further, the Group's business results might be affected significantly. In such cases, matters to be disclosed will be announced promptly.

Cautionary notice on information about the future:

The plans, forecast of operating results and other prospects for the future described in this brief statement of accounts are based on the information currently available to the Company and certain assumptions considered reasonable by the Company and are not contemplated to ensure the fulfillment thereof. The actual results in the future may materially differ from such plans and forecast, depending on various factors including risk factors in business. The Company, therefore, wishes to caution that readers should not place undue reliance on these descriptions to make investment decisions. Further, unless obligated by laws or ordinances or the rules of financial instruments exchanges, the Company will not necessarily, or is not obligated to, revise such descriptions about the future, including the forecast of business results notwithstanding any information or event in the future or any results arising therefrom, or publicize such revised information.

(5) Fundamental Policy of Profit Allocation and Dividends for the Year Ended March 31, 2020 and the Year Ending March 31, 2021

With regard to the determination of the distribution of retained earnings, etc., it is NH Foods Ltd.'s policy to pay dividends on a consistent basis. This is seen as part of NH Foods Ltd.'s capital policy aimed at realizing an optimal capital and liability composition with the aim of improving medium- to long-term corporate value.

Under its basic policy, NH Foods Ltd. will distribute its retained earnings, with the aim of pursuing stable and continuous dividend growth at the target dividend on equity (DOE) of a 2.3% level. NH Foods Ltd. will acquire treasury stock in a flexible manner for the purpose of improving per-share shareholder value and ROE, in consideration of investments towards growth and its financial position. NH Foods Ltd. will make effective use of the internal reserve funds as a source of investments that will maintain and improve its competitiveness for years to come.

For dividends for the year ended March 31, 2020, an ordinary dividend of ¥90 per share will be paid, as announced in the brief statement of accounts for the year ended March 31, 2019.

For the year ending March 31, 2021, management plans to pay an ordinary dividend of ¥91 per share, based on the above policy.

2. Fundamental Approach to Selecting Accounting Standards

In order to enhance international comparability of financial information in the capital markets, the Group has voluntarily applied IFRS from the first quarter of the year ended March 31, 2019.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statements of Financial Position

(millions of yen)

	Year ended March 31,2019 (as of March 31, 2019)	Year ended March 31,2020 (as of March 31, 2020)
(Assets)		
Current Assets		
Cash and cash equivalents	48,108	72,399
Trade and other receivables	153,260	130,213
Inventories	113,415	114,520
Biological assets	25,971	21,335
Other financial assets	12,041	11,701
Other current assets	5,468	5,583
Total Current Assets	358,263	355,751
Non-current Assets		
Property, plant and equipment	289,898	284,060
Right-of-use assets	―	35,545
Biological assets	1,877	1,883
Intangible assets and goodwill	7,097	8,953
Investments accounted for using the equity method	14,400	13,910
Other financial assets	34,125	32,647
Deferred tax assets	28,004	29,745
Other non-current assets	7,724	6,367
Total Non-current Assets	383,125	413,110
Total Assets	741,388	768,861
(Liabilities and Equity)		
Current Liabilities		
Interest-bearing liabilities	62,746	55,924
Trade and other payables	111,573	99,802
Income taxes payable	2,738	3,178
Other financial liabilities	18,123	18,877
Other current liabilities	38,788	35,966
Total Current Liabilities	233,968	213,747
Non-current Liabilities		
Interest-bearing liabilities	84,263	120,569
Retirement benefit liabilities	14,118	14,920
Other financial liabilities	1,105	719
Deferred tax liabilities	1,326	732
Other non-current liabilities	1,250	1,577
Total Non-current Liabilities	102,062	138,517
Total Liabilities	336,030	352,264

(millions of yen)

	Year ended March 31,2019 (as of March 31, 2019)	Year ended March 31,2020 (as of March 31, 2020)
Equity		
Common stock	36,294	36,294
Capital surplus	72,672	72,639
Retained earnings	286,934	294,018
Treasury stock, at cost	(202)	(173)
Accumulated other comprehensive income	5,316	1,636
Total Equity Attributable to Owners of the Parent	401,014	404,414
Non-controlling Interests	4,344	12,183
Total Equity	405,358	416,597
Total Liabilities and Equity	741,388	768,861

(Note) Breakdown of accumulated other comprehensive income

	Year ended March 31, 2019	Year ended March 31, 2020
Financial assets measured at fair value through other comprehensive income	6,980	7,178
Exchange differences on translation of foreign operations	(1,664)	(5,542)

(2) Consolidated Statements of Income

(millions of yen)

	Year ended March 31, 2019 (consolidated) (April 1, 2018 through March 31, 2019)	Year ended March 31, 2020 (consolidated) (April 1, 2019 through March 31, 2020)
Net Sales	1,234,180	1,229,826
Cost of Goods Sold	1,033,577	1,024,296
Selling, General and Administrative Expenses	168,338	166,030
Other Income	8,510	3,592
Other Expenses	9,292	14,790
Financial Income	1,427	1,285
Financial Costs	3,561	3,903
Share of Profit in Investments Accounted for Using the Equity Method	918	1,355
Profit before Tax	30,267	27,039
Income Tax Expense	11,250	8,106
Profit	19,017	18,933
Profit Attributable to:		
Owners of the Parent	19,561	19,214
Non-controlling Interests	(544)	(281)
Profit	19,017	18,933

Earnings per Share		
Earnings per share (basic)	183.21 yen	186.70 yen
Earnings per share (diluted)	181.48 yen	186.64 yen

(3) Consolidated Statements of Comprehensive Income

(millions of yen)

	Year ended March 31, 2019 (consolidated) (April 1, 2018 through March 31, 2019)	Year ended March 31, 2020 (consolidated) (April 1, 2019 through March 31, 2020)
Profit	19,017	18,933
Other Comprehensive Loss		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit plans	(1,847)	(1,776)
Financial assets measured at fair value through other comprehensive income	(4,098)	(219)
Total	(5,945)	(1,995)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	335	(3,754)
Share of other comprehensive income of investments accounted for using the equity method	84	(498)
Total	419	(4,252)
Total Other Comprehensive Loss	(5,526)	(6,247)
Comprehensive Income	13,491	12,686
Comprehensive Income Attributable to:		
Owners of the Parent	14,450	13,341
Non-controlling Interests	(959)	(655)
Comprehensive Income	13,491	12,686

(4) Consolidated Statements of Changes in Equity

Year ended March 31, 2019 (consolidated) (April 1, 2018 through March 31, 2019)

(millions of yen)

	Equity attributable to owners of the parent										
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Remeas-urement of defined benefit plans	Financial assets measured at fair value through other comprehe-nsive income	Exchange differences on translation of foreign operations	Subtotal	Total	Non-controlling interests	Total equity
Balance as of April 1, 2018	36,291	72,818	300,076	(16)	—	11,311	(2,498)	8,813	417,982	4,906	422,888
Profit			19,561					—	19,561	(544)	19,017
Other comprehensive loss					(1,847)	(4,098)	834	(5,111)	(5,111)	(415)	(5,526)
Comprehensive income	—	—	19,561	—	(1,847)	(4,098)	834	(5,111)	14,450	(959)	13,491
Dividends			(11,394)					—	(11,394)	(9)	(11,403)
Acquisition of treasury stock		(21)		(20,007)				—	(20,028)	—	(20,028)
Disposal of treasury stock		0		0				—	0	—	0
Cancellation of treasury stock		(126)	(19,695)	19,821				—	—	—	—
Issuance of new shares through exercise of stock options	3	(3)						—	0	—	0
Establishment of subsidiaries								—	—	406	406
Other		4						—	4	—	4
Transfer of accumulated other comprehensive income to retained earnings			(1,614)		1,847	(233)		1,614	—	—	—
Total transactions with owners	3	(146)	(32,703)	(186)	1,847	(233)	—	1,614	(31,418)	397	(31,021)
Balance as of March 31, 2019	36,294	72,672	286,934	(202)	—	6,980	(1,664)	5,316	401,014	4,344	405,358

Year ended March 31, 2020 (consolidated) (April 1, 2019 through March 31, 2020)

(millions of yen)

	Equity attributable to owners of the parent									Non-controlling interests	Total equity
					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Remeasurement of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Exchange differences on translation of foreign operations	Subtotal	Total		
Balance as of April 1, 2019	36,294	72,672	286,934	(202)	—	6,980	(1,664)	5,316	401,014	4,344	405,358
Profit			19,214					—	19,214	(281)	18,933
Other comprehensive loss					(1,776)	(219)	(3,878)	(5,873)	(5,873)	(374)	(6,247)
Comprehensive income	—	—	19,214	—	(1,776)	(219)	(3,878)	(5,873)	13,341	(655)	12,686
Dividends			(9,262)					—	(9,262)	(9)	(9,271)
Acquisition of treasury stock				(4)				—	(4)	—	(4)
Disposal of treasury stock		(33)		33				—	0	—	0
Capital increase of subsidiaries								—	—	4,457	4,457
Establishment of subsidiaries								—	—	4,106	4,106
Other			(675)					—	(675)	(60)	(735)
Transfer of accumulated other comprehensive income to retained earnings			(2,193)		1,776	417		2,193	—	—	—
Total transactions with owners	—	(33)	(12,130)	29	1,776	417	—	2,193	(9,941)	8,494	(1,447)
Balance as of March 31, 2020	36,294	72,639	294,018	(173)	—	7,178	(5,542)	1,636	404,414	12,183	416,597

(5) Consolidated Statements of Cash Flows

(millions of yen)

	Year ended March 31, 2019 (consolidated) (April 1, 2018 through March 31, 2019)	Year ended March 31, 2020 (consolidated) (April 1, 2019 through March 31, 2020)
Cash Flows from Operating Activities		
Profit before tax	30,267	27,039
Depreciation and amortization expense	22,865	33,336
Impairment losses	4,937	3,904
Decrease (increase) in fair value of biological assets	187	1,205
Financial income and costs	2,134	2,618
Decrease (increase) in trade and other receivables	1,386	21,968
Decrease (increase) in inventories	(8,113)	(2,316)
Decrease (increase) in biological assets	(2,110)	1,005
Decrease (increase) in other assets	2,678	555
Increase (decrease) in trade and other payables	(2,222)	(10,964)
Increase (decrease) in other liabilities	38	(3,772)
Others—net	(6,287)	(1,143)
Interest received	719	675
Dividends received	1,573	2,304
Interest paid	(1,273)	(1,611)
Income tax paid	(15,935)	(9,339)
Cash Flows from Operating Activities	30,844	65,464
Cash Flows from Investing Activities		
Acquisition of fixed assets	(47,504)	(36,898)
Proceeds from sales of fixed assets	978	607
Decrease (increase) in time deposits	2,836	(610)
Acquisition of other financial assets	(1,077)	(84)
Sale and redemption of other financial assets	527	42
Investments in associated companies	(38)	(120)
Others—net	(832)	335
Cash Flows from Investing Activities	(45,110)	(36,728)
Cash Flows from Financing Activities		
Cash dividends	(11,403)	(9,271)
Increase (decrease) in short-term bank loans	9,026	(2,001)
Proceeds from debt	40,970	38,714
Repayments of debt	(16,060)	(39,019)
Contributions from non-controlling interests	406	8,563
Acquisition of treasury stock	(20,007)	(4)
Others—net	0	(59)
Cash Flows from Financing Activities	2,932	(3,077)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,152	(1,368)
Net Increase (Decrease) in Cash and Cash Equivalents	(10,182)	24,291
Cash and Cash Equivalents at the Beginning of the Year	58,290	48,108
Cash and Cash Equivalents at the End of the Year	48,108	72,399

(6) Note on the Premises of a Going Concern

Not applicable.

(7) Significant Matters Forming the Basis for Preparing Consolidated Financial Statements

1. Matters concerning the scope of consolidation and application of the equity method

Number of consolidated subsidiaries:	81 companies
Number of equity-method companies:	9 companies

2. Matters concerning accounting policies

1) Method and basis of valuation of financial instruments

a. Non-derivative financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade and other receivables as of the occurrence date. All the other financial assets are initially recognized as of the transaction date on which the Group becomes a contracting party of such financial instrument. When the Group initially recognizes the non-derivative financial assets, they are classified into financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income or profit or loss. A summary of each classification and measurement model is as follows:

<u>Financial assets measured at amortized cost</u>

Initially measured by adding the transaction cost to the fair value.

<u>Financial assets measured at fair value through other comprehensive income</u>

Initially measured by adding the transaction cost to the fair value.

<u>Financial assets measured at fair value through profit or loss</u>

Initially measured at fair value, and transaction costs are recognized as profit or loss at the time of occurrence.

(ii) Subsequent measurement

After the initial recognition, financial assets are measured as follows, according to classification:

Financial assets measured at amortized cost

Measured at amortized cost based on the effective interest method.

Financial assets measured at fair value through other comprehensive income

Measured at fair value, and changes in their fair values are recognized as other comprehensive income.

However, dividends from financial assets measured at fair value through other comprehensive income are recognized as profit or loss.

Financial assets measured at fair value through profit or loss

Measured at fair value, and changes in their fair values are recognized as profit or loss.

(iii) Derecognition

The Group derecognizes financial assets if the contractual rights of cash flow generated from the financial assets expire or, if the said financial assets are assigned and all the risks and rewards of ownership are transferred.

(iv) Impairment of financial assets

Financial assets measured at amortized cost and debt financial instruments measured at fair value through other comprehensive income are presented after deducting credit losses likely to occur in the future. The Group evaluates whether the credit risk of such financial assets has substantially increased or not since the initial recognition.

If such credit risk has not substantially increased after the initial recognition, allowance for credit losses of such financial assets is measured at the amount equivalent to 12-month expected credit losses. On the other hand, if the credit risk has substantially increased since the initial recognition, allowance for credit losses of such financial asset is measured at an amount equivalent to lifetime expected credit losses.

However, with respect to trade and other receivables, allowance for credit losses is measured at an amount equivalent to lifetime expected credit losses and such measured amount is recognized as profit or loss.

b. Non-derivative financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes debt securities issued by the Group as of such issuance date. All the other financial liabilities are recognized as of the transaction date in which the Group becomes a contracting party of such financial instruments.

The Group holds interest-bearing liabilities and trade and other payables as non-derivative financial liabilities. At initial recognition, those are measured by subtracting from the fair value the transaction costs which are directly attributable to the relevant issuance.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured at amortized cost based on the effective interest method.

(iii) Derecognition

The Group derecognizes the financial liabilities if they are extinguished, in other words, when contractual obligations are performed, discharged, cancelled or expire.

c. Derivative and hedge accounting

The Group uses derivatives such as foreign currency forward exchange contracts and interest rate swap contracts to hedge currency risks and interest rate risks. These derivatives are initially measured at fair value at the time the agreement is concluded, and continue to be measured at fair value thereafter.

Amount of changes in fair value of derivatives is recognized as profit or loss in the consolidated statement of income.

Further, the Group has not adopted hedge accounting.

2) Method and basis of valuation of inventories

Inventories are measured at the lower of cost and net realizable value. For calculation of the cost, the average cost method is used. The cost of the inventories includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present locations and conditions.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3) Agricultural accounting

Biological assets are measured at fair value less costs to sell on initial recognition and at the end of each reporting period, if the fair value can be reliably measured. Changes in fair value according to such accounting are recognized as profit or loss. On the other hand, if the fair value measurements are determined to be clearly unreliable, they are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Harvested agricultural produce is reclassified from biological assets to inventories at the amount of fair value less costs to sell at the point of harvest.

4) Property, plant and equipment

For measurement of property, plant and equipment, the cost model is adopted and they are carried at cost less any accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of each asset.

5) Leases

The Group has adopted IFRS 16 from the beginning of the year ended March 31, 2020.

For the year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

If all the risks and rewards incidental to ownership of an asset are substantially transferred to the Group under a contract, a lease is classified as a finance lease and other leases are classified as operating leases.

Finance leases are initially recognized on the commencement date of the lease term at the lower of the fair value of the leased asset calculated on the commencement date and the present value of the total amount of minimum lease payments. After the initial recognition, leased assets are depreciated or amortized under the straight-line method over the shorter of the estimated useful lives and lease terms. Lease payment is allocated to financial costs and repayment of lease obligations under the interest method.

For operating leases, lease payment is recognized as expenses over the lease term under the straight-line method in the consolidated statement of income.

For the year ended March 31, 2020 (April 1, 2019 through March 31, 2020)

At inception of a contract, the Group assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For such lease contracts, at the commencement date of the lease, the Group recognizes right-of-use assets and lease liabilities.

Lease liabilities are initially measured and recognized at the discounted present value of the total lease payments that are not paid at the commencement date. The interest rates implicit in the lease are used to measure the present value of the lease payments that are not paid, if those rates can be readily determined. If those cannot be readily determined, the lessee's incremental borrowing rates are used. Lease payments are allocated to interest expenses and repayments of lease liabilities under the interest method. Interest expenses on the lease liabilities are separately presented from the depreciation charges for the right-of-use assets. The Group initially measures the right-of-use assets by adding any initial direct costs, any lease payments made before the commencement date and any costs of obligations to restore the assets to the conditions required by the contracts to the amount of the initial measurement of the lease liabilities. The right-of-use assets are depreciated under the straight-line basis or another systematic basis over the lease terms.

However, the Group elects not to recognize right-of-use assets and lease liabilities for either short-term leases with a lease term of 12 months or less, or leases for which the underlying assets are of low value. The total lease payments of these leases are recognized as expenses under the straight-line basis or another systematic basis over the lease terms.

6) Intangible assets and goodwill

Intangible assets acquired separately are measured at cost on initial recognition. Intangible assets acquired in a business combination and recognized separately from goodwill are measured at the fair value at the acquisition date.

For measurement of intangible assets, the cost model is adopted and they are carried at cost less any accumulated depreciation and any accumulated impairment losses.

For amortization of intangible assets with finite useful life, the straight-line method is used over each estimated useful life.

For goodwill, the acquisition cost less accumulated impairment losses is recorded.

7) Impairment of non-financial assets

For impairment of non-financial assets excluding inventories, biological assets, deferred tax assets and assets related to retirement benefits, the Group determines whether there is any indication of impairment at the end of the reporting period. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill and intangible assets with indefinite useful lives, the recoverable amount of the asset is estimated every year at the same time and at any time there is an indication of impairment.

If the recoverable amounts of assets or cash-generating units are lower than the carrying amounts, the carrying amounts are reduced to the recoverable amounts and impairment losses are recognized.

8) Post-employment benefits

The Group adopted the defined benefit plan comprised of defined benefit corporate pension plan and retirement lump-sum severance plan, and defined contribution pension plan, as post-employment benefit plans.

The liabilities or assets of the defined benefit plan are recognized at an amount representing the present value of the defined benefit obligations less the fair value of the plan assets (the effect of the asset ceiling may be taken into account if necessary).

The present value of the defined benefit obligations is calculated by using the projected unit credit method. The discount rate used in this calculation is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds for the period until the expected date of future benefit payment.

Remeasurement of the net defined benefit liabilities or assets is recognized as other comprehensive income at the time of occurrence and is immediately reclassified as retained earnings. Past service cost and any gain or loss on settlement are recognized as profit or loss.

Expenses related to post-employment benefits of the defined contribution pension plan are recognized as expenses at the time an employee provides the relevant service.

9) Revenue

Pursuant to IFRS 15, the Group recognizes revenue based on the following five-step approach:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group mainly engages in the sales of hams and sausages, processed food products, fresh meats, marine products and dairy products.

With respect to the sales contracts of products with customers, since control over the products transfers to the customer and the performance obligations are satisfied as of when the products are delivered to the customer, revenue is recognized at such time.

Revenue is determined as the amount of the consideration in the sales contract less the rebates and discounts based on net sales or the sales amount, and the consideration expected to be refunded to the customer is reasonably estimated and is recorded as refund liabilities.

In addition, if the Group is involved in the sales of products as an agent, revenue is recognized as a net amount.

The consideration in a sales contract for products is primarily recovered within one year from when the products are delivered to the customer. Furthermore, significant financing components are not included.

10) Accounting treatment of consumption taxes

Consumption taxes are excluded from revenues, costs, and expenses in the consolidated statement of income.

3. Changes in the accounting policy

The Group has adopted the following standard from the consolidated first quarter of the year ended March 31, 2020.

Standard	Name of standard	Outline of new establishment or revision
IFRS 16	Leases	Revision of accounting treatment regarding recognition of lease transactions

At inception of a contract, the Group assesses whether the contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

However, the Group elects not to recognize right-of-use assets and lease liabilities for either short-term leases with a lease term of 12 months or less, or leases for which the underlying assets are of low value.

When applying IFRS 16, the Group accepted the decisions under IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining Whether an Arrangement Contains a Lease” in respect of whether a contract contains a lease. After the date of initial application, the determination is based on the rules under IFRS 16.

The Group elects to recognize the cumulative effect of applying IFRS 16 to all of its leases at the date of initial application.

Lease liabilities in lease transactions are measured at discounted present value of the total lease payments that are not paid at the commencement date.

The weighted average of the lessee’s incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 0.4%.

The interest rates implicit in the lease are used to measure the discounted present value of the total lease payments that are not paid, if those rates can be readily determined. If those cannot be readily determined, the lessee's incremental borrowing rates are used.

Lease payments are allocated to interest expenses and repayments of lease liabilities under the interest method. Interest expenses on the lease liabilities are separately presented from the depreciation charges for the right-of-use assets.

The Group initially measures the right-of-use assets by adding any initial direct costs, any lease payments made before the commencement date, and any costs of obligations to restore the assets to the conditions required by the contracts to the amount of the initial measurement of the lease liabilities. The right-of-use assets are depreciated under the straight-line basis or another systematic basis over the lease terms.

The reconciliation from operating lease commitments disclosed applying IAS 17 to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows:

(millions of yen)

Discounted amount of operating lease commitments disclosed as of March 31, 2019	8,846
Finance lease obligations recognized as of March 31, 2019	11,264
Cancellable operating lease commitments	16,844
Lease liabilities as of April 1, 2019	36,954

Accordingly, in comparison to when the previous accounting standards were applied, the asset balance in the consolidated statement of financial position at the date of initial application increased by ¥25,690 million.

Further, when applying IFRS 16, the Group uses the following practical expedients:

- The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group relies on its assessment of whether leases are onerous applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review.
- The Group excludes initial direct costs from the measurement of right-of-use assets at the date of initial application.
- The Group uses hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(8) Notes to Consolidated Financial Statements

1. Segment information

Information regarding the reportable segments

The Group categorizes the business segments into the following four business segments according to the nature of products and providing services, and the geographical areas where it sells products or provides services. These are the reportable segments:

Processed Foods Business Division	—	Mainly domestic production and sales of hams and sausages, and processed foods
Fresh Meats Business Division	—	Mainly domestic production and sales of fresh meats
Affiliated Business Division	—	Mainly domestic production and sales of marine products and dairy products
Overseas Business Division	—	Mainly production and sales of hams and sausages, processed foods, fresh meats and marine products at overseas subsidiaries and associates

(Change in method of presentation)

Until the previous consolidated fiscal year, “segment profit” represented net sales less cost of goods sold and selling general and administrative expenses. However, from the year ended March 31, 2020, the method of calculating the said “segment profit” has changed. From the year ended March 31, 2020, the new “segment profit” is calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales, and accounting for foreign exchange gains and losses determined by the Group, while deducting adjustments in accordance with IFRS and non-recurring items. “Segment profit” for the previous consolidated fiscal year is presented by applying the new calculation method from the viewpoint of the comparability with the year ended March 31, 2020. The Group considers this change will provide more relevant information for users of the consolidated financial statements by clarifying income derived from business activities as an important management index of segment information.

For the year ended March 31, 2019 (April 1, 2018 through March 31, 2019)

(millions of yen)

	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales							
Sales to external customers	338,854	649,820	151,781	128,540	1,268,995	(34,815)	1,234,180
Intersegment sales	14,237	107,173	3,292	126,669	251,371	(251,371)	—
Total	353,091	756,993	155,073	255,209	1,520,366	(286,186)	1,234,180
Segment profit (loss)	7,797	35,743	441	(3,753)	40,228	(1,917)	38,311
Segment assets	187,547	359,847	86,675	125,146	759,215	(17,827)	741,388
Other items							
Depreciation and amortization	6,859	8,058	2,453	2,722	20,092	2,325	22,417
Capital expenditures	11,981	19,776	9,107	4,903	45,767	2,053	47,820
Investments accounted for using the equity method	267	896	22	13,024	14,209	191	14,400

For the year ended March 31, 2020 (April 1, 2019 through March 31, 2020)

(millions of yen)

	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales							
Sales to external customers	339,089	658,664	139,443	129,610	1,266,806	(36,980)	1,229,826
Intersegment sales	14,692	113,180	3,465	125,377	256,714	(256,714)	—
Total	353,781	771,844	142,908	254,987	1,523,520	(293,694)	1,229,826
Segment profit	11,357	32,773	1,095	1,849	47,074	(3,302)	43,772
Segment assets	188,027	364,088	80,522	115,226	747,863	20,998	768,861
Other items							
Depreciation and amortization	7,388	8,834	2,698	3,115	22,035	11,003	33,038
Capital expenditures	13,810	12,506	2,414	6,032	34,762	13,040	47,802
Investments accounted for using the equity method	270	730	37	12,873	13,910	—	13,910

(Note)
1. “Eliminations, adjustments and others” includes unallocated items and intersegment eliminations.
2. Except for a few unallocated items, corporate overhead expenses and profit or loss of certain subsidiaries are allocated to each reportable operating segment. These subsidiaries provide indirect services and operational support for the consolidated companies included in each reportable operating segment.
3. “Segment profit (loss)” is calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales, and accounting for foreign exchange gains and losses determined by the Group, while deducting adjustments in accordance with IFRS and non-recurring items.
4. “Segment assets” included in “Eliminations, adjustments and others” mainly consist of adjustments to right-of-use assets and others in accordance with IFRS, cash and cash equivalents of the parent company, and investment securities.
5. “Depreciation and amortization” represents depreciation and amortization expenses for

property, plant and equipment, right-of-use assets, and intangible assets. “Depreciation and amortization” in each reportable segment does not include depreciation and amortization expenses included in corporate overhead expenses and profit or loss of certain subsidiaries stated in Note 2.

6. “Capital expenditures” represent increases in property, plant and equipment, right-of-use assets and intangible assets.

2. Per share information

1) Basic earnings per share

	Year ended March 31, 2019 (April 1, 2018 through March 31, 2019)	Year ended March 31, 2020 (April 1, 2019 through March 31, 2020)
Basic earnings per share (yen)	183.21	186.70
Basis for calculation:		
Profit attributable to owners of the parent (millions of yen)	19,561	19,214
Amount not attributable to owners of the parent (millions of yen)	—	—
Profit used in the calculation of basic earnings per share (millions of yen)	19,561	19,214
Weighted-average number of shares of common stock (thousands of shares)	106,765	102,914

2) Diluted earnings per share

	Year ended March 31, 2019 (April 1, 2018 through March 31, 2019)	Year ended March 31, 2020 (April 1, 2019 through March 31, 2020)
Diluted earnings per share (yen)	181.48	186.64
Basis for calculation:		
Profit used in the calculation of basic earnings per share (millions of yen)	19,561	19,214
Adjustment to profit (millions of yen)	(178)	—
Profit used in the calculation of diluted earnings per share (millions of yen)	19,383	19,214
Weighted-average number of shares of common stock used in the calculation of basic earnings per share (thousands of shares)	106,765	102,914
Dilutive effect of stock options granted (thousands of shares)	40	37
Weighted-average number of shares of common stock used in the calculation of diluted earnings per share (thousands of shares)	106,805	102,951

3. Significant subsequent events

Not applicable.