MESSAGE

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Director and Executive Officer

Improving profitability and raising corporate value with an optimal capital structure, structural reform, and sustainability strategies

Financial overview of the Medium-Term Management Plan 2020

The Group uses debt-to-equity ratio as a primary financial indicator, and has determined that a ratio at the 0.4 to 0.5 level provides the optimal capital structure for minimizing WACC. The financial strategy in the Medium-Term Management Plan 2020 was formulated so as to maintain the optimal capital structure even if the full budget was used for capital investment. The capital investment executed during the year was ultimately less than planned as management reexamined and revised the plan to flexibly respond to the free cash flow situation which changed due to initially unforeseen circumstances that included fluctuations in our performance (affecting operating cash flow) and the decision to construct a new Ball park. The Company also acquired treasury stock during the year with the aim of enhancing shareholder returns. The resultant debt-to-equity ratio was 0.45 as of the end of March 2021, which we believe indicates a satisfactory balance of debt and capital.

Profit performance for the year included improvements in both operating income and business profit; however, the issue of profit stability persisted due to the occurrence of non-operating expenses including impairment loss on goodwill. Management views the results as representing a steady improvement in the ability to generate operating cash flow during the three years of the Medium-Term Management Plan 2020.

Fixed assets have increased substantially during the past three years as the investment increase for the Ball park and the adoption of a new lease accounting policy (IFRS16) have increased the amount of invested capital by 20% and lowered the investment turnover ratio. Although the severe environment for commercial product sales during the COVID-19 pandemic was a significant factor, the Group needs to improve the efficiency of invested capital. Even with the lower investment turnover rate, the improved profitability in fiscal 2020 raised ROIC to 5.9% while the substantial increase in profit put ROE at 7.8%, enabling the Group to meet its Medium-Term Management Plan 2020 targets for both indicators in the fiscal year ended March 2021.

Financial strategies in the Medium-Term Management Plans for 2023 and 2026

The Medium-Term Management Plan 2023 will continue the diligent balance sheet management with the fundamental imperative of maintaining the optimal capital structure.

Under this plan, investment will first focus on strengthening our business foundation and shifting to a sustainable business model. The plan allocates a total of ¥248.0 billion of investment over the three years, including ¥78.1 billion in the Fresh Meats Business Division's upstream operations, ¥41.0 billion for the new Ball park, and ¥15.7 billion for digital transformation (DX). The Investment & Finance Committee will scrutinize capital investment over a certain amount and carry out follow-up monitoring. Management expects profits to decline early in the plan due to the upfront spending for DX, but ultimately expects strong growth in business profit and profit from the fortified revenue bases of the business segments and, in the plan's final year, from the boosts from the DX and new Ball park business. Although invested capital turnover will decline, we will offset it by improving profitability and seek to achieve ROIC of 6.0% and ROE of 8.0%. We also plan to increase total operating cash flow for the plan's three years by approximately 27% compared to the previous three-year plan of the Medium-Term Management Plan 2020. DX will also improve the cash conversion cycle, which will provide an additional boost to cash flow creation while also improving capital investment efficiency.

During the period covered by the Medium-Term Management Plan 2026, we expect capital investment to peak while profits grow in each of the business segments and the earlier investments begin to contribute to earnings. In the plan's final year, we will seek to achieve a business profit ratio of 6.0%. With the investment capital turnover rate at a low point, we plan to raise ROIC to 7.0% or higher and ROE to 9.0% or higher. We plan to raise free cash flow for the three-year period to ¥161.0 billion, supported by increased operating cash flow and the reduced capital investment.

Funds needed for ordinary investments will be acquired either from our own resources or through interest-bearing liabilities, and we do not currently anticipate a significant increase in procurement costs. Fund procurement will be a healthy balance of direct and indirect methods and with due consideration to the timing of the repayment and redemption periods.

As part of its effort to diversify its methods of fund procurement, in February 2021, the Company conducted its first issuance of sustainability bonds, from which the proceeds will be used for the construction of the new Ball park. The bonds were positively received in the markets, as the Ball park has been lauded for its environmental and social features. We expect corporate bonds and loans related to the environment and society to become increasingly common, and we will consider such bonds as an additional method of procuring funds.

The Medium-Term Management Plan 2023 initiatives to use DX for structural reform, shift to a sustainable business model, and optimize our business portfolio are designed to put the Group on a firm path for improving profitability and efficiency and lay the groundwork for a strong leap forward under the Medium-Term Management Plan 2026.

Cash flow plan during the Medium-Term Management Plans

	Medium-Term Management Plan 2020	**Medium-Term Management Plan 2023**	Medium-Term Management Plan 2026
Operating cash flow	¥178.8 billion	**¥227.0 billion**	¥266.0 billion
Investing cash flow	¥(139.6) billion	**¥(202.0) billion**	¥(105.0) billion
Free cash flow	¥39.2 billion	**¥25.0 billion**	¥161.0 billion

Advancing a sustainability strategy for reducing WACC

Management monitors the weighted average cost of capital (WACC), which was approximately 4% as of the end of March 2021. The debt-to-equity ratio is currently close to the optimum value, and we consider it to be at a level that minimizes WACC. As such, we believe that further lowering WACC will require reducing the cost of shareholders' equity.

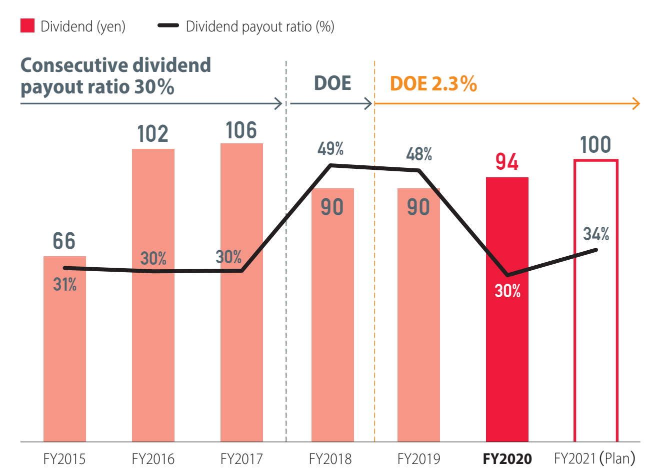
Although the effects will take time to fully materialize, we believe it is important to review our business portfolio to lower business risk, engage in dialogue with all investors to narrow the recognition gap, and continue advancing our sustainability strategy. We also understand the particular importance to the Group of taking steps to mitigate climate change.

Policies on shareholder return and cross shareholdings

The NH Foods Group's fundamental dividend policy is to seek to maintain stable and continuous dividend growth with a dividend-on-equity ratio (ratio of dividends to shareholders' equity) of 2.3%. With interest-bearing debt starting to decrease, we believe that a shareholder return policy that includes repurchasing company shares will enable us to adequately control shareholders' equity within a debt-to-equity ratio range of 0.4 to 0.5.

In June 2021, the Company announced a policy of, in principle, not possessing cross- shareholdings for strategic purposes. We intend to discuss and coordinate with the relevant parties plans to systematically reduce the number of strategic shareholdings during the six years of the Medium-Term Management Plans for 2023 and 2026.

Changes in dividends and payout ratio



Note: Dividend amounts through the fiscal year ended March 31, 2018 have been retroactively adjusted to reflect the absorption-type stock split.