

# The NH Foods Group Delivers the Joy of - Value Creation Process -

We have achieved continuous growth by building on our unique strengths, including the development of a vertical integration system. We remain committed to supporting the lifestyles of people around the world by delivering the Joy of Eating while facing social issues, based on the Medium-Term Management Plan 2020.

## Megatrends affecting food

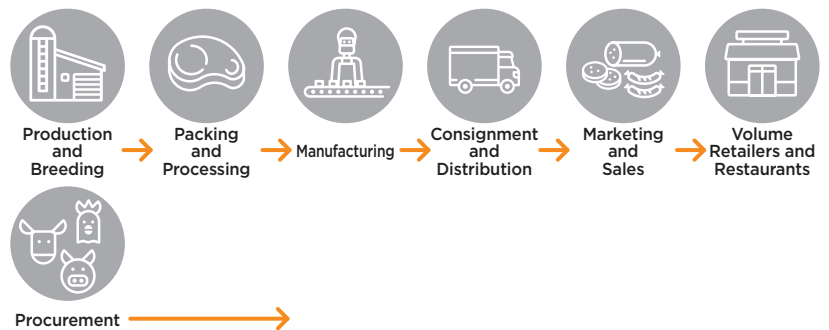
- Changes in the supply-demand balance of food due to the world's growing population
- Support for increased consumption of fresh meat worldwide
- Progress of Japan's aging society
- Decrease in the number of domestic livestock farmers
- Drop in Japan's food self-sufficiency ratio
- Changing lifestyles
- Increase in the number of people with food allergies domestically
- Problems concerning food safety and reliability\*

## CORE COMPETENCE

- **Vertical integration system** built for many years
- **Development of high-quality branded fresh meats** through integration
- **Synergy at each business division**
  - Product development by linking food in multiple categories
  - Mutual utilization of assets of each business division, including product development ability, knowledge of food, and distribution channels
- **Sales capabilities from top market shares in three livestock species (cattle, hogs, and chickens) in Japan**
- **Ability to develop category-leading products**

## BUSINESS MODEL

### VERTICAL INTEGRATION SYSTEM



See page 32 for details. →

## A FOUNDATION THAT SUPPORTS VALUE CREATION

- Our DNA to pursue flavor without compromise
- Quality assurance framework to comply with international standards:
  - SQF certification: 25 business sites
  - FSSC22000 certification: 12 business sites
- Human resources supporting the level of quality:
- Quality Assurance Managers: Japan: 788 / Overseas: 226
- Connection with consumers represented by the Consumer Delegate Committee, established in 1969

# Eating while Facing Social Issues

## Medium-Term Management Plan 2020

THEME

Building systems that pave the way to the future

See page 20 for details. →

MANAGEMENT STRATEGY

- 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
- Pursue sustainability

QUANTITATIVE GOALS FOR THE FISCAL YEAR ENDING MARCH 31, 2021

Net sales ¥ **1,410.0** billion    Operating income ratio **4.0** %  
 Operating income ¥ **56.0** billion    Profit attributable to owners of parent ¥ **35.0** billion



Social value to be created

- Promotion of livestock industry in Japan
- Offering safe and reliable foods
- Offering convenient processed foods that can be cooked quickly
- Expanding our lineup of health-conscious products
- Offering allergen-free foods

## Five important CSR issues and related SDGs

Producing food that is safe and reliable



Supporting people's mental and physical well-being through food and sports



Maintaining workplaces that motivate employees



Sustainable food supply for the next generation



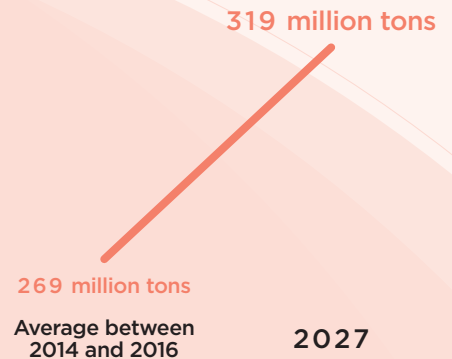
Preserving the environment



# 1 Tackling the Challenges of Rising Food Consumption Worldwide and a Declining Number of Livestock Farmers in Japan.

It is estimated that the global population will exceed 9 billion by 2040. Food production would thus have to expand 1.55-fold from 2000. Japan is the world's biggest food importer, and faces a plunging number of livestock farmers, making stable food supplies a key issue for the nation

WORLD FRESH MEAT (BEEF, PORK AND CHICKEN) CONSUMPTION FORECASTS



Source: "World Food Supply and Demand Projection to 2027 (in Japanese)", Ministry of Agriculture, Forestry and Fisheries of Japan



## ANNUAL HOG SHIPMENTS

Around

**620,000** hogs

(3/18 result)

## ANNUAL CHICKEN SHIPMENTS

Around

**71** million chickens

(3/18 result)

## ANNUAL WHYALLA BEEF SHIPMENTS

Around

**140,000** head

(3/18 result)

## Stable Supplies of High-Value-Added Fresh Meat from a Vertical Integration System

As Japan's population ages, fresh meat purchases by elderly individuals are growing. We thus expect fresh meat consumption to keep increasing. The Group built a vertical integration system that encompasses everything in the supply chain from production and breeding, packing and processing to consignment, distribution and sales to provide safe, top-quality fresh meat to consumer tables. While the size of farms per farmer are expanding in Japan, the number of farmers is decreasing. Domestic fresh meat production volumes are thus unlikely to rise. Another factor to consider is such livestock disease risks as BSE, avian influenza, foot-and-mouth disease, and the porcine epidemic diarrhea (PED) virus. Through aggressive investments in farms and processing facilities and by stepping up efforts to increase production, the Group will help maintain and improve the nation's food self-sufficiency rate in livestock farming while establishing competitive advantages of domestic business.



## Reinforcing Fresh Meat Procurement from Abroad

To stabilize supplies of fresh meat, the Group has invested extensively in overseas fresh meat production and processing companies while expanding its vertical integration system. In Japan, we anticipate further expansion in the poultry market. Key drivers are a rising health consciousness among consumers, the expansion of the Halal market from increasing inbound tourism, and the attractive pricing. We responded to such market developments by investing in Panus Poultry in Thailand in January 2018 to provide stable supplies of Thai processed chicken, for which demand is increasing in Japan.



Panus Poultry is an integrator covering chicken farming and production through manufacturing processed foods and sales. It is the tenth biggest chicken packer in Thailand. We will continue to tackle the challenges of ensuring stable supplies of fresh meat by mergers and acquisitions and capital partnerships.

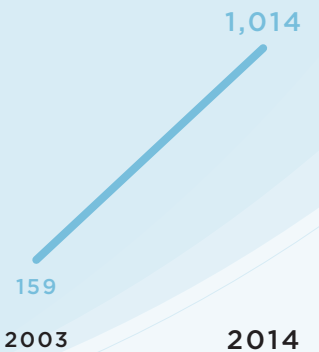


# 2

## Delivering Safe and Reliable Foods

With consumers increasingly aware of the need for food safety and reliability, any food incident could threaten the viability of our businesses. As demand for food safety intensifies, it is vital to build a management system that guarantees food safety.

VOLUNTARY FOOD RECALL CASES IN JAPAN



Source: The Food and Agricultural Materials Inspection Center, an Incorporated Administrative Agency (Annual figures)



NUMBER OF EXTERNALLY  
CERTIFIED NH FOODS  
GROUP BUSINESS SITES

151

(3/18 result)

## Delivering Safe Products to Customers

We consider it a key social responsibility to deliver safe products to customers. The Group has accordingly organically linked the three functions of safety assessments, quality audits, and safety inspections, and develops human resources in these areas.

We maintain a groupwide commitment to safety.



Note: See our website for more details.

**WEB** <https://www.nipponham.co.jp/quality/system/>

## Obtaining International Certifications for Safety and Reliability

To meet global safety and reliability standards, we reviewed our quality assurance rules in 2016, and have deployed food safety management systems and have acquired certification under international standards. Our quality assurance system complies with the latest guidance of the GFSI (Global Food Safety Initiative) and encompasses requirements for food defenses and fraud. For external certification, we built optimum management systems and obtained certifications depending on the type of businesses and business partners' requirements. Examples include Safe Quality Food (SQF) international certification for farms and production plants and FSSC22000 certification for safety management frameworks at food processing facilities.

Note: See our website for more details.

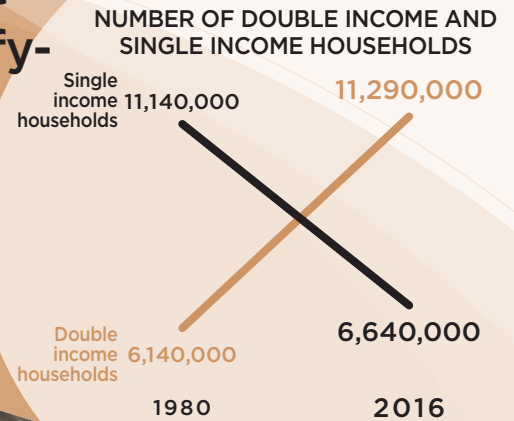
**WEB** <https://www.nipponham.co.jp/quality/authentication/>



# 3

## We Provide Highly Convenient Products that Cater to Diversifying Lifestyles

Japanese households are transforming significantly, key changes including a rising number of working mothers, more fathers participating in child-raising, and government initiatives to reform work practices. With demand surging for dishes that are faster and easier to prepare, household tables are increasingly featuring new offerings that contribute to the “Joy of Eating.”



Source: “White Paper on Gender Equality 2017 (Summary)”, Gender Equality Bureau Cabinet Office



### Launched Lifestyle Research Office

In April 2018, the Group established the Lifestyle Research Office to promote in-house understanding about consumers and provide high-value-added products and services. Through collaboration between divisional product development teams, we create proposals that match social changes by developing products from consumer perspectives.

NUMBER OF HAM AND SAUSAGE ITEMS\*

130

NUMBER OF DELI AND PROCESSED FOODS ITEMS\*

180

\*Excluding commercial-use products and private brand products (on domestic production basis as of March 31, 2018)

## Speedy, Professional Results with *Chuka Meisai*<sup>®</sup>

*Chuka Meisai* is a series of chilled food products for tasty and nutritiously balanced Chinese dishes made just by adding one kind of vegetable. The packaging contains other pre-prepared ingredients and sauces created utilizing the skills of Chinese chefs, so there is no need for extra preparation like cutting or deep-frying of meat. The series comprises a variety of dishes that make authentic Chinese cuisine accessible to households even on busy nights. Offerings include sweet and sour pork and prawns in chili sauce that only require the addition of an onion. There is also twice cooked pork to which you add cabbage, as well as chop suey with Chinese cabbage.



## Authentic Taste and Convenient Packaging *Entier*<sup>®</sup>



In Europe, the heartland of sausages, slowly grilled fresh sausages with a natural taste are very popular. While most sausages in Japan are precooked, *Entier* is uncured, making it easy for consumers to enjoy the authentic taste. To enhance user friendliness,

*Entier* is provided in easily separable packaging for use in smaller portions.

## *Saba Mizuni* (Canned Mackerel) as a Main Dish or Snack

The Group company's Hachinohe Plant cans ocean-fresh mackerel in Japan, seasoning it only with salt to optimize the taste of fish caught during the best season. There is no need to use a can opener. The food is equally delicious and simple to prepare as a main dish or a snack.



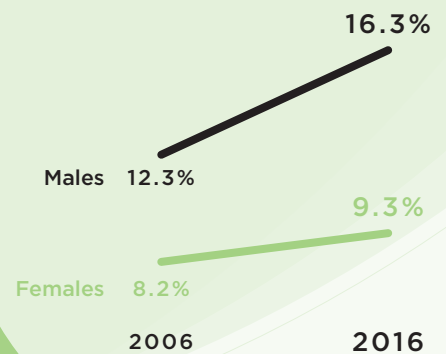




# 4 Responding to Growing Consumer Interest in Health as Life Expectancies of 100 become More Realistic

To develop a society in which people can live active and healthy lives even during old age, it is vital to care about health and to prevent lifestyle-related diseases when middle aged and to avoid functional impairments later in life. We are responding to a growing need for balanced and healthy diets and foods.

PERCENTAGE OF POSSIBLE DIABETES SUFFERS (AFTER THE AGE OF 20)



Source: "Summary Report on Result of National Health and Nutrition Survey 2016", Ministry of Health, Labour and Welfare

**NUMBERS OF ITEMS FOR HEALTH-CONSCIOUS CUSTOMERS\***

Ham and sausages 15  
 Deli and processed foods 12  
 Dairy products 6

\* Low or zero carbohydrates, low salt products and others for ham and sausages and deli and processed foods. Lactic acid probiotic beverages, functional foods, and others for dairy products (at March 31, 2018)

**Healthy Kitchen® for Health Needs**

Healthy Kitchen is a ham and sausage series developed for people with concerns about carbohydrates in their diets or their blood pressure. Although the hams and half-sized bacons in the Healthy Kitchen ZERO series contain zero carbohydrates\*, they offer the solid textures and great taste of regular meat. In



the Healthy Kitchen Green Label series, a line of foods with function claims, the low-salt pork loin hams and half-sized bacons contain  $\gamma$ -amino butyric acid (GABA), which is good for people concerned about their blood pressure.

\* We directly analyzed the carbohydrate content. Less than 0.5g of carbohydrates per 100g is considered zero under food labeling standards.

**Tokimeki Cafe Series Smoothies Not Just Tasty but Healthy**

Tokimeki Cafe series smoothies contain lactic acid bacteria. They are a source of vegetable and fruit supplements with easily drinkable and enjoyable texture. The three offerings in this series are Green Smoothie, with 6 g of dietary fiber, which is the recommended quantity per meal; Red Smoothie, with the recommended dietary fiber requirements for one meal, and chia seed; and Purple Smoothie, with 5.2 g of iron.



**Contributing to Communities by Fostering Healthy Bodies and Minds**

The philosophy of the Hokkaido Nippon-Ham Fighters is “Sports Community”, which aims to build communities with sports and to foster healthy bodies and minds.



Based on that philosophy, the team set up the Hokkaido Nippon-Ham Fighters Baseball Academy in 2004 and the Hokkaido Nippon-Ham Fighters Dance Academy in 2009 to not just teach skills but to educate children about the attitude toward their dreams or goals and the importance of interacting with people through sport.