

Fresh Meats Business Division

We will strive to achieve continuous growth through sales expansion underpinned by enhanced procurement capabilities and seek to capture 25% of the domestic fresh meats market.



Katsumi Inoue

Vice President and Representative Director, General Manager of Fresh Meats Business Division



Looking Back on Fiscal 2018

The Fresh Meats Business Division was impacted by low-trending market prices on domestic pork and chicken and a drop in sales volume, particularly imported fresh meats, paralleling lower domestic meat prices, as well as one-time expenses, including upgrade costs at distribution points and losses stemming from damage caused by Typhoon No. 21 and the Hokkaido Eastern Iburi earthquake. Net sales reached ¥757.0 billion and business profit settled at ¥35.7 billion, both down from the previous fiscal year.

One of the business policies under Medium-Term Management Plan 2020 is to strengthen profitability by improving the efficiency of existing businesses. With this in mind, the Fresh Meats Business Division focused on building a well-balanced production and supply structure, reinforcing procurement of imports, establishing a sustainable value chain, and strengthening sales to boost market share.

In efforts to build a well-balanced production and supply structure, we achieved a certain degree of

success, achieved mainly by Interfarm Co., Ltd., and Niiburo, Co., Ltd., which brought new farms into operation, and capital alliances with other companies to enhance purchasing activities. However, the impact of natural disasters and livestock diseases led to sluggish growth in production volume at our own facilities. In efforts to reinforce the procurement of imports, we faced an uphill battle in trying to expand volume, due to rising prices on imported fresh meats, but we directed attention toward forging stronger connections with overseas meat packers and emphasizing antibiotic-free products. In efforts to establish a sustainable value chain, we completed upgrades at domestic staging points to create a stable, more efficient distribution system even under the labor shortage and tougher restrictions in the distribution sector. Also, in efforts to boost market share, we worked to expand sales through volume retailers, refined proposals to convenience stores and restaurant chains, and put greater emphasis on capturing the attention of restaurants, especially in city centers. But we were unable to increase sales volume.

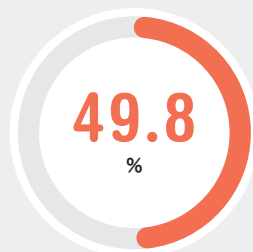
Environment Surrounding NH Foods Group (Risks and Opportunities)

Japan's population peaked in 2010 and has been on a downtrend since then. However, consumption of pork and chicken per capita is increasing every year. Nevertheless, sales volume on a consolidated basis has been lackluster for the past two years. If we want to reach our goal—25% of the domestic fresh meats market—we have to achieve a higher level of operating efficiency.

In Japan, the increase in costs is accelerating, and personnel costs are a particularly large component of overall costs due to a shortage of labor. Additional concerns include rising import prices, which reflect heightened global demand for fresh meats as well as the spread of livestock diseases, such as swine fever,

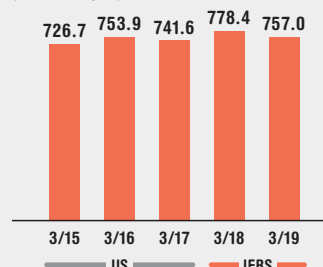
and environmental risks, such as drought. However, it is most imperative when confronted by these many uncertainties that we clearly demonstrate an ability to convert risk into opportunities for growth. On the production front, we aim to improve productivity through the use of AI and other information technologies, while, on the procurement front, we will forge ties with leading companies at home and abroad. These approaches will enable us to respond accurately to changes in society, notably, greater meat consumption among seniors, wider demand from inbound travelers, and a more pervasive attitude toward good health, and thereby underpin growth.

SHARE OF NET SALES



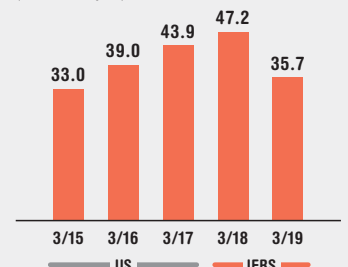
NET SALES

(Billions of yen)



BUSINESS PROFIT

(Billions of yen)



Toward Medium-Term Management Plan 2020 Targets

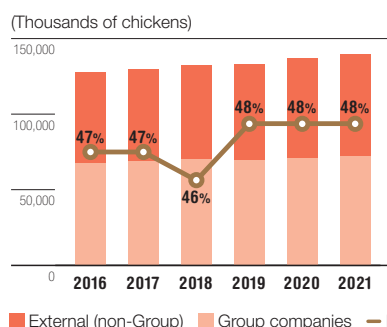
Strategy for Expanding Sales Volume

To enhance sales power, the entire NH Foods Group is engaged in efforts to strengthen sales, proposal-making, product appeal, and organizational cooperation capabilities intended to move a wide assortment of products over an extensive network of channels at a good profit.

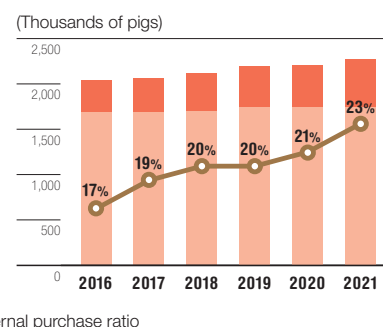
Of the five million tons of fresh meat consumed in Japan, we estimate* about 60% is handled by volume retailers and meat processors, with NH Foods' share of this market consistently around 26%. The remaining 40% or so is handled mainly by convenience stores, commercial facilities, and restaurants, and this is where our share is still rather low. We seek to capture 25% of the domestic fresh meats market by maintaining sales volume over high-share channels while exploring other channels, including convenience stores, commercial facilities, and restaurants, where there is still room for growth. A bigger share of the domestic fresh meats market will attract the attention of meat packers and producers at home and abroad, which will foster the ability to ensure stable supply and, ultimately, enhance product appeal and proposal-making capabilities. A 25% share of the domestic market will solidify the Group's business foundation as well, and we aim to achieve 105% volume growth in fiscal 2019 by drawing on group-wide sales, proposal-making, product appeal, and organizational cooperation capabilities.

To achieve stable profit, we have to shine a bright spotlight on value-added quality. We will distinguish our products from the competition by showcasing branded fresh meats, such as *Sakurahime*™ domestic chicken, *Mugikomachi*™ domestic pork, and *Omugi-Gyu* angus beef from Australia, and by offering products processed overseas as well as antibiotic-free products.

VOLUME OF CHICKEN HANDLED (NUMBER OF CHICKENS) AND EXTERNAL PURCHASE RATIO



VOLUME OF PORK HANDLED (NUMBER OF PIGS) AND EXTERNAL PURCHASE RATIO



* Estimate by NH Foods, based on the food supply and demand table and survey on trends in fresh meat sales, written up by Agriculture & Livestock Industries Corporation, and a breakdown of fresh meat consumption, provided by the Ministry of Agriculture, Forestry and Fisheries.



Toward a Sustainable Society

Supporting Development of the Next Generation of Human Resources in Cooperation with Obihiro University of Agriculture and Veterinary Medicine

In 2018, the NH Foods Group began hands-on training and lectures for students and instructors of Obihiro University of Agriculture and Veterinary Medicine under a comprehensive collaboration agreement aimed at promoting the livestock industry and fostering the next generation of human resources. Participants observed the flow of manufacturing operations at each stage at sites such as the farms of Interfarm Co., Ltd., the processing line of Nippon Food Packer, Inc., and the processing line of Nippon White Farm Co., Ltd., as well as getting on-site experience of the welfare management, disease prevention, and food sanitation of animals. These experiences give those who will form the future of the livestock industry knowledge they cannot get from university classes.



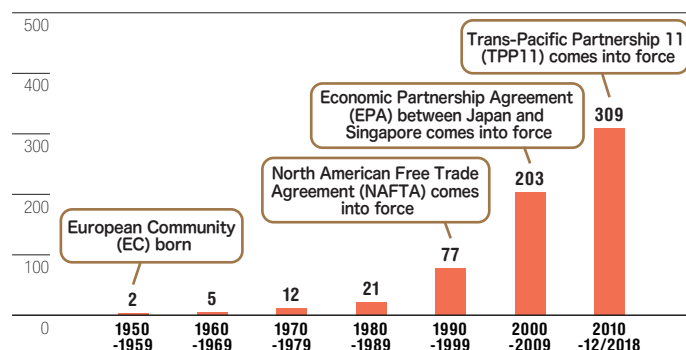
Touring the Shiretoko Plant of Nippon White Farm Co., Ltd.

Effective Use of Existing Facilities and Stronger Partnerships

In the domestic fresh meats sector, we will continue to emphasize scheduled expansion at Company-owned chicken farms and also promote increased procurement from external sources. For pork operations, our focus is on the maintenance and upgrade of production facilities, ensuring the stability of pickup operators, and reducing the accident rate by reinforcing measures to prevent diseases. In beef operations, we will start full-scale sales of beef cattle, and, against a backdrop of yearly decreases in production volume across Japan, we will look also to securing future food supply, augment the integrated system for breeding that aligns us to our joint ventures and alliances, and build a system that guarantees quantity and also strengthens production and ensures access to a stable supply of domestically raised cattle.

Tariffs are gradually dropping, thanks to the 11-Pacific-Rim-country Comprehensive and Progressive Agreement for Trans-Pacific Partnership—also known as TPP11—and Economic Partnership Agreements, or EPAs, between Japan and the EU. Negotiations also moved forward on a Japan-U.S. Trade Agreement on Goods. NH Foods will respond to the new tariff system from the dual perspective of maintaining and further developing the domestic livestock industry and ensuring food for the future including imports. Plus, we will not limit our lineups to products that are easy to sell but rather take a broad-based approach to procurement that includes products recommended by suppliers, and utilize accumulated market insights to standardize these products to the preferences of the domestic market. This will lead to stronger partnerships with business partners and expand market share.

CUMULATIVE NUMBER OF FREE TRADE AGREEMENTS (FTAs) ENACTED WORLDWIDE



Sources: JETRO Global Trade and Investment Report 2018, Japan and world's FTAs at a glance (as of December 2018)

Business model

Production and breeding

Toward a Sustainable Society

Support for Commissioned Farmers

The NH Foods Group contributes to continuity in the livestock industry by undertaking some of its commissioned farming operations. All of the poultry rearing work at poultry farms of the Miyazaki Production Division of Nippon White Farm Co., Ltd. is done by commissioned farmers. At the request of commissioned farmers, the company undertakes the operations necessary at the poultry farms of the Miyazaki Production Division from when mature birds are shipped until the next chicks arrive. These include the removal of droppings from chicken coops, coop washing and sterilization, and also simple coop repairs. This support enables commissioned farmers to reduce their work volume and ensure they get days off, and this is helping to increase their productivity and improve the quality of chicken meat.



Cleaning of chicken coops

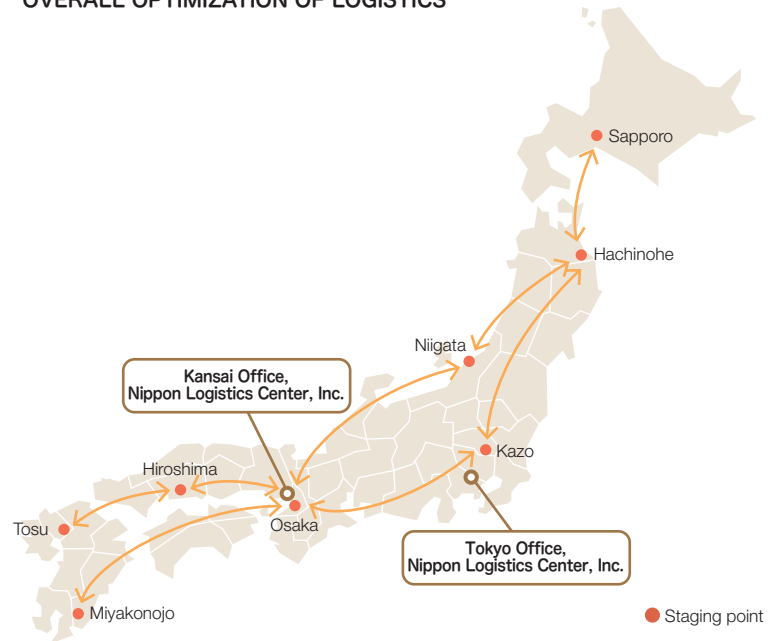
Toward Medium-Term Management Plan 2020 Targets

Establishing Operating Model to Support Sustainable Growth (Distribution Reform)

To achieve greater optimization in distribution overall, we established a system using staging points to underpin sustainable supply operations inside and outside the Group despite the challenges presented by the prevailing labor shortage. We also took steps to improve distribution-related working conditions, and are now fully compliant with the Ministry of Health, Labour and Welfare’s guidelines on the working hours of truck drivers.

In addition to efforts aimed at a bigger market share and future growth is the need for appropriate transport capabilities and enhanced storage capabilities, including refrigerators. We will endeavor to strengthen the distribution system even further and are pushing plans for new refrigerators. To deal with the labor shortage, we will standardize operations and embrace laborsaving technologies.

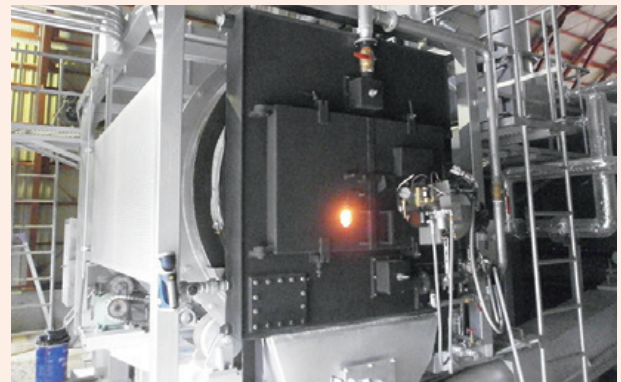
OVERALL OPTIMIZATION OF LOGISTICS



Toward a Sustainable Society

Cyclical Biomass Power Generation Utilizing Poultry Manure

In 2003, Nippon White Farm Co., Ltd. established Miyazaki Biomass Recycle Co., Ltd. as a joint venture with poultry farmers, local agricultural cooperatives, and businesses from within Miyazaki Prefecture. This company was the first biomass power producer in Japan to use poultry manure, and has annual generating capacity of 76,662MWh, enough power to supply roughly 20,000 regular households. Approximately 43,000 tons of poultry manure are generated each year from production farms contracted by the Miyazaki Production Division of Nippon White Farm Co., Ltd., and about 90% of this is incinerated and used for biomass power generation.



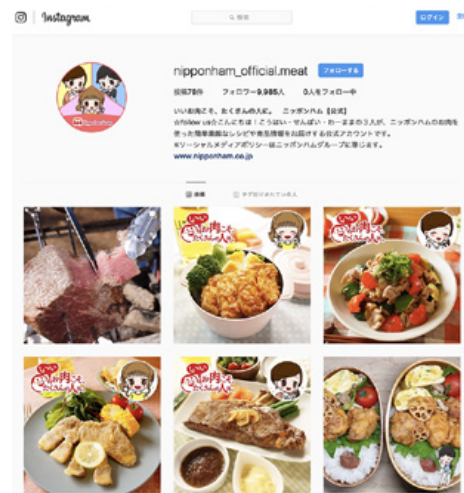
Miyazaki Biomass Recycle Co., Ltd.'s biomass power plant

Product Development and Promotional Activities Based on Consumer Awareness

“Good meats for all to enjoy.” This slogan has raised our profile, making “NH Foods synonymous with meat.” NH Foods created an Instagram account on November 29, 2018—as November 29 is Meat Day in Japan—and began sharing photos and other content geared to people in key age-groups via three characters—newly hired *Kohai-chan*, mother with small children, *Wa-mama*, and *Senpai*, who enjoys work and personal time, too. The posts include scenes featuring meat as well as photos of meat dishes, recipes, and comments. Our primary objective with Instagram is to present meal-time solutions that strike a chord with women in their 20s, 30s, and 40s and thus create a new base of meat lovers.



Instagram account
@nipponham_official.meat



Business model
Manufacturing
and
sales

Toward a Sustainable Society

“Visibility” on Plant Energy Usage

The Isesaki Plant of Nippon Pure Food, Inc., which came on stream in October 2018, manufactures mostly heat-processed foods such as roast beef and roast pork. The plant uses a central monitoring system to consolidate operating status of its main production machines, and the resulting “visibility” on the state of electric power, gas, water, hot water, and steam usage has proved effective in helping reduce energy and resource consumption. In addition, the company is aiming to lower air pollution levels* by use of city gas to power the boiler used for producing steam.

* It is expected that the annual volume of air pollution emissions from methyl-naphthalene, a class 1 designated chemical substance, will decline by around 39.0kg compared to a boiler powered by A-type heavy oil.



Isesaki Plant, Nippon Pure Food, Inc.

Toward Medium-Term Management Plan 2020 Targets

Keen to Build a Sustainable Value Chain

Efforts to reinforce human resources development and hiring practices throughout the Group are designed to hone a sharper competitive edge and offset the consequences of the labor shortage. We are also keen to introduce smart pig farming, which utilizes AI and IoT technology as well as laborsaving equipment to reduce the burden on farm workers while boosting efficiency.

We aim to leverage improvements at many points, with capital expenditures for fiscal 2019, budgeted at ¥30.2 billion. Production operations will use capital for new farm construction and factory expansion or renovation and to upgrade existing facilities, including processing lines, and marketing operations will apply capital to relocate or rebuild offices. These investments will strengthen the operating foundation.



Nipponham Food Group has 117 sales bases across Japan



"YIELDAS," a fully automated chicken deboning machine



Toward a Sustainable Society

Reducing Plastic Waste through Local Packaging of *Sakurahime*

The Group is pursuing reduction in packing for fresh meat products normally sold on plastic trays. Domestically produced chicken brand *Sakurahime* is packed close to where the chicken is processed for supply to volume retailers, and, by vacuum packing it at a local food plant near where they are raised, we are able to deliver to customers a product that is extremely fresh in an unopened state. The packs no longer feature trays, which not only leads to less plastic waste, but also helps reduce the work of in-store packing by our client stores.



Note: See our website for more details.

WEB

Launch of *Sakurahime*
<https://www.nipponham.co.jp/sakurahime/package/> (Japanese only)