

Overseas Business Division

We will rebuild overseas operations to ensure stable profits.

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Director and Managing Executive Officer,
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Division



Looking Back on Fiscal 2018

The Overseas Business Division is changing gears in overseas market development under the Medium-Term Management Plan 2020. A certain degree of success has been achieved, but new challenges have also emerged.

In our Australia operations, the emphasis was on a business improvement project designed to boost productivity. Greater demand from some markets, including China, as well as favorable conditions in cattle collection facilitated progress in eliminating losses and stabilizing business operations. Meanwhile, at Breeders & Packers Uruguay S.A. (BPU), drought made the cattle collection environment more difficult while the weakening of neighboring currencies against the U.S. dollar eroded price competitiveness and negatively impacted sales. As a result, BPU saw its losses deepen.

In Asian and European businesses, efforts were directed toward improving productivity at chicken farms operated by Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi, in Turkey, and expanding the number of poultry processed. An issue that required attention, however, was an increase in manufacturing costs which paralleled the Turkish lira's meltdown. In the Americas, the processed foods business of Day-Lee Foods, Inc., saw earnings squeezed by price wars and the skyrocketing cost of raw materials, so measures to reduce manufacturing costs and business expenses overall became an issue to address.

All told, the Overseas Business Division was unable to return to the black, but the loss was a lighter shade of red. Sales were up, hitting ¥255.2 billion, and the operating loss settled at ¥3.8 billion.

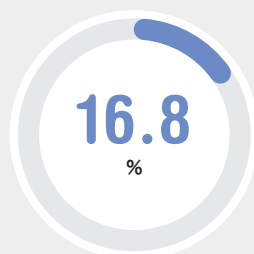
Environment Surrounding NH Foods Group (Risks and Opportunities)

A growing world population and increasing demand for meat in China will give operations in Australia and Uruguay new opportunities to expand sales. But expectations will be tempered by the soaring cost of grain used as cattle feed and a decrease in the number of cattle raised due to climate change. Of note, Australia has strict requirements for

imported grain, so climate change carries significant risk in livestock operations.

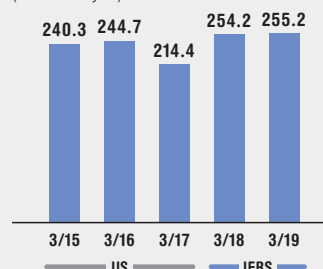
We recognize that generating profit from the beef business in Australia and Uruguay, the poultry business in Turkey, and the processing business in Asia and the Americas is an urgent task for the Overseas Business Division.

SHARE OF NET SALES



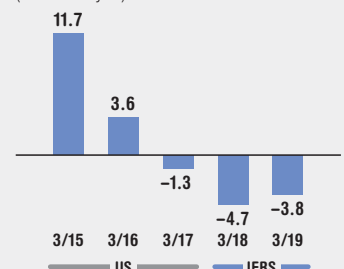
NET SALES

(Billions of yen)



BUSINESS PROFIT

(Billions of yen)



Toward Medium-Term Management Plan 2020 Targets

Continued Progress on Beef Business Improvement Project in Australia

A business improvement project unveiled in fiscal 2018 for Australia beef operations generated an improvement effect of about ¥2.8 billion. Specific measures at farms were to invest in a better fattening environment and promote cattle collection linked to sales. On the production front, efforts were directed toward reinforcing the cattle collection system and building an optimum production system. And pertaining to sales, the project highlighted steps to enhance and promote branding. Going forward, we will constantly push these measures forward and strive to secure stable earnings by setting purchase prices based on simulation-derived sales projections, optimizing and standardizing the number of cattle for processing at each factory, and establishing a business model that does not rely on the number of cattle processed.



Toward a Sustainable Society

Diverse Initiatives in the Fresh Meat Business (Australia)

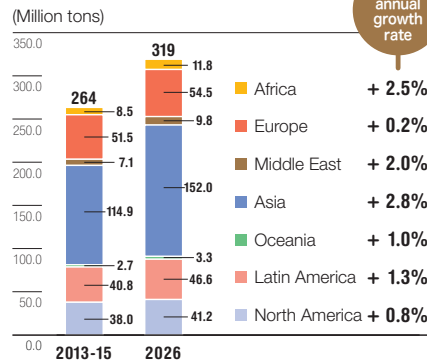
Whyalla Beef Pty. Ltd., which handles the production, breeding, and processing of cattle, reuses the wastewater and cattle manure produced at its facilities to grow grains and grass in its cyclical agriculture initiatives and uses them as raw materials for cattle feed. In order to raise the quality of feed and increase production efficiency, in 2019 it made a start on upgrading and reinforcing the neighboring feed plant. Moreover, Oakey Beef Exports Pty. Ltd. has constructed a world-class sanitary management system that enables the use-by date of refrigerated beef to be extended from the normal 60 days to 100 days at its meat processing plant, and this is contributing to a reduction in food loss.



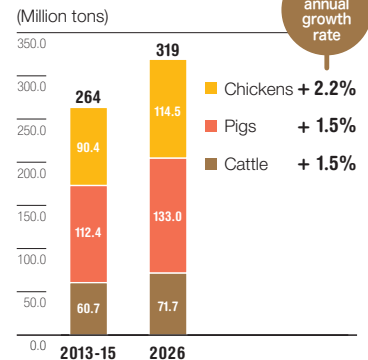
Success in Australia Applied Laterally to BPU in Uruguay

To improve the beef business overall, we will apply the success achieved in Australia to BPU. The objectives will be to stabilize cattle collection by reinforcing procurement linked to sales and to reduce processing and manufacturing costs by strengthening management through the use of key performance indicators. We will also strengthen alliances inside and outside the NH Foods Group and leverage sales measures utilizing advantages afforded by Uruguay production to rebuild the sales strategy for China, which accounts for half of sales.

MEAT CONSUMPTION FORECAST BY REGION



CONSUMPTION FORECAST BY TYPE OF LIVESTOCK



Source: Created from world food supply and demand projections to 2026 by Ministry of Agriculture, Forestry and Fisheries

Ensuring Stable Earnings from Poultry Business in Turkey

Poultry business in Turkey needs to eliminate the impact from the rising cost of imported feed caused by currency depreciation. Toward this end, an investment was made in a feed mill, which went into full-scale production in June 2019. Consumption of chicken in Turkey is brisk, so the emphasis will be on expanding the lineup of value-added products as well as setting targets for each brand and increasing sales volume.



Toward a Sustainable Society

Production of High-Quality, Safe, and Reliable Beef (Uruguay)

Breeders & Packers Uruguay S.A. (BPU) is working together with the producer's group "Producer's Club" to ensure stable procurement of high-quality cattle, while also making progress on developing product brands that were not manufactured using antibiotics or growth hormones. BPU is the only manufacturer in Uruguay to hold both BRC7-AA*1 and FSSC22000*2 certification, and it is also making a contribution to reducing food loss by efforts such as achieving a quality assurance period of 120 days via the management of each stage of the production process from farm to shipment.



Breeders & Packers Uruguay S.A. (BPU)

*1 This certification is a global standard developed by the British Retail Consortium, and is held by more than 18,000 suppliers in 100 countries.

*2 This is a global standard for food safety management developed based on ISO 22000 and other standards by the Foundation for Food Safety Certification in the Netherlands.

Toward Medium-Term Management Plan 2020 Targets

Ensuring Stable Earnings in North America

The issues facing Day-Lee Foods, Inc., which is responsible for business in North America, are procuring raw materials for Japan and improving profitability on processing operations, especially processed chicken products. In fiscal 2018, higher costs due mainly to a change in raw materials led to an increase in overall manufacturing costs despite an improvement in productivity. To cut costs, the company will encourage continuous productivity improvement activities and an appropriate level of reducing labor through facility investment. For product development and sales, the company will reinforce its structure for developing new products and work to ensure stable earnings through a review of sales promotion activities.

Supplying Competitively Superior Raw Materials and Products for Japan

We will draw on the merits of multinational agreements, including TPP and EPAs, to facilitate procurement and supply of fresh meats, processed foods, and marine products for export to Japan from overseas markets. We will also expand the procurement of products, such as pork from Spain and Eastern Europe, that present advantages in terms of price and quality. In addition, we will utilize NH Foods Group points of presence and promote third-country export and sale facilitated by economic partnerships within each region. To make these approaches more effective, we will cultivate our own sales contacts, deepen relationships with partners in each country, and hone our distribution capabilities.

For fiscal 2019, we will budget ¥8.2 billion for capital expenditures to ensure stable earnings. Funds will be earmarked for expansion of the feed factory in Turkey and reinforcing fattening and processing facilities in Australia as well as bringing a processed foods factory into operation in Indonesia.

Business model

Export and sales

Toward a Sustainable Society

Strengthening CSR Activities Overseas (UK)

The NH Foods Group has signed an official partnership agreement with The Liverpool Football Club (LFC), a world-renowned soccer team in the English Premier League. LFC is actively involved in local community support activities, and was searching for partners to help it expand these activities to the Asia/ASEAN region. The Group supports LFC by providing food and funds, thereby leading to stronger CSR activities overseas.



Ceremony at Liverpool FC's home stadium (Anfield)
NH Foods' President Yoshihide Hata (right) and Liverpool FC's CCO Billy Hogan (left)