



Yoshihide Hata

President and Representative Director

The Beginning

The NH Foods Group made a new beginning in 2021 toward realizing sustainability for society and the Group.

The NH Foods Group has grown as a corporate entity and expanded its business domain into new fields and has grown as a corporate entity by providing value that meets changing consumer preferences and fulfilling its corporate mission to provide *Joy of Eating*.

In the Group's rapidly changing business environment, we have announced our Vision2030 corporate ideal of "Unleash new potentials for protein" as a milestone toward fulfilling our corporate philosophy. Toward realizing the vision, we have also identified Five Materialities that will be part of the Medium-Term Management Plans 2023 and 2026.



How was the Vision2030 "Unleash new potentials for protein" decided upon and what is its objective?

Our objective as the largest supplier of protein in Japan is to ensure a stable supply and a variety of food choices for protein.

The growing global population is expected to increase demand for protein by roughly 2.4% annually over the next 25 years. The production of grain for livestock feed, which is a major source of protein in human diets, is projected to increase at an annual rate between 0.9-1.5%, indicating that protein supply will not be able to keep up with demand. At the same time, the livestock industry must also address greenhouse gas emissions from livestock, which means that the sustainability of the livestock farming is directly connected to the stability of protein supply.

The NH Foods Group supplies protein through products ranging from ham, sausages, and fresh meats to processed foods, seafoods, and dairy products. Protein is a nutrient that is essential for life. The corporate mission of *Joy of Eating* expresses the *pleasures of deliciousness* and *joys of health* that food provides, and I believe it is a source of happiness in people's lives. We estimate that the NH Foods Group supplies an average of about 6% of the total protein, including 11% of the animal protein, as well as 24% of the meat consumed by the Japanese population.

As the largest supplier of protein in Japan, the Group wants to

continue fulfilling our mission and use free thinking to go beyond conventional boundaries and expand the possibilities of proteins.

The Group took a step in that direction in March 2020 when it released the *NatuMeat* Soy Meat Series to meet growing consumer demand in recent years for plant-based "alternative meat" sources of protein. We are also looking to continue providing a variety of product choices for protein intake. For people with food allergies, we will continue expanding our menu of non-allergenic product offerings that we introduced in 1996. We will also add to our lineup of foods designed for people with reduced chewing ability to further expand the experience of the *Joy of Eating*.

When we were creating the vision, management spent an extensive amount of time discussing all aspects. I even sent out my own questionnaire to employees to learn their thoughts. Their responses conveyed their commitment to the NH Foods Group's purpose in society and their pride in the Company. Our Vision2030 of "Unleash new potentials for protein" represents the shared objective of all of us in the NH Foods Group.

Please comment on the business performance in fiscal 2020 and the Medium-Term Management Plan 2020.

We executed our strategies and achieved our targets for business profit margin, ROE, and ROIC following our theme of “Building systems that pave the way to the future.”



In fiscal 2020, ended March 2021, which included the impact of the COVID-19 pandemic, consolidated net sales declined 4.4% year on year to ¥1,176,101 million, business profit rose 19.8% to ¥52,426 million, profit before tax increased 80.8% to ¥48,874 million, and profit attributable to owners of the parent increased 69.8% to ¥32,616 million.

The Processed Foods Business recorded a decline in sales of commercial products, but posted higher profits on strong sales of consumer products, including its mainstay *SCHAU ESSEN* brand products. The Fresh Meats Business posted sluggish sales of imported fresh meats, but higher sales of domestically produced chicken and pork, measures to maintain supply volumes, and improved productivity generated profit growth for the year. The Overseas Business recorded sluggish sales in the Asia/Europe and Australia operations, but firm sales in the Americas operations with sales volume growth for both pork exports and processed foods.

We completed the Medium-Term Management Plan 2020 on a high note in fiscal 2020 in numerical terms. After falling short of the financial targets in the plan’s first two years, we gained momentum and achieved our targets for business profit ratio, ROE, and ROIC in the plan’s final year.

We steadily advanced the management strategies and measures

Five Materialities

<p>Stable procurement and supply of proteins</p>	<p>Food diversity and health</p>	<p>Contributing to a sustainable environment</p>	<p>Co-creation and shared prosperity with local communities and society as a whole through food and sports</p>	<p>Employee development and respect for diversity</p>
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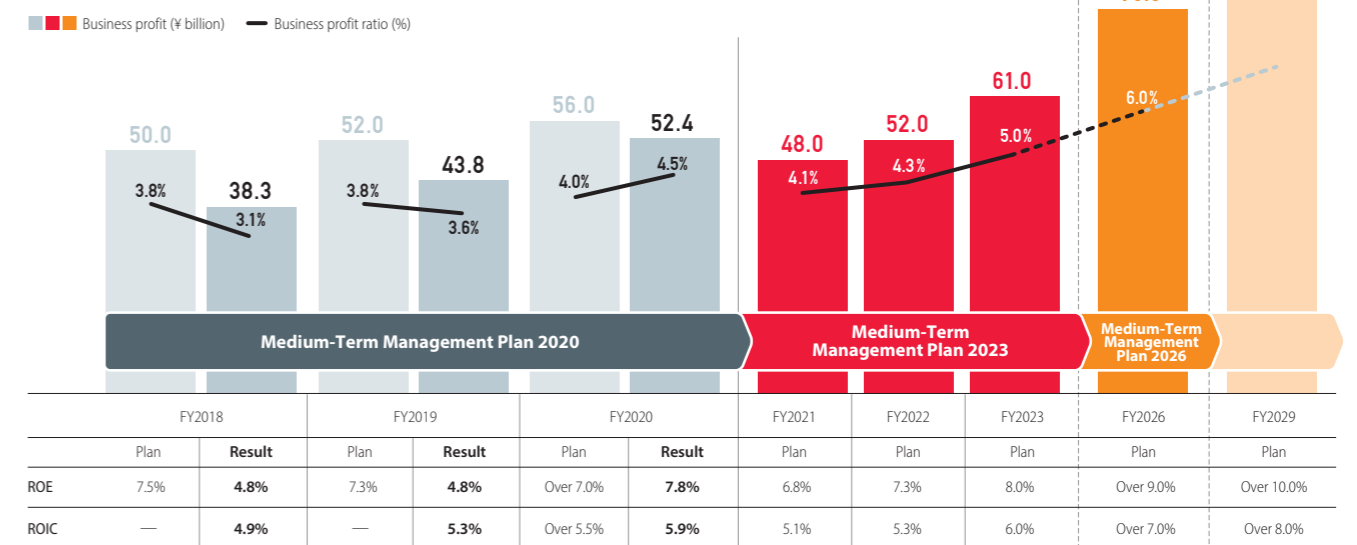
of the Medium-Term Management Plan 2020, which focused on the theme of “Building systems that pave the way to the future.” I was particularly pleased with the progress we made with our specific objective of strengthening profitability by improving the efficiency of existing businesses. The Processed Foods Business achieved its three-year cumulative target for business profit of ¥33.5 billion and the Fresh Meats Business raised its single-year business profit back above ¥40.0 billion. The Overseas Business also showed improved performances for the processed foods businesses in Australia and the Americas (see page 26 for details). We also launched R&D of cultured meat to ensure we continue to fulfill our responsibility to supply animal protein in the future.

One major accomplishment during the year was the Research & Development Center obtaining a patent for the results of its joint research with universities and medical research institutes. The research successfully extracted imidazole dipeptide from chicken tissue and verified that the substance helps maintain and improve memory in the elderly. In the year 2025, it is estimated that one in five people over the age of 65 will have dementia. We plan to develop and introduce functional foods containing imidazole dipeptide to help improve memory in middle-aged and elderly people.

Our pursuit of sustainability included declaring our endorsement in June 2020 of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and becoming a member of the TCFD Consortium. We also joined the Roundtable on Sustainable Palm Oil (RSPO).

At the same time, we recognized that the Group needs to step up its ESG sustainability initiatives which have been too slow to respond to the external environment, so we are once again prioritizing ESG as a point of materiality in the current fiscal year. In accordance with the Vision2030, the new materialities connect addressing social issues to the growth and development of the Group’s business. (See table below)

Medium-Term Management Plan results and future targets



What are the main points of the new Medium-Term Management Plans for 2023 and 2026
We are integrating business strategy and materiality to solve social issues and maximize corporate value.

The Medium-Term Management Plans for 2023 and 2026 will deliver the Group to our Vision2030. The primary objective of the plans is to maximize our corporate value by integrating our business strategies and materiality, solving social issues, and advancing the Group’s growth and development.

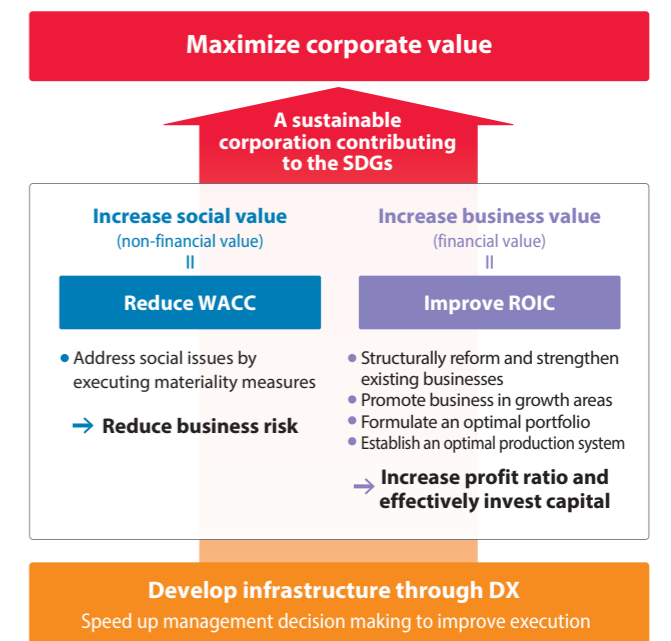
We continue to see ample room for growth in Japan, but additional growth will require reforming and strengthening our existing businesses and increasing our presence overseas and in new markets. I plan to maximize our strengths in these areas.

We will shift to a sustainable business model that will decrease risk and increase opportunity while also enabling us to address issues ranging from climate change to labor shortages. We intend to work diligently to produce results during the six years of the medium-term management plans. During the first three years, we will be laying the foundation for ramping up to the nextstage in the second three years.

The financial targets for Medium-Term Management Plan 2023, which concludes with fiscal 2023 ending in March 2024, are for net sales of ¥1,220 billion and business profit of ¥61 billion with a business profit ratio of 5.0%, ROE of 8.0%, and ROIC of 6.0%. The targets for Medium-Term Management Plan 2026, which concludes with fiscal 2026 ending in March 2027, are for net sales of ¥1,320 billion and business profit of ¥79 billion with a

business profit ratio of 6.0%, ROE above 9.0%, and ROIC above 7.0%. In fiscal 2029, we aim to have raised ROIC above 8.0% and ROE above 10.0%.

Measures to maximize corporate value



What are the management objectives and strategies of Medium-Term Management Plan 2023? Under Medium-Term Management Plan 2023, we will establish an optimal portfolio while continuing our business growth and development.

The management objectives in the Medium-Term Management Plan 2023 are to execute three business strategies and one functional strategy. In addition to the plan's strategies, management will also be implementing various cross-departmental promotion strategies to maximize group strength.

Under the plan's strategy to "shift to a profitable and sustainable business model," the Processed Foods Business will strengthen its current business areas and expand into new fields while also improving the productivity of its manufacturing plants. Additionally, the Fresh Meats Business will fortify its procurement and sales capabilities to elevate its profit base. We will also implement Company-wide initiatives to raise ROIC by increasing the sales turnover rate in relation to invested capital, which will enable us to construct the optimal production structure and business portfolio for growth and development. Each business will use ROIC trees and management based on KPI to ensure the measures are effective.

By maximizing cash flow, raising our social value by acting on our materialities, and lowering business risk to minimize WACC, we aim to widen the ROIC spread and thereby raise our corporate value.

The plan's strategy to construct a growth model for Overseas Business consists of stabilizing the profits of existing businesses to fortify the business base, expanding the Processed Foods

Business in the United States and ASEAN, and applying growth strategies focused on areas with business potential.

The third strategy to offer new value through new products and services will seek to reach new customer bases by creating new entertainment, ethical, and wellness businesses and developing direct-to-consumer (D2C) operations. The baseball operation, which has been operated primarily as a promotional activity, will be formed into the Baseball Club Business, which will be operated as a profit-generating operation.

The plan's functional strategy is to strengthen our corporate functions to enable us to realize the Vision2030. We will fortify our R&D and human resource management by integrating DX to improve the efficiency of existing operations, raise productivity, and build a new business model.

Digitalization will enhance the efficiency and productivity of existing operations, which will reduce operating costs and enhance our data-based decision-making.

The new business model we are formulating will use our digital technologies to provide services for customers and business partners. The new model will also facilitate R&D leading to new businesses, such as research into alternative proteins and the commercialization of smart pig farming. We are budgeting ¥15.7

billion for DX investment over the next three years. While this is an upfront investment, we expect the ¥7 billion investment in fiscal 2026 to generate a return of ¥8 billion. In Medium-Term Management Plan 2023, we have set a total capital investment budget of ¥248 billion, which will primarily be used to fortify our business foundation and for the shift to a sustainable business model. Medium-Term Management Plan 2026 has a capital investment budget of ¥148 billion, which we project will be accompanied by a substantial increase in free cash flow from ¥25 billion in the first year to ¥161 billion in fiscal 2026.

The cross-departmental promotion strategies include a cross-business strategy related to the management policies of shifting to a sustainable business model and growing overseas business that will make maximum use of each business division's

management assets to fortify the Group's comprehensive strength. The Hokkaido Project is a development project designed to increase corporate value centered on the Hokkaido Nippon-Ham Fighters baseball team and Hokkaido Ballpark F Village. The corporate communication strategy aims to improve our relations with investors, shareholders, the public, and employees, and is part of the management strategy to strengthen corporate functions.

These strategies will require a rock-solid management base, which we will provide by maintaining our "quality-first management." Key to this is continuing to receive the objective and specialized opinions of our outside directors based on their various backgrounds. Our efforts in this area are leading to more open exchange of opinions and viewpoints, which are enabling much more meaningful discussions.

What is your perspective on the harsh criticism of the livestock industry?

I take the criticism very seriously and am seeking to establish sustainable livestock farming methods.

We are very conscious of the environmental issues and animal welfare issues associated with the livestock industry, and I take them very seriously.

The NH Foods Group's main businesses are raising and processing pigs and chicken in Japan and cattle in Australia.

The livestock industry has been estimated to be responsible for 14.5% of greenhouse gas emissions (GHG), with cattle accounting for most of the emissions. We are accordingly implementing measures to reduce emissions from our cattle livestock. We are also taking steps to reduce water consumption in Australia, which has higher water risk than Japan. In addition, we are seeking to reduce the environmental impact of livestock operations by enhancing livestock productivity, particularly by improving the feed conversion ratio, or

the efficiency which livestock convert animal feed into growth.

These are critical environmental issues for the Group. To reduce the associated risks, we have set new, stricter medium- and long-term environmental targets in areas including reduction of GHG emissions and assessment and response to water risk.

In addition to environmental issues, the smart pig farming we are developing also addresses the social issues of the shortage of successors in the livestock industry and the transfer of technology.

Smart farming is already being tested at two pig farms Shiretoko and South Hokkaido, where the growth status of the pigs is monitored 24 hours a day, and AI image analysis is used to monitor health status and signs of estrus.

What message would you like to convey to stakeholders?

Steadily implementing our strategies will enable us to better fulfill our mission as a food company.

With Vision2030 and Medium-Term Management Plan 2023, the Group is embarking on a new start with fully integrated business and sustainability strategies that will lead to business growth and the solutions to social issues.

We will continue working to our strength of providing a stable supply of protein and safe and secure foods backed by our quality-first management so consumers can have abundant choices of flavorful foods to experience the *Joy of Eating*. I believe these efforts will make the NH Foods Group loved, respected, and preferred, which will lead to rising corporate value.

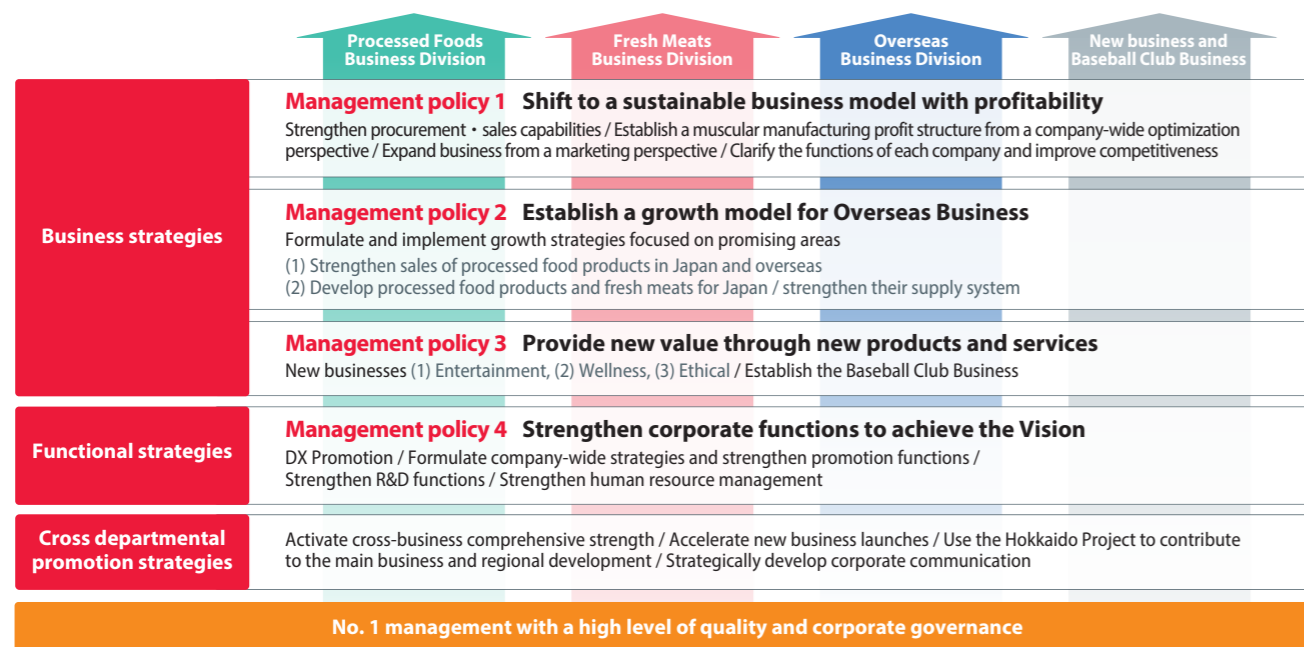
The COVID-19 pandemic caused dramatic changes in society in 2020.

As a food company, the Group has a social mission to provide a stable supply of safe and secure products and services, and we recognize that we have the ability to maintain an uninterrupted supply chain that allows us to fulfill our responsibility. We have still not reached the end of the pandemic, and we will continue to fulfill our responsibility to ensure the health and safety of Group employees.

I look forward to the unwavering support of our shareholders and investors as we forge the future of the NH Foods Group.

Yoshihide Hata
President and Representative Director

Medium-Term Management Plan 2023, Three Business Strategies and Four Management Policies



VALUE CREATION

Sharing the *Joy of Eating* through the pursuit of improvement in social value and business value

External environment
(risks and opportunities)
→ P. 21

- Changes in food demand due to Japan's falling birthrate and demographic aging
- Changes in the supply-demand balance for food driven by global population growth
- Intensification of competition with other companies as trade agreements come into force
- Environmental risks, including climate change risks and water risks

Utilization of capital

Financial capital
Total equity attributable to owners of the parent ratio **52.5%**
Cash flows from operating activities **¥82.5billion**
Capital expenditure **¥82.9billion**

Manufacturing capital
Manufacturing sites **94**
(Domestic: 72 Overseas: 22)

Human capital
Number of employees **29,390**
(Japan: 22,615 Overseas: 6,775)

Quality assurance personnel **1,144 people**

Vertical integration system

Intellectual capital
R&D expenditures **¥3.2billion**

Social related capital
Sales bases **313 locations**
(Japan: 279 Overseas: 34)
Consumer Delegate Committee, in service for **50 years**
Brand power reflected in **No. 1 market share**

Natural capital
Farms **157**
(Japan: 126 Overseas: 31)

No. 1 management with a high level of quality and corporate governance

Business activities

Medium-Term Management Plan 2023 → P. 25

- Strengthen profitability by improving the efficiency of existing businesses**
Strive to improve ROIC by promoting structural reforms and strengthening existing businesses
- Pursue sustainability**
Promote a shift to a business model that reduces risks and expands opportunities, while responding to social issues
Shift to a sustainable business model with profitability
- Business development in growth areas**
Expand into growth areas by building on our history and the strengths of our existing businesses

Our founding strengths → P. 19

- Procurement and production networks that support safe, secure, and reliable supply
- Developing products from a customer perspective
- Nationwide sales and distribution network
- Strong supply capacity and advanced processing technology reflected in high market share
- Management commitment to leadership in quality backed by highly effective quality assurance structures

Business Segments → P. 37



Processed Foods Business Division



Fresh Meats Business Division



Overseas Business Division

Social priorities target for action
→ P. 21



Stable procurement and supply of proteins



Food diversity and health



Contributing to a sustainable environment



Co-creation and shared prosperity with local communities and society as a whole through food and sports

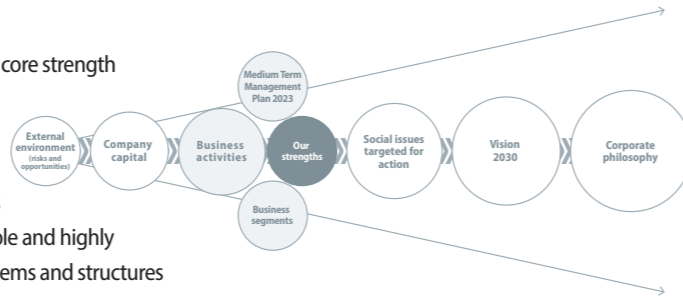


Employee development and respect for diversity



Creating our own supply chains to support value creation

Supply chains capable of reliably delivering protein, the driving force for life, are a core strength for the NH Foods Group and the source of our ability to create value. Our global procurement and production structures, our nationwide sales network, and our quality control systems ensure reliable supplies of safe, dependable products. Our product development and processing capabilities allow us to create delicious new processed foods, while in the fresh meat category we have built a dependable and highly efficient production structure based on our vertical integration system. These systems and structures enable the NH Food Group to supply products that precisely match market needs.



Strengths of Value Creation Developing products from a customer perspective



1985 Wiener sausages start to become a familiar part of Japanese food culture.



1994 NH Foods Ltd. offers new cooking styles in response to changes in lifestyle culture.



1998 NH Foods Ltd. develops the chilled pizza market for lovers of authentic pizza.

Information obtained by listening to consumer input and monitoring dietary and lifestyle changes is used to develop and enhance processed and cooked products, such as ham and sausages, as well as dairy products and seafood. One of our priorities is the development of allergen-free products. We are also working to create products with user-friendly functional characteristics, such as convenience and easy storage.

The Consumer Delegate Committee System

We established this unique monitoring system in 1969 to obtain input from consumers. The Committee consists of women in their 20s or older with an interest in food. Selected from among applicants who respond to public advertisements, they provide input that is used to improve and develop products.

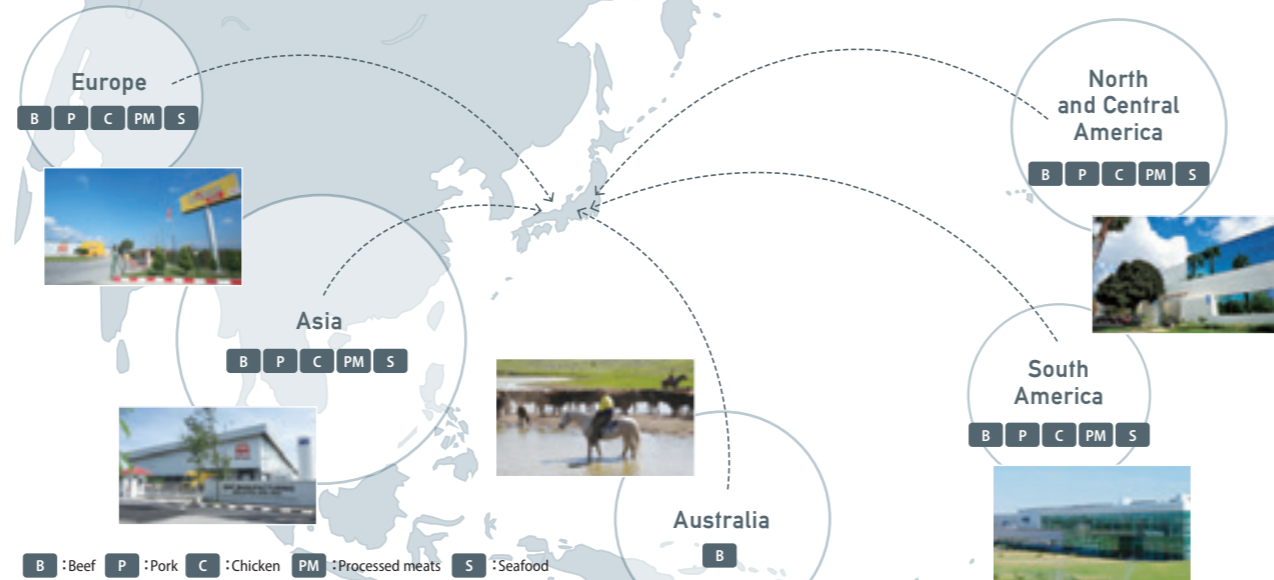
The NH Foods Group value chain



Strengths of Value Creation Procurement and production networks that support safe, secure, and reliable supply

Through the 1970s, we progressively expanded into chicken and pig farming in Japan. We continued to expand these operations, and in the 1990s we strengthened our integration in Japan by absorbing processing companies. In 1988, we launched a cattle breeding business in Australia, and in April 2015, we began to develop chicken farming in Turkey. Our production and breeding operations in Japan and overseas enable us to maintain reliable supplies of meats. We operate 126 farms in Japan and 31 overseas.

We have further enhanced our ability to sell and supply fresh meats and processed foods reliably by establishing procurement channels outside of the group. As part of our efforts to reduce costs and develop original standard products, we are strengthening our strategic partnerships with overseas meat packers.



B : Beef P : Pork C : Chicken PM : Processed meats S : Seafood

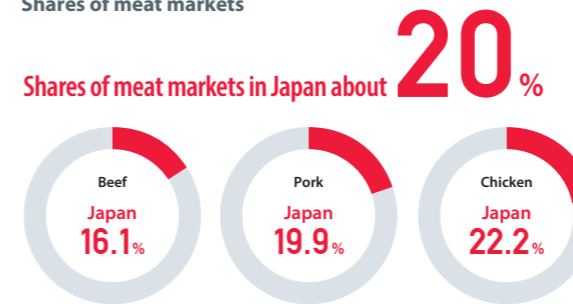
Strengths of Value Creation

Strong supply capacity and advanced processing technology reflected in high market share

The NH Foods Group manufactures ham, sausages, processed foods, processed seafood products, lactic acid probiotic beverages, dairy products, and other items at 94 production facilities in Japan and overseas. In the fresh meats category, our involvement in the breeding and production of pork and chicken in Japan enables us to supply high-quality branded meats and other products reliably, and we have built a market share of around 20%. Many of our processed foods are number one in their categories thanks to our nation-wide supply structures.

We maintain comprehensive quality management systems at our manufacturing facilities, including certification under external standards.

Shares of meat markets

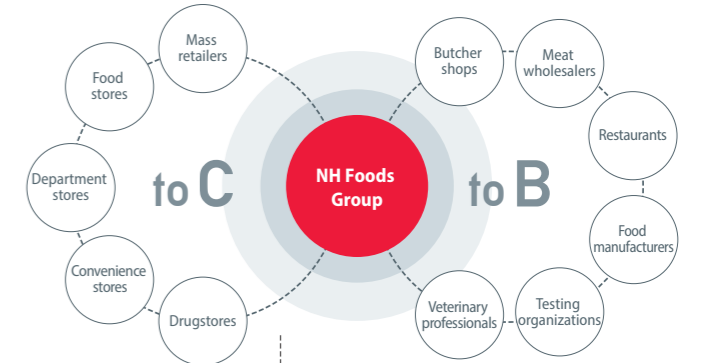


Note: Based on research carried out by NH Foods Ltd. in March 2021

Strengths of Value Creation

Nationwide sales and distribution network

We maintain highly responsive and flexible supply structures based on a nationwide network of sales offices with direct links to our manufacturing sites. The distribution business of the Fresh Meats Business Division is carried out by Nippon Logistics Center, Inc., which has some of Japan's largest refrigerated and frozen storage facilities in Kanto and Kansai regions, and Nippon Chilled Logistics, Inc., which delivers products to sales companies across Japan. For the Processed Foods Business Division's distribution business, Nippon Daily Net Co., Ltd. handles storage operations, while delivery operations are carried out by Nippon Route Service Co., Ltd. Our integrated strengths, including our logistics and sales networks, are helping to strengthen relationships with suppliers and enhance our market competitiveness.



Strengths of Value Creation Management commitment to leadership in quality backed by highly effective quality assurance structures

We ensure the safety of the products that we supply through safety assessments, quality audits, and safety inspections. Safety assessments begin before the product development stage with the assessment of raw materials. We also assess products for compliance with regulatory requirements relating to labeling and standards. Quality audits involve extensive checking of quality-related items at production sites, manufacturing plants, and sales offices in Japan and overseas to ensure that raw materials and products are produced in appropriate environments under effective quality assurance systems. Safety inspections involve the analysis of raw materials and products to detect chemical residues, microbes, and allergens. Human resource development is also vital to the effectiveness of our quality assurance structure. That is why we provide our employees with training and educational opportunities.

Number of quality assurance managers

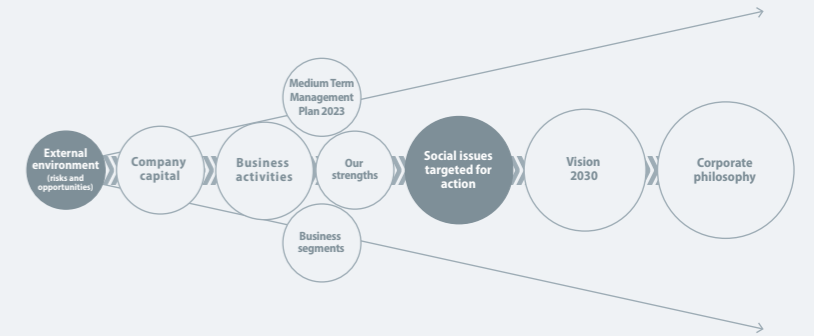
Total **1,144** (As of March 31, 2021)

Confirming the safety of ingredients before and during commercialization of products and checking and assessing product labeling and specifications



Confirming and evaluating appropriate product manufacturing environments

Inspection system for products and ingredients



The NH Foods Group is working toward social and business sustainability through actions targeting both risks and opportunities.

The world faces a wide range of social issues, including world population growth and climate change. We have identified five key material issues as priority areas for efforts by the NH Foods Group to realize its Vision2030 by contributing to the solution of social issues.

The NH Foods Group aims to achieve sustainable growth by effectively identifying and responding to risks and opportunities.

Main risks and opportunities that could affect the business operations of the NH Foods Group

Risks and background factors

Consumer trends	Changes in food demand due to Japan's falling birthrate and demographic aging	By 2030 Japan's population will decline by 5.3% from the 2019 level to 119.12 million.*1
Price trends	Changes in the supply-demand balance for food driven by global population growth	By 2030, world population will increase by 10.4% over the 2019 level to 8.5 billion.*2 By 2030, world demand for animal protein will be 1.5 times higher than the 2000 level.*3
	Intensification of competition with other companies as trade agreements come into force	Impact of fluctuations in livestock prices, feed prices, and the oil price on sales prices and procurement prices Establishment of safeguards against livestock diseases
Environment-related	Environmental risks, including climate change risks and water risks	Livestock responsible for 14.5% of greenhouse gas emissions *4 Call for 46% reduction at a summit conference hosted by the United States (compared to FY 2013)
		55% increase in world water demand by 2050 compared with the 2000 level *5
Quality-related	Food safety risks	Product recall costs, claims for damages, suspension of business operations due to product quality or safety problems caused by contamination or incorrect labeling

Opportunities and background factors

Consumer trends	Diversification of food needs due to lifestyle diversification	Increasing health awareness, increased demand for convenient and time-saving products, spread of new value systems, such as Veganism, focus on eating as an experience	
Production and breeding-related	Decrease in the number of domestic livestock farmers*6	Cattle	Change from 2020: -4.1% (42,100 households)
		Pigs	Change from 2020: -10.9% (3,850 households)
		Broilers	Change from 2020: -4.0% (2,160 households)
Employees	Increasing focus on work style modification	Enactment of Work Style Reform Bill in 2018	

*1 National Institute of Population and Social Security Research, *Nihon no shorai suikei jinko shusseki chui* (Estimates of Japan's future population and average birthrate) (2017 estimates)

*2 United Nations "World Population Prospects 2019" *3 Planbureau voor de Leefomgeving (PBL), *The Protein Puzzle*

*4 Food and Agriculture Organization of the United Nations, *Tackling Climate Change Through Livestock* (2005 estimates)

*5 OECD statistics "OECD Environmental Outlook to 2050" *6 Ministry of agriculture, Forestry and Fisheries, *Chikusan tokei* (Livestock statistics as of February 1, 2021)

Defining the materiality

The Environment / Society (ES) Subcommittee was established in 2020 as a subordinate organization of the Sustainability Committee and commenced a study concerning the formulation of the Materiality in May of that year. This process involved the evaluation and exploration of issues from the perspectives of the company and its stakeholders. The Subcommittee also considered international trends and social expectations toward various initiatives.



Identifying, organizing, and extracting evaluation targets

We used various guidelines to identify 233 social issues as targets for assessment. We narrowed this list down to 36 items through two screening processes.



Evaluation of materiality

We next surveyed customers, suppliers, shareholders, investors, and employees about the 36 items selected at Step 1, which were also discussed at hearings with independent experts and corporate officers.



Validity evaluation

The Materiality drafts created at Step 2 were next discussed with stakeholders. A draft was selected through suitability assessments and exchanges of views.



Identifying the materiality and defining measures and indicators

The five Material Issues were confirmed at a meeting of the Corporate Governance Committee and Board of Directors. This was followed by the consideration and adoption of measures and indicators for the realization of the Materiality.

Identifying the materiality

We identified the five material issues for the NH Foods Group as areas suitable for prioritized efforts based on the Group's strengths. Our aim is to maximize corporate value through an integrated approach to the realization of business strategies and the solution of social issues.

- Stable procurement and supply of proteins**
- Food diversification and health**
- Contributing to a sustainable environment**
- Co-creation and shared prosperity with local communities and society as a whole through food and sports**
- Employee development and respect for diversity**

Materiality (material issues)	Philosophy	Social issues	Main indicators and policies	SDG areas selected for contribution
 <p>Stable procurement and supply of proteins</p>	<p>Global population growth, climate change, and other factors are expected to make it increasingly difficult to supply proteins. The NH Foods Group aims to ensure the stable procurement and supply of proteins. In addition to existing quality-related safety and reliability initiatives, we will advance efforts to supply diverse proteins through consideration for the environment and social aspects such as human rights and animal welfare in our supply chains.</p>	<ul style="list-style-type: none"> • Stable procurement and supply of proteins • Greater choice of protein • Food safety and reliability 	<ul style="list-style-type: none"> • Improving protein intake as a power of life (in Japan) • Control of livestock diseases • Promote CSR procurement (by FY2030, inform important primary suppliers of policies and have 100% SAQ^{*1} implementation, disseminate policies to important secondary suppliers and implement SAQ) • Due diligence on suppliers regarding human rights • Promote initiatives that take animal welfare into consideration • Develop and utilize new technologies such as smart livestock farming • Expand sales of plant-derived protein products (FY2030 shipment amount: 10 billion yen) • Develop alternative meat technologies • Promote acquisition of third-party certification (FSSC22000, SQF, BRC, JFS, etc.) • Human resource development through specialized technical certification and other training 	
 <p>Food diversity and health</p>	<p>Changes in lifestyle and other factors are leading to the need for diverse solutions in the area of food as well. The NH Foods Group will contribute to a happy and healthy life by developing products and providing services that meet diverse needs.</p>	<ul style="list-style-type: none"> • Food allergy support • Health promotion • Food diversification 	<ul style="list-style-type: none"> • Expansion of and enlightenment regarding food allergy-related products (FY2030 shipment amount: 4 billion yen) • Research and disseminate information on food allergies • Research and commercialization of new ingredients to improve cognitive function (supply equivalent of 3 million meals a year by FY2026) • Develop products that contribute to health • Disseminate information on extending healthy life expectancy • Develop and sell products that respond to a diverse range of cultures, religions, etc. 	
 <p>Contributing to a sustainable environment</p>	<p>We face various environmental issues such as climate change, food loss, and marine plastic litter. The NH Foods Group's businesses involve bringing our customers the bounty of nature, and we are determined to help solve issues such as greenhouse gases, food loss, and plastics throughout the value chain.</p>	<ul style="list-style-type: none"> • Responding to climate change • Resource saving and recycling • Addressing biodiversity 	<ul style="list-style-type: none"> • Reduce CO₂ emissions from fossil fuels by at least 46% by FY2030 (compared to FY2013)^{*2} • Promote research and technological development to control and reduce greenhouse gases derived from livestock • Reduce water consumption by 5% by FY2030 (compared to FY2019: Basic unit per production quantity)^{*2} • Reduce waste emissions by 5% by FY2030 (compared to FY2019: Basic unit per production quantity)^{*2} • Achieve a waste recycling rate of at least 92% by FY2030^{*2} • Use environmentally-friendly materials (recycled materials, biomass materials, etc.) and reduce the amount of packaging materials used • Identify areas with high water risks, survey actual conditions in the area and respond to issues • Promote the reduction of food loss from manufacturing, sales, and distribution • 100% use of RSPO-certified palm oil by FY2030 (including Books & Claims) • Increase in certified products for sustainable fishery resources (MSC/ASC) • Promote forest conservation activities 	
 <p>Co-creation and shared prosperity with local communities and society as a whole through food and sports</p>	<p>As a good corporate citizen, the NH Foods Group aims to be an enterprise loved and trusted by local communities and society as a whole, as we walk and grow together, deepening ties formed through food and sports.</p>	<ul style="list-style-type: none"> • Local community development 	<ul style="list-style-type: none"> • Promote activities for co-creation with local communities through sports (new HOKKAIDO BALLPARK, sports/food education classes, etc.) • Promote community contribution activities, including cultural activities (cooperation and clean-up activities for local events, etc.) • Promote social welfare activities through food (supplying food to food banks and "Kodomo Shokudo", etc.) • Support fostering the next generation through food and dietary education, etc. (in-class lessons, career development support, etc.) 	
 <p>Employee development and respect for diversity</p>	<p>The NH Foods Group aims to be a place where employees can feel truly happy and fulfilled. Based on a deep respect for individuals, we strive to create workplaces where employees can thrive and demonstrate their unique strengths.</p>	<ul style="list-style-type: none"> • Enhancing job satisfaction for employees • Respect for diversity 	<ul style="list-style-type: none"> • Support for job satisfaction • Foster a corporate culture that encourages employees to take on challenges • Improve expertise and management capabilities through education and training • Initiatives for fair evaluation and compensation • Promote the right person in the right place by transfer and assignment • Support for career autonomy • Promote active participation by women • Promote support initiatives for childcare, nursing care, persons with disabilities, etc. • Reduce total working hours • Promote a diverse range of working styles • Further strengthen the health management system • Further promote the eradication of labor accidents • Education regarding human rights policies and establishment of human rights due diligence system 	

*1 SAQ = Self-Assessment Questionnaire. *2 Medium-term environmental targets are for Japan only.

Realizing Vision 2030

Our Vision2030 corporate ideal of “Unleash new potentials for protein” aims to maximize corporate value by using our business activities to solve the social issue of protein availability. The Medium-Term Management Plans 2023 and 2026 frame our medium-to-long-term management strategies to realize our vision by leveraging the capital and strengths that are the sources of the Group’s value creation and combine our materialities and business strategies. The objectives of the plans are to contribute to realizing a sustainable society and advance the Group’s business growth and development.



Review of Medium-Term Management Plan 2020

Medium-Term Management Plan 2020 Achievements

Increase existing businesses efficiency to boost profitability	Processed Foods Business Division	<ul style="list-style-type: none"> Achieved the initial target for ¥33.5 billion in three-year total business profit with the prior unintegrated Processed Foods Business Division Expanded sales of highly profitable consumer products by expanding core brands
	Fresh Meats Business Division	<ul style="list-style-type: none"> Expanded the production structure despite some impact on the chicken market after Medium-Term Management Plan 2020 Increased profitability by expanding sales of highly profitable meat brands Raised business profit back above ¥40.0 billion despite the coronavirus pandemic by responding to increased demand in high-volume retailer channels
	Company-wide	<ul style="list-style-type: none"> Net sales and invested capital turnover fell short of plan
Expand overseas sales early	Overseas Business Division	<ul style="list-style-type: none"> Realized positive effects from internal improvements in the Australia Business and Processed Foods Business in the Americas Growth in Processed Foods Business in the Americas
Create value through dialog with consumers		<ul style="list-style-type: none"> Enhanced product development and sales promotion capabilities by using big data analysis to create the “future dining market forecast”
Enhance and develop technological capabilities for conceptualizing and realizing the future of food		<ul style="list-style-type: none"> Conducted research to fulfill our responsibility to supply animal protein in future society <ul style="list-style-type: none"> Started the smart pig farming project Entered the domestic meatless (alternative meat) market Started research and development of cultured meat Patented imidazole dipeptide
Pursue sustainability		<ul style="list-style-type: none"> Implemented initiatives to solve social issues through business activities <ul style="list-style-type: none"> Endorsed the recommendations of TCFD Joined RSPO Engaged in CSR procurement

Execute strategies to establish a launching pad for the future Pursue the optimal portfolio to boost profitability and productivity

We steadily advanced the management strategies and policies in the Medium-Term Management Plan 2020, which were aimed at “Building systems that pave the way to the future.” These efforts made our business operations more profitable. At the same time, we recognized that we still need to be more responsive to the external environment and improve our execution abilities.

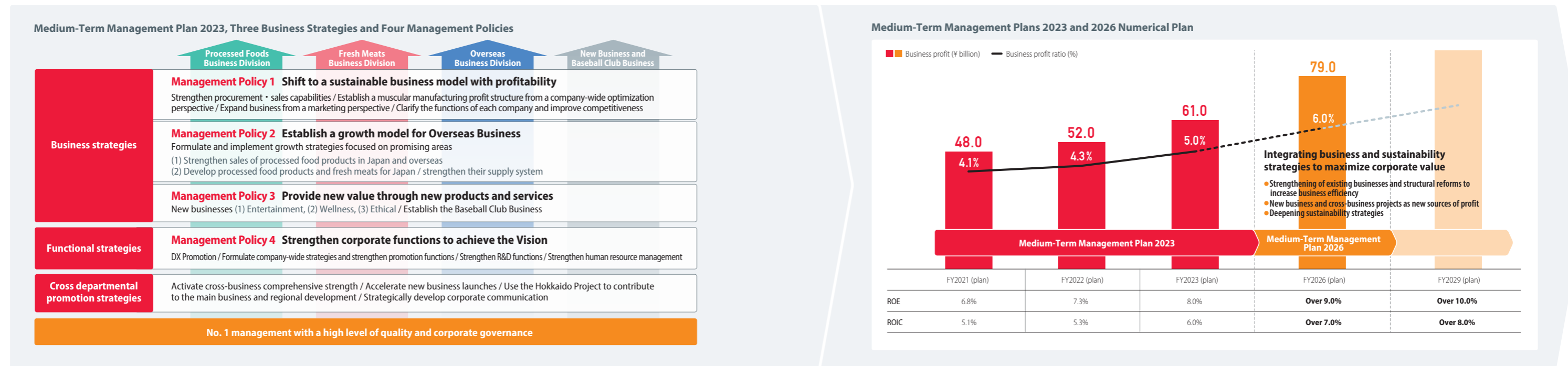
The Processed Foods Business Division’s strategies to “Strengthen profitability by improving the efficiency of existing businesses” increased profitability, primarily through expanded sales of its core brands, and generated synergy effects from integration with the Affiliated Business Division. Key themes from this point are to reap the effects of the six new integrated projects, revise the sales structure, and concentrate on its areas of strength. The Fresh Meats Business Division augmented and stabilized its logistics capabilities by expanding its production structure, which it achieved by revamping aging facilities in upstream operations and setting up distribution transfer bases. The division is now taking steps to minimize the impact from market fluctuations by seeking to expand sales of its high-margin fresh meat brands, advancing a multiple channel strategy so it can respond more quickly to changes in the external environment, and increasing the productivity of its manufacturing operations.

The Overseas Business Division’s measures to “Expand overseas sales early” included internal improvements in the processed foods business in the Australia and Americas operations that produced tangible results, including increased processed food sales in the Americas. The division is now focusing on reexamining its regions for potential growth, improving fresh meats business earnings in Uruguay, and boosting sales in its local and third-country markets to increase overall sales.

During the year, we launched R&D activities for cultured alternative protein products as part of the strategy to “Enhance and develop technological capabilities for conceptualizing and realizing the future of food.” We also advanced smart pig farming using AI camera analysis to the point that it is very close to not requiring human assistance, bringing it very close to practical application, which will increase productivity in the domestic livestock industry. In addition, we obtained a patent for imidazole dipeptide, which is primarily derived from chicken breast tissue and is currently used as a supplement for fatigue recovery. The substance also shows promise for improving memory, and we are aiming to quickly develop related products.

Under the plan’s strategy to “Pursue sustainability,” we endorsed and joined several international initiatives, including the Task Force on Climate-related Financial Disclosures. We also took steps to strengthen our business foundation that included setting new human resource evaluation and training indicators and fortifying corporate governance.

Overview of Medium-Term Management Plans 2023 and 2026



Solving social issues and maximizing corporate value to realize our Vision2030 corporate ideal

The Medium-Term Management Plans 2023 and 2026 launched in fiscal 2021 provide a roadmap for the next six years and were formulated based on our performance under the previous Medium-Term Management Plan 2020 and the changes in the external business environment. The objectives are to advance the structural reform and strengthening of existing businesses and to pursue the optimal business portfolio based on ROIC. The primary methods for achieving the objectives will be by strengthening our KPI management and bringing about our digital transformation (DX).

We are combining our materialities and our business strategies to maximize corporate value by solving social issues and growing and developing the Group.

Management Policy 1

Shift to a sustainable business model with profitability

We will further enhance the NH Foods Group's strengths in procurement and sales capabilities, create a manufacturing profit structure from the perspective of overall optimization, and expand our business through marketing.

The Processed Foods Business Division will focus on existing business expansion and brand development and strengthening its marketing capabilities to foster hit products. Manufacturing process productivity will be

improved, product domains will be expanded (into extract seasonings, soy meat, room-temperature products) and synergy effects will be pursued by integrating seafood, dairy, extract, and primary meat processing products.

The Fresh Meats Business Division will continue strengthening collaborations and alliances outside the Group in each livestock category and will concentrate investment in fields where growth is expected. The division will also increase the overall resilience of its business model, such as by fortifying its upstream production businesses and renovating facilities at its food packers. Specific measures will be taken to improve productivity and reduce costs in upstream pig and chicken operations as well as to expand sales of fresh meat brands, increase sales channels, and enhance its marketing capabilities.

Management Policy 2

Establish a growth model for Overseas Business

Sales of processed products in the United States and ASEAN countries will be built into earnings sources to complement Australian sales. Efforts to limit profit decline in the beef business will continue and steps, including M&A, will be pursued to expand business.

We will build on the strong reception in the United States market for the new *Nature's Fresh* brand featuring Australian beef to expand sales of the high value-added products in Australia and Uruguay. The strengths of the

processed foods business in Japan will be used to boost sales of processed products in the Americas, Asia, and Europe. Overseas Business Division will narrow its focus to growth fields and regions and will use the strengths of existing businesses to drive business expansion into new business domains.

Management Policy 3

Provide new value through new products and services

We will expand the Group's overall business by establishing an Entertainment Business, Wellness Business, and Ethical Business, broadening our direct-to-consumer business to new customer segments, and integrating consumer data to enhance our existing businesses.

In addition, we will continue advancing the Hokkaido Project and seek to generate profit of the Baseball Club Business.

Management Policy 4

Strengthen corporate functions to achieve the Vision

We will strengthen R&D and human resources management, primarily through digital transformation.

Research and development will be strengthened by tying it to the Vision2030. Research findings will be productized, such as using the patents received for imidazole dipeptide to strengthen the health food and

materials business and developing alternative proteins, to differentiate our products and boost our earning power.

Human resources management will be strengthened by creating a structure with the themes of pursuing challenges and a sense of growth, balanced abilities and duties, and self-directed careers. For the first two, we will encourage free and open exchange of opinions and ideas. We will assist employees in their self-directed careers by supporting their efforts for personal growth. We will also take steps to cultivate human resources.

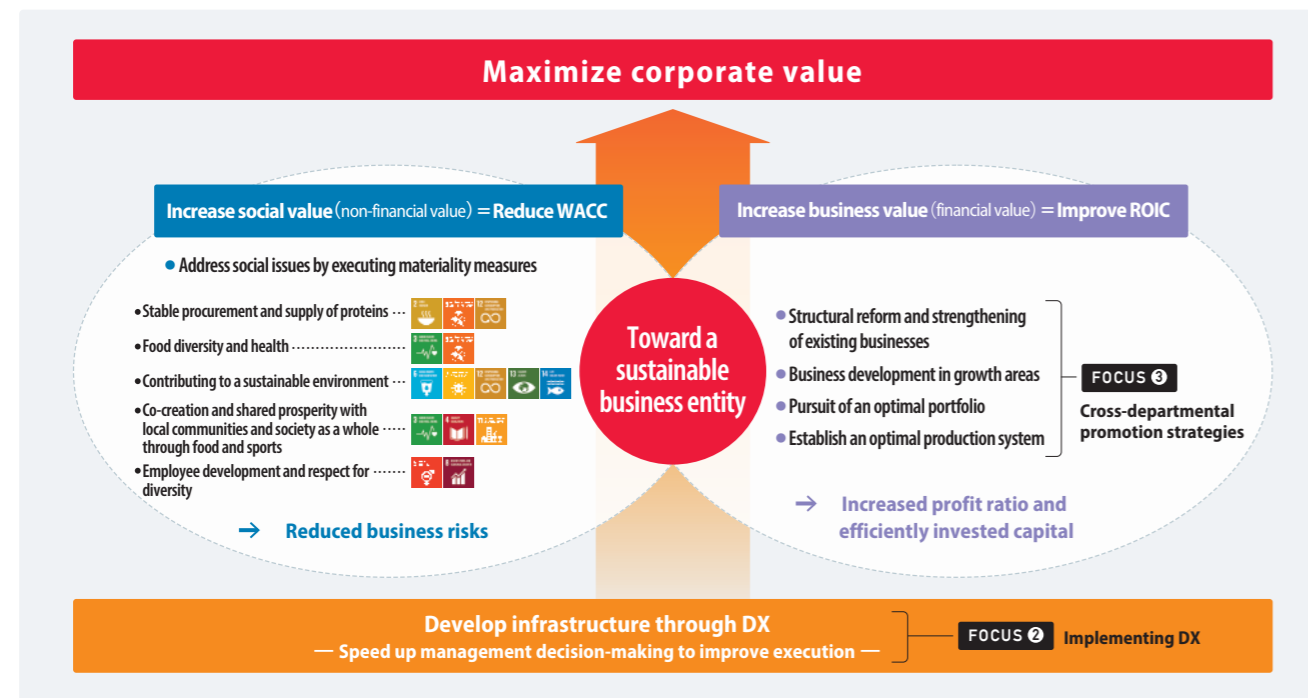
Strengthening the corporate foundation

No. 1 management with a high level of quality and corporate governance

We remain committed to quality-first management and will build a quality assurance structure and human resource development system capable of fully handling our business expansion.

Corporate governance will be improved by planning and executing medium- and long-term strategies related to the five materialities set in the Medium-Term Management Plan. We have also revised the Basic Policy and made it a fundamental principle to not maintain strategically held shares. In addition, we will strengthen the new Group auditing and internal control functions with the new Group Audit & Supervisory Board Members' Office and by establishing an appropriate corporate auditing structure, including an Audit & Supervisory Board.

FOCUS 1 Shifting to sustainable business model



Maximize corporate value by solving social issues and promoting group growth and development

In Medium-Term Management Plan 2023, we plan to raise ROIC through “Structural reform and strengthening of existing businesses,” “Business development in growth areas,” and “Pursuit of an optimal portfolio,” and “Establishment of an optimal production system.” At the same time, we will address social issues by executing materiality measures to reduce business risks and minimize WACC.

Structural reform and strengthening of existing businesses in the Processed Foods Business Division began in April 2020 with its organizational restructuring to maximize synergies. The Fresh Meats Business Division will externalize its domestic beef assets, and the Overseas Business Division will implement measures to reduce overall earnings volatility.

Business development in growth areas will be achieved by growing the Overseas Business Division and expanding into new regions. The division will also create new revenue sources by focusing on specific growth fields and regions and adding processed products to its sales lines. We are also leveraging the strengths of our existing businesses to create new value for ventures into new business domains.

These strategies will be cross-departmental and will seek to make maximum use of each division’s management capital from an all-company perspective and for overall optimization with the aim of

creating an optimal business portfolio and optimal production system.

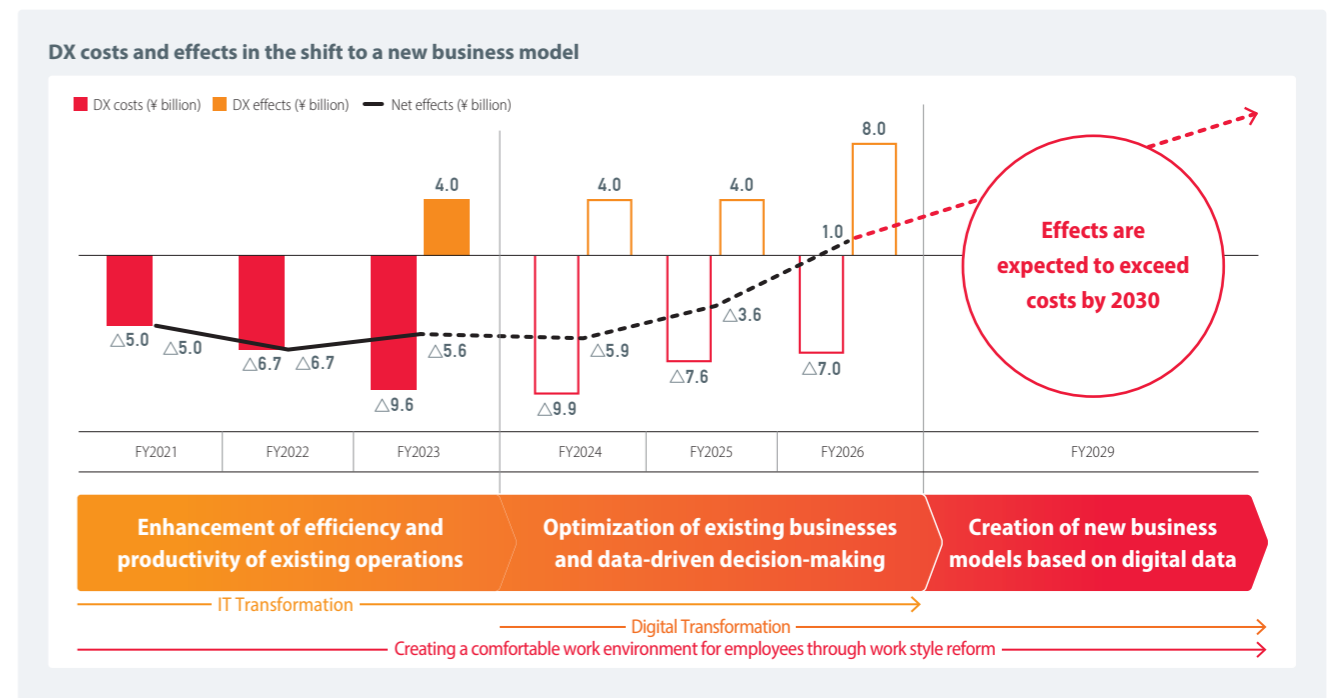
We will also take steps to minimize WACC. We believe that reducing business risks is essential, and revising our corporate materialities in April 2021 was a critical first step.

The NH Foods Group’s operating environment is undergoing substantial change, with fluctuating raw material procurement costs due to climate change and trade restrictions, diversifying food needs, and labor shortages among a host of challenges. Addressing these social issues will reduce our business risks. One step the NH Foods Group has taken is expressing support for the United Nations Food Systems Summit.* In addition, our CSR procurement measures include responding to issues of materiality, including climate change and increasing food diversity, such as by creating foods in consideration of food allergies.

We aim to widen the WACC-ROIC spread and maximize cash flow and corporate value by addressing social issues by executing material measures to address social issues and to grow and develop the Group.

* Please see the Ministry of Agriculture, Forestry and Fisheries website for information about the United Nations Food Systems Summit. (Japanese language only)
https://www.maff.go.jp/j/kokusai/kokusei/kanren_sesaku/FAO/fss.html

FOCUS 2 Implementing DX



DX for a new business model and creating business and social value

We have four objectives for the DX of the NH Foods Group. Digital technology will be used to: 1) radically increase the efficiency and productivity of existing operations, 2) standardize and optimize business processes, and accelerate management decision-making, 3) create a business model to provide new value related to food, and 4) create a comfortable employee work environment through workstyle reform.

At present, each business division and company has their own system optimized to their own operations. Not only are the systems becoming outdated, but they are increasingly unable to effectively respond to changes both inside and outside the company. We believe the circumstances make it necessary to invest resources for DX.

The first step will be to lay the foundation for migrating from individual systems to a shared Group system. To prepare this foundation, we are advancing an initiative for the “Connect Project” (company-wide core system reform project) for infrastructure development, preparing the infrastructure for a smart work platform, and developing DX human resources.

Digitalization will improve the efficiency and productivity of existing operations, which will lower operation costs and enable data-based decision-making.

The next step will be to apply digitalization to optimize our business operations. By optimizing our internal processes and accelerating the

launches of new services with digital technology, in 10 years we aim to provide our customers and business partners with digitally enhanced services including smart pig and chicken farming, digital marketing, and AI examination processes.

The Smart Pig Farming Project aims to address the problems of aging and retiring producers and environmental impact by using digital technology to create highly productive, low-impact farm management operations that can be carried out with fewer people. We are targeting Medium-Term Management Plan 2023 for achieving practical application of the system and are ultimately aiming to productize our smart pig farming expertise.

Core strategies of Medium-Term Management Plan 2023

Lay the foundation for the new business model	Initiatives to create business opportunity
	<ul style="list-style-type: none"> D2C Smart pig and chicken farming Digital marketing AI for inspection process
Increase business process efficiency and productivity	Cost reduction and data-based decision making
	<ul style="list-style-type: none"> Introduce RPA, AI, OCR Upgrade supply and demand adjustment capability Increase centralized purchasing Introduce AI shipment management Strengthen data analysis Improve CCC visualization
Fortify the DX foundation	Migrating from individual systems to a shared Group system
	<ul style="list-style-type: none"> Advance the Connect Project Create a smart work platform Cultivate DX human resources

FOCUS 3 Cross-departmental promotion strategies

Cross-departmental promotion strategy objectives and content			
Four cross-cutting strategies	Objectives and content		Expected effects
Cross business strategies	Plan and implement a company-wide common strategy to demonstrate the integrated strength of the NH Foods Group as a whole, beyond the business divisions, toward the enduring development of the Group	<ul style="list-style-type: none"> • Cross-divisional Free Trade Agreement Countermeasure Project • Mutual cooperation in sales and logistics • Optimization of production bases 	Cost reduction Sales expansion Reduction of environmental impact
New business	Accelerate efforts in new growth areas in anticipation of future changes in the environment, aiming for concrete commercialization and fostering a culture of challenge	D2C challenge by the New Business Development Department	Single year profitability in FY2024 Sales of ¥10.0 billion in FY2029
The Hokkaido Project	In Hokkaido, where many of the Group's sites are located, create synergies with its core business in preparation for the opening of the new baseball stadium in 2023, and contribute to the development of the region	Promotion of 11 measures related to sports business synergies	Opening of Hokkaido Ballpark F Village in 2023 Operating profit of ¥2.6 billion
Corporate communications	Strengthen corporate communications functions to enhance the reputation by developing strategic communications with stakeholders	Delivering a consistent message through Vision2030	Brand value enhancement

Cross-business strategies

Leverage the Group's comprehensive power by integrating and leveraging the strengths of all business divisions

We have launched two projects, the Cross-divisional Free Trade Agreement Countermeasure Project and the Shared Assets Project, to organize concerted Group-wide efforts to make the most efficient use of the management capital of all of our business headquarters, which will be essential to respond to the changes in the business environment under new free trade agreements.

Cross-divisional Free Trade Agreement Countermeasure Project is tasked with identifying opportunities and threats and proposing Group-wide countermeasures to free trade agreements such as the Trans-Pacific Partnership, Japan-EU Economic Partnership Agreement, and the Japan-US Trade Agreement. We will seek both to develop specific measures to counter the impact of reduced tariffs on processed pork products and to promote

The cross-divisional strategy concept



marketing of ready-made processed products overseas with the aim of creating new markets.

The Shared Assets Project will seek to integrate the Group's sales and logistics operations and optimize the use of our production bases to generate positive short-term effects. The project will also examine potential medium- and long-term issues. Integrating the sales and logistics operations is one way to combat the rising logistics costs that all of our companies are facing. The project will seek to improve resource efficiency through the Group by promoting inter-company cooperation, and by preparing a plan for accommodating future changes in the environment for logistics, storage, and sales functions. Optimizing the use of our production bases will seek to fully enhance the operation of our production bases from a Group perspective. This will be achieved by strengthening the interconnections of regional production and manufacturing sites that are in close proximity to each other, and by generating cumulative effects from improving our cost structure, reducing our environmental footprint, and lowering the burden on laborers.

New businesses

New value for new customers through new products and services

The Group's drive to establish new businesses has two primary objectives: to accelerate advances and commercialization in new growth business domains in anticipation of future changes in the business environment, and to foster a Group culture of pursuing challenges.

The Entertainment Business, Wellness Business, and Ethical Business are intended to reach new customers, expand our business, strengthen our market develop, and create new brands and new value.

In the Entertainment Business, we will offer services with new food experiences centered on our leading asset of "meat" and develop products, such as sets of meat and cooking utensils, with entertainment elements.

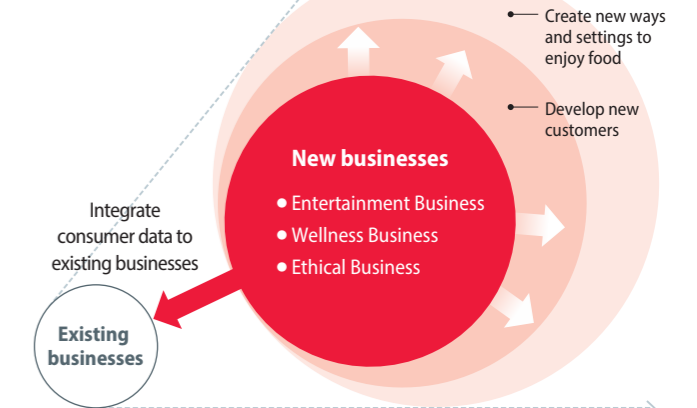
The Wellness Business will offer relaxing experiences for the mind and body. We will especially focus on developing products and services designed to support the health of working women and children with food allergies.

The Ethical Business will advance development of alternative proteins, including rebranding of the *NatuMeat* alternative protein products.

The Processed Foods Business Division and Fresh Meats Business Division will work with the Central Research Institute to explore new materials, apply food tech, and conduct digitalized empathy marketing.

The New Business Development Department created in April 2021 is preparing each of the businesses with plans to officially launch D2C services in fiscal 2022 and further expand and integrate the businesses in fiscal 2023.

Development plan for the new businesses



The Hokkaido Project

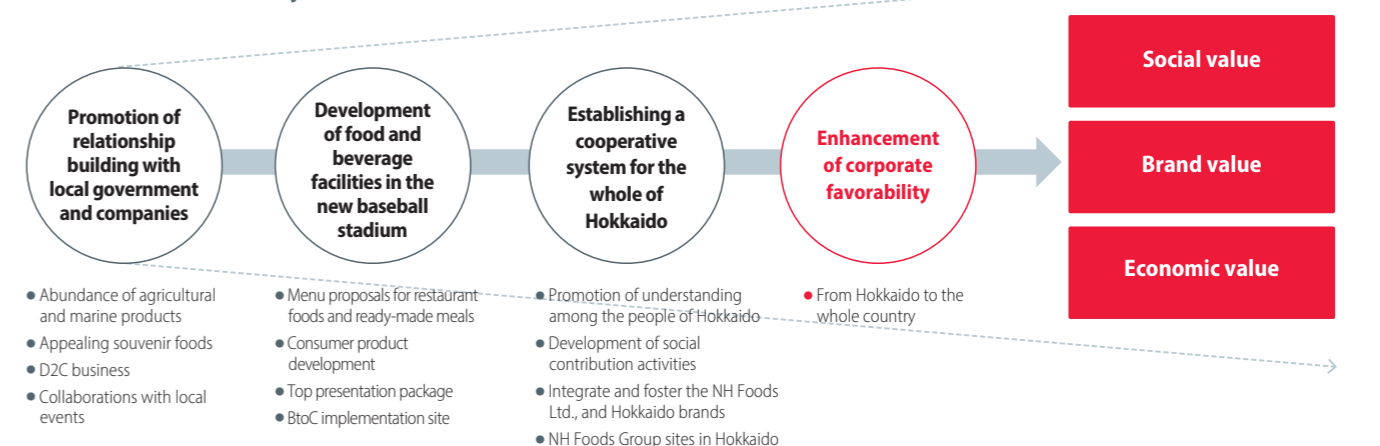
Contribute to the local community and society through sports to maximize synergies and raise corporate value

The Hokkaido Project is a strategy to raise the social value, brand value, and economic value of the region and the Company in Hokkaido, where the NH Foods Group owns the Hokkaido Nippon-Ham Fighters and many farms, manufacturing and production processing sites, and distribution bases.

The new stadium and Hokkaido Ballpark F Village, which are scheduled to open in 2023 is an energy- and resource-efficient facility with a minimized environmental footprint, and is additionally designed to serve as an evacuation site in case of an emergency. The village will have restaurants and host collaborative events that will generate synergies with the Group's existing businesses and raise our corporate value by contributing to regional development.

(For details, please see Baseball Club Business on page 51)

Outline of the Hokkaido Project





MESSAGE

Masahito Kataoka
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.

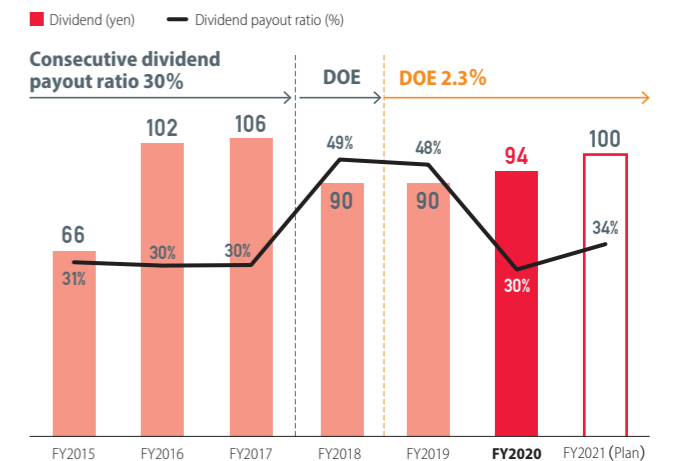
Although the effects will take time to fully materialize, we believe it is important to review our business portfolio to lower business risk, engage in dialogue with all investors to narrow the recognition gap, and continue advancing our sustainability strategy. We also understand the particular importance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



MESSAGE

Fumio Maeda

Director and Managing Executive Officer
General Manager of Corporate Planning Division

We want to be successful in the new era of the “new normal” by advancing dynamic strategies incorporating sustainability

Pursuing a “all-company perspective” and “overall optimization”

The Corporate Planning Division established in April 2020 is assigned with forming Group strategies. The division creates the medium-term management plans and other Group management strategies, prepares and executes strategies to optimize the business portfolio, and advances IT and technology strategies.

Doing this requires visualizing Group issues from an “all-company perspective” and forming strategies and initiatives designed for “overall optimization.”

The Group’s businesses are divided into the three segments of fresh meats, processed foods, and overseas business. The businesses each have their own value chains and operations, so our efforts to optimize and expand each business have been tailored to each business individually. However, the business environment has changed significantly in the last few years with fluctuating raw material costs caused by climate change and trade restrictions, diversifying food preferences, and rapidly advancing IT technology. Business conditions are also evolving with the emergence of the “new normal” following the COVID-19 pandemic. We believe that an “all-company perspective” and “overall optimization” are more important than ever for responding to these conditions and generating sustainable growth.

Each business division has been taking steps to optimize their value chains linking the production, manufacturing, receiving, distribution, and sales processes. But we are now approaching the production and logistics bases under their jurisdiction as management resources for the Group as a whole, and are reexamining their functions and configurations from the perspective of overall optimization.

While optimizing our overall businesses system and operations, we are also focusing on bringing about digital transformation (DX) that will enable the creation of new business models structured on assets that will be sources of future profits.

We will also strengthen our KPI management with qualitative and quantitative monitoring and set return on invested capital (ROIC) target as a primary indicator for measuring the all-company optimization. In fiscal 2021, we will introduce ROIC to all relevant departments while also taking steps to ensure a full and correct awareness and understanding of ROIC as we introduce it to all departments. During the year, we will also set additional detailed KPIs.

The Medium-Term Management Plan 2023 launched in April 2021 will build our optimal portfolio of businesses by applying these initiatives along with dynamic cross-departmental and functional strategies to create corporate value and by maximizing the management capital in each business division.

Status of the Connect IT reform Project and DX

The Connect Project to restructure the Company’s core enterprise system was launched one year ago. The Connect Project will facilitate cooperation among the divisions by integrating the core systems that were independently created and used in each business division into a single shared business process and system infrastructure. Connect will optimize work processes, save labor, and speed up account settlements, and is a key element for a radical reform of our business structure. The Group considers digital technologies and systems as important business assets and intends to invest in digital technologies as necessary for medium- to long-term growth and to increase corporate value.

Management that fully considers sustainability

During the rapid social changes in recent years, environment, society, governance (ESG) initiatives have emerged as essential for companies seeking sustained growth. Climate change and other global-scale social issues are having a major impact even on the Group’s businesses. Co-creation and shared prosperity with local communities and society as a whole through food and sports is also a vital issue that is essential to business activities.

With this in mind, starting from April 2021, we have stepped up our ESG initiatives and moved the Sustainability Department under the

Corporate Planning Division to be closer to the center of management. We have also identified five social issues as new materialities that are important to address through our businesses as we seek to fulfill the Vision2030 set forth with the new medium-term management plan.

These materialities will be integrated into our business strategies. Two ESG themes deeply entwined with Vision2030 are the Stable procurement and supply of proteins and Addressing food diversity and health issues. For contributing to a sustainable global environment, we will take additional action to fulfill our responsibility to address climate change and other issues. For Cocreation and coprosperity with communities and society through food and sports, we will increase the Group’s unique local activities and our Hokkaido Project; and for Employee development and respect for diversity, we will continue implementing workstyle reform and other measures.

The Hokkaido Project

The Hokkaido Project is both a cross-departmental promotion strategy and a materiality initiative. The project seeks to contribute to the economic and regional development of Hokkaido and to raise the social, brand, and economic value of both the region and the Group.

The project will come into full swing with opening of the new Hokkaido Ballpark village scheduled for 2023, which will further enhance the synergies between our core business and sports. We plan to build the Hokkaido Project into both a contributor to the local region and a new revenue business for the Group.

DX initiatives for new business models

