CFO MESSAGE

A message from the CFO

Further deepening of VBM to accelerate the creation of corporate value and shareholder value

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Financial overview of fiscal 2023

In fiscal 2023, we worked on various levels to counter the effects of rising raw material prices and other cost factors, as well as the impact of a weaker yen. In addition to price adjustments, we also took various other actions to improve our earnings. These efforts produced a major recovery in business profit. However, the recovery of our profit levels is not complete, and we will need to work toward the sustained accumulation of earnings through the measures contained in Medium-Term Management Plan 2026. While our business profit ratio has risen from 2.2% in the previous fiscal year to 3.5%, further improvement is needed.

The figures in our balance sheet have ballooned, in part because of inflationary trends and cost increases in Japan and overseas. We believe that it will take a little longer for the numbers to peak out because of exchange rate instability and other factors. The outlook will depend on trend in the external environment.

Our cash flows are substantially better. The profit recovery has helped to drive a major increase in cash flows from operating activities, while capital expenditure has stabilized. As a result, free cash flows improved, and the total for the three-year period covered by Medium-Term Management Plan 2023 moved into positive figures.

The level of the debt-equity ratio, which was at 0.41 at the end of the previous fiscal year, remains an issue. It is still below the 0.5-0.6 range that we projected based on the repayment of interest-bearing debt made possible by the increase in cash flows from operating activities and other factors. We need to correct this, and that will a focus under Medium-Term Management Plan 2026.

Another ongoing issue is capital efficiency. Our return on invested capital (ROIC) currently stands at 4.1%, and return on equity (ROE) at 5.5%. While these figures have improved over the previous year's levels, they are still far from satisfactory.

Our price book value ratio (PBR) had recovered to just below 1.0 by March 2024, in part because of the recovery in business performance. However, we do not believe that this figure reflects growth expectations. We aim to take the ratio above 1.0 times by pursuing the initiatives in Medium-Term Management Plan 2026.

Our financial strategy under Medium-Term Management Plan 2026

From a financial perspective, we will work to improve our capital efficiency by deepening Value-Based Management (VBN) through three initiatives.

First, we will establish a financial PDCA system to support value creation. Previously we apportioned capital costs uniformly across the entire company. In the future we will enhance portfolio management by splitting capital costs

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on a business-by-business basis and assessing business performance through the measurement of segment ROIC.

Second, we will allocate management resources strategically. In the past, capital expenditure for purposes other than maintenance and updates has been managed at the discretion of business divisions. Going forward, we will switch to head office management based on the allocation of growth investment budgets. This will ensure the strategic allocation of funds to priority areas based on company-wide priorities. We will also consider the enhancement of value-based investment decision-making as a way to fine-tune investment decisions through the assessment of risks for individual investment projects. By steadily implementing these measures in fiscal 2024, we will in essence form a capital market within the company.

Third, we will pursue a capital policy and financial strategy that will lead to value creation. We will optimize liabilities and capital through leverage control and improve the efficiency of the Group's internal financing by using a cash management system (CMS) to reduce cash, deposits, and interest-bearing debt, with a particular focus on overseas subsidiaries. At the same time, we will implement and expand strategic IR and shareholder policies designed to ensure that capital markets are properly aware of our corporate value. We believe that measures such as these will lead to corporate value creation and the improvement of the PBR level.

ROIC can be broken down into the profit ratio times the turnover ratio. Our efforts to improve ROIC began in the previous fiscal year with measures designed to increase the profit ratio. In the current fiscal year, we are working to improve both the denominator and the numerator, including the reduction of invested capital. (See the chart on the right.)

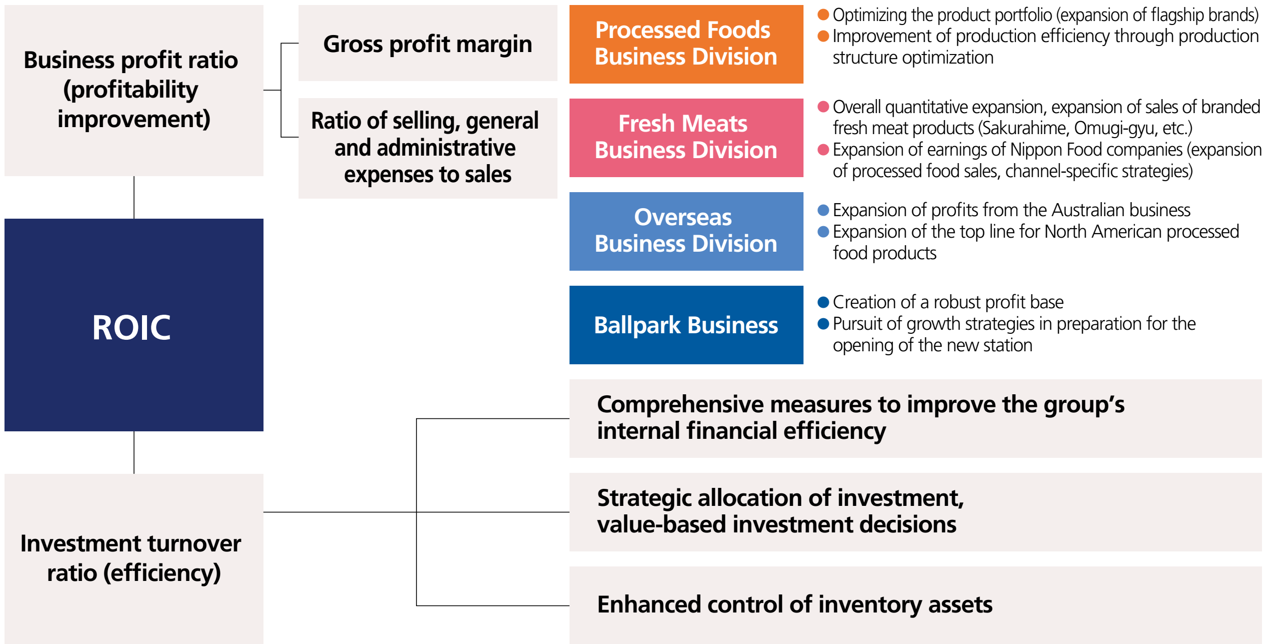
For example, we are raising our profit ratio by improving our product mix through a review of low-margin products, especially in the Processed Foods Business Division. Going forward, we will further step up our efforts to create an optimized production structure, while at the time taking a close look at our invested capital with a particular focus on fixed assets.

In the case of the Fresh Meats Business Division, we have already achieved a certain level of profitability. Our basic strategy therefore calls for the pursuit of profit growth through investment and expansion. We will also prioritize the control of inventory assets, especially imports. We will continue to manage the turnover period on a monthly basis, while stepping up our efforts to minimize inventory levels.

Our priorities for the Overseas Business Division, are to boost the performance of low-profit businesses and expand processed foods businesses. We will also target the reduction of volatility, which has been an issue, by modifying our portfolio.

The Ballpark Business is still in the start-up phase, and our focus at present is the reinforcement of the profit base. The opening of the new station in 2028 can be expected to trigger the next growth phase, and we believe that profitability will improve further under Medium-Term Management Plan 2029.

ROIC diagram



Policy on cash allocations and dividends

Our capital policy is basically designed to keep interest-bearing debt and capital balanced within certain limits. Specifically, we see a D/E ratio of 0.5-0.6 as the basis for a capital structure that will allow us to reduce capital costs while maintaining the credit standing needed to procure finance. Under this policy, we will enhance shareholder returns and strategically allocate funds, after providing cash for investment in human resources, capital expenditure, and R&D investment.

Under Medium-Term Management Plan 2026, we will secure a ¥50 billion budget for future growth investment with the aim of creating corporate value and shareholder value. These funds will be used for a wide range of initiatives, including brand enhancement, the expansion of R&D, and overseas business expansion.

This budget will also provide for investment in venture capital with the aim of accelerating co-creation and open innovation with partner companies. This type of investment will enable us to acquire information and connections from venture companies and build a structure geared toward the continual exploration of new technologies and expertise to drive the growth of the NH Foods Group 10 years in the future.

We plan to use free cash flows to provide funds for M&A investment as a source of future growth opportunities. Examples of targets for investment in this category include projects that will result in disruptive growth for our Processed Foods Business in North America or Southeast Asia.

Having secured funds for growth investment, we will enhance shareholder returns. During the period covered by Medium-Term Management Plan 2026, we will work to stabilize the cash dividend and maintain continuous growth. We aim to raise the dividend-on-equity (DOE) ratio from 2.3% to 3.0% and maintain a payout ratio of 40% or higher. Share buyback schemes will also be used to optimize shareholders' equity at a level deemed to be most efficient from a capital cost perspective. Specifically, we want to raise the debt-equity ratio to 0.5 by the final year of Medium-Term Management Plan 2026.

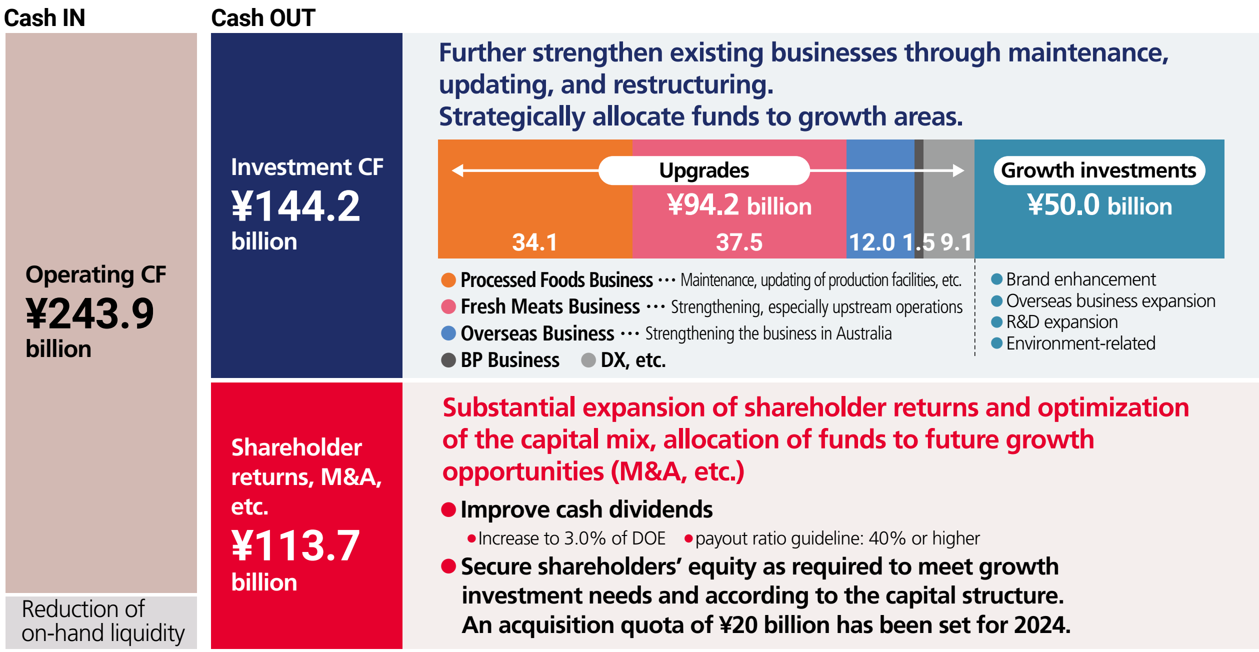
Through these measures, we will work to improve corporate value while controlling the balance between interest-bearing liabilities and capital.

Under our new dividend policy, we increased the dividend per share for FY2023 by ¥7, from the initial forecast of ¥112 to ¥119. In FY2024, we will implement a further ¥16 increase, taking the dividend to ¥135 per share.

Reduction of cross-shareholdings

Our policy is that, in principle, we will not maintain cross-shareholdings. In accordance with that policy, we are now engaged in sale negotiations with the individual issuers concerned. These ongoing negotiations are leading to a steady reduction in our shareholdings. We will continue this process going forward.

Cash allocations



Sustainability policy also enhancing corporate value

Sustainability initiatives are a vital aspect of business management and are becoming increasingly important. Further efforts are needed across a wide range of areas, including environmental issues such as climate change, and social issues such as human rights.

The livestock industry has become a particular focus of international concern because of livestock-related greenhouse gas emissions and the use of land, water, and other resources for livestock farming. Additional issues within Japan include a lack of people willing to take up careers in livestock farming. For these reasons, when formulating Medium-Term Management Plan 2026, we also revised our Materialities and drew up a sustainability strategy focusing on four pillars with the aim of solving social issues through our business activities, helping people to enjoy happy and healthy lifestyles, and achieving harmony with the global environment as the source of the bounties of nature.

The first focus of our sustainability strategy is the joy of eating. We will continue to create new and exciting eating experiences by thinking outside of the box and creating value that matches today's increasingly diverse lifestyles and value systems.

The second focus is the creation of new value. We will respond to anticipated protein shortages resulting from population growth and other factors by ensuring reliable procurement and supplies, and by developing new products, including plant-based protein, cell-based foods, and products based on malt.

The third focus is protection of global environment. We will continue to work with universities and other organizations on R&D programs initiatives targeting the reduction of CO_2 emissions not only from fossil fuels, but also from livestock. We will also increase our efforts to reduce the amount of plastic used and conserve biodiversity.

The fourth focus is the development of a resilient business base through the promotion of respect for human rights within the NH Foods Group, and the reduction of human rights risks across our supply chains.

By pursuing this strategy, we will continue to contribute to the solution of social issues and the realization of a sustainable society through our business activities.

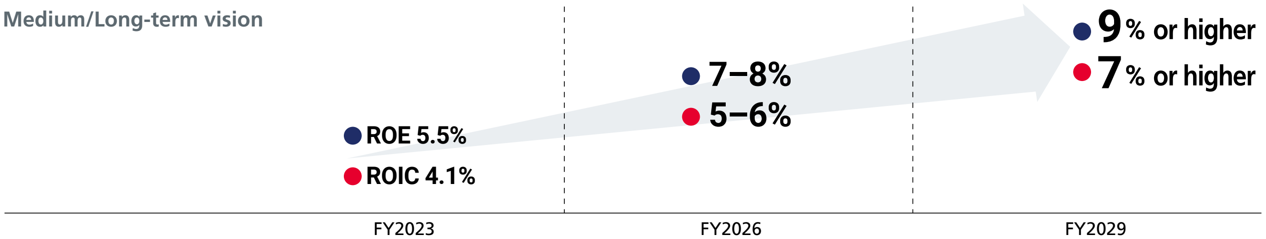
Sustainable enhancement of corporate value

Our medium- to long-term financial targets are ROE of 9% or higher and ROIC of 7% or higher by the fiscal year ending March 2030. By backcasting from these figures, we have set an ROE target of 8% for the fiscal year ending March 2027. We will work to achieve that by raising ROIC to 6%.

The improvement of our business profit ratio (profitability) is obviously a priority. In FY2024, we will strengthen our control of invested capital (efficiency).

Our efforts to achieve sustainable growth in corporate value will also include measures to raise awareness of capital efficiency within the company, including educational activities using in-house publications and other tools, as well as seminars run by the units in charge.

Medium/Long-term vision



	Issue	Measures under Medium-Term Management Plan 2026	Vision for Medium-Term Management Plan 2029
Processed Foods Business Division	Low profitability Falling asset turnover ratio	Improvement of business profit margins, asset recycling	Further expanding margins by enhancing high-value-added businesses
Fresh Meats Business Division	Slowing profit growth	Expansion leading to profits	Achievement of record profits, improvement of capital efficiency
Overseas Business Division	Unstable profit structure	Profit stabilization, volatility reduction	Transitioning to a growth phase by enhancing the processing business
Ballpark Business	Profit stabilization	Reinforcement of earnings base	Profit growth
NH Foods	Continuous efforts to reduce invested capital, maintenance of optimal liability-capital structure		