

# Annual Report 2014

Year Ended March 31, 2014







#### **Notice of change in the corporate names**

By resolution of the 69th Ordinary General Meeting of Shareholders on June 26, 2014, Nippon Meat Packer's Inc. changed its English corporate name to NH Foods Ltd. on the same day. As used in this annual report, the "Group" refers to NH Foods Ltd. and its subsidiaries unless the content otherwise indicates.

#### **Forward-looking statements**

This annual report includes forecasts regarding targets, strategies, and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as the economic environment, market trends, and exchange rates. Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.





## Nipponham Group

True to its brand statement “The Brilliance of People for the Future of Food”  
the Group is determined to contribute to human happiness  
and healthy living by upholding the basic theme of “Joy of Eating,”  
to build a better future where all people may flourish.

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# At a Glance

## The Early Days

# 1942

### Founded the Tokushima Meat Processing Plant

(the predecessor of Tokushima Ham Co., Ltd., which was formed later, and the current the Group)



Tokushima Ham's main plant circa 1955

## Number of Employees

# 28,140

Japan ▶ 22,152  
Overseas ▶ 5,988

## Number of Bases

(including our partners' and our own)

# Farms 447

Japan ▶ 384  
Overseas ▶ 63



# Plants 95

Japan ▶ 73  
Overseas ▶ 22



# Logistics and Sales Locations, etc. 374

Japan ▶ 344  
Overseas ▶ 30



## Market Position

## Share of Fresh Meats Sales

# No. 1 in Japan

Domestic market shares by sales volume in fresh meats (domestic and imported)



## Fresh Meats Industry

### Major 10 Global Fresh Meats Companies based on Net Sales

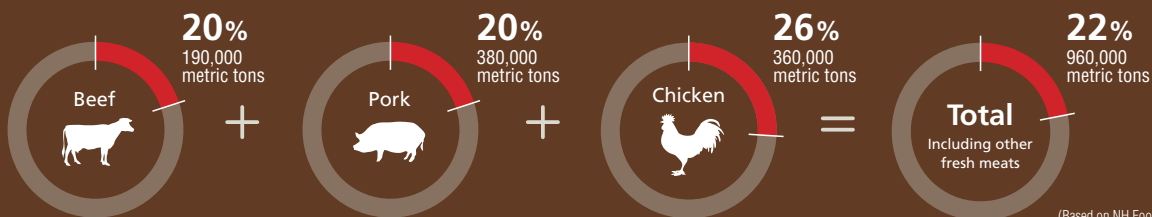
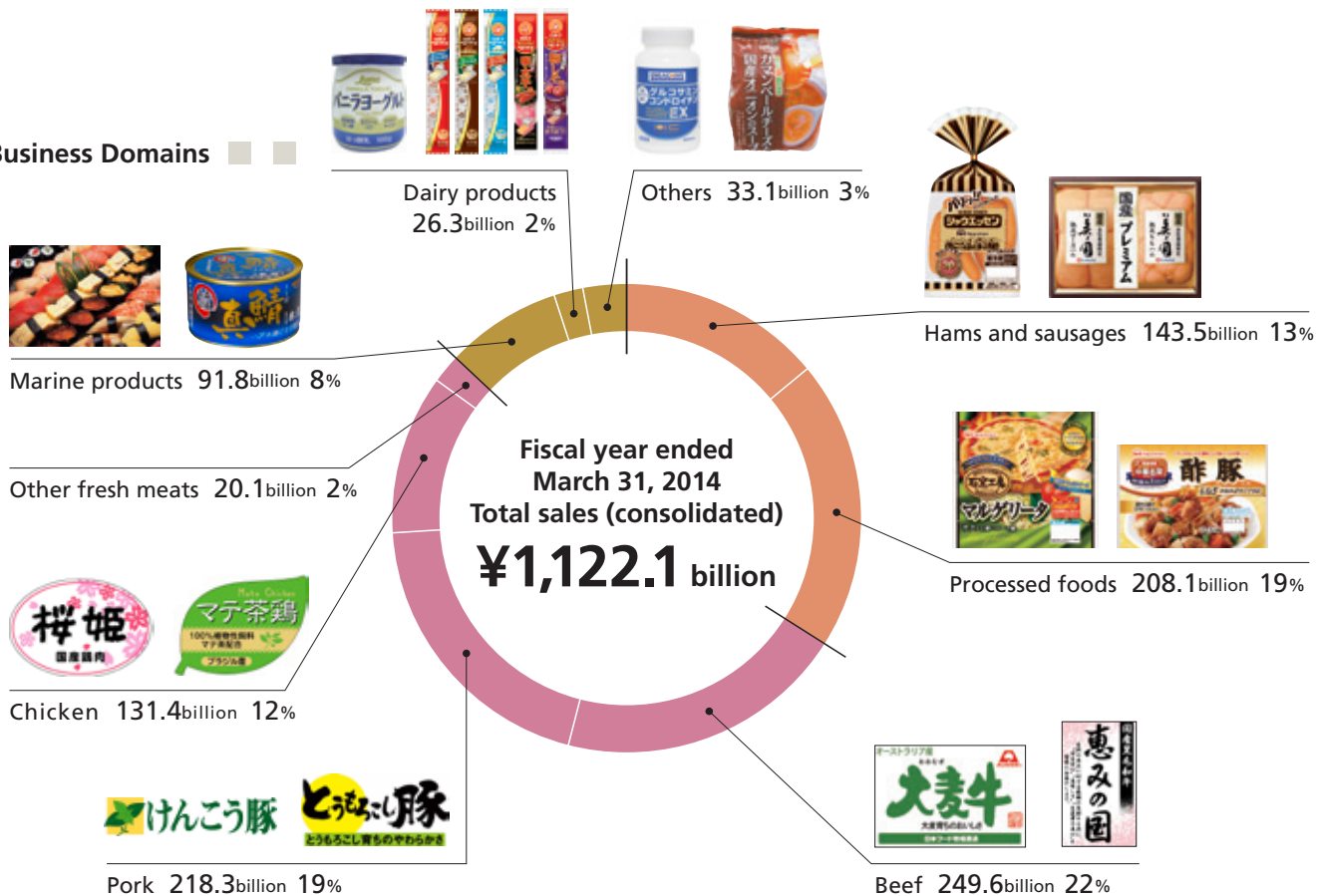
	Net sales (¥ million)	Location	Fiscal year
JBS S.A.	4,197,701	Brazil	Year ended December 2013
Tyson Foods, Inc.	3,446,308	USA	Year ended September 2013
Brasil Foods S.A.	1,379,066	Brazil	Year ended December 2013
Smithfield Foods, Inc. (non-listed)	1,325,151	USA	Year ended April 2013
<b>NH Foods Ltd.</b>	<b>1,122,097</b>	<b>Japan</b>	<b>Year ended March 2014</b>
VION Food Group (non-listed)	1,061,110	Netherlands	Year ended December 2013
Danish Crown Group (non-listed)	1,011,472	Denmark	Year ended September 2013
Hormel Foods Corporation	877,178	USA	Year ended October 2013
Marfrig Alimentos S.A.	847,304	Brazil	Year ended December 2013
Henan Shuanghai Investment & Development Co., Ltd.	714,932	China	Year ended December 2013

### Major 10 Domestic Fresh Meats Companies based on Net Sales

	Net sales (¥ million)
<b>NH Foods Ltd.</b>	<b>1,122,097</b>
Itoham Foods Inc.	463,395
Prima Meat Packers, Ltd.	303,600
Starzen Co., Ltd.	256,581
Marudai Food Co., Ltd.	213,678
S Foods Inc.	169,253
Yonekyu Co., Ltd.	144,154
Hayashikane Sangyo Co., Ltd.	45,939
Takizawa Ham Co., Ltd.	29,441
Fukutome Meat Packers, Ltd.	28,288



## Business Domains



## Food Industry

### Major 10 Domestic Food Companies

	Net sales (¥ million)	Operating income (¥ million)	
Japan Tobacco Inc.	2,399,841	648,260	Year ended March 2014
Kirin Holdings Co., Ltd.	2,254,585	142,818	Year ended December 2013
Suntory Holdings Ltd. (non-listed)	2,040,204	126,558	Year ended December 2013
Asahi Group Holdings	1,714,237	117,467	Year ended December 2013
Meiji Holdings Co., Ltd.	1,148,076	36,496	Year ended March 2014
<b>NH Foods Ltd.</b>	<b>1,122,097</b>	<b>35,700</b>	<b>Year ended March 2014</b>
Ajinomoto Co., Inc.	991,332	62,548	Year ended March 2014
Yamazaki Baking Co., Ltd.	968,280	16,577	Year ended December 2013
Maruha Nichiro Holdings, Inc.	851,708	10,626	Year ended March 2014
Nippon Suisan Kaisha, Ltd.	604,249	13,931	Year ended March 2014

Operating income (¥ million)	Fiscal year
<b>35,700</b>	<b>Year ended March 2014</b>
4,900	Year ended March 2014
8,813	Year ended March 2014
1,969	Year ended March 2014
2,861	Year ended March 2014
5,683	Year ended February 2014
1,989	Year ended February 2014
49	Year ended March 2014
(56)	Year ended March 2014
305	Year ended March 2014





# Target Profile

Our aim is becoming the world leader in delivering the “Joy of Eating.” Beginning with the manufacturer of hams and sausages, we at the Group have extended our business activities to all areas of the food industry, including fresh meat, processed foods, marine products, dairy products, natural flavorings, and health foods etc.

New Medium-Term Management Plan Part II April 2006 ◉ March 2009

New Medium-Term Management Plan Part III April 2009 ◉ March 2012

## Corporate value improvement by continuous reform and challenge

Business results

Net sales:	¥1,028.4 billion
Operating income:	¥21.4 billion
Operating income ratio:	2.1%
Return on equity:	0.6%

## Solidifying domestic operations and becoming a global enterprise

Business results

Net sales:	¥1,017.8 billion
Operating income:	¥26.5 billion
Operating income ratio:	2.6%
Return on equity:	4.1%





Food sector in Japan **Sales In the top 5**

Fresh meat company **Sales In the top 3 worldwide**

#### New Medium-Term Management Plan Part IV April 2012 ◯ March 2015

Improve the profitability of domestic operations and reinforce the foundation of overseas operations

Targets in the plan

Net sales:	¥1,140.0 billion
Operating income:	¥40.0 billion
Operating income ratio:	3.5%
Return on equity:	7.3%
Proportion of overseas sales:	At least 10%

Note: Overseas sales ratio includes sales to external customers of overseas subsidiaries.

#### Our long-term goal

Operating income ratio  
At least **5%**

Return on equity  
At least **8%**



Providing products of excellent taste and sound quality.  
We believe the key to improving brand value is providing  
better experiences to the customer through the dining table.  
We take the viewpoint of the customer, and ask ourselves,  
what does the customer want, how can we give satisfaction?

## SCHAU ESSEN

### Wiener sausages sales: No.1

Source: Intage Inc. SCI-personal wiener market,  
January-December 2013, sales by value



## Ishigama Kobo

### Chilled pizza sales: No.1

Source: Intage Inc. SCI-personal,  
chilled pizza market  
January-December 2013, sales by value



## Chuka Meisai

### Semi-processed foods sales: No.1

Source: Intage Inc. SCI-personal,  
exclusively used products for specified menu,  
chilled market,  
January-December 2013, sales by value





A close-up, side-profile photograph of a woman and a young girl. The woman, with blonde hair tied back, is looking down and to the left. The girl, wearing a brown dress with small heart patterns, is also looking in the same direction. The background is blurred, showing what appears to be a market or garden setting with various plants and flowers.

# Becoming a Brand of Choice







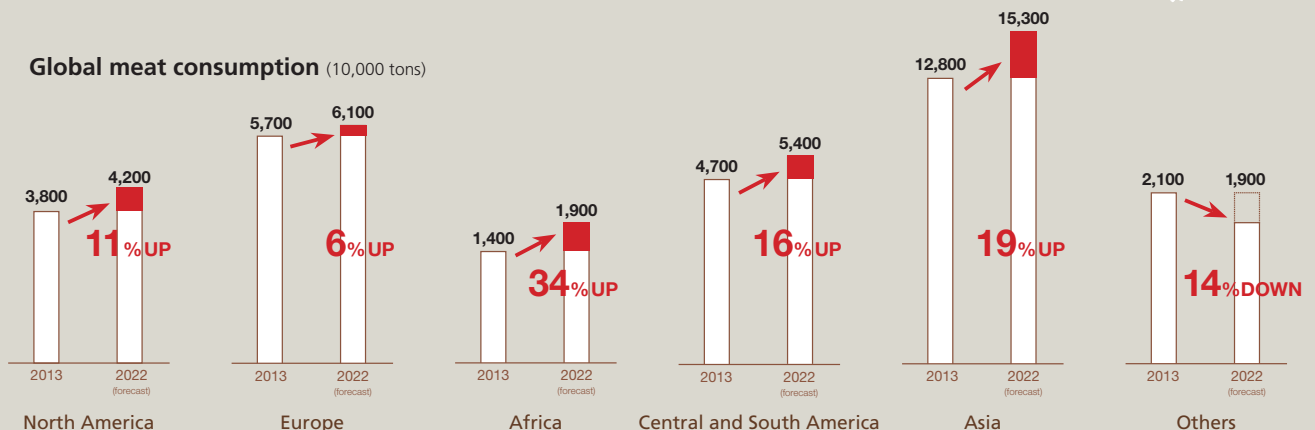
# Joy of Eating throughout the World

The Group is developing the businesses in 17 countries and regions around the world.

The wide range of foods we handle spans fresh meats through processed foods, marine products and dairy products etc.

Based on rigorous quality management, the foods we produce and process go onto the dining tables of the world.

Global meat consumption (10,000 tons)



Source: Compiled based on OECD-FAO Agricultural Outlook



### **Corporate Philosophies**

1. Under the basic theme of “Joy of Eating” our company creates a culture that marks an epoch and contributes to society.
2. Our company is a place where employees can feel truly happy and fulfilled.

### **Management Principles**

1. Act with noble ideals and the determination to achieve them.
2. Learn from others, teach others, and be willing to be taught by others.
3. Create the times by meeting the needs of the times.
4. Expand relationships through quality and service, and take responsibility for all people with whom we have relationships.
5. Strive for a highly functional organization.

## **The Group’s Brand Statement**

The Brilliance of People for the Future of Food

## **Group Brand Pledges**

We aspire to share the pleasures of good eating and the joys of health with people around the world.

We pledge to impart the “Joy of Eating” with the greatest of care, through products that reflect our appreciation of the bounty of nature and our uncompromising commitment to quality, and to remain at the forefront in our exploration of food’s contribution to a happy and healthy life.





# A Message to Shareholders

Looking back over the year, we note that the economy is heading out of its deflationary phase, thanks to the policies of Japanese Prime Minister Shinzo Abe. There were encouraging signs that consumption is benefiting from the decision to award the 2020 Olympics to Tokyo.

With sales of some luxury goods now buoyant, we infer that consumers are changing their preference of low pricing for certain items.

The food industry faces a range of issues, including the likely impact of the terms of the Trans-Pacific Partnership (TPP) and of any decision to be taken this December to increase the consumption tax to 10%. In addition, we see increasing diversification in consumer needs, with greater demand for convenience, simplicity and immediacy. This is in line with the trend of polarization of demand between low-priced and value-added products, as well as the decline in the number of people per household due to demographic change (a low birth rate coupled with a high rate of ageing).

Against this backdrop, the Group in April 2012 launched its New Medium-Term Management Plan Part IV and has been taking various management initiatives to achieve the plan's goals of improving the profitability of domestic operations and reinforcing the foundation of overseas operations. We are steadily developing measures to implement the three policies of better management: "Brush up the concept of Management for No. 1 Quality," "Allocate management resources in prioritized areas," and "Enhance the Group brand value."

In the year ending March 31, 2015, we aim to achieve further growth by advancing toward our target with renewed determination, with all employees rallying around the corporate philosophies. By delivering the "Joy of Eating," the Group brand pledge, we will contribute to the realization of our concept of "The Brilliance of People for the Future of Food."

I would like to thank our stakeholders for their continued support and encouragement in this endeavor.



**Hiroshi Kobayashi**

Chairman and Representative Director







**By becoming the world leader in delivering the “Joy of Eating,” the Group is contributing to human happiness and healthy living**

In April 2014, the Group renovated its group brand, in order to expand its business domains and deepen the Group integration, for more global business development.

In the year ended March 31, 2014, we exceeded our sales targets, and in April 2014, the final year in the New Medium-Term Management Plan Part IV began, under which we are shift-up our growth strategy.

We will continue to progress through innovation and brand-driven growth based on the new Group brand.

*Noboru Takezoe*

Noboru Takezoe  
President and Representative Director



## What the Group is Aiming for

### Become the World Leader in Delivering the “Joy of Eating”

When we initiated the New Medium-Term Management Plan Part IV in April 2012, I presented four clear management objectives. First, we seek to “Value the ‘Bounty of Nature’” as a company that nurtures life. Second, we have an “Uncompromising commitment to quality” as a manufacturer. Third, we “Explore the ‘New Potential of Food’” as a company that has expanded its involvement in the food business from hams and sausages to encompass fresh meats, processed foods, marine products, dairy products, and R&D of foods and ingredients that support good health etc. Fourth, we “Contribute to happy and health lives by providing the ‘Joy of Eating.’” This is important because the “Joy of Eating” is part of the Group’s corporate philosophy, expressing the pleasures and feelings of good health that great taste can deliver. By expanding in line with these four objectives, we aim to realize the Group brand statement of “The Brilliance of People for the Future of Food.”

The Group is the only company with an integration system for three livestock species — cattle, hogs, and chickens —. Our goal is to become a globalized, diversified enterprise specializing in proteins and to lead the world in delivering the “Joy of Eating.”

## Strengths of the Group

### Globally Admired Vertical Integration System

As a company that supplies food, the Group is committed to delivering fresh, safe, high quality food products in a spirit of respect for the “Bounty of Nature.” For this reason, we have established vertical integration system for in-house handling of all processes, from production through slaughter, processing, distribution and marketing. All processes are subject to our rigorous quality management.

The Group has a highly advanced system in place for preventing with epidemics. We use our own hygiene systems at our farms in Japan and overseas. The beef, pork and chicken that we rear is shipped, after slaughtering and processing to recommended standards, through our global logistics networks to destinations not only in Japan but also throughout the world. Marketing staff in local bases provide support in the areas of sales display and products proposal. The Group is the only company in Japan, and one of only a handful of companies throughout the world, to have a vertical integration system for beef, pork and chicken production.

This system ensures freshness, quality and safeness of supplies. We are creating traceability systems for fresh meat.

### Four Management Objectives





## “Management for No. 1 Quality” Aiming for Safety, Satisfaction and Inspiration

Our quality assurance system firmly underpins the vertical integration system.

In all of its business activities as the Group, the Group applies its own in-house quality assurance systems. The Group has deployed 909 personnel (722 in Japan and 187 overseas) as safety assurance officers for the whole the Group (as of March 31 2014) and checks product quality using three processes: safety assessments, quality audits and safety inspections.

Safety assessments involve the due inspection of the safety of raw materials before product marketing, and of labeling and specification’s compliance with legal standards. For the purposes of quality audits, we follow ISO, SQF and Hazard Analysis and Critical Control Points (HACCP), the global standards for product quality assurance, as well as the 24 Requirements of the Group’s our quality assurance. For safety inspections, we check for the presence of harmful microorganisms, food allergy agents or agrochemical or veterinary medicine that could have adverse impact on human health.

At the moment, we are preparing to acquire certification under the Global Food Safety Initiative, an international set of standards.

Becoming “Management for No. 1 Quality” has always been

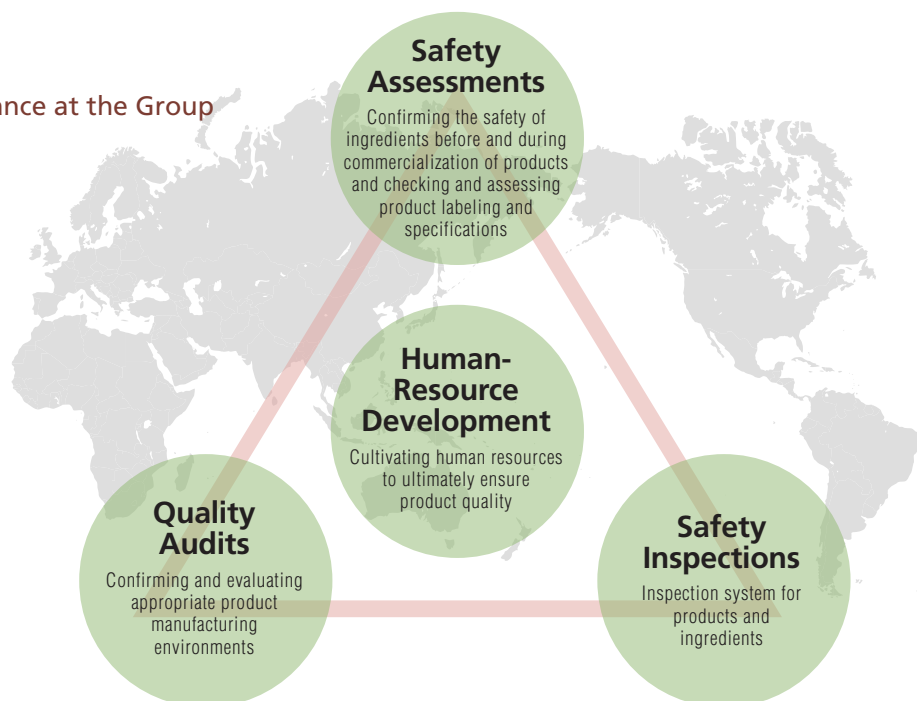
an important theme in the New Medium-Term Management Plan Part II. Being No. 1 in quality, we believe, will boost both sales and earnings.

## Our Strength: Having Top Brands in a Wide Range of Product Categories

The Group was initially founded as a hams and sausages production company in 1942. Today it handles a broad range of products spanning fresh meat, processed cooked foods such as hamburg and pizza, processed and canned marine products, dairy products such as cheese and yogurt lactic acid probiotic drinks, frozen foods, freeze-dried products, natural seasonings and health foods including supplements.

The breadth of this product range and the fact that we have many hit products within specific categories is a great strength of the Group. Our *SCHAU ESSEN* coarse-ground wiener sausages, created in 1985, have been a popular bestselling product for 30 years. Furthermore, the *Ishigama Kobo* pizza series and *Chuka Meisai* line of Chinese delicatessen items have overwhelming leads in their respective markets. We have been developing fresh meats with rigorous standards for our brands in terms of production location and feeding methods. Our vertical integration system enables us to meet stringent consumer demands for safety and taste.

### ◆Quality assurance at the Group





## Renovate of the Group Brand and Fostering an Innovative Mentality

### Raising the Group brand Awareness through the Unity of the Group

On April 1, 2014, the Group overhauled its the Group brand and integrated its corporate brands.

In Japan, The Group boasts the leading share in its industry, and has top brands in numerous product categories, but the customers who buy these products have almost no awareness that the products come from the Group. To further increase our market share in Japan, and to develop our business globally, we need to raise awareness of the connection between the Group brand and our products, this was the reason for the overhaul of the Group brand that was undertaken in April 2014.

In changing the company logo from Japanese kana script to alphabetic character we are courting greater global recognition. The use of the letters NH in all Group brand logos refines the name and suggests the breadth of our business domains. The company wishes to project an image of itself as not only a company which produces hams and sausages, but also the world leader in delivering the “Joy of Eating.”



In order to ensure that customers see the Group products as being worry-free, reliable and much-loved, we not only supply products, but have also begun to address the challenge of appealing shape dining culture in daily life.

#### ◆New brand logo



- Unifying “N” and “H” symbolizes the Group’s full unify and all people with whom we have relationships.
- The “Tender arc” incorporates the gentle and warm image of the light of the sun as it rises above the horizon, expressing the Group’s determination to take on the challenge of entering a new growth stage. This image, of the gentle and warm sun that surrounds the Earth, conveys the “Joy of Eating” to the people of the world.

**The new Group brand logo expresses the Group’s determination to**

- Take on the challenge of entering a stage as the fully united Group
- Evolve into a company that is customer oriented, people friendly, cordial, and approachable
- Become a global company that is the trusted and chosen by customers, as it is in Japan



## Measures to Deal with External Environment and Risk Factors

### Impact of Exchange Rates and Outcome of the TPP Negotiations

A major operational issue for the Group businesses is that they are vulnerable to fluctuation in raw material and feed prices, as well as in market prices for fresh meat and marine products. We consider it essential to establish, as quickly as possible, a business model which is not affected by chaotic price fluctuations for raw materials and in market prices. Specifically, we need to effectively link up product development, brand strategy and marketing, so as to increase direct and indirect added value in products and to differentiate them.

Depending on the outcome of the TPP negotiations, the impact on the Group's operations will be enormous. Approximately half of the fresh meat handled by the Group is sourced from Japan and the other half is imported. A major concern for us is how to showcase the value-added of domestically produced meat when cheap, price-competitive imported meat enters the market in future. One solution to this problem is to create brands for our meat products.

### How Can We Meet Our Obligations as a Food Manufacturer, and Offer Guarantees, in the Matter of Food Safety?

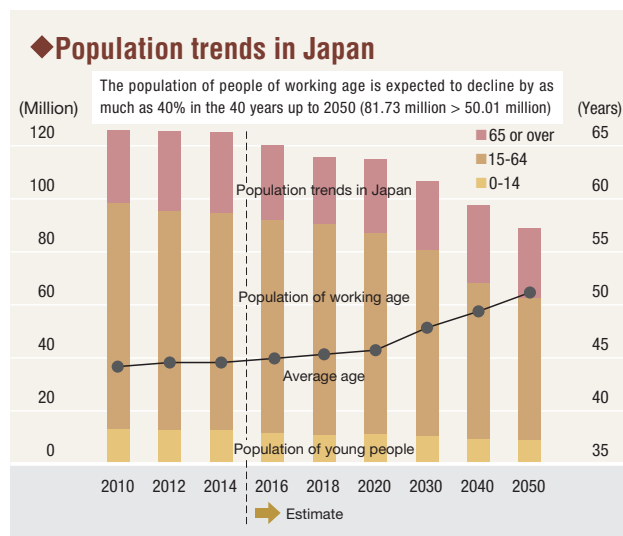
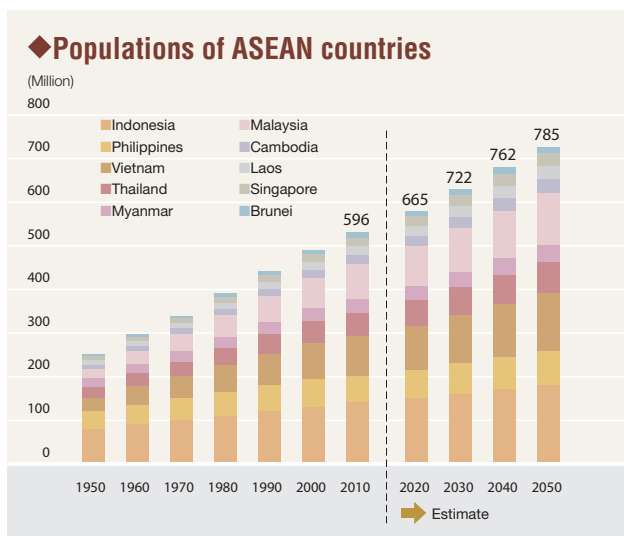
In recent years, a string of scandals has damaged the image in Japan of food as being safe and worry-free. A recent incident in

which agrochemicals were found to have infiltrated frozen food was certainly not something other people have to worry about. With food safety again an important concern of consumers, manufactures of foods are expected to act on this issue. Worse, our Group which operates farms, faces the constant risk of an outbreak of some livestock epidemic such as avian influenza.

An important part of the answer to this problem is found in compliance and governance, together the axis on which we run. Since 2003, when the New Medium-Term Management Plan was launched, we have taken measures to strengthen internal controls to ensure high standards of compliance, quality assurance and JSOX (Japanese version of Sarbanes-Oxley Act) observance. The Group will maintain frameworks that ensure that every employee is completely familiarized with these issues.

### Creating Systems to Address Market Shrinkage and Lifestyle Changes in Japan

In the face of demographic change in Japan characterized by a falling birth rate and increasing numbers of aged, markets in Japan are shrinking. And the decrease in the number of people per household can be expected to generate more pressure for greater convenience and immediacy in dining. At the same time, we see increasing polarization between food customers seeking the best bargains and those looking for high value-added. The market is changing dramatically. For us to be able to detect these changes in market needs at an early stage and reflect them in product development, it is necessary for the organization to coordinate development, technology and marketing at all times and work through alliances. We will set about this task through reform and branding strategies, based on the new Group brands.



## New Medium-Term Management Plan Part IV: Progress in Second Year (Ended March 31, 2014)

### Sales Target of ¥1.1 Trillion Achieved, Growth Picks Up

In the New Medium-Term Management Plan launched in 2003, the priority in Parts I, II and III was overhaul of internal systems, and reform of the structure of the organization. Supported by a strengthened the Group internal structure and financial position thanks to measures taken up to Part III, we shifted our focus to growth strategy for the future in Part IV of the plan, beginning in 2012, with aggressive capital spending to boost efficiency and investments in high capacity production lines for better cost performance.

For the second year of Part IV of the plan, ended March 2014, we had set targets of net sales of ¥1,060.0 billion and operating income of ¥34.0 billion. We surpassed both, with net sales coming in at ¥1,122.1 billion and operating income at ¥35.7 billion. Net income improved year on year to ¥24.5 billion, from ¥16.5 billion, and return on equity from 5.6% to 8.0%.

Steady progress in purely numerical terms however did not mean that the pathway to this success was necessarily all that smooth. Due to the high cost of raw materials, the Processed Foods Business Division fell short of operating income targets. However, in the Fresh Meats Business Division, we were able to surpass targets due to significant improvements in Australian businesses and steady market prices in Japan.

#### ◆New Medium-Term Management Plan Part IV

### Shifting up for growth

- Aggressive investment in growth and efficiency
- Rigorous brand management
- Improvement of shareholder value (dividend policy based on the consolidated business performance)

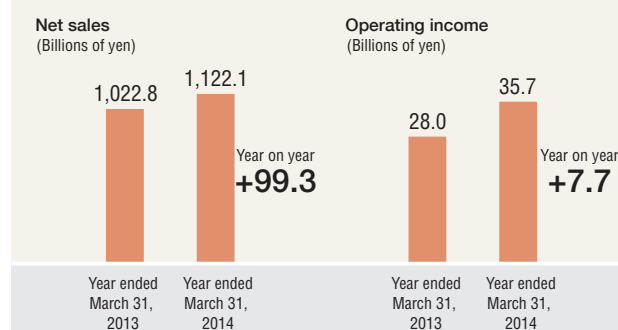
### Bringing Australian Businesses out of the Red and on the Road to Higher Sales and Earnings

Among our overseas businesses, the standout was our Australian businesses. Due to high live-hog prices and a high Australian dollar, Australian businesses have languished in the red for many years, but we managed to significantly improve sales and earnings in the year ended March 31, 2014.

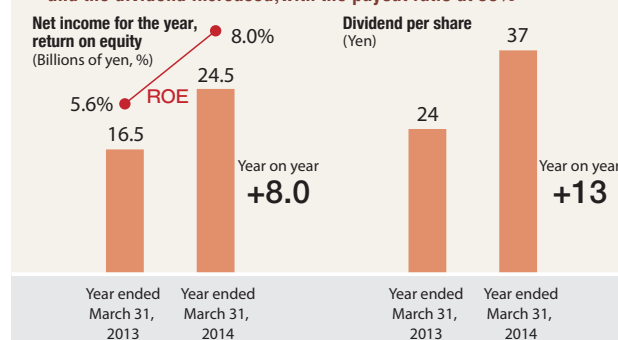
A policy of selection and concentration of resources had been adopted at the Australian businesses, characterized by withdrawal from unprofitable operations such as the leather business and changes to length of fattening times for cattle. In the year ended March 2014, the focus fell on strengthening marketing systems. By analyzing customer needs in the market, we were able to develop means of satisfying them in the products.

In addition to strengthening marketing systems, the Australian businesses also benefited from a combination of tailwinds — a weakening of the Australian dollar, leading to a more favorable exchange rate, improved operating rates at

#### ◆Targets missed, but sales and earnings rose again year on year



#### ◆In the year under review, net income and return on equity improved, and the dividend increased, with the payout ratio at 30%





plants, and improvement in the global export environment.

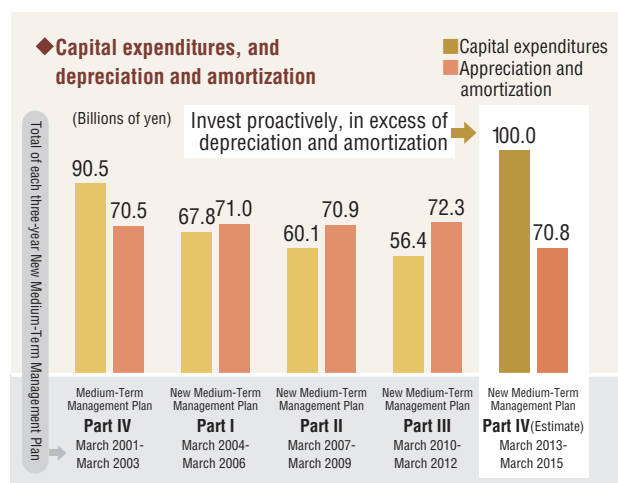
Various companies have launched businesses in Australia, and some have had to withdraw from that market because they could not turn a profit. Against this backdrop, the Group remains committed to its Australian businesses while overhauling operations there, in light of market predictions of growing global demand for exported Australian beef. At the moment, we export Australian beef to 20 countries, and expect demand to increase in the newly emerging markets. There is no doubt that the presence of Australian-reared beef will increased.

## Building Up Corporate Strength through Aggressive Investments in the Future

Under Part IV of the New Medium-Term Management Plan, the Group is changing gear for growth, supported by priority targeting of management resources. As of April 2014, we operated farms in 447 locations (384 in Japan and 63 overseas), plants in 95 locations (73 in Japan and 22 overseas) and logistics and marketing hubs in 370 locations (340 in Japan and 30 overseas). We are currently investing a total of ¥100.0 billion in bases including these facilities during the three years of the

New Medium-Term Management Plan Part IV.

We are further accelerating initiatives to increase market share. In addition to speeding up existing plant production lines, installing high capacity new lines and expanding marketing facilities, we are making investments in OEM businesses for CVS to expand our business domains and enable us to respond promptly to customer needs.



## Details and plans of major investments in the New Medium-Term Management Plan Part IV

	Investment targets and totals		(Billions of yen)
Processed Foods Business Division	Investments to increase productivity	<ul style="list-style-type: none"> <li>● Installation of production lines in ageing plants, installation of high-speed and high-capacity lines</li> <li>● Construction of new plants</li> </ul>	10.5
	Investment in expansion of business domains	<ul style="list-style-type: none"> <li>● New businesses</li> </ul>	8.5
Fresh Meats Business Division	Investments for increased supply capacity	<ul style="list-style-type: none"> <li>● Establishment of farms</li> <li>● Installation of new lines in ageing processing plants</li> </ul>	9.5
	Investments in improving marketing capabilities	<ul style="list-style-type: none"> <li>● Expansion of scale of marketing facilities</li> <li>● Improvement in processing capacity at slaughterhouses</li> </ul>	10.1
Affiliated Business Division	Investments in increased production capacity tailored to demand growth	<ul style="list-style-type: none"> <li>● Expansion of canning plants</li> <li>● Expansion of production lines for cheese business</li> </ul>	10.9
Other investments	Various maintenance measures		50.5
	Total		100.0

## New Medium-Term Management Plan Part IV: Measures for the Final Fiscal Year (Ending March 2015)

### New Medium-Term Management Plan Part IV: Measures for the Final Fiscal Year (Ending March 2015)

Net sales: ¥1,140.0 billion

Operating income: ¥40.0 billion

Net income: ¥24.0 billion

Operating income ratio: 3.5%

Return on equity: 7.3%

The Company faces a very tough business environment in the year ending March 31, 2015. Market prices for pork used by the Processed Foods Business Division are at record high levels, and other raw materials are surging ahead of our forecasts. In the Fresh Meats Business Division, the Australian businesses, which made a significant contribution to operating income last year, purchasing costs are set to rise, and the number of cattle sold to decline. Consequently, we are expected to sell fewer live cattle in the year ending March 2015.

Faced with these headwinds, we are targeting net sales of ¥140.0 billion, operating income of ¥40.0 billion and net income of ¥24.0 billion, while continuing with existing measures to

expand earnings through aggressive investment in growth and efficiency strategies. We have set a target for return on equity of 7.3%, more than the 7.0% final target in the New Medium-Term Management Plan Part IV.

To deal with the surge in raw materials prices in the Processed Foods Business Division, we are taking measures to cut costs by installing high-capacity straight lines in the new building at the Nipponham Factory's Ibaraki Plant, and through efficiency-boosting measures such as supply chain management. Given that prices are rising so high we cannot expect to absorb them all through streamlining measures, we will be revising prices on major products on July 1, excluding the *SCHAU ESSEN* range. We have now achieved total cumulative sales of *SCHAU ESSEN* of ¥1 trillion (at retailers) since the launch of the line 30 years ago. We are aiming for sales of ¥60.0 billion a year by prioritizing marketing of *SCHAU ESSEN*, to building up decisive differentiation compared with rival companies.

In the Fresh Meats Business Division likewise, we aim to become No. 1 in cost competitiveness in the livestock industry in Japan through structural reforms in upstream operations, and will refine our brand and marketing channel strategy for fresh meat, to improve profitability in this business. In our Australian businesses, we plan to expand our share of beef production and processing in Australia, while seeking out ideal marketing partners.

We will also strengthen marketing in the Affiliated Business Division through development and proposal marketing of high value-added products developed in-house.

## Strategy by business division

### Processed Foods Business Division

- Take measures to deal with a Japanese market characterized by a falling birth rate and graying
- Promote overseas businesses aggressively
- Develop a brand strategy to compartmentalize and differentiate national and private brand products
- Optimize production operations and take measures to bring costs down
- Rationalize operations using high-capacity lines

### Fresh Meats Business Division

- Increase the proportion of fresh meat sold under our branded fresh meats, and create a business model that is invulnerable to market price fluctuation
- Take account of the TPP, leverage the lower costs of imported fresh meat,
- Take measures to increase the productivity of pig-farming in Japan
- Strengthen and expand overseas business strategy

### Affiliated Business Division

- Further expand market share of growth business such as processed marine products, cheeses, and yogurts
- Through alliances and mergers, increased operational scale and improve ability to deal with exchange-rate risk and soaring raw material prices
- Create other drivers of growth



## Leverage the Strength of Individual Overseas Bases, and Further Expand Overseas Business

Strengthening overseas bases and sales are also important policies in the New Medium-Term Management Plan Part IV. Overseas sales grew to 8% of total sales in the final fiscal year of Part III of the Plan, and to 9% in the year ended March 31, 2014. Our aim is to increase that to 10% in the last fiscal year of Part IV of the Plan.

We now operate 32 companies in 16 countries, after initially setting up operations in America in 1977 and Australia the following year. In the second year of Part IV of the New Medium-Term Management Plan, the sound earnings performance in Australian businesses was a bright spot for overseas businesses, and now we plan to expand sales as a priority in the countries of the Association of South-East Asian Nations (ASEAN), where economic growth is expected. We are strengthening domestic sales within Thailand and Vietnam, creating chicken businesses in Myanmar, launching a trading company in Hong Kong in China, and setting up an extract business in Taiwan. In addition to our European base in the United Kingdom, we opened an office of the Fresh Meats Business Division in Düsseldorf in Germany in 2012. Looking ahead, we are exploring business opportunities in Europe while strengthening market research there.

To expand sales of our overseas businesses, it is necessary to strengthen sales in each individual country as well as trading among different countries, and this means we need greater global integration and better logistics. In the New Medium-Term Management Plan Part V, we plan to increase overseas bases to approximately 20 countries, and will look at Indonesia, Cambodia, Russia and the Middle East.

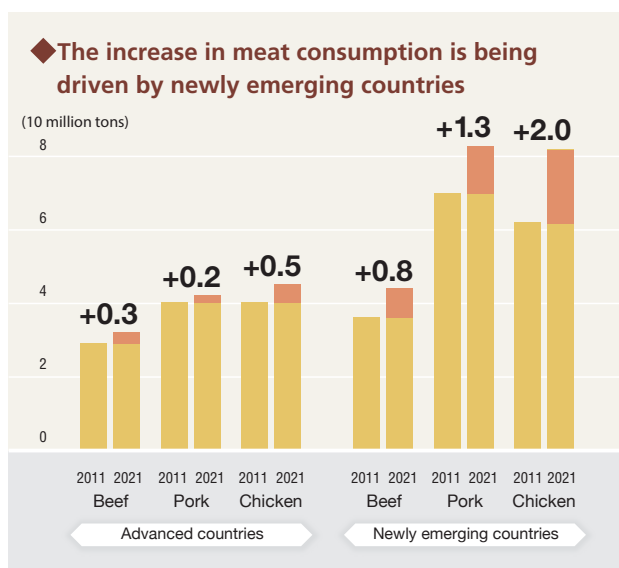
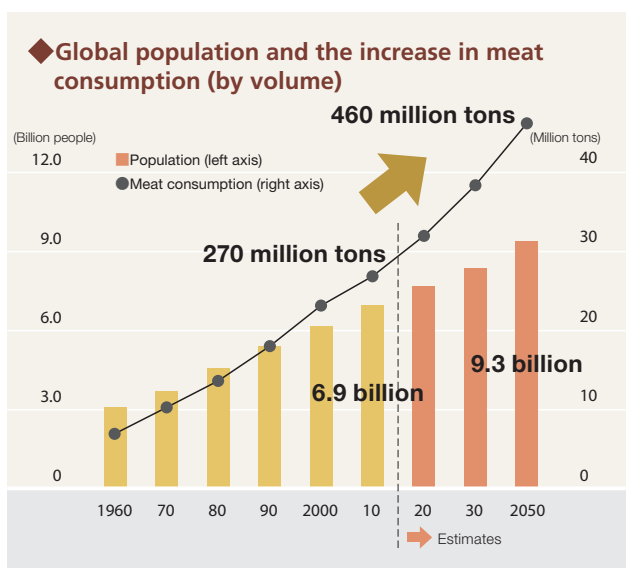
## Improving Capital Efficiency and Optimizing Funding Efficiency to Increase Shareholder Value

### Maintaining a Stable Financial Position

In 2003, our debt/equity ratio was 0.86 times. We have now reduced that to 0.5 times, by reengineering our internal systems through organizational overhauls and restructuring, combined with core competence selection and concentration.

As things stand, we are close to the optimal capital and debt structure, which is a debt/equity ratio of approximately 0.5 times. Given the sound state of our financial position, it is possible for us to make capital investments in greater efficiency and higher capacity. In the year ended March 31, 2014, we issued euroyen convertible bonds with face value of ¥30.0 billion maturing in 2018, through private placement, and took measures to improve capital efficiency through acquisition of treasury stock in a total of approximately ¥30.0 billion.

In May 2014, we retired 24,445,350 shares of treasury stock. Looking ahead, we may make further acquisitions of treasury stock as part of our capital policy, if changes in the business environment so require.



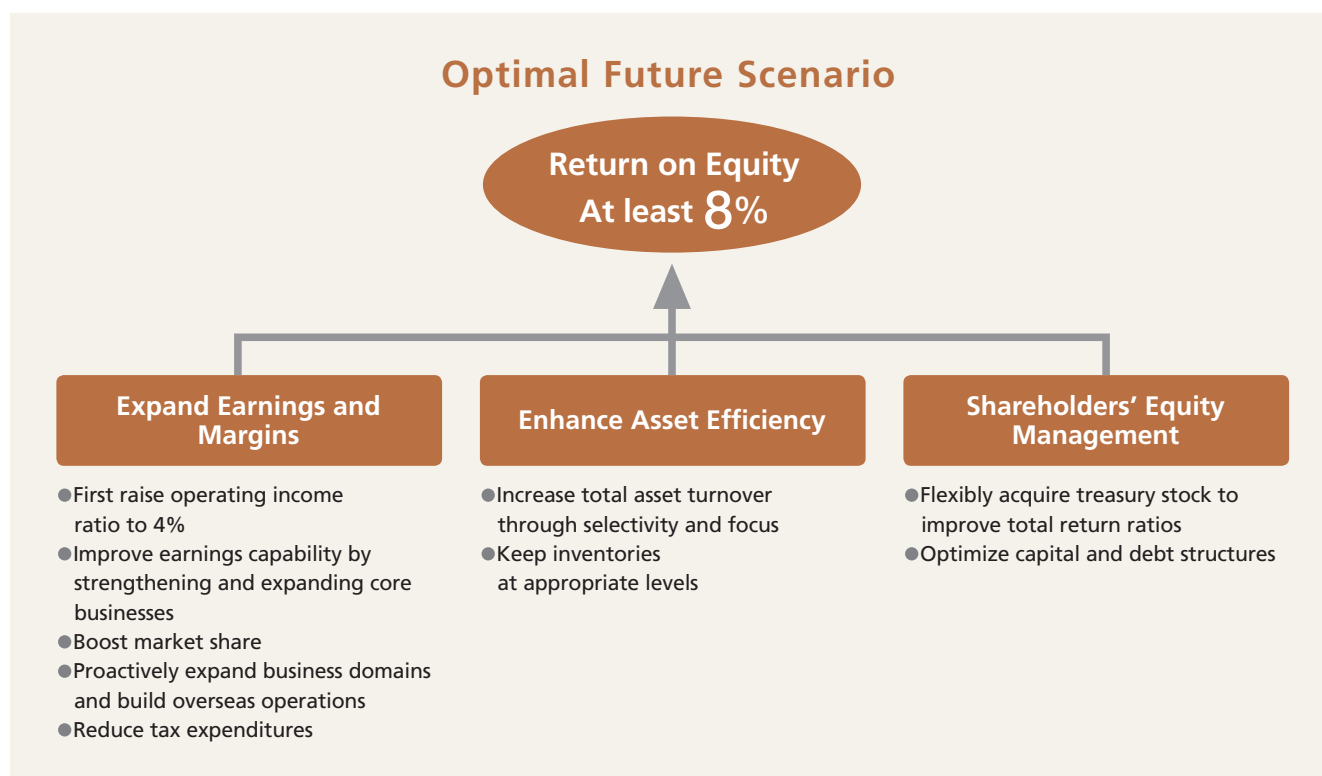
## Increasing Return on Equity and Improving Shareholder Returns

To increase return on equity, the Group is pursuing sales and earnings growth strategies, coupled with capital financial strategies which aim at optimizing capital efficiency (that is, meeting the return on equity target through improvement in asset turnover, maximization of earnings and improvements in profit margins, while holding down financial leverage). In the fiscal year ended March 31, 2014, due to the increase in shareholder capital from the conversion of convertible bonds, we made acquisitions of treasury stock, suppressed dilution of stock (to maintain earnings per share) and restructured debt.

We see increased ability to generate cash flows and improve return on equity as ways of improving corporate value under a management policy of rewarding shareholders. In order to create improved shareholder value, we will improve capital efficiency by increasing return on equity on a companywide basis, and increase funding efficiency by prioritizing return on invested capital in our businesses operation.

## Rewarding Shareholders

By reconciling business operation and capital strategy, we are committed to further growth of the Group through a unstinting commitment to improved management. We aim to improve overall shareholder returns by raising the consolidated dividend payout ratio to 30%, and, whenever necessary, making supplementary acquisitions of treasury stock.





# Further Growth by Enhancing Brand Value

From its beginnings as manufacturer of hams and sausages, the Group has extended its activities into all fields including fresh meat, processed foods, marine and dairy produce, natural flavorings and value of the "Bounty of Nature," show an uncompromising commitment to quality, and remain at the forefront in our exploration of the new potential of food.

### The Early Days (1942~)



Tokushima Ham's main Plant circa 1955.

**Founded the Tokushima Meat Processing Plant**  
(the predecessor of Tokushima Ham Co., Ltd., which was formed later, and the current the Group)



Winnie



Buntatta Sausage



Sauce for Yakimiku (grilled meat)



Thin-Sliced



Chicken Nugget



SCHAU ESSEN



CHIKICHIKI Bone



Vanilla Yogurt

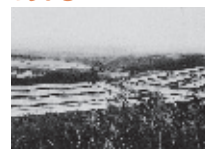
## 1973~

### 1973



Pro-baseball team Nippon-Ham Fighters Baseball Club, established

### 1973



Implemented an integrated production system for fresh meats with establishment of Nippon Pork Co., Ltd. (now Nippon Food Packer Kagoshima, Inc.)

## 1963~

### 1963



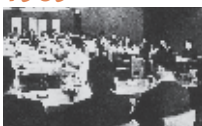
Merger with Torisei Ham Co., Ltd.; company name changes to Nippon Meat Packers, Inc. (now NH Foods Ltd.)

### 1968



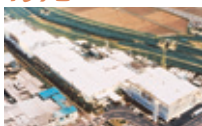
Full entry into farming and meat marketing business/Nippon Broiler Co., Ltd./currently Nippon White Farm Co., Ltd.)

### 1969



Introduction of customer input in product development under the Consumer Delegate Committee System

### 1972



Enters processed foods business, in which value is added to fresh meat/Isahaya plant

## 1983~

### ◆ Expansion of businesses throughout Japan

#### 1984



Nippon Dry Foods Co., Ltd.

#### 1992



Kansai Luna, Inc. (now Nippon Luna, Inc.)

#### 1995



Nippon Pure Food, Inc.

### ◆ Full development of overseas businesses in Asia, Europe, America

#### 1986



Nippon Meat Packers U.K. Ltd. (now NH Foods U.K. Ltd.)

#### 1988



Establishment of integration system in overseas operations/Whyalla Feedlot in Australia

#### 1989



Thai Nippon Foods Co., Ltd. (Thailand)

1977



Began overseas expansion with acquisition of Day-Lee Meats, Inc., of Los Angeles, USA (now Day-Lee Foods, Inc.)

1981



Entered the marine foods processing business/Marine Foods Corporation



Chuka Meisai Happousai



Tenshinkaku Niku Gyoza



Celeb no Jikan Placenta Drink



Utsukushi-no-Kuni gifts



Shinsen Seikatsu "ZERO" series



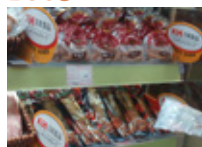
ROLF Baby Cheese series



Sakurahime locally packaged chicken

2005~

2005



Nippo Food (Shanghai) Co., Ltd., China: Stepping up localized production for local markets.

2011



Nippon Golden Pig Joint Stock Company (Co., LTD.) (now NH Foods Vietnam Joint Stock Company) (Vietnam)

2014



Nipponham Group

The Company is changing the Group brand logo.

The Group conveys its new determination to realize "Enhancing the Group brand value," one of the management policies of the New Medium-Term Management Plan Part IV

## The new Group brand logo expresses the Group's determination to

- Take on the challenge of entering a stage as a fully united the Group
- Evolve into a company that is customer oriented, people friendly, cordial, and approachable
- Become a global company that is the trusted and chosen by customers, as it is in Japan

The Group aims to use its new brand logo to steadily undertake brand management as well as increase awareness of its ideas, products, and services to be a chosen by people worldwide.

2003



Hoko Suisan Co., Ltd. (now Hoko Co., Ltd.)

and Australia

2001

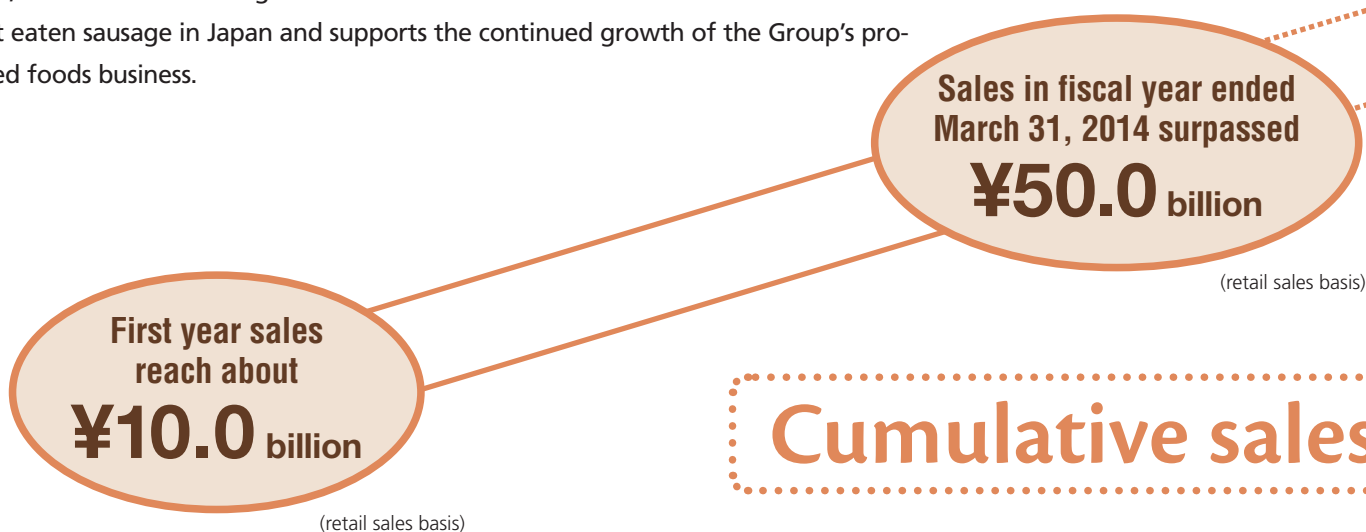


Weihai Nippon Shokuhin Co., Ltd.



# Longtime Selling Brand Supports our Continued Growth

Genuine coarse-ground wiener sausage *SCHAU ESSEN* has a flavor of firm and juicy that is loved by many and has grown into a best-selling brand that is representative of the Group. Since its launch in February 1985, cumulative sales have reached nearly 28 billion wiener sausages. If we lined the weiners up end-to-end, they would be 2,490,000 kilometers in length and would stretch 62 times around the earth. It's the most eaten sausage in Japan and supports the continued growth of the Group's processed foods business.



## Birth of Authentic Coarse-Ground Wiener *SCHAU ESSEN*,

Becomes a hit product along with the TV commercial "Delicious things have a sound"



Commercial marking *SCHAU ESSEN*'s launch

# 1985

2004	2007	2008
Smile Café opens to commemorate 20th anniversary of <i>SCHAU ESSEN</i> launch	"Utmost Quality" TV commercial aired	"Orchestra" TV commercial aired
Small <i>SCHAU ESSEN</i> sales begin		

Toshinobu Kubota TV commercial series begins	Ono Plant (Hyogo Prefecture) opens <i>SCHAU ESSEN</i> production line expanded	Long <i>SCHAU ESSEN</i> sales begin
1994	1996	1997

*SCHAU ESSEN* received the Long-Seller Award at the 28th Hit Food Awards



*SCHAU ESSEN*  
coarse-ground wiener

# 30th

*SCHAU ESSEN* is now commemorating its 30th anniversary since sales first began in 1985. As a commemorative project, we opened *SCHAU ESSEN* Travel Café's in Roppongi, Tokyo, in April 2014 for a limited one-year period. During this period, café visitors can enjoy three-minute boiled *SCHAU ESSEN*, the cooking method recommended by the Group. A menu of seasonal dishes is also available. For children, we opened a "Sausage Workshop" pavilion at KidZania Koshien where we teach them the importance of food. Adjoining the café's are shops that sell *SCHAU ESSEN*.

## reach ¥1 trillion

(retail sales basis)

2009	2010	2013
25th anniversary campaign of <i>SCHAU ESSEN</i> sales ----- "Musical" TV commercial aired	<i>SCHAU ESSEN</i> receives the Long-Seller Award at 28th Hit Food Awards!	" <i>SCHAU ESSEN</i> is an Event!" TV commercial aired ----- <i>SCHAU ESSEN</i> Dinner Long sales begin
" <i>SCHAU ESSEN</i> Quality Series" TV commercial begins	No. 1 production capacity in Asia after new facility built at the Ibaraki Plant	Introduce freshness control system Preservatives eliminated from <i>SCHAU ESSEN</i> ----- "Open Factory" tours begin
1999	2000	2002

## 2014

*SCHAU ESSEN* Travel Café opens in Roppongi for limited one-year period to commemorate 30th anniversary



Exterior of *SCHAU ESSEN* Travel Café



Interior of *SCHAU ESSEN* Travel Café

"Sausage Workshop" pavilion where children can experience sausage-making and *SCHAU ESSEN* sales shop open at KidZania Koshien



Sausage Workshop pavilion



*SCHAU ESSEN* sales shop



The Brand that is  
Repeatedly Chosen



What was delicious is now more delicious  
and mealtime has become more appealing,  
eating with your dearest friends and family.  
The Group will continue to create the  
future of food by providing food for  
a wide range of lifestyles.

### Breakfast



Easily present a more delicious  
and enjoyable breakfast with  
a little creative twist

#### Irodori Kitchen Loin Ham



Using roast pork, we created  
this high-quality loin ham with  
a refreshing flavor and a true  
meat aroma

#### Mori-no-Kaori Coarse-Ground Wieners



A mixture of four types of  
smoked wieners. Microwavable  
and very convenient for busy-  
mornings.

#### Sucre et Sucre Ricotta Cheese Pancakes



Simply heat in a microwave or  
toaster oven to enjoy high-end  
pancakes with your family

#### Acai Yogurt Bowl



Probiotic yogurt with the  
simple taste of acai and a  
banana flavor that pervades  
the mouth.

## Petite Party



Provides an easy-to-arrange, entertaining menu for parties with your dearest friends.

## Barbecue



This simple and convenient barbecue will set the stage for mealtime communication

### Entier Lemon & Parsley



Salt-free wieners modeled on authentic European sausages. With a refreshing lemon and parsley aftertaste.

### Chuka Meisai Sweet and Sour Pork



Our staple *Chuka Meisai* is a popular brand. Just add onions and it's done! Sauté for five minutes and you've cooked up sweet and sour pork with no hassle.

### Coarse-Ground Gourmet Steak



A large juicy steak made of coarse-ground sausages rolled in pork rib meat.

### CHIKICHIKI Bone Spicy Flavor



Spicy boned chicken wings dipped in a spicy batter and fried in vegetable oil until crispy

### Vegetable Delicacy Shiokoji Salmon



Fresh, brightly-colored salmon with added salt and koji. With a tomato taste, you will enjoy eating this taste treat.

### ROLF Baby Cheese for Adults with Cod Roe Taste



With a piquant cod roe flavor. Enjoy its refreshing aroma with a yuzu flavor.

### Sakurahime



Chicken featuring pink meat that is almost transparent and has three-times more vitamin E

### Barley Beef



An Australian brand of beef that the Group raises by integrating everything from introducing feeder cattle to handling, processing, distribution and sales.



# Sales Overview

## Processed Foods Business Division



Share of net sales

Sales  
¥351,994 million

(up 3.8% year on year)

Operating Income  
¥6,481 million

(down 32.2% year on year)

\* Sales share is after eliminations, adjustments and others.

\* Net sales figures above are for operating segments and include intersegment transactions.

## Main Products

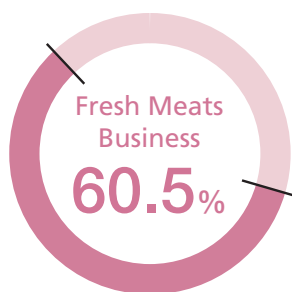
### Hams and Sausages Business



### Deli and Processed Foods Business



## Fresh Meats Business Division



Share of net sales

Sales  
¥766,509 million

(up 13.8% year on year)

Operating Income  
¥26,815 million

(up 72.3% year on year)

\* Sales share is after eliminations, adjustments and others.

\* Net sales figures above are for operating segments and include intersegment transactions.

### Imported Fresh Meats Business



### Domestic Fresh Meats Business



## Affiliated Business Division



Share of net sales

Sales  
¥148,138 million

(up 7.6% year on year)

Operating Income  
¥998 million

(down 34.6% year on year)

\* Sales share is after eliminations, adjustments and others.

\* Net sales figures above are for operating segments and include intersegment transactions.

### Marine Products Business



### Dairy Products Business



### Other Businesses



## Business Model



### Product Development

We seek to increase demand in our pursuit of delicious hams and sausages. We develop new cooked foods with authentic homestyle flavor you will enjoy.



### Production

Each of our 23 domestic and six overseas plants has obtained Hazard Analysis and Critical Control Point (HACCP) system and ISO certifications and maintains strict sanitary controls.



### Logistics

Utilizing our 15 logistics centers nationwide, we have created a logistics network that covers all of Japan.



### Sales

At our approximately 70 sales bases throughout Japan, we allocate specialists according to segment for supermarkets, convenience stores, restaurants, and other customers to swiftly meet their needs.



### Production

The Group breeds its own cattle, hogs, and chickens. As a producer, we own 120 domestic and 10 overseas farms.



### Packing and Processing

With 18 domestic and three overseas plants, we process and package our own products.



### Logistics

Owning one of the nation's largest distribution centers in both East and West Japan and a state-of-the-art international logistics facility, we have set up our own nationwide logistics system.



### Sales

With 116 sales offices and bases set up in Japan's major cities, we carry out direct community-based sales in every region.



### Marine Products Business

Production and sales of processed marine products



### Dairy Products Business

Production and sales of cheese and other dairy products. Production and sales of yogurt and lactic acid probiotic beverages



### Other Businesses

Production and sales of freeze-dried foods. Production and sales of health foods



# Sales Overview

## Processed Foods Business Division

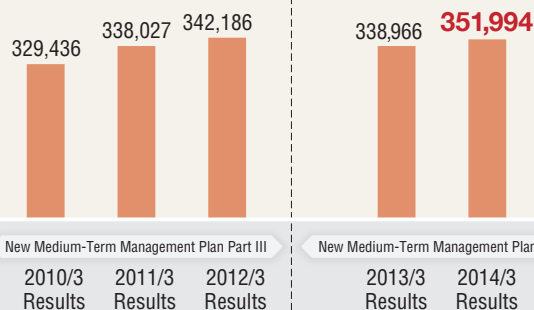
Based on High Productivity,  
with Value Proposition Marketing,  
We Create Products that are  
Market Competitive



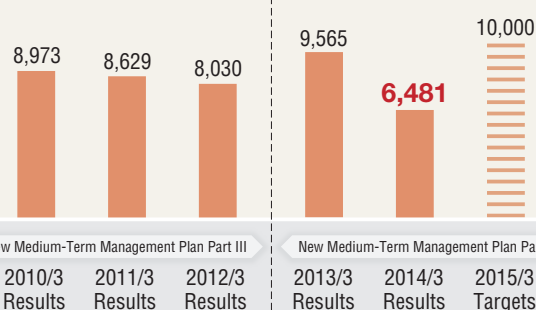
**Koji Uchida**  
Director and Senior Managing Executive Officer,  
General Manager of Processed Foods Business Division

## Progress of Medium-Term Management Plan by Segment

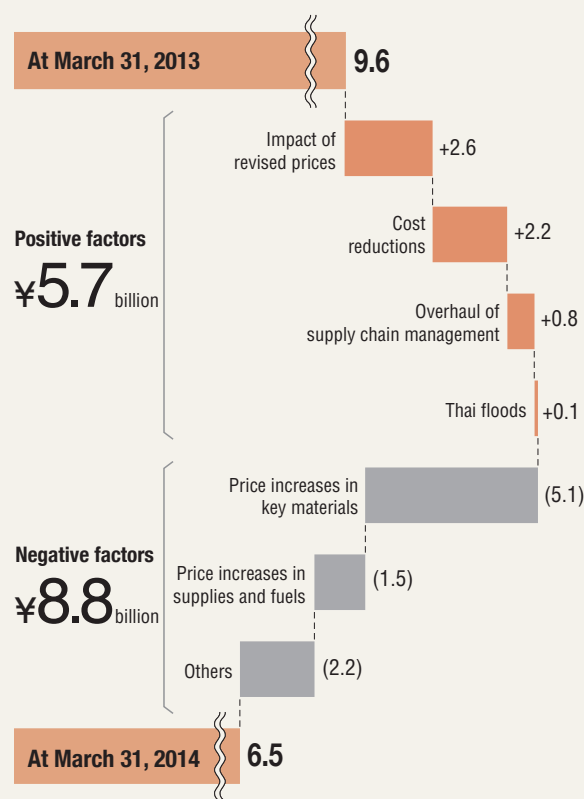
### ◆Net sales (Millions of yen)



### ◆Operating income (Millions of yen)



### ◆Operating Income Factors (Billions of yen)





## Strategy for Processed Foods Business Division for Fiscal Year Ending March 31, 2015

### Seeking to Raise Operating Income Ratio with Our Product Development, and Marketing Capabilities and High Productivity

With the domestic market shrinking in size, we are implementing our strategy of developing overseas operations over the medium to long term. At the same time, we will continue to establish the company's position in the food market and take measures to vigorously expand. A major theme of these measures is to raise the operating income ratio by improving product development and marketing capabilities and with high productivity.

In addition, possessing production development networks in every region of the world, the processed foods business is aiming to improve sales and operating income ratio with its marketing capabilities.

Above all, in the current fiscal year, we are seeking to raise our brand value by renovating the Group brand to give it a more distinctive character based on its "power of the brand" and "value."

### Product Development that Anticipates Market Needs and a Value-added Product Strategy

The Group possesses unrivaled products including *SCHAU ESSEN*, *Chuka Meisai*, and *Ishigama Kobo* that boast dominant market shares in their categories and we will steadily raise earnings by focusing on their sales expansion.

In Japan, demands of foods are changing as the social structure and family makeup change. Along with an increasing need for meals of separate dishes and easy-to-cook foods, consumers have polarized into those who want high-quality products and those who want low-price. We will continue to develop products that meet the needs of both consumer groups.

While we are maintaining current levels of private brand (PB) products, a market where volume continues to grow, having further perceived market needs, we are expanding national brand (NB) products that leverage power of the brand. By doing so, we will raise our operating income ratio.

#### ●Sales of Core Consumer Brands Compared with the Previous Fiscal Year (FY2014/3 results)

Hams and Sausages	<i>SCHAU ESSEN</i>	105%
	<i>Mori-no-Kaori coarse-ground wieners</i>	88%
	Hams	96%
	Bacon	106%
	Yakibutas	100%
Deli & Processed Foods	<i>Ishigama Kobo</i>	100%
	<i>Chuka Meisai</i>	100%
	Prefried	95%
	Hamburg and meatball	116%
	Curries	111%

#### ●Sales by Channel Compared with the Previous Fiscal Year (FY2014/3 results)

	Consumer	Commercial	Total
Hams and Sausages	104%	101%	103%
Deli & Processed Foods	102%	103%	102%

#### ●Sales of Gift Products (FY2014/3 results)

	Fiscal 2013 (Thousands of units)	Change
Summer gifts	2,075	102%
( <i>Utsukushi-no-Kuni</i> )	378	120%)
Year-end gifts	4,675	98%
( <i>Utsukushi-no-Kuni</i> )	780	107%)
Total	6,750	99%
( <i>Utsukushi-no-Kuni</i> )	1,158	111%)



## Aggressive Overseas Expansion and Cost Leadership based on Greater Efficiency

In the overseas expansion of business, we have prioritized local domestic sales. In the current fiscal year, we will raise overseas sales targeting ASEAN. The Group wants to meet the needs of ASEAN countries with chicken processed foods, the Group specialty. Leveraging our bases in the United States, Thailand, China and Mexico, we will pursue alliances and mergers and acquisitions with local companies and speed up the establishment of local product development, production, and sales systems.

To streamline our production system, we prioritized the allocation of management resources, a strategy of the New Medium-Term Management Plan Part IV, by investing in plant production lines. As part of this investment, we constructed a new facility at our Ibaraki Plant, where we installed a state-of-the-art continuous production line for high productivity. We will achieve cost leadership with an efficient production line and raise productivity per person, which will lead to higher profits. Further, we completed our in-house logistics system which combines distribution center functions and plant mainline distribution, thereby raising our cost competitiveness.

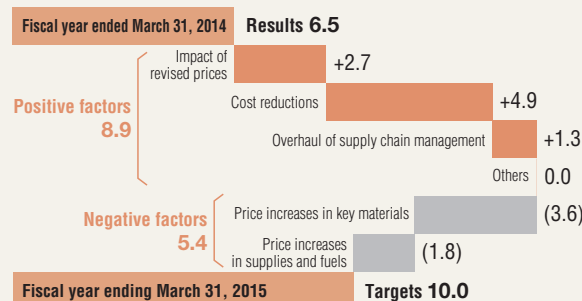
## Gain New Buyers through Marketing Based on Themed Product Groups

One of the Group's advantages is its strength in team marketing. Value-added proposition products that include various scenes where food is provided and recipes leverage team marketing.

We have developed product solutions tailored to consumer lifestyles such as *Sucre et Sucre* series pancakes, under the theme of "Morning Home Café," and *MeiSter Select* series, hors d'oeuvres to be eaten with wine at home, which are based on this concept. We will continue to develop products that have "theme value."

We consider prepared foods in a pouch, such as *Omotenashi Hyakusen*, to be growth products and are taking steps to increase their market share while finding ways to expand the number of shops they are sold in.

### ◆Factors in changes of full-year targets (operating income) (Billions of yen)



### Full-Year Status

#### Sales

- Sales expanded and revenues of hams and sausages increased, focusing on the major brand *SCHAU ESSEN* and the flagship gift brand *Utsukushi-no-Kuni*. In processed foods, *Ishigama Kobo*, Hamburg and Meatball series, and other products pushed up sales and revenues increased.

#### Operating Income

- Price revisions proceeded as planned and cost reductions were carried out, but the effects of key materials, supplies and fuels were significant and revenues decreased.

# TOPIC

## Processed Foods Business

### Ibaraki Plant's New Facility Begins Operation

～ Enhancing Cost Competitiveness ～

The new facility at the Ibaraki Plant, the main plant for the hams and sausages business, began operation.

The new facility was built at the Ibaraki Plant of Nipponham Factory Ltd. at a cost of about ¥7.0 billion. Installed in the three-storied building with a total floor area of 21,600 m<sup>2</sup> is a state-of-the-art, high-efficiency, continuous production line that enables efficient production of safe and secure products of high quality.

The new facility produces commercial products including frankfurter sausages and pressed hams. Because the products produced by the Group are centralized at this facility, greater efficiency is possible.

Operation of the facility will bring about higher productivity and strengthen cost competitiveness in the adverse environment, such as high raw material costs, that surrounds the hams and sausages industry.

As the core plant for the production of hams and sausages for the Group, it has the latest earthquake-resistant design. From the standpoint of risk management, the plant plays an important role in terms of stable product supply.



#### [New Factory Facility]

Name: Nipponham Factory Ltd.

Ibaraki Plant, Plant No. 1

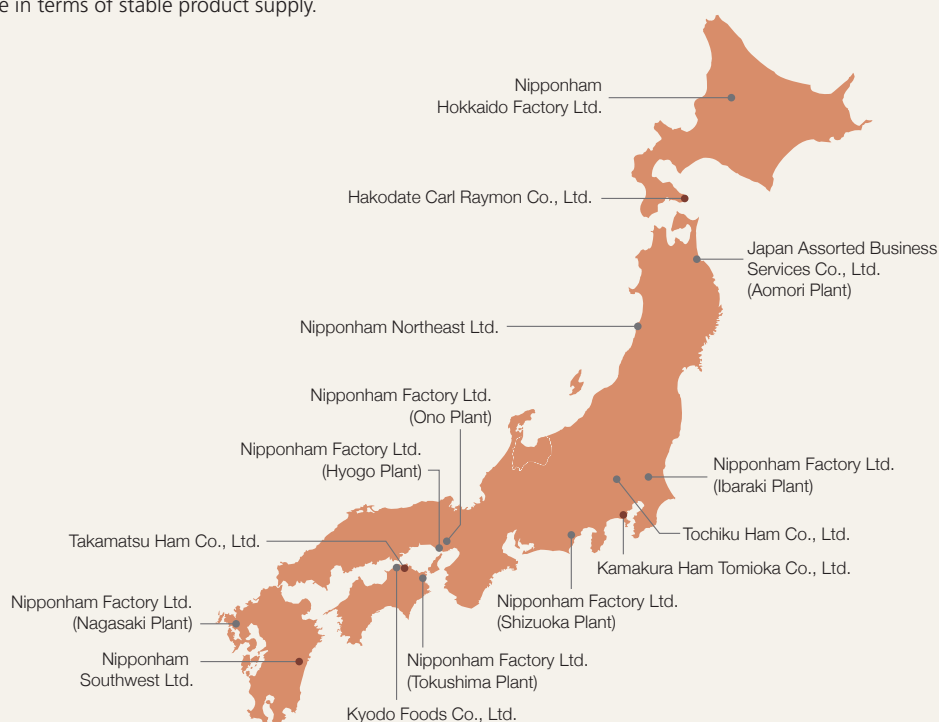
Address: 2-1-1 Midori-cho, Chikusei City,  
Ibaraki Prefecture

Production capacity: 15,000 tons per year

Floor area: 21,600 m<sup>2</sup>

Main products: Commercial hams and sausages,  
and gift products

Reference: The Group's  
domestic hams and sausages plants  
(15 locations)





# Sales Overview

## Fresh Meats Business Division

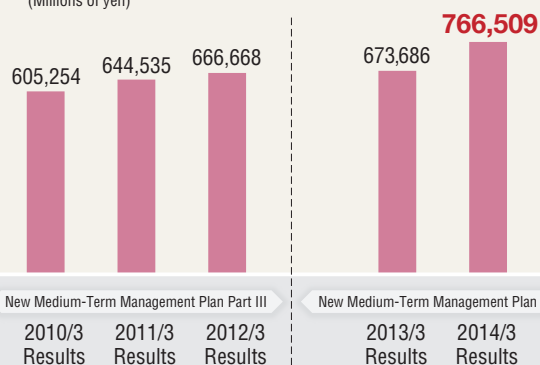
Create a System that is Resistant to Changes in the External Environment and Introduce Our Branded Fresh Meats to the World



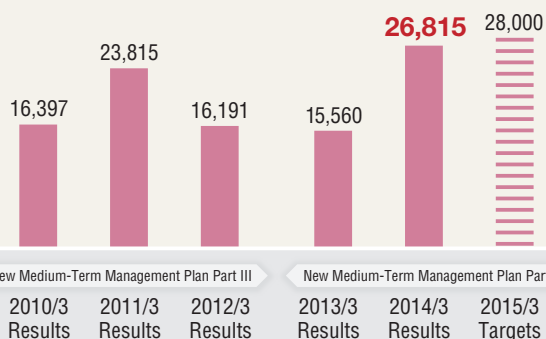
**Juichi Suezawa**  
Director and Senior Managing Executive Officer,  
General Manager of Fresh Meats Business Division

## Progress of Medium-Term Management Plan by Segment

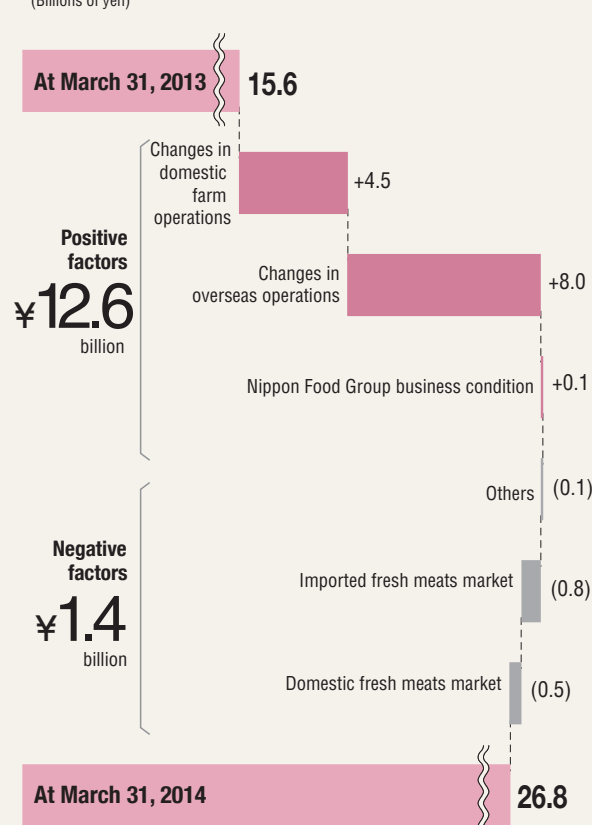
### ◆Net sales (Millions of yen)



### ◆Operating income (Millions of yen)



### ◆Operating Income Factors (Billions of yen)





## Strategy for Fresh Meats Business Division for Fiscal Year Ending March 31, 2015

### Increase the Sales Volume of Strategic Products and Aim for Higher Market Share

The Group's fresh meats currently hold the number one domestic market share at 22% (as of March 2014, on a volume basis). The Fresh Meats Business Division aims to raise its market share to 30% in the near future.

To raise the domestic market share, it is first vital that we secure staple products with constant sales volume potential. Starting from the New Medium-Term Management Plan Part IV, sales staff ensured stable sales through steady work, rather than posting sales which were unstable due to continuous spot sales influenced by market prices and trends.

During the current fiscal year, we will take additional measures to increase sales volumes. We will increase our share of staple products while building good relations with volume retailers. Further, we will launch value-added products like the *Sakurahime* brand of domestically produced chicken as strategic products and carry out

sales to capture additional market share. By increasing sales volumes, these branded fresh meats will steadily become well established in the market.

Moreover, we will increase imported fresh meats from between 420,000 to 460,000 tons annually to between 500,000 to 550,000 tons, and build a framework that helps to raise the share of imported fresh meats on the domestic market.

### While Susceptible to Risk, We Will Work on Developing Our Own Products.

Because the Fresh Meats Business Division is susceptible to outside influences such as exchange rate movements and market price fluctuations, we need to create a business model that is not affected by them. That is why, for one, I suggest value-added products, which I previously mentioned. A significant advantage of the Group is its integrated quality management system. Although livestock are susceptible to various diseases, the Group deploys a full communicable disease control system at its farms. To support quality, we need to spread the concept of "Management for No. 1 Quality" throughout the entire the Group and have a functioning system that includes traceability management. This kind of quality assurance adds value to the product and is a major selling point.

Many points are unclear about the TPP, such as when it will start

#### Production Businesses in Japan

##### ① Feed prices

- Overseas corn prices have stabilized, but with the yen's depreciation, high corn prices are expected in the current fiscal year.

##### ② Farm operations in Japan

- Pork prices should be high with rising demand for domestic pork due to high prices overseas and a decrease in the volume of pork imports.
- Chicken prices are expected to stabilize at a high level due to a year-on-year decline in import and inventory volumes and high pork prices.

#### Overseas Operations

##### ① Australia

- Improve operating income ratio by reducing cost of sales and expand sales of brand products.
- Improve sales of Australian beef to ASEAN, China, Russia, and the Middle East.

##### ② the Americas

- The Americas PED subsidized after hitting a peak in February, but dressed carcass pork prices rose sharply. Prices are expected to be high compared with the previous year.

##### ③ Other (Europe/Asia)

- Europe will enhance sales of *Danish*, *German*, *Italian*, and *Spanish Pork* to Japan

#### Domestic and Imported Fresh Meat Sales (Food Companies)

- Increase volume ⇒ Aiming for 105% compared with previous year
- Strengthen sales of fresh meat brands such as *Whyalleaf*, *Healthy Pork*, and *Sakurahime* and improve earnings structure.



and how it is implemented. At this point in time, we are unable to fully grasp how it will affect us. However, the advantage of the Group is that we have nearly 120 sales bases for fresh meat nationwide. We consider the TPP as a new business opportunity due to the fact that we already have a system for selling meats, which will be imported through TPP, as well as farms in both Japan and abroad where meat is born and bred.

## Overseas Business Will Devise “Systems” to Highlight Japanese Presence

In our overseas business, the region that tops the list for continued strengthening is the USA. In the USA, we have sales bases in Los Angeles and San Francisco and a hog farm in Texas. The USA was one of the Group’s first overseas bases, but we still do not have what you could call a flexible business presence. Today, Japanese food is attracting attention around the world. In since USA is one of the highly health-conscious country, we believe that safe and healthy Japanese food and dietary culture will find new demand. An increase in the number of bases in the USA is possible, so we plan to maintain our focus.

Our next target is China and Southeast Asia, and we are carefully moving ahead while considering collaboration with local companies. Since we established new bases in Hong Kong and Brazil this year, we will clarify the direction of our business while also conducting research.

## Future Distribution System Enhancement and Production Streamlining

To establish a solid foundation for distribution restructuring, we started a project team. There are many issues to address such as domestic distribution facilities that include refrigeration, streamlining delivery routes, customs clearance for imported meat, and distribution routes. We want to take action after setting priorities based on a long-term perspective.

We will also continue to streamline meat processing plants in Japan and abroad with an eye on future labor saving. Overseas, we have a nearly unmanned processing and packing line, but not yet in Japan. We will take the initiative and achieve with the aim of streamlining production.

### ◆Factors in changes of full-year targets (operating income) (Billions of yen)

Fiscal year ended March 31, 2014		Results 26.8
Positive factors 4.9	Changes in domestic farm operations	+2.5
	Imported fresh meats market	+1.4
	Growth in Nippon Food Group business	+1.0
	Changes in overseas operations	(3.1)
Negative factors 3.7	Domestic fresh meats market	(0.3)
	Others	(0.3)
Fiscal year ending March 31, 2015		Targets 28.0

### Full-Year Status

#### Sales

- In Australian beef, focused on Whyalleaf and increased both volume and amount. In Japan, unit sales price was raised through rebound in domestic fresh meat prices and increase earnings

#### Operating Income

- Earnings increased due to improved domestic farm operations from raising market prices and dramatically improved Australian business

# TOPIC

## Fresh Meats Business

### Dramatic Earnings Improvement of Australian Business

#### Restructuring and Sales Strategy Make This an Important Group Business

The Group established NH Foods Australia Pty. Ltd. in 1978 and started a full-scale business in Australia. At that time, as part of the Group's internationalization strategy, which included countermeasures to the Japan's liberalization of beef imports, Australia was mainly positioned as a base for the supply of beef to Japan.

Since about 10 years ago, the price of feed and breeding cattle (before fattening) has risen due to drought and the cost of fattening cattle has increased, but this higher costs was not sufficiently passed on to export prices due to the strong Australian dollar. As a result, we remained in the red and were compelled to reexamine the business.

Since several years ago, we have been restructuring the Australian business, carrying out business structural reforms, overhauling the sales system, and reinforcing marketing. In the fiscal year ended March 31, 2014, the business improved and turned a substantial profit.

In order to build a structure capable of mitigating market risks, as part of our restructuring we streamlined work and launched value-added product brands. Specifically, we placed the highest priority on *Whyalleaf* brand products, integrated production and sales and carried out reforms.

In our sales strategy, not only did we position Australia as a supply base for Japan, we bolstered sales to China and other Asian countries. While collaborating with the Group companies in the country of sale, we gained new customers in the global market and propped up sales prices through stronger sales. In this way, we changed to a structure that enabled us to capture profits.

In addition, rising beef demand is expected in the Japan-Australia economic partnership agreement and ASEAN, thus making Australia an important business for the Group, and one that is attracting increasing attention.



Approximately 130,000 heads of Whyalla Beef Pty. Ltd. cattle are shipped annually from the Whyalla Feedlot, a vast area covering 6,000 hectares.



Oakey Beef Exports Pty. Ltd. (Oakey Plant)  
Oakey Beef Exports processes approximately 290,000 heads annually.



The Group's branded beef, (left) *Barley Beef*, (right) *Whyalleaf* logo

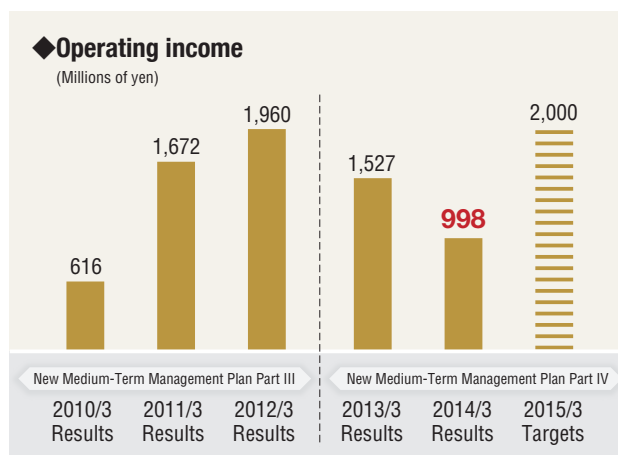
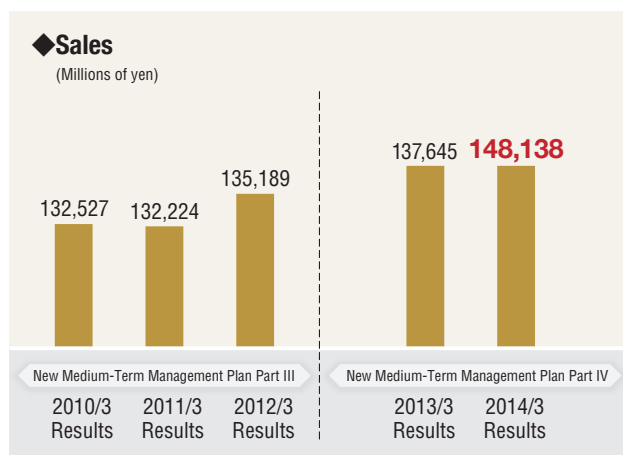
## Affiliated Business Division

Transform into a Unique  
“Third Business Pillar” by Improving  
Manufacturing Capabilities



**Koji Kawamura**  
Director and Executive Officer,  
General Manager of Affiliated Business Division

### Progress of Medium-Term Management Plan by Segment







## Strategy for Affiliated Business Division for Fiscal Year Ending March 31, 2015

### Reinforcing Craftsmanship with the Aim of Developing Products with a Market Presence

The slogan of the Affiliated Business Division's New Medium-Term Management Plan Part IV is "Building Affiliated Business into a Third Business Pillar by raising our manufacturing capabilities." In business fields outside the Fresh Meats Business Division and Processing Foods Business Division, the Affiliated Business Division will expand the new business domains of the Group. This will be done by ensuring that companies with individuality are meticulous about manufacturing and produce distinctive products, while at the same time they raise their presence in the market with integrated marketing which includes everything through sales and at the point of sales.

To that end, we have raised the following four themes in our New Medium-Term Management Plan Part IV, strengthening

"craftsmanship," "product development capabilities" and "solution sales capabilities" as well as "promoting brand management."

### In Categories with Growth Potential, Aggressively Make Capital Investments and Raise Productivity

We will strengthen craftsmanship, raise the quality of products made at our plants and production efficiency, and increase production volume. Therefore, in the New Medium-Term Management Plan Part IV, we are aggressively investing.

At Hoko Co., Ltd. in the room-temperature storage foods business, we expanded the Hachinohe Factory in the fiscal year ended March 31, 2012 and increased the production capacity of canned, bottled, and retort pouch foods. In the cheese business, we installed a new production line following the expansion of baby cheese sales. In the current fiscal year, we will build a new facility on the land adjoining the Yamato Factory in Kanagawa Prefecture and plan to begin its operation in August of next year (2015). Through these capital investments, we will firmly meet cheese demand, which is increasing yearly.

At Nippon Luna, Inc., we will increase the capacity of the second large beverage container line and further expand sales of yogurt

#### Measures to Expand Sales of Marine Products Business

##### Marine Foods

- Strengthen development of products based on customer viewpoint and in-store sales (provide food menus, etc.).
- Integrate the supply and sales departments for mainstay products and expand market share.
- Leverage Kushiro Marusui's strengths and reinforce manufacturing and sales of products that use ingredients produced in Hokkaido.

##### Hoko

- In ambient storage foods business (canned), reinforce product development and sales promotion, and expand sales of products produced at Hachinohe Factory.

#### Measures to Expand Sales of Dairy Products Business

##### Cheese

- Enhance baby cheese products and expand sales of consumer products.
- Provide more detailed proposals to customer and increase sales of commercial channels.

##### Yogurt

- Introduce distinctive high value-added products using proposal-based sales.
- Develop and increase sales of private brand (PB) products to convenience stores.

#### Trends in principal raw materials and secondary ingredients

- The price of cheese raw materials remains high due to global growth in cheese demand.
- The price of yogurt raw materials remains high due to decreased production volumes in Japan and increased demand overseas.

beverages. We are also considering the possible construction of a product supply system for the Tokyo metropolitan area.

Yogurt and cheese are products that truly match current health trends and demand is growing, even in Japan with its aging population and declining birthrates. We will take advantage of this opportunity to aggressively expand sales while setting up high-quality and high-productivity systems.

## Distinctive Companies and Products that Meet Market Needs

The Group will continue to develop products that meet customer needs and create new value and new markets. Because each of the companies in the Affiliated Business Division is not the top company in its industry, product differentiation takes on greater importance.

Hoko Co., Ltd. will develop commercial cheese suited to a wide range of consumer needs (such as restaurants and bakeries) including cheese that is put in hamburg and melted and cheese that is put in bread and doesn't shrink when baked. We are also developing distinctive products that cannot be found in today's market such as *Rakuchin! Cup* series, a retort food pouch consisting of a microwaveable container that is room-temperature storage enabled.

Nippon Luna's *SakuSaku Pan (crouton) x Dried Fruit Yogurt*, launched in April 2014, is yogurt in a single-serving container targeted at working women. It was developed based on the idea of an easy-to-eat breakfast from a single yogurt container. Since demand is expected to grow, the product will be serialized.

Marine Foods Corporation, with a stellar track record in sales of sushi ingredients, owns 50 sales offices nationwide which it

has direct control of, and has a powerful sales force. Meanwhile, Kushiro Marusui Co., Ltd., which became one of the Group companies in November 2013, has purchasing rights and a processing facility at the Eastern Hokkaido district fish market, and is a producer strong in purchasing power and processing technology. Leveraging Marine Foods and Kushiro Marusui's areas of specialization, it is now possible to produce Hokkaido brand products using Hokkaido raw materials and sell them nationwide.

## Branding that Raises Group Synergies and Overseas Business Expansion

In the current fiscal year, we redesigned the Group brand and all the Group companies will share the same Group logo. The logo will appear on the products of each company of the Affiliated Business Division. Those products will be backed by the trust and quality of the Group, which will have a positive effect on product sales.

Most of the products of this business division are still not well known to consumers, and comprehensive marketing with merchandising at the point of sale is needed. First, we will generate broad awareness of the products by holding the Group Fair to communicate the products' features and values, including new value propositions for the customer, and further expand sales.

A major goal of the Affiliated Business Division is first to increase its market share in Japan, but we also set our sights on locating production overseas in the near future, and gaining a foothold in overseas business. Therefore, we are now internally advertising for personnel who wish to transfer to overseas positions and moving ahead with personnel training and local on-site research.

### Full-Year Status

#### Sales

- In marine products, revenues rose after enhancing proposal-based marketing in volume retailer and food service channels.
- In dairy products, revenues increased as a result of reinforcing initiatives to bakeries, food service and food manufacturers, which are major channels for cheese, even when yogurt sales remained unchanged year on year.

#### Operating Income

- In marine products, earnings increased mainly as a result of robust year-end sales and the reversal of negative spreads in the sale of coho salmon from Chile during the last term.
- In dairy products, revenues fell as a result of delay in price revisions against a surge in raw material prices.

# TOPIC

## Affiliated Business Division

### Kushiro Marusui Corporation Joins the Group

#### Strengthen Manufacturer Capabilities of Marine Products Business

As a result of a business transfer in November 2013, Kushiro Marusui Co., Ltd. joined the Group as a group company of Marine Foods Corporation.

Kushiro Marusui is a first-class company in the jurisdiction of Kushiro that produces processed marine products. It also has purchasing rights at the fish market and can directly purchase seafood from the seashore of the Eastern Hokkaido district.

On the other hand, Marine Foods Corporation has few direct purchasing routes from the seashore in Eastern Hokkaido. The entry of Kushiro Marusui into the Group strengthens the raw material procurement capabilities of Marine Foods Corporation and enables it to secure a manufacturing plant on said seashore. In other words, synergies will be produced by combining the sales capabilities of Marine Foods Corporation with the purchasing and manufacturing capabilities and the power of Kushiro Marusui brand.

By leveraging the sales network of Marine Foods Corporation and expanding the sales of Kushiro Marusui products, we will raise the quality and number of products offered, and improve our manufacturing capabilities as a seafood company. Leveraging the strengths of Marine Foods Corporation and Kushiro Marusui we will gain synergistic effects and demonstrate the power of the Group.

Kushiro Marusui Co., Ltd. ●



Company name: Kushiro Marusui Co., Ltd.  
Address: Shiranuka-cho, Shiranuka-gun, Hokkaido, Japan



Steamed Octopus



Salmon Filet



New product: Thin-Sliced Squid Like Somen Noodles



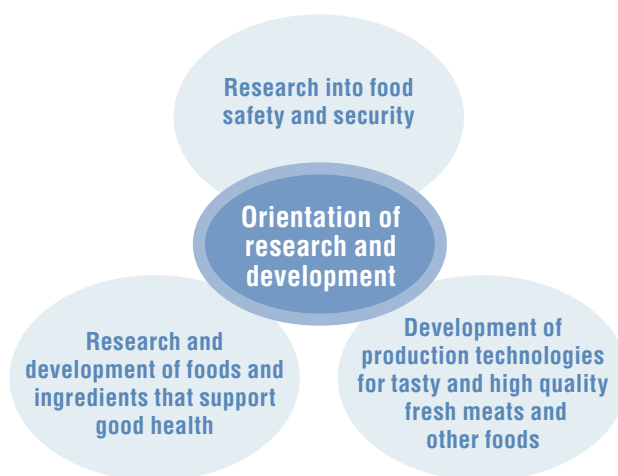
Salmon Roe





### We are Involved in a Wide Range of Basic Research and Product Development in Our Quest to Deliver the “Joy of Eating.”

As a core research facility of the Group, the Research and Development Center (RDC) at Tsukuba in Ibaraki Prefecture explores new areas under the banner of food safety and security, foods and ingredients that support good health, and the development of production technologies for tasty and high quality fresh meats and other foods. By adding value to food products, we are determined to deliver the “Joy of Eating” to all.



## Research into Food Safety and Security

At the RDC, we have long worked on developing highly accurate analysis technologies, and have acquired ISO/IEC 17025 certification, an international standard certifying capability to organize experiments. We are also actively involved in development of technologies for rapid analysis of harmful substances within food products, and have developed methods for quick comprehensive analysis of residual agricultural chemicals and veterinary drugs inside food products. We have also invested resources in food inspection technologies derived from immunization techniques, and have developed and marketed detection kits for food allergens and other detection kits with publicly recognized effectiveness for mycotoxin and food-poisoning bacteria. We have also developed foods for people with food allergies.



FASTKIT ELISA Ver. III Sesame enables measurement of protein content within sesame seeds

## Research and Development of Foods and Ingredients that Support Good Health

The Group prides itself on placing value on the “Bounty of Nature.” We develop and commercialize food ingredients for health promotion that makes effective use of not only the edible parts of livestock (meat) but also the inedible parts (including chicken legs, hides and placenta). For example, we develop and market collagen and placenta extracts, which are useful in beauty products, and imidazole dipeptide-rich extracts that help alleviate fatigue. Additionally, medical use collagen harnesses nerve extension features and is used for regenerative medicine. As a safe raw materials with good traceability, these substances are used in processed foods, health foods and other foods made by the Group.



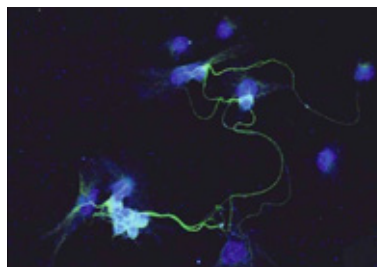
Celeb no Jikan® placenta tablets, for easy absorption of beauty components



Minna-no-Shokutaku® series of allergy-safe products



Medical use collagen, using pig skin from designated farms under the Group management



Discovery of nerve extension function

## Development of Production Technologies for Tasty and High Quality Fresh Meats and Other Foods

The Group is also actively involved in research into scientific evaluation of good taste and quality in fresh meats, on the basis of which we are developing the Group brands of fresh meat and meat products. We also carry out highly sophisticated livestock hygiene inspections, and are developing in-house lactic acid bacteria to establish disease-resistant strains of pig and spur their growth.

## Future Initiatives

The RDC aims to be a progressive research facility that creates new value by always staying one step ahead of the changing times. For

that reason, we are promoting initiatives to shorten our R&D lead times to deliver results as quickly as possible. At the same time, we are undertaking R&D that looks ahead one or two decades. For example, we have instituted research into rotation agriculture in Hokkaido as a contingency for feedstuff shortages should any adverse developments occur globally. Our study focuses on a business model in which we cultivate crops with pig manure, using the crops to grow hogs. Most food manufactures' research centers concentrate on product development. The Group is one of the few food manufactures to maintain basic research facilities. We believe that such research is essential when developing products, particularly in terms of studying livestock health to provide safe fresh meat and exploring how fresh meat can benefit human health. We will continue to find new ways of delivering the "Joy of Eating."



The Research and Development Center, the core research institute within the Group

In March 2013, we opened the Tsukuba Analytical Plaza (TAP) within the RDC as a new testing and research unit to strengthen our food safety and security efforts. TAP's roles are to increase reliability by expanding external authentication under the ISO/IEC 17025 standard, bolster and quickly accommodate inspection technologies, train personnel and manage with precision in collaboration with the Quality Assurance Department, and handle contract inspections.

### Tsukuba Analytical Plaza testing unit

Increase reliability by expanding external authentication under the ISO/IEC 17025 standard

Bolster and quickly accommodate inspection technologies

Train personnel and manage with precision in collaboration with the Quality Assurance Department

Handle contract inspections

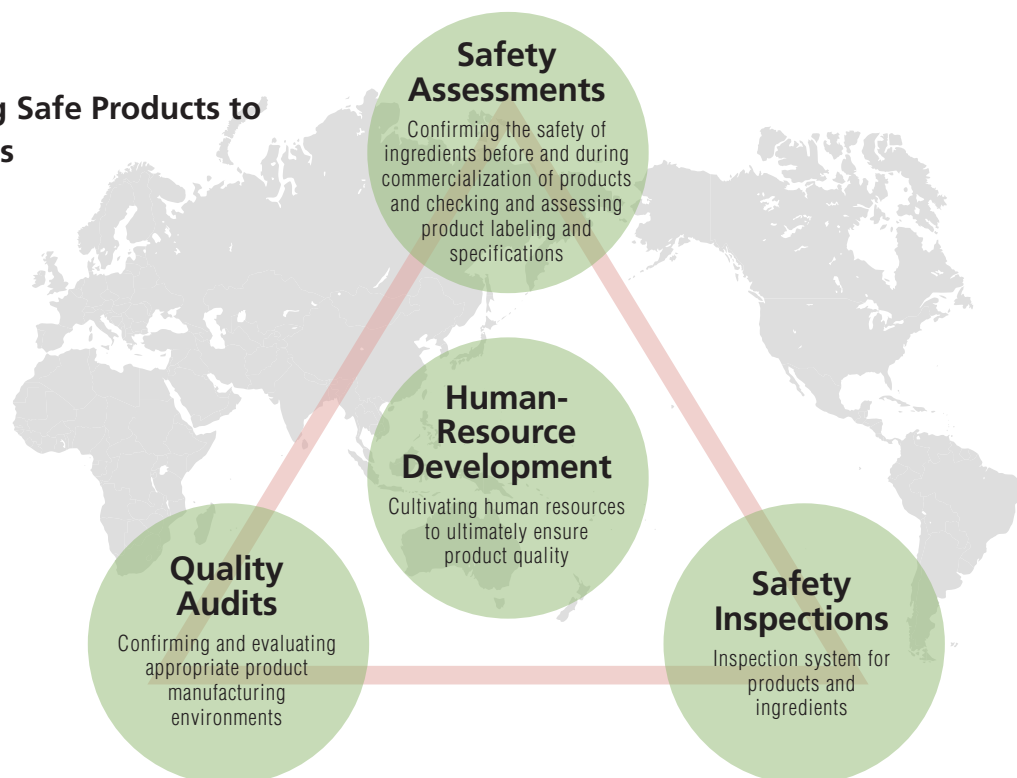


# Approaches to Ensuring Product Quality

## The Group Quality Assurance System

We consider it our social responsibility to supply safe products. To this end, we are building a Groupwide quality assurance system that organically links safety assessments, quality audits, safety inspections, and human-resource development to ensure product safety.

### Supplying Safe Products to Customers



\* As of April 2014, the Group employed 909 safety assurance officers (722 in Japan and 187 overseas)

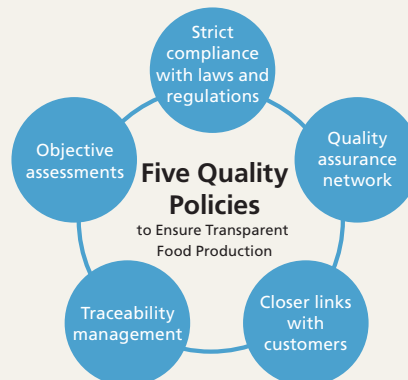
## Nippon Ham Group Quality Policies

The Group meets customers' expectations and earns their trust through promoting an "OPEN Quality" system that enables transparency in food production.

We have deployed five fundamental quality improvement policies to ensure product quality that both satisfies and inspires customers. We have also built a customer-oriented quality assurance network — facilitated by close, organic collaborations among Group businesses — that extends from farm to table.

More open food manufacturing

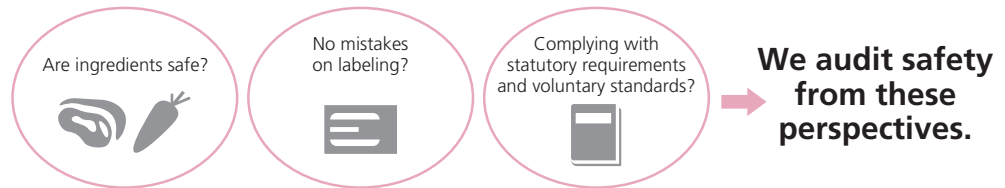
**OPEN** Quality



## Safety Assessments

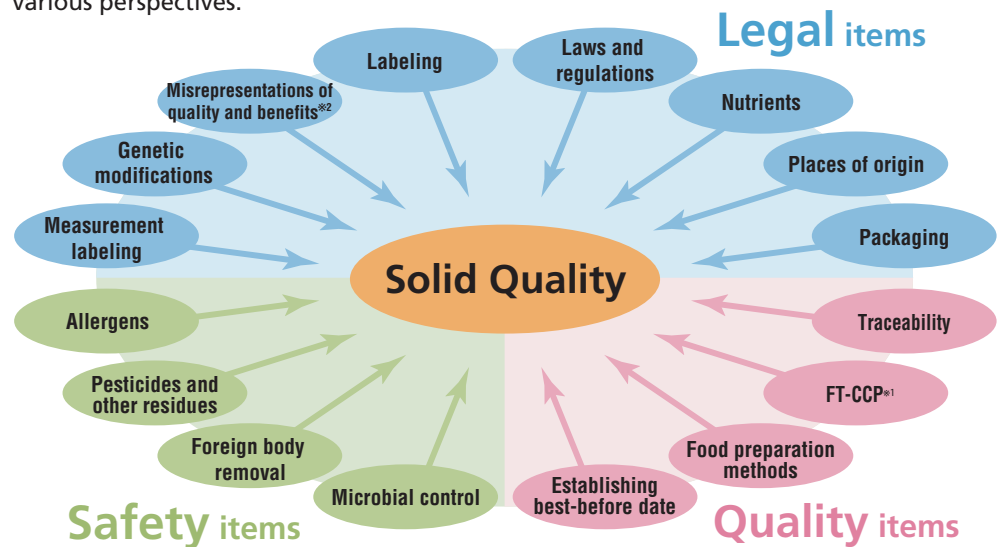
We deliver safe products to customers by assessing the safety of ingredients, and by reviewing labeling and specifications compliance with statutory requirements and by maintaining product labels and records.

What are safety assessments?



## Audit Items

We ensure safety by conducting strict assessments from various perspectives.



\*1: FT-CCP (Fresh & Tasty Critical Control Point):

The Group's own initiative for prioritizing the management of freshness and taste

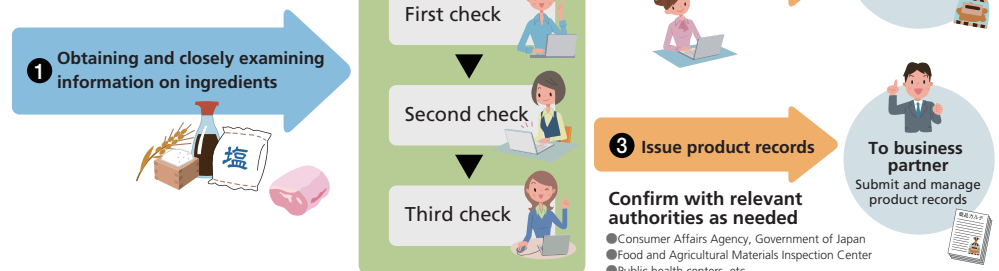
\*2: **Quality and benefits misrepresentation:**

**Quality misrepresentations** include false advertisements claiming that the quality of a product or service is better than what it really is, or falsely advertising that the quality of a product or service is superior to that of a competitor when that is not the case.

**Benefits misrepresentations** include false advertisements claiming that product or service terms are more advantageous than they really are, and falsely advertising that products or services are cheaper than competitors' offerings when that is not the case.

## Safety Assessment Flow

We established a sound system to obtain accurate information on ingredients and manage product information, complying with the relevant laws and regulations.



# Quality Audits

## What do quality audits entail?

The Group's Quality Assurance Department conducts exhaustive quality audits, improving the production environment to guarantee consistently reliable quality for customers.

To deliver safe and reliable products to customers through quality audits, the Group's quality assurance personnel conduct on-site audits to verify quality criteria at production sites, plants, and sales sites in Japan and overseas.

They not only confirm conditions but also ensure that contractors in Japan and overseas understand the Nippon Ham Group Quality Policies, and request improvements where needed.



**At production sites:**  
Conduct first-hand checks of product Ingredients



**At manufacturing plants:**  
Check sanitation standards of domestic and overseas plants



**At points of sale:**  
Check product storage conditions

## The Group Quality Audits

By constantly improving the manufacturing environment, we deliver safe products to customers.



We implement quality audits based on our own quality assurance regulations and by addressing various potential risks.

### The Group's own quality assurance regulations

- Confirm ISO and HACCP requirements
- General sanitary control, allergen management, traceability management, and food defense, etc.

We audit quality in line with the international standards for quality assurance, including ISO, SQF, and HACCP, as well as the Group's own 24 quality assurance regulations\*.

### Risks

- Food industry risks  
Confirming ingredients and places of origin, etc.
- Understanding trends in industrial and academic circles and among domestic and overseas governments  
Implementation based on risk analysis evaluations



### The Group's 24 quality assurance regulations



\*The 24 quality assurance regulations are the Group's own quality standards, which encompass managing development and design, overseeing employee hygiene, and managing procured goods. Each business site controls quality based on these regulations.



## Safety Inspections

The inspection and research departments in Japan and abroad collaborate to supply safe products.

### What are safety inspections?

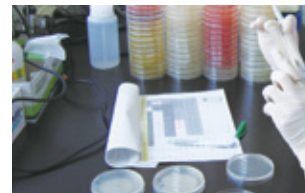
These aim to confirm that our products are free of hazardous microorganisms, food allergens, agricultural chemicals, and veterinary drug residues. We confirm product safety through regular sampling inspection.



Veterinary drug residue testing



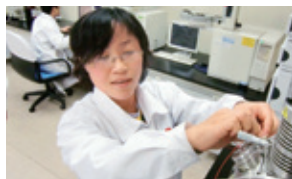
Food allergen testing



Microorganism testing

## Expansion of Safety Inspection Network

While gathering agricultural chemical and veterinary drug usage information overseas, we are endeavoring to enhance and expand our inspection system.



Weihai Quality Assurance Center in China (Weihai, Shandong Province, China)



Tianjin Longtai Sub-branch in China (Wuqing District, Tianjin, China)



Thai Nippon Vegetable Co., Ltd.



Thai Nippon Foods Co., Ltd.



Outsourcing in Thailand



NH Foods Mexicana S.A. de C.V.



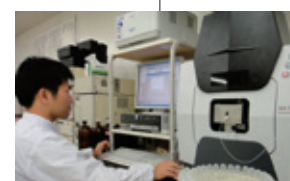
Outsourcing in Brazil



**Research and Development Center in Tsukuba, Ibaraki Prefecture**  
The core of the Group's research program.



**Safety testing laboratory in Tsukuba, Ibaraki Prefecture**  
Inspection department that focuses on ensuring food safety.



**Product development research facility in Joso, Ibaraki Prefecture**  
Development of processed foods and inspection department.

# Contribution to the Environment and Society

## Environment

## We are Engaged in a Range of Initiatives Aimed at Realizing a Sustainable Society

### Reduction of emissions of greenhouse gases Measures for reduction Initiatives to Cut Greenhouse Gas Emissions

Since fiscal 2007, we have been using city gas and liquefied natural gas in lieu of heavy oil and liquid petroleum gas to fuel our plants. We have also begun using chicken manure as boiler fuel as part of an initiative to harness biomass resources. Furthermore, at Nippon Logistics Center, Inc., we introduced one megawatt grade solar-power generation facilities in fiscal 2013 and have brought them onstream.



### Initiatives to Reduce Waste and Improve Recycling Rates

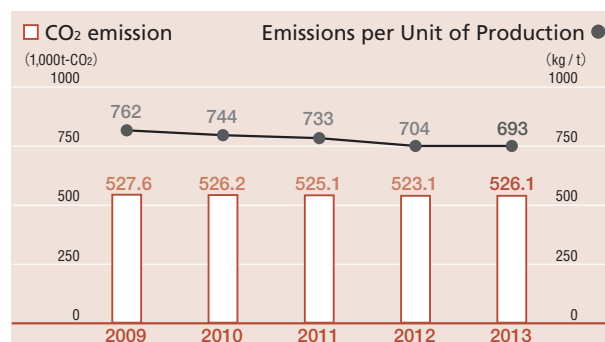
The excrement from farm animals accounts for approximately 47% of the Group's waste. Because these excrements include phosphorus, potassium and other beneficial components, we transform them into fertilizers and use them at the Group farms and also in applications outside the Company.



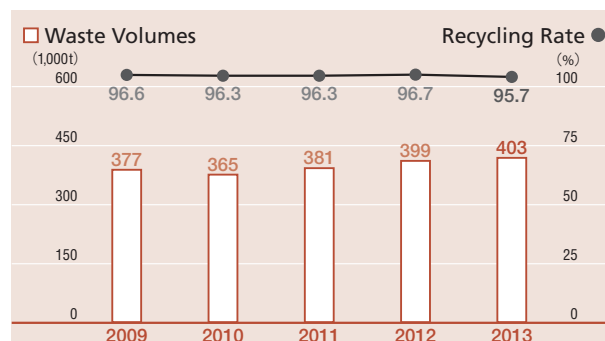
### Compliance with Environmental Laws and Regulations

The Group has established an environmental management system based on its Environmental Policies and management procedures. We carry out environmental audits as a means of periodically checking progress in environmental management. In fiscal 2013, we carried out such audits at 186 locations, chiefly farming and production. Please note that in fiscal 2013, no major events occurred at our facilities causing significant damage to the environment.

### CO<sub>2</sub> Emissions and Emissions per Unit of Production



### Waste Generation and Recycling Rates



### Progress toward Environmental Targets under New Medium-Term Management Plan Part IV

Theme	Targets	Results for fiscal 2013
Reduce CO <sub>2</sub> emissions (from energy)	12.5% reduction per unit of production from the average between fiscal 2005 and fiscal 2010 (target emissions intensity: 714.1kg-CO <sub>2</sub> /t)	15.1% reduction
Reduce waste	3% overall reduction from the average between fiscal 2006 and fiscal 2011 (target waste volumes: 357,506t/year)	9.4% increase
Improve waste recycling rate	More than 99%	95.7%
Improve food recycling rate	More than 93% (excluding farms)	94.0%
Cut water consumption	6% reduction per unit of production from the average between fiscal 2005 and fiscal 2010 (target emissions per unit of production: 16.8m <sup>3</sup> /t)	1.1% reduction
Boost green purchasing rate	More than 90%	78.7%
Enhance vehicle fuel efficiency	3% improvement from fiscal 2010	4.8% increase

## Contributing to a Prosperous Society and Regional Community



### Championing Sports and Athletics

In line with its commitment to building health through food and sports, the Group promotes sports as a way of creating opportunities for human interaction and to help build communities that enjoy strong personal ties.



Managing the Hokkaido Nippon-Ham Fighters professional baseball team, and a participant in the management of Cerezo Osaka, a professional soccer team, the Group organizes baseball and soccer clinics nationwide. The aim of these clinics is not only to

provide technical instruction but also to instill a passion for pursuing one's dream and an understanding of the importance of interacting with other people.



The Group is also a special sponsor of the UNICEF Cup,

a citizens' marathon, and hosts the Nippon Ham Flag Autumn Rubber Baseball Tournament for Kanto Area Students, a little league baseball competition. Through such activities, the Group endeavors to broaden the support base for sports, as well as to contribute to the sound health and vibrant development of the youth of Japan.

### Forest Preservation

The Group is involved in a movement to preserve and protect forests as part of the "Corporate Forest" program sponsored by Japan's Forestry Agency. As part of this effort, the Group employees work with local residents in three locations — Mount Onaru in Hyogo Prefecture, Mount Tsukuba in Ibaraki Prefecture, and Seto Jokoji in Aichi Prefecture — to plant trees and clear undergrowth and, in the process, provide an opportunity for residents to gain a new understanding of the importance of forests.



### Support for Food Education

Guided by the slogan "Let's Enjoy Eating!" the Group provides a variety of information about food and hands-on sessions which stimulate participants' senses.

As one of such initiatives, we teamed up in 2006 with the non-profit organization Association of Corporation and Education, which brings together schools and companies, and organized hands-on wiener sausage making classes at elementary and junior high schools around Japan. In these classes, we teach students about the importance of eating well, the role of foods and the relationship between food and health. Through the experience of making wiener sausages, children study how foods are produced, and develop a sense of gratitude for food. In fiscal 2013, some 2,800 students from 38 schools took part (total to date: 16,500 students from some 250 schools).

The Group also organizes Open Factory (tours of our plants) and various other events such as targeted cooking classes and seminars. We will continue to organize activities that help people lead healthier everyday lives.

#### Livestock Farming Tour

The Group companies Nippon White Farm Co., Ltd. and Higashi Nippon Food, Inc. jointly held *Do Sanpo Livestock Farming Tour — Birth to Food* at the Group plant in Sapporo, Hokkaido Prefecture.



Participants learned about the process from the birth of chicks to food on DVD and watched how chickens are delivered to the manufacturing line for disassembly and packing. For lunch, we served *Sakurahime* chickens and asked participating children to respect the "Bounty of Nature" by intoning "Itadakimasu (Let us eat)." Children commented that they felt respect for the meat they received.



## Hokkaido Nippon-Ham Fighters: Enhancing Brand Value



The Group has owned the Hokkaido Nippon Ham-Fighters professional baseball team since 1973. The team's raison d'être is evolving from enhancing recognition of the Group's name to helping the Group fulfill its responsibility as a corporate citizen, and its presence continues to contribute to the enhancement of brand value.



### Hokkaido Smile Caravan Show

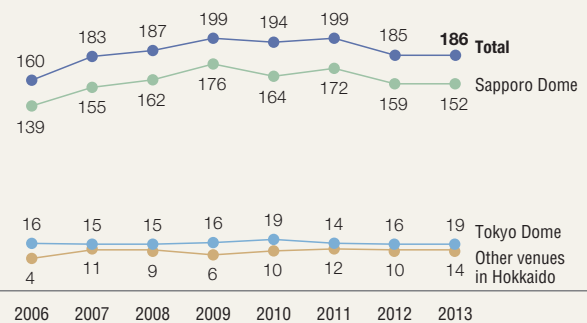
#### – Your Town and Hokkaido Nippon-Ham Fighters –

In 2013, Hokkaido Nippon-Ham Fighters marked one decade since it relocated its headquarters to Hokkaido. To enable people of the island to share the team's dreams and emotions and to make their towns lively with the smiles, we launched a revamped Hokkaido Smile Caravan this season, under the slogan of "Your town and the Hokkaido Nippon-Ham Fighters."

In addition to fun events, the caravan will offer baseball classes during visits to schools by former players of the Nippon-Ham Fighters, and make visits to kindergartens with mascots as well as schools and welfare facilities all over the island, deepening exchange among people of the region, and bringing smiles to their faces.

### ◆Attendance at Home Games by Venue

(ten thousand people)



### Pushing Forward with the Team Slogan of "Onwards – Toumikorokuru –"

As members of the Hokkaido community, the Hokkaido Nippon-Ham Fighters is supported by local people of Hokkaido as the team grows together with Hokkaido people and identifies with the region. This is seen in the high attendance at their matches in Hokkaido. In the 2014 season, the team slogan is "Onwards – Toumikorokuru –." The last year was the 10th anniversary of the Hokkaido Nippon-Ham Fighters, which was established in 2004. The 2014 season will be a new step forward and a crucial season for the team. While looking back at its origins, it will be positioned itself for further growth. With their new "Onwards – Toumikorokuru –"

slogan, the Hokkaido Nippon-Ham Fighters will set their sights on the pennant.

\*Toumikorokuru means "warrior" in the language of the Ainu, the aboriginal people of Hokkaido.



## Seeking to Increase Management Transparency and Efficiency and Raise Corporate Value

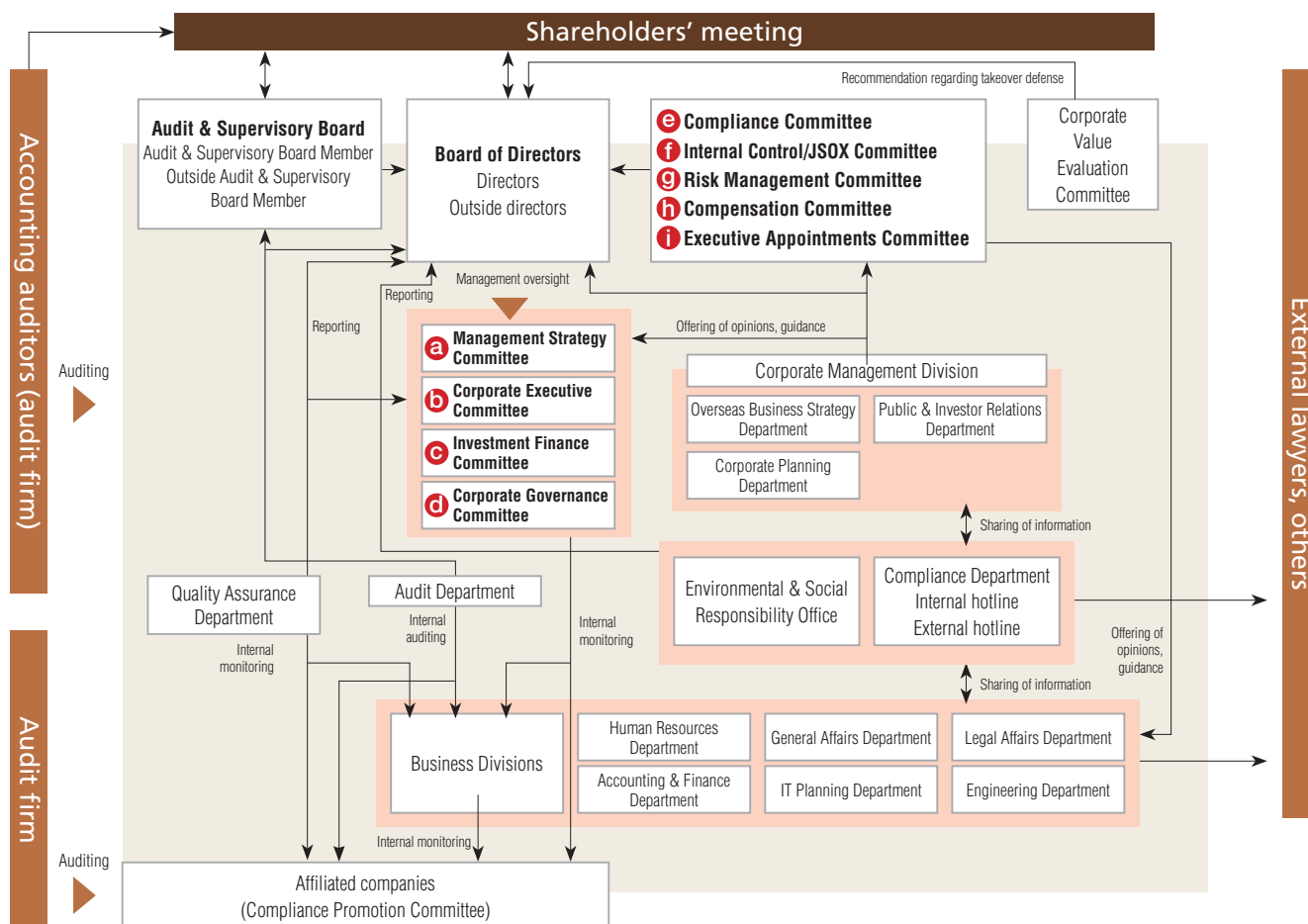
### Basic Policy on Corporate Governance

The Group's basic approach to corporate governance is to conduct thorough compliance management and enhance corporate governance with the goal of raising corporate value. Our basic policy is to clarify responsibility and authority for monitoring by directors and business implementation by executive officers, increase overall management transparency and efficiency, and remain accountable to customers, shareholders, business partners, employees, and other stakeholders.

### Efforts to Strengthen Corporate Governance

April 2003	Established Investment and Finance Committee
April 2004	Established Corporate Governance Committee
April 2006	Established Corporate Value Evaluation Committee
April 2007	Established Risk Management Committee
April 2008	Established JSOX Committee
April 2009	Renamed this body the Internal Control/JSOX Committee
April 2011	Established Executive Appointments Committee

### Corporate Governance System



## Profiles of Key Committees

	Objectives	Members (definition)	When convened
<b>a</b> Management Strategy Committee	Discusses and decides on substantive matters concerning management policies and streamlining business operations by liaising and coordinating among consolidated the Group companies.	The members are executive officers appointed by directors (excluding outside directors) and the president.	Meets twice a month and otherwise as needed.
<b>b</b> Corporate Executive Committee	Informs divisional executive officers of decisions from Board of Directors' meetings, Management Strategy Committee, and other occasions and shares information among these officers.	Members are all executive officers, directors appointed by the president and director, the president and director, and chairman and director.	Meets quarterly and otherwise as needed.
<b>c</b> Investment Finance Committee	Conducts preliminary reviews or makes decisions on management policies relating to significant investment and finance matters and helps streamline business operations among consolidated the Group companies.	Members are directors appointed by the president and director, heads of directly managed departments, the Corporate Management Division, and headquarters' administrative departments.	Meets twice a month and otherwise as needed.
<b>d</b> Corporate Governance Committee	Conducts preliminary reviews and reaches a consensus on matters to be brought up for discussion by the Board of Directors and Management Strategy Committee, dealing with substantive concerning policies, organizations, and systems among consolidated the Group companies. Also reinforces corporate governance by liaising between consolidated the Group companies, and preparing drafts and alternative proposals.	Members are directors appointed by the president and director, heads of directly managed departments, the Corporate Management Division, the headquarters' administrative departments, and General Managers of business divisions.	Meets twice a month and otherwise as needed.
<b>e</b> Compliance Committee	To accomplish the Group's goal of becoming the most trustworthy corporate group in Japan, the committee comprehensively reviews Groupwide compliance and makes proposals to the Board of Directors and Management Strategy Committee.	Members are directors appointed by the president and director, executive officers, full-time advisors, the Compliance Department manager, union representatives, and compliance leader representatives.	Meets quarterly and otherwise as needed.
<b>f</b> Internal Control/JSOX Committee	Discusses and decides on substantive matters concerning internal control evaluations and reports within the Group.	In addition to a committee chairperson appointed by the president and director and those appointed by the committee chairperson from among directors, corporate auditors, and executive officers, members are appointed by the committee chairperson, including from among heads of the Accounting & Finance Department, Human Resources Department, Compliance Department, General Affairs Department, Corporate Planning Department, IT Strategy Department, Legal Affairs Department, Audit Department, Overseas Business Strategy Department, and executives in each business division.	In principle, meets at least twice annually and otherwise as needed.
<b>g</b> Risk Management Committee	Contributes to the Group management by discussing issues and measures relating to the Group risk management (risk prevention and emergency responses during management crises).	In addition to a committee chairperson appointed by the president and director and vice committee chairpersons who are a manager of the Quality Assurance Department and a manager of the Compliance Department, members are appointed by the committee chairperson from among directors, heads of directly managed departments, the Corporate Management Division, headquarters' administrative departments, and executives in each business division.	In principle, meets quarterly. The Compliance Department manager or others can convene extraordinary gatherings or meetings with expert panels as needed.
<b>h</b> Compensation Committee	Constructs systems for director evaluations and compensation, such as a fair evaluation system of directors' business achievements (including those of executive officers) to enhance management transparency, and ensures appropriate management of these systems.	Chaired by an independent (outside) director appointed by the president and director, and members are appointed by the committee chairperson from among directors, executive officers, and heads of departments or offices.	Convenes as needed.
<b>i</b> Executive Appointments Committee	To reinforce management monitoring and improve transparency, the committee reviews the president's directorship nominees (except executive officers) and submits reports of its reviews to the Board of Directors.	Chaired by an outside (independent) director appointed by the president and director, and members are directors appointed by the committee chairperson.	In principle, meets once annually and otherwise as needed.



## Basic Structure

### ● Management Framework

We limited the Board of Directors to less than 12 members to ensure prompt decision making and minimize the scope of liability of that body, which is responsible for monitoring management. Thus, headquarters' departments and committees, which support the Board of Directors, have been enhanced.

A director's term is one year for the purpose of facilitating annual accountability.

The Board of Directors convened 21 times during the fiscal year ended March 31, 2014.

### ● Roles of Outside Directors

In principle, we appoint more than one outside director to ensure transparency of the Board of Directors. Outside directors attend regular and special meetings of the Board of Directors, providing objective opinions and advice.

#### Toshiko Katayama

##### Reasons for Appointment of Candidate

We consider Ms. Katayama suitable as an outside director because she has outstanding experience and knowledge about consumer issues, having dealt with them for many years as an attorney. As an entity whose core business is to produce and market foods, we recognize that engaging in consumer-oriented management is vital to our business progress, and we believe that Ms. Katayama will accordingly be of great benefit to shareholders.

#### Iwao Taka

##### Reasons for Appointment of Candidate

Mr. Taka has researched corporate ethics and corporate social responsibility for many years, and has broad perspectives about international economics. We believe that these qualities made Mr. Taka a suitable outside director. Mr. Taka chaired the Group Corporate Ethics Committee from 2002 to 2004. He was thereafter a member of our Corporate Value Evaluation Committee, helping to set up our compliance management system and enhance corporate value.

- Notes: 1. There are no special capital, personal, or transactional interests between Ms. Katayama and Mr. Taka and the Company.
2. We appointed Ms. Katayama and Mr. Taka as outside directors on the basis that they are independent officers, without interests conflicting with those shareholders, as set forth in Article 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange, Inc. (TSE), and have made filings to that effect with the TSE and the Osaka Stock Exchange.

#### Attendance of Outside Directors at Board of Directors' Meetings in Fiscal 2013

Toshiko Katayama	Attended 20 of the 21 Board of Directors' meetings
Iwao Taka	Attended 21 of the 21 Board of Directors' meetings

## ● Roles of Auditing

We established a monitoring framework comprising Audit & Supervisory Board Member and Audit & Supervisory Board. In principle, the number of Audit & Supervisory Board Member is five, of whom at least three are outside, to ensure proper monitoring.

### Fumio Motoi

#### Reasons for Appointment of Candidate

Mr. Motoi has worked for many years as an attorney, and is thoroughly versed in all aspects of criminal law, notably corporate criminal law and administrative penalties for tax law violations, as well as compliance. We believe that Mr. Motoi's timely advice to management from various perspectives will contribute to the soundness of our management, thereby greatly benefiting shareholders.

### Akira Otsuka

#### Reasons for Appointment of Candidate

Mr. Otsuka has a broad and deep knowledge of the law from his long career as an attorney. We believe that Mr. Otsuka's timely advice to management from various perspectives will contribute to the soundness of our management, thereby greatly benefiting shareholders.

### Tamio Morimoto

#### Reasons for Appointment of Candidate

Mr. Morimoto long worked as a certified public accountant, and has served for many years at an auditing firm. From these experiences, he has a broad knowledge of corporate finance and accounting. We believe that Mr. Morimoto's timely advice to management from both financial and accounting perspectives will contribute to the soundness of our management, thereby greatly benefiting shareholders.

#### Attendances of Outside Audit & Supervisory Board Member at Board of Directors' and Audit & Supervisory Board in Fiscal 2013

Fumio Motoi	Attended 21 of 21 Board of Directors' meetings and 14 of 14 Audit & Supervisory Board
Akira Otsuka	Attended 21 of 21 Board of Directors' meetings and 14 of 14 Audit & Supervisory Board
Tamio Morimoto	Attended 21 of 21 Board of Directors' meetings and 14 of 14 Audit & Supervisory Board

## ● Basic Policy on Director and Audit & Supervisory Board Member Compensation

We maintain a very transparent, just, and rational compensation system that is designed to attract talented executives who can optimize corporate value in performing their duties as directors and Audit & Supervisory Board Member.

We ensure that directors' and Audit & Supervisory Board Members' compensations are indeed transparent, just, and rational by having the Compensation Committee, whose outside director acts as chairman, deliberate on these matters, with the final decision made by the Board of Directors.

#### Total Compensation by Director and Audit & Supervisory Board Member, Total for All Types of Compensation, and Number of Directors and Audit & Supervisory Board Member

Category	Total compensation (Millions of yen)	Total for all types of compensation (Millions of yen) Basic compensation	Number of directors and audit & supervisory board members
Directors (excluding outside directors)	308	308	8
Audit & Supervisory Board Member (excluding outside Audit & Supervisory Board Member )	48	48	2
Outside directors and Audit & Supervisory Board Member	42	42	5

Note: The basic compensation of directors (excluding outside directors) includes performance- and stock acquisition-based compensation

## Internal Control Functions

Recognizing the importance of cumulative efforts, we strengthen corporate governance through our management framework and through internal controls at our sites and in the Group companies.

### ● Compliance

Recognizing compliance as the foundation of corporate management, the Group continues to take steps to ensure a thorough understanding of compliance.

To strengthen compliance throughout the Group, we have defined clear guidelines for compliance management policy in, among others, the Nippon Ham Group action standards. In line with these guidelines, we engage in publicity campaigns, provide training sessions, and stage events, all aimed at promoting compliance awareness — and the effectiveness of such activities is carefully monitored. Central to this effort is the Plan-Do-Check-Act (PDCA) cycle, which is repeated continuously with the aim of firmly establishing the concept of compliance as an essential component of management.

The Compliance Committee, established by NH Foods Ltd. is charged with evaluating the compliance policies and implementation measures of the Group companies and offering opinions to the Board of Directors, among others. Compliance promotion committees have been established within individual the Group companies

and divisions, which are responsible for devising compliance-related strategies and promoting compliance awareness.

We have also established compliance consultation desks in four locations, two within the Group and two outside. These desks enable any employee to report violations or confer on compliance-related issues freely without concern for organizational restrictions. In addition to contributing to the prompt resolution of problems, these desks provide valuable information that is analyzed and used in the formulation of subsequent proposals for activities to reinforce compliance awareness.

### ● Risk Management

The Risk Management Team was established within the General Affairs Department to comprehensively manage the risks that face the entire the Group. Through close cooperation with the Compliance Department and other relevant departments, the team — acting in line with risk management guidelines — has put systems in place for conveying information promptly and accurately and for establishing a quick response in the event that any of the anticipated risks should materialize. The Risk Management Committee is responsible for discussing and deciding on issues and countermeasures pertaining to the promotion of risk management throughout the Group.

#### 1 Establishment of clear guidelines for compliance

- The Nippon Ham Group's action standards
- Manuals for the Group company action standards



#### 2 Execution of publicity campaigns

- Compliance training
- Compliance meetings
- Office study groups

Compliance training



#### 3 Monitoring

- Compliance questionnaires/surveys
- Consultation system
- Centralized management of critical information in accordance with the Company's rules for information processing and management

## Audit Department Functions

The Audit Department, which answers directly to the President, has formulated a mechanism for conducting effective audits and promotes the operation thereof throughout the Group, in cooperation with the departments in charge of monitoring activities and the

auditing departments of affiliated companies.

Quality-related audits are conducted by the Quality Assurance Department, while environmental audits are conducted by the Environmental & Social Responsibility Office.



## Outside Directors' View of Governance at the Group



Outside Director Toshiko Katayama

### Seeking to Enhance Corporate Value from Consumers' Perspectives

Eating foods plays a very significant role in people's lives. Not only is it essential to maintaining our bodily wellbeing, the enjoyment of good food is also the best way to keep healthy and happy, and it is

through sharing meals that we deepen our bonds with friends and family. One can even go so far as to say that the food that provides us with the vitality and joy to live our lives is the foundation of a good life. Supplying safe food products like these that customers can consume with a deep sense of confidence is unquestionably a key mission for a food company like the Group. It is also important that we understand how consumers really go about their diverse ways of life, and that we meet the associated lifestyle needs and come up with new ways of enjoying food so that people can truly appreciate

all the different ways in which food makes up part of our daily lives.

In order to act from a consumer's perspective, it is essential to know the reality of consumers and their ways of life, and appreciate such reality with the sense of empathy. It is from this empathy that true two-way communication is achieved between consumers and the company, opening up the potential for the provision of new products or better services that customers will truly appreciate.

Corporate value derives from consumers, and it is through feedback from customers that we can continue to make improvements for the future. I believe it is important that we hold to this ethos, and that everyone in the Group takes a genuinely consumer-focused approach to identifying ways in which we can help people enjoy happy and healthy lives, and to acting on these insights.



Outside Director Iwao Taka

### Raising Awareness and Practical Realization of the "Three Resolutions" Implicit in the Group Brand

The Group has been working steadily over the last year on measures for enhancing brand value. To bring these closer to fruition, I believe we need to raise awareness of the "Three Resolutions" implicit in the Group brand and to do more to put them into practice, and I have issued public announcements to this end.

The first resolution is to work united as the Group. Unfortunately, lack of communication between divisions remains a problem. To resolve this, I believe it is essential that management keep in mind what is the right thing to do both in terms of their positions as managers and as human beings, and that we go beyond simply considering what is best for our own workplaces.

The second resolution is to adopt a customer's perspective, for which enhancing food defense is a critical prerequisite. Along with

existing measures, which include installing additional cameras and refining management procedures, I also believe the Group needs to avoid protecting status quo and to make relationships of trust even more of a foundation at each workplace.

The third resolution is to become a trusted and global company of choice, and to this end I believe each division needs to be even more proactive about building new partnerships at a global level. In our Processed Foods Business, in particular, the potential for taking processed foods sold in Japan and differentiating them in the global market (developed economies especially) as "Japanese food" means that we should be adopting internationally focused business practices in ways that are more systematic and planned.

# Board of Directors, Audit & Supervisory Board Member, and Executive Officers

(As of June 26, 2014)



**Hiroshi Kobayashi**

Chairman and Representative Director

- April 1969 • Joined the Company
- March 1993 • General Manager of Imported Broiler Department of the Company
- April 1999 • Acting General Manager of Fresh Meats Sale Second Group, Imported Fresh Meats Sales Division of the Company
- June 2000 • Director, General Manager of Fresh Meats Sale Second Group, Imported Fresh Meats Sales Division of the Company
- April 2003 • Senior Executive Officer, General Manager of Operations Management Department and Affiliated Business Division of the Company
- February 2005 • Senior Executive Officer, Assistant General Manager of Processed Foods Business Division of the Company
- April 2005 • Managing Executive Officer, General Manager of Processed Foods Business Division of the Company
- June 2005 • Director and Managing Executive Officer, General Manager of Processed Foods Business Division of the Company
- April 2007 • President and Representative Director of the Company
- April 2012 • Chairman and Representative Director of the Company, to date



**Noboru Takezoe**

President and Representative Director

- April 1972 • Joined the Company
- March 1999 • General Manager of Coordination Office of the Company
- April 2003 • Executive Officer, General Manager of Corporate Planning Department of the Company
- April 2004 • Executive Officer, General Manager of Corporate Planning Department, General Manager of Corporate Planning Division and in charge of Research & Development Center of the Company
- April 2005 • Senior Executive Officer, General Manager of Corporate Planning Department and General Manager of Corporate Planning Division of the Company
- June 2005 • Director and Senior Executive Officer, General Manager of Corporate Planning Department and General Manager of Corporate Planning Division of the Company
- April 2007 • Director and Managing Executive Officer, General Manager of Corporate Strategy Office and General Manager of Corporate Planning Division of the Company
- April 2008 • Director and Managing Executive Officer, General Manager of Corporate Management Division of the Group, in charge of Audit Department of the Company
- April 2009 • Representative Director and Vice President, Executive Officer, General Manager of Corporate Management Division of the Company
- June 2009 • Vice President, Representative Director and Executive Officer, General Manager of Corporate Management Division of the Company
- April 2011 • Vice President, Representative Director and Executive Officer, General Manager of Corporate Management Division and in charge of Research and Development Center of the Company
- April 2012 • President and Representative Director of the Company, to date



**Hiroji Okoso**

Director and Senior Managing Executive Officer

- April 1980 • Joined the Company
- June 1990 • Director, General Manager of Market Development Office, General Manager of Sales Planning Department of the Company
- March 1991 • Director, General Manager of Sales Planning Department of the Company
- June 1992 • Executive Managing Director, General Manager of Sales Planning Department of the Company
- June 1994 • Senior Executive Managing Director, General Manager of Sales Planning Department of the Company
- July 1994 • Senior Executive Managing Director, General Manager of Marketing Division of the Company
- June 1995 • Senior Executive Managing Director, General Manager of Kinki Area Business Division and General Manager of Marketing Division of the Company
- June 1996 • President and Representative Director of the Company
- August 2002 • Senior Executive Managing Director, General Manager of Tokyo Branch Office of the Company
- April 2003 • Director and Managing Executive Officer, General Manager of Tokyo Branch Office, General Manager of Affiliated Business Division of the Company
- August 2003 • Representative Director of Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd.
- April 2005 • Director and Managing Executive Officer, General Manager of Affiliated Business Division of the Company
- December 2005 • Director and Managing Executive Officer, General Manager of Operations Management Department and General Manager of Affiliated Business Division of the Company
- April 2006 • Director and Managing Executive Officer, General Manager of Affiliated Business Division of the Company
- April 2007 • Director and Senior Managing Executive Officer, General Manager of Affiliated Business Division of the Company
- April 2008 • Director and Senior Managing Executive Officer, in charge of Quality Assurance Department, Customer Communications Department and Research & Development Center and General Manager of Tokyo Branch Office of the Company
- April 2009 • Director and Senior Managing Executive Officer, in charge of Quality Assurance Department, Customer Communications Department and Research & Development Center and General Manager of Tokyo Branch Office of the Company
- April 2011 • Director and Senior Managing Executive Officer, in charge of Quality Assurance Department, Customer Communications Department and Audit Department and General Manager of Tokyo Branch Office of the Company
- April 2014 • Director and Senior Managing Executive Officer, in charge of Quality Assurance Department and Customer Communications Department, and General Manager of Tokyo Branch Office, to date



**Koji Uchida**

Director and Senior Managing Executive Officer

- April 1973 • Joined the Company
- April 2000 • General Manager of Manufacturing Coordination Department, Processed Foods Division of the Company
- January 2003 • Assistant General Manager of Processed Foods Department of the Company
- January 2004 • General Manager of Processed Foods Department of the Company
- April 2004 • Executive Officer, General Manager of Deli & Processed Foods Division, Processed Foods Business Division of the Company
- February 2005 • Executive Officer, General Manager of Deli & Processed Foods Division and General Manager of Manufacturing Coordination Department, Processed Foods Business Division of the Company
- April 2005 • Senior Executive Officer, General Manager of Deli & Processed Foods Division and General Manager of Manufacturing Coordination Department, Processed Foods Business Division of the Company
- April 2007 • Managing Executive Officer, General Manager of Manufacturing Coordination Department and General Manager of Processed Foods Business Division of the Company
- June 2007 • Director and Managing Executive Officer, General Manager of Manufacturing Coordination Department and General Manager of Processed Foods Business Division of the Company
- April 2008 • Director and Managing Executive Officer, General Manager of Processed Foods Business Division of the Company
- September 2008 • Director and Managing Executive Officer, General Manager of Deli & Processed Foods Division and General Manager of Processed Foods Business Division of the Company
- April 2009 • Director and Managing Executive Officer, General Manager of Processed Foods Business Division of the Company
- April 2013 • Director and Senior Managing Executive Officer, General Manager of Processed Foods Business Division of the Company, to date



**Juichi Suezawa**

Director and Senior Managing Executive Officer

- April 1976 • Joined the Company
- April 1997 • Seconded to Nippon Food Kanto Hokuriku Co., Ltd.; General Manager, Nippon Food Kanto Hokuriku Co., Ltd.
- May 1997 • Director of Nippon Food Kanto Hokuriku Co., Ltd.
- May 1999 • Representative Director and Managing Executive of Nippon Food Kanto Hokuriku Co., Ltd.
- April 2002 • President and Representative Director of Nippon Food, Inc.
- June 2003 • Representative Director and Senior Managing Executive of Hoko Co., Ltd.
- June 2004 • President and Representative Director of Hoko Co., Ltd.
- April 2011 • Executive Officer, General Manager of Overseas Fresh Meats Operations Division, Fresh Meats Business Division, General Manager of Operations Management Office, Overseas Fresh Meats Operations Division, and General Manager of Operations Management, Asia and EU of the Company
- April 2012 • Managing Executive Officer, General Manager of Fresh Meats Business Division of the Company
- June 2012 • Director and Managing Executive Officer, General Manager of Fresh Meats Business Division of the Company
- April 2014 • Director and Senior Managing Executive Officer, General Manager of Fresh Meats Business Division of the Company, to date



**Yoshihide Hata**

Director and Managing Executive Officer

- April 1981 • Joined the Company
- April 2008 • General Manager of Accounting & Finance Department of the Company
- April 2009 • Executive Officer, General Manager of Accounting & Finance Department of the Company
- April 2011 • Executive Officer, General Manager of Accounting & Finance Department and in charge of IT Planning Department of the Company
- June 2011 • Director and Executive Officer, General Manager of Accounting & Finance Department and in charge of IT Planning Department of the Company
- April 2012 • Director and Managing Executive Officer, General Manager of Corporate Management Division, in charge of Accounting & Finance Department and IT Strategy Department of the Company, to date



**Koji Kawamura**

Director and Executive Officer

- April 1983 • Joined the Company
- April 2007 • General Manager of Corporate Planning Department, Corporate Planning Division of the Company
- April 2008 • General Manager of Corporate Planning Department, Corporate Management Division of the Group of the Company
- April 2009 • Executive Officer, General Manager of Corporate Planning Department, Corporate Management Division of the Group of the Company
- April 2010 • Executive Officer, General Manager of Affiliated Business Division of the Company
- June 2010 • Director and Executive Officer, General Manager of Affiliated Business Division of the Company, to date



**Takahiko  
Shinohara**

Director and Executive  
Officer

- April, 1977 • Joined the Company
- March, 2001 • General Manager of Kanto Sales Department No. 1, Sales & Marketing Division of the Company
- March, 2005 • General Manager of Metropolitan General Merchandising Department No. 2, Sales & Marketing Division, Processed Foods Business Division of the Company
- April, 2005 • General Manager of Metropolitan General Merchandising Department, Sales & Marketing Division, Processed Foods Business Division of the Company
- April, 2009 • President and Representative Director of Nippon Ham Higashi Hanbai Co., Ltd.
- April, 2014 • Executive Officer, General Manager of Sales and Marketing Division, Processed Foods Business Division of the Company
- June, 2014 • Director and Executive Officer, General Manager of Sales & Marketing Division, Processed Foods Business Division of the Company, to date



**Katsutoshi  
Nishio**

Audit & Supervisory  
Board Member

- April 1972 • Joined the Company
- July 2000 • Deputy General Manager, Accounting Department of the Company
- June 2003 • General Manager, Accounting Department of the Company
- April 2004 • Executive Officer, Corporate Management Division, General Manager of Accounting Department of the Company
- April 2007 • Senior Executive Officer, Corporate Management Division, General Manager of Accounting Department of the Company
- April 2008 • Senior Executive Officer, in charge of Accounting and Finance Department and IT Planning Department of the Company
- June 2008 • Director and Senior Executive Officer, in charge of Accounting and Finance Department and IT Planning Department of the Company
- April 2009 • Director and Executive Officer, in charge of Audit Department, IT Planning Department and Engineering Department of the Company
- April 2011 • Director of the Company
- June 2011 • Audit & Supervisory Board Member of the Company, to date



**Toshiko  
Katayama**

Outside Director

- August 1977 • Appointed as Legal Clerk for Osaka Family Court
- April 1980 • Appointed as Legal Secretary for Family Division of Osaka Family Court
- April 1988 • Registered with the Osaka Bar Association
- April 1993 • Opened Katayama Toshiko Law Office
- July 2005 • Opened Katayama, Kuroki and Hiraizumi Law Office, to date
- June 2008 • Director of the Company, to date



**Fumio Motoi**

Outside Audit &  
Supervisory Board Member

- April 1969 • Appointed as Judge of the Tokyo District Court
- May 1975 • Registered with the Osaka Bar Association, joined the Midosuji Legal Profession Corporation
- June 1994 • Outside Auditor of Chugai Co. Ltd., to date
- July 2001 • Ministry of Justice Human Rights Volunteer
- December 2001 • Osaka District Court Civil Law Mediator
- January 2003 • Partner of Midosuji Legal Profession Corporation, to date
- June 2005 • Outside Auditor of ZETT Corporation, to date
- June 2011 • Audit & Supervisory Board Member of the Company, to date
- November 2011 • Outside Auditor of Escrow Agent Japan, Inc., to date



**Iwao Taka**

Outside Director

- September 1991 • Fisher-Smith Visiting Fellow at the Wharton School of Business, University of Pennsylvania
- April 1994 • Full-time lecturer, Faculty of International Economics, Reitaku University
- April 2001 • Professor, Faculty of International Economics (Current School of Economics), Reitaku University, to date
- April 2002 • Professor, School of International Economics (Current School of Economics), Graduate School, Reitaku University, to date
- June 2005 • Outside Director of Mitsui Sumitomo Insurance Company, Ltd.
- April 2007 • Visiting Professor, Business Management Graduate School, Kyoto University, to date
- April 2008 • Outside Director of Mitsui Sumitomo Insurance Group Holdings, Inc.
- April 2009 • Dean, Faculty of Economics, Reitaku University
- June 2010 • Director of the Company, to date



**Akira Otsuka**

Outside Audit &  
Supervisory Board Member

- April 1973 • Registered with Kobe Bar Association (current Hyogo-ken Bar Association)
- May 1977 • Established Kobe Law Office
- June 1977 • Registered as Maritime Counselor
- July 1988 • Maritime Arbitrator of The Japan Shipping Exchange, Inc., to date
- April 1994 • Kobe Summary Court, Civil Law Mediator
- April 2001 • President of Hyogo-ken Bar Association
- October 2003 • Kobe City Education Board Member, to date
- April 2004 • Vice President of the Japan Federation of Bar Associations
- April 2005 • Visiting Professor at Kobe Gakuin University, Graduate School of Law Practices
- April 2008 • Established Kobe Kyoruchi Law Firm, Professor of Kobe Gakuin University, Graduate School of Law Practices, to date
- March 2011 • Reserve Auditor of Noritz Corporation, to date
- June 2011 • Outside Auditor of Kobe Port Terminal Corporation, to date
- Audit & Supervisory Board Member of the Company, to date



**Hiroshi Itagaki**

Audit & Supervisory  
Board Member

- April 1974 • Joined the Company
- September 2002 • Head of Secretary's Office of the Company
- August 2003 • Leader of Internal Controls Development Support Project, Management Division of the Company
- April 2005 • Leader of NT Project Promotion Team, Management Division of the Company
- April 2006 • General Manager of General Affairs Department, Management Division of the Company
- April 2008 • General Manager of General Affairs Department, person responsible for promoting implementation of JSOX at the Company
- March 2009 • Senior Manager of General Affairs Department of the Company
- June 2009 • Audit & Supervisory Board Member of the Company, to date



**Tamio  
Morimoto**

Outside Audit &  
Supervisory Board Member

- April 1964 • Joined Kureha Boseki Co., Ltd. (current Toyobo Co., Ltd.)
- August 1968 • Joined Tomishima Accounting Firm (current Ernst & Young ShinNihon LLC)
- June 1971 • Registered as certified public accountant
- May 2000 • Director of Century Ota Showa & Co. (current Ernst & Young ShinNihon LLC)
- June 2005 • Retired from ShinNihon Audit Firm (current Ernst & Young ShinNihon LLC)
- June 2007 • Outside Corporate Auditor of Sekisui Chemical Co., Ltd.
- June 2011 • Resigned as Outside Corporate Auditor of Sekisui Chemical Co., Ltd.
- June 2012 • Audit & Supervisory Board Member of the Company, to date

**Executive Officers Not Concurrently  
Serving as Directors**

Katsumi Inoue

Takahito Okoso

Shunichi Ogata

Kazunori Shinohara

Kanji Bando

Tetsuhiro Kito

Koichi Nishihara

Kazuhiro Mikuni

Sadanori Miyagai

Hajime Takamatsu

Koichi Oyama

Hiroyuki Yano

Shuji Okoso

Sadakazu Ogawa

Chiharu Moriyama

Fumio Maeda

Masahito Kataoka

Hideki Fujii



# Financial Section

## ■ Consolidated Financial Highlights

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31

	2014	2013	2012	2011	2010
Net Sales	¥1,122,097	¥1,022,839	¥1,017,784	¥ 989,308	¥ 953,616
Operating Income	35,700	28,021	26,513	33,175	24,855
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	35,303	28,031	26,766	29,523	24,024
Net Income Attributable to NH Foods Ltd.	24,524	16,459	11,655	16,731	15,721
Total Assets	627,220	610,293	589,125	590,688	604,201
Total NH Foods Ltd. Shareholders' Equity	320,984	293,414	290,020	281,067	271,908
Interest-bearing Debt	144,963	149,821	139,187	155,263	187,585
Net Cash Provided by (Used in) Operating Activities	32,952	37,407	26,432	36,761	67,448
Net Cash Provided by (Used in) Investing Activities	(17,909)	(54,813)	9,750	8,745	(60,134)
Free Cash Flow	15,043	(17,406)	36,182	45,506	7,314
Net Cash Provided by (Used in) Financing Activities	(9,373)	(10,964)	(23,745)	(36,951)	(5,227)
Capital Expenditures	29,152	33,285	19,487	17,189	19,754
Depreciation and Amortization	18,649	19,323	23,756	24,115	24,408

### Per Share Amounts:

Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders	¥ 122.11	¥ 79.42	¥ 54.79	¥ 78.67	¥ 69.69
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders	110.92	71.44	49.40	70.92	68.99
Total NH Foods Ltd. Shareholders' Equity	1,575.97	1,474.60	1,363.34	1,321.37	1,278.83
Cash Dividends	37.00	24.00	18.00	16.00	16.00

### Financial Indicators:

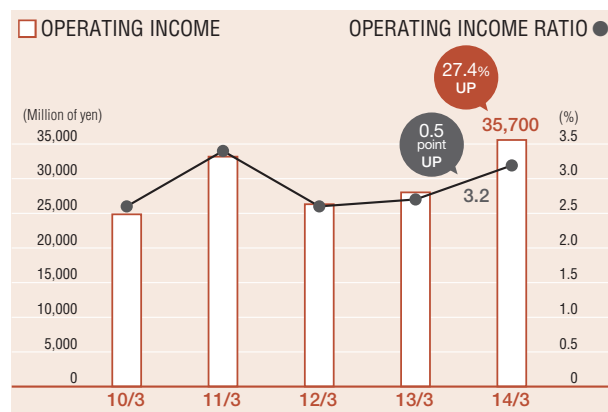
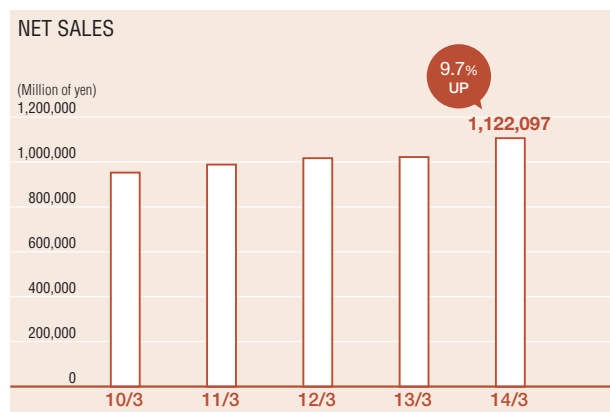
Operating income ratio	3.2%	2.7%	2.6%	3.4%	2.6%
Return on Equity (ROE)	8.0%	5.6%	4.1%	6.1%	5.8%
Return on Assets (ROA)	5.7%	4.7%	4.5%	4.9%	4.0%
NH Foods Ltd. Shareholders' Equity Ratio	51.2%	48.1%	49.2%	47.6%	45.0%
Interest-bearing Debt/Equity Ratio	0.45 Times	0.51 Times	0.48 Times	0.55 Times	0.69 Times
Interest Coverage Ratio	21.3 Times	22.8 Times	14.5 Times	17.0 Times	31.6 Times
Payout ratio (consolidated)	30.3%	30.2%	32.9%	20.3%	23.0%
Stock price: High	¥1,863	¥1,599	¥1,180	¥1,267	¥1,239
Low	¥1,292	¥ 923	¥ 918	¥ 851	¥ 987

					Millions of Yen	Thousands of U.S. Dollars
	2009	2008	2007	2006	2005	2014
	¥1,028,449	¥1,029,694	¥ 975,466	¥ 962,369	¥ 933,471	<b>\$10,894,146</b>
	21,417	17,769	16,533	10,181	27,270	<b>346,602</b>
	6,287	7,760	13,835	2,550	22,552	<b>342,747</b>
	1,657	1,555	11,386	952	11,839	<b>238,097</b>
	583,684	608,809	612,933	591,426	611,250	<b>6,089,515</b>
	270,439	287,457	298,428	291,580	268,621	<b>3,116,349</b>
	168,950	183,539	171,211	169,701	167,019	<b>1,407,408</b>
	37,776	29,690	33,164	(21,793)	34,679	<b>319,922</b>
	(15,397)	(26,793)	(19,740)	(16,661)	(23,530)	<b>(173,874)</b>
	22,379	2,897	13,424	(38,454)	11,149	<b>146,048</b>
	(24,761)	7,451	(6,322)	(1,745)	(18,145)	<b>(91,001)</b>
	22,148	18,627	19,441	20,996	27,193	<b>283,029</b>
	24,000	23,939	22,975	23,731	22,954	<b>181,058</b>
					Yen	U.S.dollars
¥	7.26	¥ 6.81	¥ 49.89	¥ 4.17	¥ 51.86	<b>\$ 1.19</b>
	7.25	6.80	49.83	4.17	51.85	<b>1.08</b>
	1,185.25	1,259.74	1,307.77	1,277.41	1,176.72	<b>15.3</b>
	16.00	16.00	16.00	16.00	16.00	<b>0.36</b>
	2.1%	1.7%	1.7%	1.1%	2.9%	
	0.6%	0.5%	3.9%	0.3%	4.5%	
	1.1%	1.3%	2.3%	0.4%	3.7%	
	46.3%	47.2%	48.7%	49.3%	43.9%	
	0.62 Times	0.64 Times	0.57 Times	0.58 Times	0.62 Times	
	15.0 Times	11.0 Times	11.4 Times		13.0 Times	
	220.4%	234.9%	32.1%	383.7%	30.9%	
	¥1,860	¥1,589	¥1,483	¥1,434	¥1,480	
	¥ 885	¥1,023	¥1,175	¥1,106	¥1,175	

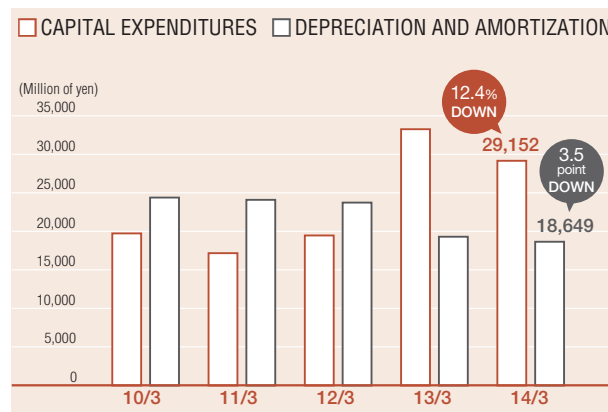
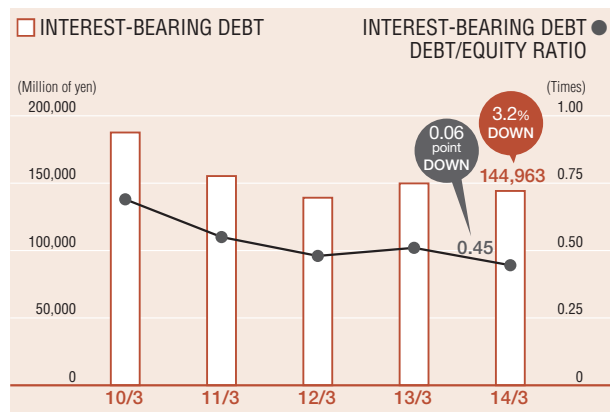
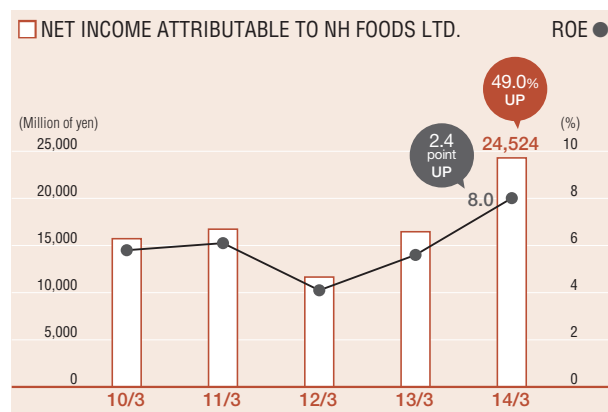
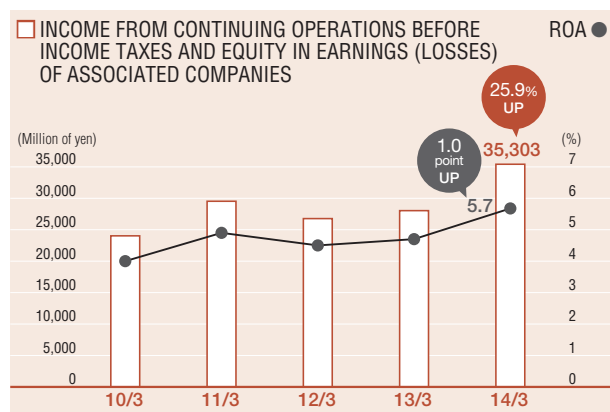
Notes:

1. The figures are based on the consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America.
2. The United States dollar amounts represent translations of Japanese yen at the rate of ¥ 103=\$1. See Note 1 to the consolidated financial statements.
3. See Note 1 to the consolidated financial statements with respect to the determination of the number of shares in computing the per share amounts attributable to NH Foods Ltd. shareholders.
4. The consolidated financial statements for the years ended on or before March 31, 2009, have been reclassified to conform to the presentation requirements in accordance with the Accounting Standards Codification ("ASC") of the U.S. Financial Accounting Standards Board Topic 810, "Consolidation."
5. In accordance with ASC Topic 205, "Presentation of Financial Statements," the Companies present the results of discontinued operations as a separate line item in the consolidated statements of income under income (loss) from discontinued operations – net of applicable income taxes.
6. Operating income represents net sales less cost of goods sold and selling, general and administrative expenses.
7. Interest-bearing debt consists of short-term bank loans, current maturities of long-term debt and long-term debt, less current maturities (including zero coupon convertible bonds) in the consolidated balance sheets.
8. Capital expenditures represent the additions to tangible and intangible fixed assets.
9. Depreciation and amortization consist of depreciation of tangible fixed assets and amortization of intangible fixed assets.
10. ROE= (Net income attributable to NH Foods Ltd. / Average total NH Foods Ltd. shareholders' equity)×100  
 ROA= (Income from continuing operations before income taxes and equity in earnings (losses) of associated companies / Average total assets)×100  
 Free Cash Flow= Net cash provided by (used in) operating activities + Net cash provided by (used in) investing activities  
 NH Foods Ltd. Shareholders' Equity Ratio= (NH Foods Ltd. shareholders' equity / Total assets)×100  
 Interest-bearing Debt / Equity Ratio = Interest-bearing debt / NH Foods Ltd. shareholders' equity  
 Interest Coverage Ratio= Net cash provided by operating activities / Interest paid

## Consolidated Financial Highlights \* The numbers in circles are the previous year comparisons.

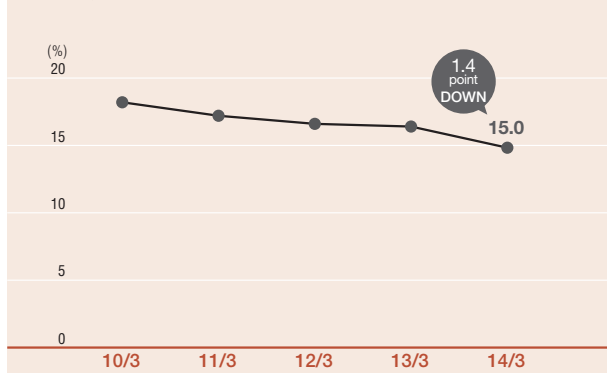


Note: Operating income is calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales, in accordance with Japanese accounting practices.

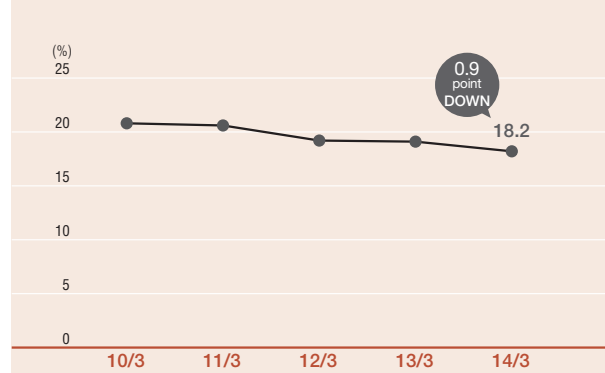




## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

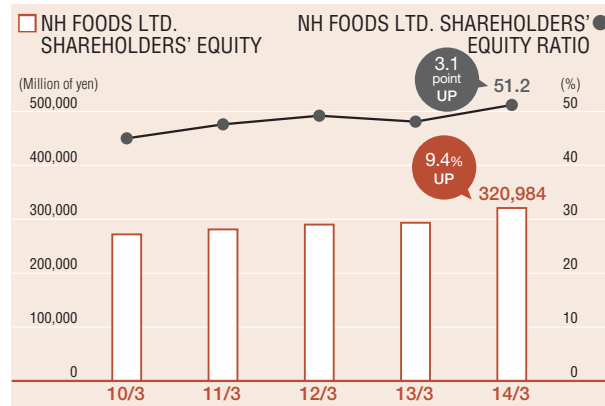
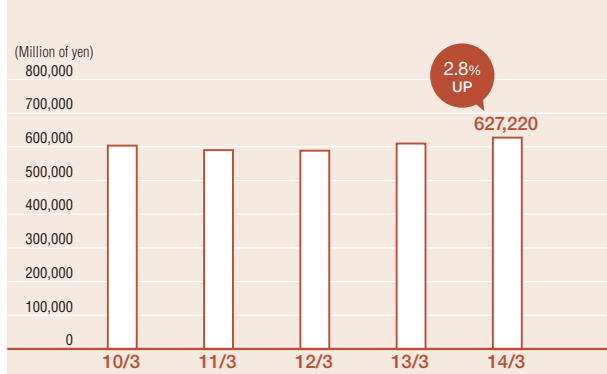


## GROSS PROFIT RATIO

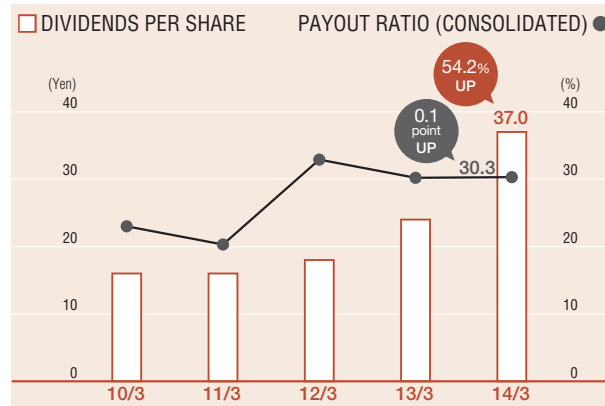
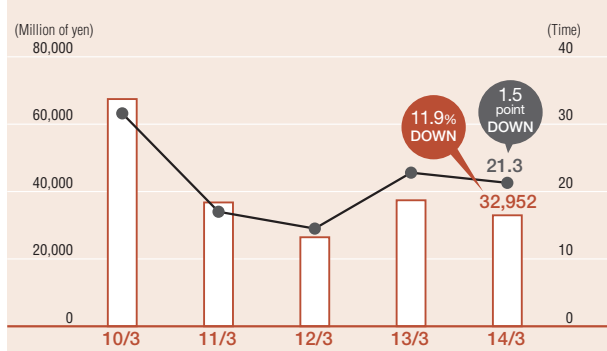


Note: Gross profit represents net sales less cost goods sold.

## TOTAL ASSETS



## NET CASH PROVIDED BY OPERATING ACTIVITIES



## ■ Management's Discussion and Analysis

### Notice of change in the corporate names

By resolution of the 69th Ordinary General Meeting of Shareholders on June 26, 2014, Nippon Meat Packer's Inc. changed its English corporate name to NH Foods Ltd. on the same day. As used in this annual report, the "Group" refers to NH Foods Ltd. and its subsidiaries unless the context otherwise indicates.

### Forward-Looking Statements

This MD&A includes forecasts regarding targets, strategies, and earnings. These forecasts are based on information available at the current time and contain certain assumptions about the future. They are subject to numerous external uncertainties in areas such as the economic environment, market trends, and exchange rates. Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.

## Overview of Business Results

The Japanese economy continued its overall recovery trend in the year ended March 31, 2014, reflecting improved corporate earnings centered on export industries and stock prices, which generally remained solid thanks to the continued yen depreciation resulting from the effects of the government's economic measures. However, the outlook remains uncertain following the increase in consumption tax in April 2014.

Market prices of domestically produced and imported beef were higher than a year earlier. Market prices of pork and chicken also rose from the previous fiscal year. However, the prices of raw materials, materials and fuels increased sharply, feed prices remained high and sales competition intensified. The business climate continued to be extremely harsh.

Against this backdrop, under the "New Medium-Term Management Plan Part IV," which was launched in April 2012, the Group undertook business activities based on three management policies: "Brush up the concept of Management for No. 1 Quality," "Allocate management resources in prioritized areas," and "Enhance the Group brand value" to carry out its objectives of "Improving the profitability of domestic operations and reinforcing the foundation of overseas operations." Specific initiatives included reinforcing domestic farm businesses, increasing business bases in Vietnam, the Philippines and Germany, developing and expanding sales of new products, and developing human resources. The Group also continued with structural reform to strengthen cost competitiveness, and revised some of the prices of hams and sausages, and processed foods to address a sharp rise in raw material prices in July 2013.

Under the management policy of "Enhance the Group brand value," to pursue brand management as part of its global strategy, the Group brand was changed in April 2014. NH Foods' corporate brand logo was revised in June 2014, and the English trade name of NH Foods was also changed.

As a result of these actions, consolidated net sales for the fiscal year stood at ¥1,122,097 million, rising 9.7% from the previous year. Operating income rose 27.4%, to ¥35,700 million. Income before income taxes and equity in earnings (losses) of associated companies increased 25.9%, to ¥35,303 million. Net income attributable to NH Foods Ltd. rose 49.0%, to ¥24,524 million, reflecting a decrease in tax costs due to the improved results of the Australian

business.

(Note) Operating income was calculated by deducting cost of goods sold and selling, general and administrative expenses from net sales in accordance with Japanese accounting practices.

### Net Sales

The Group focused on promoting sales of hams and sausages through TV commercials for its core brands *SCHAU ESSEN* and *Irodori Kitchen Loin Ham*. During the year-end gift-giving season, the Group carried out aggressive marketing activities including TV commercials for the flagship *Utsukushi-no-Kuni* gift product. As a result, sales increased 2.5%, to ¥143,490 million.

In processed foods, sales were boosted by new offerings in 2013, including a *Chuka Meisai* called *Shiromizakana-no-amazunkake*, a chilled pizza *Ishigama Kobo* called *Basil & Bacon Genovese*, and a chilled pancake called *Sucre et Sucre*. Sales of *Four Cheese Hamburg*, which remained brisk after the previous fiscal year, continued to rise. Sales of commercial-use products also recovered. As a result, sales rose 1.6%, to ¥208,084 million.

In fresh meats, the sales volume of domestically produced chicken, whose upstream businesses were strengthened, increased steadily. The Group also focused on sales of domestically produced beef. Market prices of all fresh meats improved from the previous fiscal year. Reflecting these factors, sales increased 14.4%, to ¥619,333 million.

Sales of marine products rose 9.5%, to ¥91,809 million, as a result of strengthened offerings to volume retailers and restaurants, while raw material prices rose considerably due to a rapid decline in production volume because of the outbreak of diseases in the countries of origin of shrimps and salmon.

In dairy products, sales of yogurt beverages remained brisk among yogurt and lactic and probiotic beverage products. In addition, volume retailers' sales of the core offering *Vanilla Yogurt* increased. However, sales of NB products declined in CVS channels. As a result, sales of yogurt and lactic and probiotic beverages remained on the same level as the previous fiscal year. Sales of cheese increased 4.4%, to ¥26,253 million, due to strengthened measures for bakeries, restaurants and food manufactures, which are major channels, and a rise in sales of consumer products.

As a result of these factors, net sales rose 9.7% from the previous fiscal year, to ¥1,122,097 million.

### Gross Profit, Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies, and Net Income Attributable to NH Foods Ltd.

The cost of goods sold rose 11.0%, to ¥918,304 million. The ratio of the cost of goods sold to net sales was 81.8%, compared with 80.9% in the previous fiscal year. Gross profit grew 4.1%, to ¥203,793 million. Selling, general and administrative expenses increased 0.2%, to ¥168,093 million, and the ratio of selling, general and administrative expenses to net sales decreased from 16.4% for the previous fiscal year to 15.0%. As a result, income from continuing operations before income taxes and equity in

earnings (losses) of associated companies increased 25.9%, to ¥35,303 million, reflecting a rise in operating income.

The effective tax rate, based on income from continuing operations before income taxes and equity in earnings (losses) of associated companies, declined from 40.5% to 31.3%, reflecting the reduction of tax costs thanks to the improved results of overseas consolidated subsidiaries.

Net income attributable to NH Foods Ltd. therefore increased 49.0%, to ¥24,524 million. Basic earnings per share attributable to NH Foods Ltd. amounted to ¥122.11.

(Note) Gross profit represents net sales less cost of goods sold.

## Business Results by Segment

The operations of the Group consist of three business divisions. The Processed Foods Business Division primarily manufactures and sells hams & sausages, and processed foods. The Fresh Meats Business Division mainly produces and sells fresh meats. The business of the Affiliated Business Division centers on making and selling marine and dairy products.

### ●● Processed Foods Business Division ●●

In the hams and sausages business, the division ran TV commercials and conducted promotional campaigns for the core brands *SCHAU ESSEN* and *Irodori Kitchen Loin Ham*. In the year-end gift-giving season, the division actively ran TV commercials and mounted promotions for the flagship *Utsukushi-no-Kuni* gift product and other offerings, which helped to boost the division's sales. As a result, sales of hams and sausages increased from the previous fiscal year.

In its processed foods business, sales were boosted by new offerings in 2013, including a *Chuka Meisai* called *Shiromizakana-no-amazuankake*, a chilled pizza called *Ishigama Kobo Basil & Bacon Genovese*, and a chilled pancake called *Sucre et Sucre*. Sales of *Four Cheese Hamburg* which remained brisk after the previous fiscal year, continued to rise. Sales of commercial-use products also recovered. As a result, the division's sales rose from the previous fiscal year.

The division's earnings declined from the previous fiscal year, reflecting the major effects of a rise in the prices of raw materials, materials and fuels and the influence of yen depreciation, despite progress in the price revision made in July 2013 and cost reductions.

As a result of these factors, segment sales increased 3.8%, to ¥351,994 million, and operating income decreased 32.2%, to ¥6,481 million.

### ●● Fresh Meats Business Division ●●

The sales volume of domestically produced chicken, whose upstream businesses were strengthened, increased steadily. The division also focused on sales of domestically produced beef. Market prices of all fresh meats improved from the previous fiscal year. Reflecting these factors, sales rose significantly from the previous fiscal year.

The division also strengthened its efforts to increase sales of branded fresh meats. Among others, the division focused on *Whyalleaf*, branded beef produced in Australia, on which the division had been working since the previous fiscal year. This led to increased sales of beef produced in Australia, including the existing brand *Omugi-Gyu*. Sales of *Sakurahime*, domestically produced branded chicken, also grew steadily thanks to the launch of new measures including sales of farm-fresh packs. In the second half, the division pursued the development of *Germany Pork*, a brand of pork produced in Europe.

The earnings of the domestic farm business improved from the previous fiscal year thanks to the improvement of the fresh meat market. Market prices for domestic fresh meat sales recovered from the previous fiscal year. However, sales competition was fierce, and earnings from sales of pork continued to diminish. Overseas, the division reduced purchasing costs in the Australian business, and focused on sales in all countries. This continued to have an impact. The United States business shifted to a recovery, reflecting a sharp rise in pork prices.

The division's sales thus increased 13.8%, to ¥766,509 million, and operating income rose 72.3%, to ¥26,815 million.



### ●● Affiliated Business Division ●●

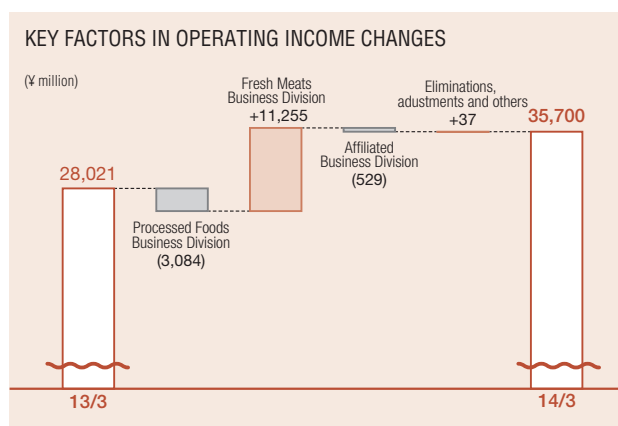
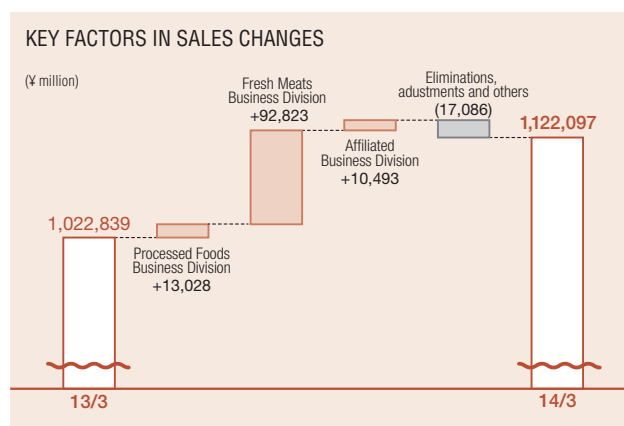
In its marine products business, sales rose as a result of the strengthening of offerings to volume retailers and restaurants, while raw material prices rose considerably because of the effect of a rapid decline in production volume due to outbreaks of diseases in the countries of origin of the mainstay marine products such as shrimps, and salmon.

In dairy products, sales of yogurt beverages remained brisk among yogurt and lactic acid bacteria beverage products. In addition, volume retailers' sales of the core offering *Vanilla Yogurt* increased. However, sales of NB products declined in CVS channels. As a result, sales of yogurt and lactic acid bacteria beverages remained on the same level as the previous fiscal year. Sales of cheese increased from the previous year as a result of strengthened

measures for bakeries, restaurants and food producers, which are major channels, and a rise in sales of consumer products. Total sales of dairy products rose from a year earlier.

Revenues from marine products were higher than the previous fiscal year, reflecting brisk year-end gift sales and the end of the previous year's loss margin on silver salmon produced in Chile. Earnings from dairy products declined from the previous fiscal year because the revision of selling prices was delayed, despite a substantial rise in raw material prices and the adverse effect of foreign exchange rate fluctuations. Expenses rose in line with higher sales to volume retailers.

As of result, the division's sales increased 7.6%, to ¥148,138 million, and operating income decreased 34.6%, to ¥998 million.



## Outlook for the Year Ending March 31, 2015

As to the outlook for the next fiscal year, the effect of the government's economic measures, etc. is expected to continue. However, uncertain conditions concerning the move of TPP and the influence of an increase in consumption tax in April 2014 are anticipated. The harsh business climate is expected to continue in the future, with factors such as a sharp rise in the prices of raw materials and fuels. The Group will push ahead with "New Medium-Term Management Plan Part IV," launched in April 2012, with the themes of "Improving the profitability of domestic operations and reinforcing the foundation of overseas operations." Key priorities include "Brush up the concept of Management for No. 1 Quality," "Allocating management resources in prioritized areas," and "Enhancing the Group brand value."

In the Processed Foods Business Division, the costs of raw and

other materials and fuel are expected to surge. The business climate will likely remain difficult as consumption polarizes and price competition intensifies. Our production and marketing operations will collaborate in pursuing growth- and efficiency-enhancing strategies. Our growth strategies will be to further increase sales of branded products, centered on *SCHAU ESSEN*, which recently celebrated the 30th anniversary of its sales launch, deploy initiatives that position us to be major customers' top partners and convey strategies for consumer and commercial areas as part of a focus on increasing market share. We will reflect customer perspectives in market analysis and product development to help propose new value. Strategies to enhance efficiency will center on installing high-productivity lines and overhauling supply chain management to reduce product losses and logistics costs. We will also trim our lineup to become more

cost competitive.

The Fresh Meats Business Division expects the fresh meats market to continue to remain firm, reflecting a recovery in domestic demand and a decline in worldwide supply. In this business climate, the division will leverage its unique integrated production system, which covers its farms through to its sales companies, while pursuing its brand strategies to boost domestic market share. The division will endeavor to enhance production capacity in upstream sectors while improving quality and cost competitiveness. The division will draw on its procurement and marketing capabilities in focusing on expanding sales to volume retailers and restaurants while increasing volumes and selling branded fresh meats.

The Affiliated Business Division will reinforce manufacturing, product development and sales based on the inseparable viewpoints of the strengthening of craftsmanship and customer-oriented marketing, and enhance the competitiveness of in-house products and capabilities to make offerings to customers to boost sales. In the marine products business, the division will continue endeavoring to sell to volume retailer channels and restaurant channels, as in the previous fiscal year, and focus on the reinforcement of, and cooperation with, upstream businesses. As for dairy products, the

division will endeavor to increase items handled in CVS channels for yogurt and lactic and probiotic beverages, and develop products that meet customer needs while cultivating new markets. The division will meet customer needs in commercial channels for cheese operations, leveraging its strong production technologies, and endeavor to boost sales of consumer products.

The Group will thus make every effort to deploy the policies and strategies of its "New Medium-Term Management Plan Part IV" and the priorities under the plan of "Improving the profitability of domestic operations and reinforcing the foundation of overseas operations" under the new Group brand.

As to the objective of the results for the fiscal year ending March 2015, the Group will aim for consolidated net sales of ¥1,140.0 billion, up 1.6% from the previous year. The Group forecasts operating income of ¥40.0 billion, up 12.0%, and income before income taxes and equity in earnings (losses) of associated companies of ¥37.0 billion as increasing 4.8%, and net income attributable to NH Foods Ltd. of ¥24.0 billion, down 2.1% from a year earlier.

## Analysis of Financial Position

### Assets

At the end of the fiscal year, total assets stood at ¥627,220 million, up 2.8% from a year earlier. Marketable securities declined 98.1% from the end of the previous year, to ¥190 million, and trade notes and accounts receivable decreased 4.7%, to ¥118,141 million. However, time deposits increased 33.8%, to ¥42,472 million, and inventories rose 7.9%, to ¥122,115 million. Cash and cash equivalents also increased 17.8%, to ¥42,983 million. As a result, total current assets amounted to ¥340,791 million, rising 1.8% from a year earlier. Property, plant and equipment rose 5.3%, to ¥236,669 million, reflecting increased capital expenditures. Investments and other assets increased 11.7%, to ¥34,267 million, due to an increase in unrealized gains on other investment securities reflecting favorable stock market conditions and a rise in prepaid pension costs included in other assets.

### Liabilities

Long-term debt increased 36.0% from the end of the previous year, to ¥90,402 million, due to the issue of euro yen zero coupon convertible bonds (bonds with stock acquisition rights) due 2018. Current maturities of long-term debt declined 76.2%, to ¥8,395

million, because of the conversion of almost all of the zero coupon convertible bonds (CB#5) into the common shares of NH Foods Ltd. Trade notes and accounts payable decreased 4.7%, to ¥97,353 million. As a result, total liabilities amounted to ¥303,245 million, falling 3.5% from a year earlier.

### Total NH Foods Ltd. Shareholders' Equity

Total NH Foods Ltd. shareholders' equity increased 9.4% from the end of the previous year, to ¥320,984 million. Key factors included treasury stock, at cost, of negative ¥37,423 million, reflecting the acquisition of treasury stock of ¥29,999 million and a decline due to claims for conversion of the CB#5, an increase in other unappropriated retained earnings of 7.7%, to ¥271,902 million, and the improvement of accumulated other comprehensive loss of ¥7,709 million, to ¥1,064 million, reflecting the yen's depreciation and favorable stock market conditions. Interest-bearing debt decreased ¥4,858 million, to ¥144,963 million.

The total NH Foods Ltd. shareholders' equity ratio thus rose 3.1 percentage points, to 51.2%.

## **Cash Flows**

### ●● Cash Flows from Operating Activities ●●

Net cash provided by operating activities stood at ¥32,952 million, compared with ¥37,407 million a year earlier. This was primarily attributable to net income, depreciation and amortization expenses and a decrease in trade notes and accounts receivable, which were offset by an increase in inventories and a decline in trade notes and accounts payable.

### ●● Cash Flows from Investing Activities ●●

Net cash used in investing activities amounted to ¥17,909 million, compared with ¥54,813 million a year earlier, reflecting the acquisition of property, plant and equipment.

### ●● Cash Flows from Financing Activities ●●

Net cash used in financing activities stood at ¥9,373 million, compared with ¥10,964 million a year earlier, reflecting the repayments of debts and the acquisition of treasury stock, despite proceeds from and a rise in short-term bank loans.

As a result of the Group's operating, investing, and financing activities, cash and cash equivalents at the end of the fiscal year increased ¥6,508 million from the end of the previous year, to ¥42,983 million.

## **Capital Expenditures**

The Group has created an integrated production system that covers all aspects of its operations—from breeding to processing, production, distribution, and sales—and invests in fixed assets as necessary to enhance, rationalize, and strengthen this system. These investments totaled approximately ¥29.2 billion (including software) for the fiscal year. The principal investments are as described below.

### ●● Processed Food Business Division ●●

Consolidated subsidiaries, primarily Nipponham Factory Ltd., used approximately ¥14.8 billion, mainly to expand and upgrade production and sales facilities for hams and sausages, and processed foods.

### ●● Fresh Meats Business Division ●●

Capital expenditures by consolidated subsidiaries totaled approximately ¥8.9 billion. This spending included approximately ¥3.9 billion by Nippon White Farm Co., Ltd., Interfarm Co., Ltd., and other subsidiaries to upgrade and refurbish breeding facilities, approximately ¥2.6 billion by Nishi Nippon Food, Inc., Nippon Logistics Center, Inc., and other subsidiaries to improve sales facilities, and approximately ¥1.3 billion by Nippon Food Packer, Inc. and other subsidiaries to upgrade processing and packing facilities.

### ●● Affiliated Business Division ●●

Capital investments totaling ¥3.9 billion were made in areas such as updating production and operational facilities in the dairy and marine product businesses of Hoko Co., Ltd., Marine Foods Corporation among others.

## **Shareholder Returns Policy**

The Group aims to pay dividends that are commensurate with results based on a policy of securing retained earnings to reinforce the corporate structure to underpin long-term progress while ensuring stable dividends. Management seeks to use retained earnings effectively to fund investments in order to enhance corporate value in the future.

In keeping with this basic policy, management targets a consolidated payout ratio of 30% and aims for stable and continuous dividend growth. However, management targets a lower limit of dividends of ¥16 per share for the time being. Management will flexibly acquire treasury stock, taking into account growth investments and the financial position, to enhance shareholder value per share and return on equity.

As stated in "Notice of Adjustment to the Forecasts of Business Results and Dividends" announced on May 8, 2014, management will pay dividends of ¥37.00 per share of common stock (for a consolidated payout ratio of 30.3%) for the year ended March 31, 2014. Based on a projection of ¥24.0 billion in net income attributable to NH Foods Ltd. for the year ending March 31, 2015, management plans to pay dividends of ¥35.00 per share of common stock, targeting a consolidated payout ratio of 30%.



## Business Risks

Risks with the potential to affect the Group's operating results and financial condition include, but are not limited to, the following major risks. These risks contain future factors, which are envisioned as of the end of this fiscal year.

### 1. Market -Related Risks

The Group's business centers on fresh meats and fresh meats-related processed products. As such, in addition to selling fresh meats, the Group uses fresh meats as raw materials for hams and sausages, processed foods, and other applications. As a consequence, the Group's operating results and financial condition are vulnerable to fluctuation in market prices for livestock. Moreover, the Group's livestock breeding business, which supplies these fresh meats, is by nature affected not only by fluctuations in product prices but also by swings in feed prices. The Group's also manufactures marine and dairy products, and is thus vulnerable to market conditions and fluctuations in the prices of raw materials used in these business.

To counter market-related risks, the Group works to diversify its product procurement channels, develop high value-added products, create brands, establish marketing strategies from a customer perspective and make use of commodity futures contracts. The Group also strives to ensure the stable procurement of raw materials in anticipation of product demand and to maintain appropriate inventories of fresh meats. Such measures do not, however, guarantee complete avoidance of these risks.

The Group's operating results and financial condition may also be significantly affected by outbreaks of disease — such as BSE, avian influenza, and foot-and-mouth disease — as well as by the imposition of safeguard tariffs, that is, emergency restrictions on imports.

### 2. Safety-Related Risks

Based on its Open Quality concept, which emphasizes earning the trust of customers and responding to their expectations concerning the safety of its products, the Group has established quality policies: Strict compliance with law and regulations; Creation of a quality and safety assurance network; Objective analysis of product safety; Product traceability; and Closer ties with customers.

In line with these policies, the Group has built a rigorous quality control system for which it has obtained recognized third-party certification (i.e. ISO and HACCP), and a traceability system for the raw materials used in its fresh meats and processed food products, which include hams and sausages, thereby ensuring the safety and security of raw materials and strengthening food defense. It has further reinforced its measures for quality improvement and has endeavored to secure safety and security. If, despite the best efforts of the Group, problems are found in any product or service provided by the Group, we will ensure prompt disclosure and take all necessary preventive measures to ensure the safety of the

customer as our main priority.

However, in the event of a quality issue that falls outside the scope of these initiatives or has a major impact on society because, for example, it threatens food safety, the impact thereof has the potential to affect the Group's operating results and financial condition.

### 3. Risks Related to the Procurement of Materials

The Group strives to increase production efficiency and reduce inventory losses and distribution costs. However, should the Group be unsuccessful in offsetting increases in costs related to the procurement of materials and fuel or to distribution — attributable to such factors as high crude oil prices — or in passing those costs onto customers by raising product prices, the resulting increase in costs has the potential to affect the Group's operating results and financial condition.

### 4. Foreign Exchange Risks

The translation into yen of costs, income, and trade receivables and payables associated with transactions undertaken by the Group denominated in other currencies may be affected by fluctuations in currency rates.

To minimize exchange risks, the Group utilizes hedging instruments, including forward foreign exchange contracts, currency swap contracts, currency option contracts and cross-currency swap contracts. Such measure do not, however, guarantee protection against the impact of these risks. Moreover, the use of hedging instruments to minimize foreign exchange risk may expose the Group to the risk of opportunity loss in the event foreign exchange market fluctuations exceed management's estimates.

There is also a risk that translation losses — that is, losses arising from the translation of the foreign currency-denominated financial statements of overseas consolidated subsidiaries into yen — may accumulate in the foreign currency translation adjustments, triggering fluctuations in shareholders' equity in the consolidated financial statements. Such fluctuations have the potential to affect the Group's operating results and financial condition.

To hedge risks associated with transactions in foreign currencies, the Group continually monitors currency markets in accordance with its exchange risk management policies and periodically assesses its exposure to foreign exchange risk. All forward foreign exchange contracts, currency swap contracts, and currency option contracts are carried out based on these policies and on internal regulations governing transactional authority and transaction amount limits.

## 5. Interest Rate Risk

The Group raises the bulk of the funds it requires through loans from third parties and other forms of interest-bearing debt. Most of the Group's interest-bearing debt — ¥145.0 billion as of March 31, 2014 — is fixed-rate. Accordingly, the Group believes that for the foreseeable future the direct impact of interest rate increases will be negligible. Nonetheless, in a high interest-rate environment, any increase in the Group's interest burden has the potential to affect the Group's operating results and financial condition.

## 6. Share Price Risks

Marketable securities held by the Group consist principally of the shares of its business partners. As such, the Group is exposed to share price risks associated with market price fluctuations. As of March 31, 2014, these shares represented unrealized gains. However, share price movements in the future may significantly affect the Group's operating results and financial condition.

Additionally, should the value of pension plan assets be negatively affected by weakness in the stock market, pension costs may increase and additional pension-plan assets may become necessary.

## 7. Risk of Impairment Loss on Fixed Assets

Should the value of fixed assets owned by the Group decrease, necessitating the application of impairment accounting, resulting losses have the potential to affect the Group's operating results and financial condition.

## 8. Risk Associated with Natural Calamities, Unforeseen Accidents, and Social Upheaval

The Group has operations in Japan and several other countries. The geographical locations of these operations involve certain risks. Any of the following occurrences has the potential to affect the Group's operating results and financial condition:

- Earthquake, flood, or other major natural calamity and the potential impact thereof on the infrastructure, i.e., damage to roads, harbors, and rail lines and the interruption of gas, water, and electric power supplies
- Environmental contamination (pollution of the atmosphere, water, or soil) resulting from an unforeseen accident or chance occurrence
- Social unrest caused by the spread of an infectious disease, such as influenza
- Unforeseen establishment of adverse, or the repealing of laws or regulations
- Unforeseen adverse economic or social event
- Occurrence of social or economic disorder caused by such as war, conflict, terrorist attack

## 9. Risk of Information Leakage

In line with internal regulations for safeguarding personal information and governing insider trading, the Group rigorously protects and manages both the personal information it possesses and critical corporate information through such measure as compliance training and hierarchical employee education. The Group has also formulated measures to ensure the security of its information system and to respond to the impact of major disasters. Nonetheless, information may be leaked, falsified, or lost, in the event of a natural calamity that exceeds assumptions, an extended interruption of power supplies, damage to hardware and/or software, a computer virus, or unauthorized access of the Group's computer networks; a protracted breakdown of the Group's information systems may also occur. Any of these occurrences has the potential to affect the Group's operating results and financial condition.

## 10. Compliance Risks

The Group strives to maintain a corporate culture that emphasizes transparency and sound business practices and works continuously to reinforce and embed awareness of compliance. The Group has established a risk management structure that ensures its ability to respond swiftly to recognized risks. The Risk Management Committee, which is chaired by the president and representative director of the parent company, is responsible for ensuring compliance Groupwide, while the Compliance Department is charged with deploying ongoing measures aimed at enhancing understanding among employees and management, as well as with compliance risk mitigation.

However, should an instance of noncompliance, such as the failure of an employee or member of management to comply with a relevant law or regulation, arise, it would have the potential to affect the Group's operating results and financial condition.

## 11. Risks associated with Environmental Issues

In line with its Environmental Policies, the Group is committed to conducting its business in a manner that incorporates consideration for the environment, thereby contributing to the realization of a sustainable society.

The Group has obtained certification under ISO 14001 and is working to earn certification from other key external organizations. The Group's management practices, which include environmental audits implemented by the Environmental & Social Responsibility Office, also reflect its commitment to being an environment-friendly organization. The Group also endeavors to ensure the appropriateness and transparency of its environmental and other CSR initiatives.

Nonetheless, in the event of an accident, negligence, or other problem resulting in environmental contamination, the Group may be obliged to pay for remediation and/or damages. In the event existing laws and regulations are revised, the Group may be obliged to significantly increase environment-related investment. Either of these occurrences has the potential to affect the Group's operating results and financial condition.

## ■ Five-Year Summary

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31

	Millions of Yen				
	2014	2013	2012	2011	2010
Net Sales	¥1,122,097	¥1,022,839	¥1,017,784	¥ 989,308	¥ 953,616
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	35,303	28,031	26,766	29,523	24,024
Net Income Attributable to NH Foods Ltd.	24,524	16,459	11,655	16,731	15,721
Total Assets	627,220	610,293	589,125	590,688	604,201
Total NH Foods Ltd. Shareholders' Equity	320,984	293,414	290,020	281,067	271,908
Interest-bearing Debt	144,963	149,821	139,187	155,263	187,585
Net Cash Provided Operating Activities	32,952	37,407	26,432	36,761	67,448
Net Cash Provided by (Used in) Investing Activities	(17,909)	(54,813)	9,750	8,745	(60,134)
Free Cash Flow	15,043	(17,406)	36,182	45,506	7,314
Net Cash Used in Financing Activities	(9,373)	(10,964)	(23,745)	(36,951)	(5,227)
Capital Expenditures	29,152	33,285	19,487	17,189	19,754
Depreciation and Amortization	18,649	19,323	23,756	24,115	24,408
<b>Per Share Amounts:</b>					Yen
Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders	¥ 122.11	¥ 79.42	¥ 54.79	¥ 78.67	¥ 69.69
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders	¥ 110.92	¥ 71.44	¥ 49.40	¥ 70.92	¥ 68.99
Total NH Foods Ltd. Shareholders' Equity	¥1,575.97	¥1,474.60	¥1,363.34	¥1,321.37	¥1,278.83
Cash Dividends	¥ 37.00	¥ 24.00	¥ 18.00	¥ 16.00	¥ 16.00
<b>Financial Indicators:</b>					Percent
Return on Equity (ROE)	8.0%	5.6%	4.1%	6.1%	5.8%
Return on Assets (ROA)	5.7%	4.7%	4.5%	4.9%	4.0%
NH Foods Ltd. Shareholders' Equity Ratio	51.2%	48.1%	49.2%	47.6%	45.0%
					Times
Interest-bearing Debt/Equity Ratio	0.45	0.51	0.48	0.55	0.69
Interest Coverage Ratio	21.3	22.8	14.5	17.0	31.6

### Notes:

- The above figures are based on the consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America.
- See Note 1 to the consolidated financial statements with respect to the determination of the number of shares in computing the per share amounts attributable to NH Foods Ltd. shareholders.
- Interest-bearing debt consists of short-term bank loans, current maturities of long-term debt and long-term debt, less current maturities (including zero coupon convertible bonds) in the consolidated balance sheets.
- Capital expenditures represent the additions to tangible and intangible fixed assets.
- Depreciation and amortization consist of depreciation of tangible fixed assets and amortization of intangible fixed assets.
- $ROE = (\text{Net income attributable to NH Foods Ltd.} / \text{Average total NH Foods Ltd. shareholders' equity}) \times 100$   
 $ROA = (\text{Income from continuing operations before income taxes and equity in earnings (losses) of associated companies} / \text{Average total assets}) \times 100$   
 $\text{Free Cash Flow} = \text{Net cash provided by operating activities} + \text{Net cash provided by (used in) investing activities}$   
 $\text{NH Foods Ltd. Shareholders' Equity Ratio} = (\text{NH Foods Ltd. shareholders' equity} / \text{Total assets}) \times 100$   
 $\text{Interest-bearing Debt / Equity Ratio} = \text{Interest-bearing debt} / \text{NH Foods Ltd. shareholders' equity}$   
 $\text{Interest Coverage Ratio} = \text{Net cash provided by operating activities} / \text{Interest paid}$

## ■ Consolidated Balance Sheets

NH Foods Ltd. and Subsidiaries  
March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
<b>ASSETS:</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 1)	¥ 42,983	¥ 36,475	\$ 417,311
Time deposits (Note 1)	42,472	31,753	412,350
Marketable securities (Notes 1, 3 and 15)	190	10,200	1,845
Trade notes and accounts receivable (Note 1)	118,141	123,972	1,147,000
Allowance for doubtful receivables	(266)	(399)	(2,583)
Inventories (Notes 1, 2 and 7)	122,115	113,187	1,185,583
Deferred income taxes (Notes 1 and 8)	5,863	6,637	56,922
Other current assets (Note 16)	9,293	13,092	90,223
Total current assets	340,791	334,917	3,308,651
PROPERTY, PLANT AND EQUIPMENT – At cost, less accumulated depreciation (Notes 1, 4, 6, 7, 13 and 15)	236,669	224,785	2,297,757
INTANGIBLE ASSETS, less accumulated amortization (Notes 1 and 5)	5,402	7,375	52,447
<b>INVESTMENT AND OTHER ASSETS:</b>			
Investments in associated companies (Notes 1 and 3)	2,993	2,550	29,058
Other investment securities (Notes 1, 3 and 15)	21,078	20,392	204,641
Other assets (Notes 9 and 16)	10,196	7,743	98,990
Total investments and other assets	34,267	30,685	332,689
DEFERRED INCOME TAXES – Non-current (Notes 1 and 8)	10,091	12,531	97,971
<b>TOTAL ASSETS</b>	<b>¥627,220</b>	<b>¥610,293</b>	<b>\$6,089,515</b>

See notes to consolidated financial statements.



**LIABILITIES AND EQUITY:****CURRENT LIABILITIES:**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
Short-term bank loans (Note 7)	¥ 46,166	¥ 48,053	\$ 448,214
Current maturities of long-term debt (Notes 7, 13 and 15)	8,395	35,320	81,505
Trade notes and accounts payable	97,353	102,148	945,175
Accrued income taxes (Notes 1 and 8)	4,419	6,066	42,903
Deferred income taxes (Notes 1 and 8)	802	728	7,786
Accrued expenses (Note 9)	20,567	19,635	199,680
Other current liabilities (Note 16)	18,234	16,711	177,030
Total current liabilities	195,936	228,661	1,902,293

<b>LIABILITY UNDER RETIREMENT AND SEVERANCE PROGRAMS</b> (Notes 1 and 9)	12,584	15,005	122,175
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES</b> (Notes 7, 13 and 15)	90,402	66,448	877,689
<b>DEFERRED INCOME TAXES – Non-current</b> (Notes 1 and 8)	2,449	2,525	23,777
<b>OTHER LONG-TERM LIABILITIES</b>	1,874	1,570	18,194
<b>TOTAL LIABILITIES</b>	303,245	314,209	2,944,128

**COMMITMENTS AND CONTINGENT LIABILITIES** (Notes 1, 9, 13 and 18)**NH Foods Ltd. SHAREHOLDERS' EQUITY:**

Common stock, no par value – authorized, 570,000,000 shares; issued: 2014 and 2013 – 228,445,350 shares (Note 11)	24,166	24,166	234,621
Capital surplus (Notes 7, 10 and 11)	55,655	50,761	540,340
Retained earnings:			
Appropriated for legal reserve (Note 11)	7,748	7,518	75,223
Unappropriated (Notes 11 and 19)	271,902	252,383	2,639,825
Accumulated other comprehensive loss (Note 12)	(1,064)	(8,773)	(10,330)
Treasury stock, at cost: 2014 – 24,771,582 shares (Notes 11 and 19)			
2013 – 29,466,532 shares (Note 11)	(37,423)	(32,641)	(363,330)
Total NH Foods Ltd. shareholders' equity	320,984	293,414	3,116,349
<b>NONCONTROLLING INTERESTS</b>	2,991	2,670	29,038
<b>TOTAL EQUITY</b>	323,975	296,084	3,145,387
<b>TOTAL LIABILITIES AND EQUITY</b>	¥627,220	¥610,293	\$6,089,515

See notes to consolidated financial statements.

## ■ Consolidated Statements of Income

NH Foods Ltd. and Subsidiaries

For the Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2013	2012	2014
<b>NET SALES</b> (Notes 1 and 16)	<b>¥1,122,097</b>	¥1,022,839	¥1,017,784	<b>\$10,894,146</b>
<b>COST OF GOODS SOLD</b> (Notes 2 and 16)	<b>918,304</b>	827,058	822,222	<b>8,915,573</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 1)	<b>168,093</b>	167,760	169,049	<b>1,631,971</b>
<b>OTHER OPERATING COSTS AND EXPENSES (INCOME) – Net</b> (Notes 4, 6 and 9)	<b>686</b>	131	2,319	<b>6,660</b>
<b>GAIN FROM THE TRANSFER THROUGH THE POSTING SYSTEM</b> (Note 1)			4,017	
<b>INTEREST EXPENSE</b> (Note 16)	<b>1,502</b>	1,582	1,727	<b>14,583</b>
<b>OTHER INCOME (EXPENSES) – Net</b> (Note 16)	<b>1,791</b>	1,723	282	<b>17,388</b>
<b>INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF ASSOCIATED COMPANIES</b>	<b>35,303</b>	28,031	26,766	<b>342,747</b>
<b>INCOME TAXES</b> (Notes 1 and 8):				
Current	<b>9,944</b>	14,275	11,781	<b>96,544</b>
Deferred	<b>1,094</b>	(2,916)	3,679	<b>10,621</b>
Total income taxes	<b>11,038</b>	11,359	15,460	<b>107,165</b>
<b>INCOME BEFORE EQUITY IN EARNINGS OF ASSOCIATED COMPANIES</b>	<b>24,265</b>	16,672	11,306	<b>235,582</b>
<b>EQUITY IN EARNINGS OF ASSOCIATED COMPANIES – Net of applicable income taxes</b> (Note 1)	<b>439</b>	38	495	<b>4,263</b>
<b>NET INCOME</b>	<b>24,704</b>	16,710	11,801	<b>239,845</b>
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(180)</b>	(251)	(146)	<b>(1,748)</b>
<b>NET INCOME ATTRIBUTABLE TO NH Foods Ltd.</b>	<b>¥ 24,524</b>	¥ 16,459	¥ 11,655	<b>\$ 238,097</b>
<b>PER SHARE AMOUNTS</b> (Note 1):		Yen		U.S.dollars
Basic earnings per share attributable to NH Foods Ltd. shareholders: Net Income	<b>¥ 122.11</b>	¥ 79.42	¥ 54.79	<b>\$ 1.19</b>
Diluted earnings per share attributable to NH Foods Ltd. shareholders: Net Income	<b>¥ 110.92</b>	¥ 71.44	¥ 49.40	<b>\$ 1.08</b>

See notes to consolidated financial statements.

## ■ Consolidated Statements of Comprehensive Income

NH Foods Ltd. and Subsidiaries

For the Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2013	2012	2014
<b>NET INCOME</b>	<b>¥24,704</b>	¥16,710	¥11,801	<b>\$239,845</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS) – Net of applicable income taxes</b> (Note 12):				
Net unrealized gains on securities available-for-sale (Notes 1 and 3)	<b>486</b>	1,668	984	<b>4,718</b>
Net unrealized gains on derivative financial instruments (Notes 1 and 16)			277	
Pension liability adjustments (Note 9)	<b>3,006</b>	1,604	980	<b>29,184</b>
Foreign currency translation adjustments	<b>4,437</b>	3,598	(1,536)	<b>43,078</b>
Total other comprehensive income	<b>7,929</b>	6,870	705	<b>76,980</b>
<b>COMPREHENSIVE INCOME</b>	<b>32,633</b>	23,580	12,506	<b>316,825</b>
<b>NET COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<b>(400)</b>	(368)	(146)	<b>(3,883)</b>
<b>NET COMPREHENSIVE INCOME ATTRIBUTABLE TO NH Foods Ltd.</b>	<b>¥32,233</b>	¥23,212	¥12,360	<b>\$312,942</b>

See notes to consolidated financial statements.

## ■ Consolidated Statements of Changes in Equity

NH Foods Ltd. and Subsidiaries

For the Years Ended March 31, 2014, 2013 and 2012

Millions of Yen									
	Common Stock	Capital Surplus	Retained Earnings Appropriated for Legal Reserve	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total NH Foods Ltd. Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>BALANCE, APRIL 1, 2011</b>	¥24,166	¥50,809	¥7,248	¥231,771	¥(16,231)	¥(16,696)	¥281,067	¥2,137	¥283,204
Net income				11,655			11,655	146	11,801
Other comprehensive income (Note 12)					705		705	0	705
Cash dividends (Note 11)				(3,403)			(3,403)	(71)	(3,474)
Transfer to retained earnings appropriated for legal reserve (Note 11)			102	(102)					
Acquisition of treasury stock (Note 11)						(4)	(4)		(4)
Disposition of treasury stock (Note 11)		(23)		0		23	0		0
Others								36	36
<b>BALANCE, MARCH 31, 2012</b>	24,166	50,786	7,350	239,921	(15,526)	(16,677)	290,020	2,248	292,268
Net income				16,459			16,459	251	16,710
Other comprehensive income (Note 12)					6,753		6,753	117	6,870
Cash dividends (Note 11)				(3,829)			(3,829)	(57)	(3,886)
Transfer to retained earnings appropriated for legal reserve (Note 11)			168	(168)					
Acquisition of treasury stock (Note 11)						(16,006)	(16,006)		(16,006)
Conversion of convertible bonds		2				13	15		15
Disposition of treasury stock (Note 11)		(27)				29	2		2
Others								111	111
<b>BALANCE, MARCH 31, 2013</b>	24,166	50,761	7,518	252,383	(8,773)	(32,641)	293,414	2,670	296,084
Net income				24,524			24,524	180	24,704
Other comprehensive income (Note 12)					7,709		7,709	220	7,929
Cash dividends (Note 11)				(4,775)			(4,775)	(79)	(4,854)
Transfer to retained earnings appropriated for legal reserve (Note 11)			230	(230)					
Acquisition of treasury stock (Note 11)						(30,044)	(30,044)		(30,044)
Conversion of convertible bonds		4,581				25,237	29,818		29,818
Disposition of treasury stock (Note 11)		(23)				25	2		2
Equity component of convertible bonds (Note 7)		336					336		336
<b>BALANCE, MARCH 31, 2014</b>	¥24,166	¥55,655	¥7,748	¥271,902	¥ (1,064)	¥(37,423)	¥320,984	¥2,991	¥323,975

Thousands of U.S. Dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings Appropriated for Legal Reserve	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total NH Foods Ltd. Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>BALANCE, MARCH 31, 2013</b>	\$234,621	\$492,825	\$72,990	\$2,450,320	\$(85,175)	\$(316,903)	\$2,848,678	\$25,922	\$2,874,600
Net income				238,097			238,097	1,748	239,845
Other comprehensive income (Note 12)					74,845		74,845	2,135	76,980
Cash dividends (Note 11)				(46,359)			(46,359)	(767)	(47,126)
Transfer to retained earnings appropriated for legal reserve (Note 11)			2,233	(2,233)					
Acquisition of treasury stock (Note 11)						(291,689)	(291,689)		(291,689)
Conversion of convertible bonds		44,476				245,019	289,495		289,495
Disposition of treasury stock (Note 11)		(223)				243	20		20
Equity component of convertible bonds (Note 7)		3,262					3,262		3,262
<b>BALANCE, MARCH 31, 2014</b>	\$234,621	\$540,340	\$75,223	\$2,639,825	\$(10,330)	\$(363,330)	\$3,116,349	\$29,038	\$3,145,387

See notes to consolidated financial statements.

## ■ Consolidated Statements of Cash Flows

NH Foods Ltd. and Subsidiaries

For the Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
<b>OPERATING ACTIVITIES:</b>				
Net income	¥24,704	¥16,710	¥11,801	\$239,845
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	19,081	19,781	24,234	185,252
Impairment loss of long-lived assets	1,738	1,519	2,213	16,874
Income taxes deferred	1,094	(2,916)	3,679	10,621
Foreign exchange translation adjustments	(3,221)	(1,627)	118	(31,272)
Decrease (increase) in trade notes and accounts receivable	6,339	(3,178)	(15,532)	61,544
Decrease (increase) in inventories	(8,215)	1,722	(4,567)	(79,757)
Decrease (increase) in other current assets	2,033	(2,068)	73	19,738
Increase (decrease) in trade notes and accounts payable	(5,504)	4,473	6,496	(53,437)
Increase (decrease) in accrued income taxes	(1,666)	1,660	(4,492)	(16,175)
Increase (decrease) in accrued expenses and other current liabilities	(2,062)	615	1,513	(20,019)
Others – net	(1,369)	716	896	(13,292)
Net cash provided by operating activities	32,952	37,407	26,432	319,922
<b>INVESTING ACTIVITIES:</b>				
Capital expenditures	(22,690)	(29,904)	(17,311)	(220,291)
Proceeds from sales of capital assets	2,520	2,538	2,218	24,466
Decrease (increase) in short-term investments	855	(27,330)	23,783	8,301
Purchases of marketable securities and other investment securities	(269)	(332)	(444)	(2,612)
Proceeds from sales and maturities of marketable securities and other investment securities	413	277	302	4,010
Net increase (decrease) in cash and cash equivalents resulting from purchase of business	201	(817)	(198)	1,951
Net increase in cash and cash equivalents resulting from sale of business	364			3,534
Others – net	697	755	1,400	6,767
Net cash provided by (used in) investing activities	(17,909)	(54,813)	9,750	(173,874)
<b>FINANCING ACTIVITIES:</b>				
Cash dividends	(4,854)	(3,886)	(3,474)	(47,126)
Increase (Decrease) in short-term bank loans	17,104	(3,355)	(2,977)	166,058
Proceeds from debt	51,459	44,533	12,462	499,602
Repayments of debt	(43,010)	(32,362)	(29,753)	(417,573)
Acquisition of treasury stock	(30,044)	(16,006)	(4)	(291,689)
Others – net	(28)	112	1	(273)
Net cash used in financing activities	(9,373)	(10,964)	(23,745)	(91,001)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
	838	1,194	(195)	8,138
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>6,508</b>	<b>(27,176)</b>	<b>12,242</b>	<b>63,185</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>36,475</b>	<b>63,651</b>	<b>51,409</b>	<b>354,126</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>¥42,983</b>	<b>¥36,475</b>	<b>¥63,651</b>	<b>\$417,311</b>
<b>ADDITIONAL CASH FLOW INFORMATION:</b>				
Interest paid	¥ 1,548	¥ 1,644	¥ 1,826	\$ 15,029
Income taxes paid	11,341	12,894	15,796	110,107
Capital lease obligations incurred	2,776	2,429	2,676	26,951
Converted amount into stock of convertible bonds	29,818	15		289,495

See notes to consolidated financial statements.



## ■ Notes to Consolidated Financial Statements

NH Foods Ltd. and Subsidiaries

For the Years Ended March 31, 2014, 2013 and 2012

### 1. BASIS OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations** — The Group (NH Foods Ltd. and its subsidiaries) is engaged in the production and distribution of mainly hams & sausages, processed foods, fresh meats, marine products and dairy products. The Group's operations are located principally in Japan.

**Basis of Financial Statements** — The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which NH Foods Ltd. is incorporated and operates. The translations of Japanese yen amounts into United States dollar amounts with respect to the year ended March 31, 2014 are included solely for the convenience of readers outside Japan and have been made at the rate of ¥103=\$1, the approximate rate of exchange on March 31, 2014. Such translations should not be construed as a representation that Japanese yen amounts could be converted into United States dollars at the above or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. Certain adjustments have been reflected in the accompanying consolidated financial statements while they have not been entered in the general books of account of the Group maintained principally in accordance with Japanese accounting practices.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In order to conform to the current year's presentation, prior years' presentations have been changed.

**Summary of Significant Accounting Policies** — Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

**(1) Consolidation** — The consolidated financial statements include the accounts of NH Foods Ltd., all of its majority-owned directly or indirectly subsidiaries, and any variable interest entities of which NH Foods Ltd. and its subsidiaries are the primary beneficiary (collectively, the "Group"). Intercompany transactions and balances are eliminated. Investments in Associated Companies (20% to 50% owned) are accounted for using the equity method of accounting. In preparing the consolidated financial statements, financial statements with reporting periods different from the consolidated reporting period are used for certain subsidiaries. Necessary adjustments are booked when material intervening events occur and affect the financial position or result of operations for the period between the subsidiary's year-end reporting date and the consolidated reporting date.

**(2) Cash and Cash Equivalents** — Cash and cash equivalents consist of cash on hand and demand deposits. Time deposits in the consolidated balance sheets include those with original maturities of 3 months or less. The Group presents time deposits and marketable securities with original maturities of 3 months or less as short-term investments in the consolidated statements of cash flows.

**(3) Receivables** — The Group grants credit to customers who are primarily retailers and wholesalers in Japan.

**(4) Inventories** — Inventories are stated at the lower of cost or market. Cost is determined by the average cost method.

**(5) Marketable Securities and Investments** — The Group's investments in debt securities and marketable equity securities (included in "marketable securities" and "other investment securities") are classified as either Available-for-Sale or Held-to-Maturity based on the Group's intent and ability to hold and the nature of the securities. Investments classified as Available-for-Sale are reported at fair value with unrealized holding gains and losses, which are recorded in accumulated other comprehensive income (loss), net of applicable income taxes. Investments classified as Held-to-Maturity are recorded at amortized cost. All other investment securities are stated at cost unless the value is considered to have been impaired.

The Group regularly reviews investments in debt securities and marketable equity securities for impairment based on criteria that include the extent to which the securities' carrying values exceed those related market prices, the duration of the market decline, and the Group's ability and intent to hold the investments. Other investment securities stated at cost are reviewed periodically for impairment.

**(6) Depreciation** — The straight-line method is used for property, plant, and equipment. Depreciation expense includes depreciation related to capital lease assets which are depreciated over the shorter of lease terms or estimated useful lives. The ranges of estimated useful lives used in the computation of depreciation are mainly as follows:

Buildings	20-40 years
Machinery and equipment	5-15 years

Effective from April 1, 2012, NH Foods Ltd. and its domestic subsidiaries have changed their depreciation method of property, plant, and equipment (mainly for manufacturing equipments of hams and sausages, and processed foods) from the declining-balance method to the straight-line method.

This change aimed for enhancement of production efficiency due to selection and concentration, and NH Foods Ltd. considers restructuring of ham and sausages' manufacturing bases and progresses collection and integration of hams and sausages, and processed foods' manufacturing items and lines. Thereby they leveled out the usage of manufacturing facilities over the estimated useful lives, and led to the environment where the straight-line method

became suitable. In addition, the estimated useful lives were revised according to the actual status of use as well.

Under Accounting Standards Codification ("ASC") of the U.S. Financial Accounting Standards Board ("FASB") Topic 250, "Accounting Changes and Error Corrections," this change was treated on a prospective basis as a change in estimate.

This change caused an increase in "income before income taxes and equity in earnings of associated companies," "net income attributable to NH Foods Ltd.," "basic earnings per share attributable to NH Foods Ltd. shareholders" and "diluted earnings per share attributable to NH Foods Ltd. shareholders" by ¥4,789 million, ¥2,969 million, ¥14.33 and ¥12.89, respectively, in the year ended March 31, 2013.

**(7) Impairment of Long-Lived Assets** — The Group applies ASC Topic 360, "Property, Plant, and Equipment" and ASC Topic 205, "Presentation of Financial Statements." ASC Topic 360 provides one accounting model for the impairment or disposal of long-lived assets. ASC Topic 205 provides the criteria for classifying an asset as held for sale, defines the scope of business to be disposed of that qualify for reporting as discontinued operations and the timing of recognizing losses on such operations.

In accordance with ASC Topic 360, management reviews long-lived assets for impairment of value whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. If the Group determines that they are unable to recover the carrying value of the assets, the assets are written down using an appropriate method.

In accordance with ASC Topic 205, the Group presents the results of discontinued operations as a separate line item in the consolidated statements of income under income from discontinued operations – net of applicable income taxes, as it occurs.

**(8) Goodwill and Other Intangible Assets** — The Group applies ASC Topic 350, "Intangibles-Goodwill and Other." ASC Topic 350 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. ASC Topic 350 also requires recognized intangible assets be amortized over their respective estimated useful lives and tested for impairment. Any recognized intangible assets determined to have indefinite useful lives are not to be amortized, but instead are tested for impairment until their lives are determined to no longer be indefinite.

**(9) Business Combinations** — The Group applies ASC Topic 805, "Business Combinations." In accordance with the provisions of ASC Topic 805, the acquisition of a business is accounted for using the acquisition method of accounting.

**(10) Retirement and Severance Programs** — The Group applies ASC Topic 715, "Compensation-Retirement Benefits," to account for the Group's employee retirement and severance programs.

As allowed under ASC Topic 715, the Group does not recognize gain or loss on settlement of the pension obligations when the cost of all settlements during a year is less than or equal to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year.

**(11) Fair Value of Financial Instruments** — The Group discloses the fair value of financial instruments in the notes to consolidated financial statements. When the fair value approximates the book value, no additional disclosure is made. Fair values are estimated using quoted market prices, estimates obtained from brokers and other appropriate valuation techniques based on information available at March 31, 2014 and 2013.

**(12) Fair Value Measurements** — The Group applies ASC Topic 820, "Fair Value Measurements and Disclosures." For more information, see "Note 15. Fair Value Measurements."

**(13) Income Taxes** — The Group applies ASC Topic 740, "Income Taxes." In accordance with the provisions of ASC Topic 740, deferred tax assets and liabilities are computed based on the temporary differences between the financial statement and income tax bases of assets and liabilities, and tax losses and credits which can be carried forward, using the enacted tax rate applicable to periods in which the differences are expected to affect taxable income. Deferred income tax charges or credits are based on changes in deferred tax assets and liabilities from period to period, subject to an ongoing assessment of realization. ASC Topic 740 also prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

A provision for income taxes is not recorded on undistributed earnings of subsidiaries where NH Foods Ltd. considers that such earnings are permanently invested or where, under the present Japanese tax law, such earnings would not be subject to additional taxation should they be distributed to the Group.

The Group recognizes tax-related interest and penalties in income taxes in the consolidated statements of income.

**(14) Per Share Amounts** — Basic Earnings Per Share ("EPS") is computed by dividing net income attributable to NH Foods Ltd. by the weighted-average number of common shares outstanding during the year. Diluted EPS is computed by dividing net income attributable to NH Foods Ltd. by the sum of the weighted-average number of common shares outstanding plus the dilutive effect of shares issuable through stock options and convertible bonds.

The net income attributable to NH Foods Ltd. and shares used for basic EPS and diluted EPS are reconciled below:

	Millions of Yen			Thousands of U.S. dollars
	2014	2013	2012	2014
<b>Net Income (Numerator):</b>				
Net income attributable to NH Foods Ltd.	¥24,524	¥16,459	¥11,655	\$238,097
Dilutive effect of convertible bonds	19	0		184
Diluted net income attributable to NH Foods Ltd. shareholders	¥24,543	¥16,459	¥11,655	\$238,281

	Thousands of Shares		
	2014	2013	2012
<b>Shares (Denominator):</b>			
Average shares outstanding for basic earnings per share	200,828	207,242	212,724
Dilutive effect of stock options	222	238	267
Dilutive effect of convertible bonds	20,226	22,917	22,918
Average shares outstanding for diluted earnings per share	221,276	230,397	235,909

**(15) Revenue Recognition** — The Group recognizes revenue when the product is received by the customer, at which time title and risk of loss pass to the customer. Taxes collected from customers and remitted to governmental authorities are excluded from revenues in the consolidated statements of income.

**(16) Gain from the Transfer through the Posting System** — On January 25, 2012, Hokkaido Nippon Ham Fighters Baseball Club Co., Ltd., a subsidiary of NH Foods Ltd., received a fee of ¥4,017 million, for the transfer of Yu Darvish to the Texas Rangers of the Major League Baseball under the United States-Japanese Player Contract Agreement.

**(17) Sales Promotion Expenses and Rebates** — The Group accounts for promotion expenses and rebates in accordance with the provisions of ASC Topic 605, "Revenue Recognition." ASC Topic 605 requires that certain sales promotion expenses and rebates be classified as a reduction of net sales, rather than as selling, general and administrative expenses.

**(18) Advertising** — Advertising costs are expensed as incurred and included in "selling, general and administrative expenses." Advertising expenses amounted to ¥11,221 million (\$108,942 thousand), ¥10,482 million and ¥10,868 million for the years ended March 31, 2014, 2013 and 2012, respectively.

**(19) Research and Development** — Research and development costs are expensed as incurred. Research and development costs amounted to ¥3,424 million (\$33,243 thousand), ¥2,992 million and ¥2,992 million for the years ended March 31, 2014, 2013 and 2012, respectively.

**(20) Derivative Instruments and Hedging Activities** — The Group accounts for derivative instruments and hedging activities in accordance with ASC Topic 815, "Derivatives and Hedging." ASC Topic 815 requires that all derivative instruments be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivative instruments are recognized in either income or other comprehensive income, depending on the designated purpose of the derivative instruments. Changes in fair value of derivative instruments designated as fair value hedges of recognized assets and liabilities and firm commitments are recognized

in income. Changes in fair value of derivative instruments designated and qualifying as cash flow hedges of recognized assets and liabilities, firm commitments and forecasted transactions are reported in other comprehensive income. These amounts are reclassified into income in the same period as the hedged items affect income.

**(21) Guarantees** — The Group accounts for guarantees in accordance with ASC Topic 460, "Guarantees," which addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees. ASC Topic 460 also requires the recognition of a liability by a guarantor at the inception of certain guarantees. ASC Topic 460 requires the guarantor to recognize at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

**(22) Recent Accounting Pronouncements:**

**Disclosures about Offsetting Assets and Liabilities** — The Group adopted Accounting Standards Updates ("ASU") 2011-11 and 2013-01, which amends the guidance in ASC Subtopic 210-20 "Balance Sheet – Offsetting," in the first quarter of the year ended March 31, 2014. These updates require entities to disclose both gross information and net information about financial instruments and derivatives eligible for offset in the statement of financial position and the content of related arrangements, and clarify the scope of disclosure requirements for financial instruments and derivatives. The adoption of these updates had no significant impact on the consolidated financial statements.

**Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income** — The Group adopted ASU 2013-02, which provides amendments to ASC 220 "Comprehensive Income," in the first quarter of the year ended March 31, 2014. This update aims at improvement of presenting information regarding amounts reclassified out of accumulated other comprehensive income, and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. The adoption of this update enhanced notes to the consolidated financial statements (see Note 12 Other Comprehensive Income).

### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, FASB issued ASU 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 amends the definition of a discontinued operation in ASC 205-20, "Presentation of Financial Statements—Discontinued Operations," and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued operations criteria. It is effective for annual periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

**Revenue from Contracts with Customers** — In May 2014, FASB issued ASU 2014-09 "Revenue from Contracts with Customers".

ASU 2014-09 creates a new Topic 606 "Revenue from Contracts with Customers" and outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance of ASC 605 "Revenue Recognition." An entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires the additional disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It is effective for annual reporting periods, beginning after December 15, 2016, including interim periods within that reporting period and early adoption is not permitted. The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

## 2. INVENTORIES

Inventories at March 31, 2014 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Finished goods and merchandise	¥ 78,618	¥ 72,499	\$ 763,282
Raw materials and work-in-process	38,986	36,783	378,505
Supplies	4,511	3,905	43,796
Total	¥122,115	¥113,187	\$1,185,583

The Group recognized losses of ¥689 million (\$6,689 thousand), ¥1,601 million and ¥2,621 million from writing inventories down to market, which were included in cost of goods sold in the consolidated statements of income for the years ended March 31, 2014, 2013 and 2012, respectively.

## 3. MARKETABLE SECURITIES AND INVESTMENTS

The table below presents the aggregate cost, gross unrealized holding gains, gross unrealized holding losses and the aggregate fair value of available-for-sale securities and held-to-maturity securities (included in "marketable securities" and "other investment securities") at March 31, 2014 and 2013:

	Millions of Yen								Thousands of U.S.dollars			
	2014				2013				2014			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Available-for-sale:												
Domestic stocks:												
Retail industry	¥ 4,488	¥2,784	¥(12)	¥ 7,260	¥ 4,565	¥2,650	¥(13)	¥ 7,202	\$ 43,573	\$27,029	\$ (117)	\$ 70,485
Others	5,809	3,785	(2)	9,592	5,808	3,170	(1)	8,977	56,398	36,748	(19)	93,127
Mutual funds	290	37		327	290	25		315	2,816	359		3,175
Held-to-maturity:												
Commercial paper					10,000			10,000				
Japanese government bonds	190		0	190	200		0	200	1,845		0	1,845
Total	¥10,777	¥6,606	¥(14)	¥17,369	¥20,863	¥5,845	¥(14)	¥26,694	\$104,632	\$64,136	\$ (136)	\$168,632



Fair value and gross unrealized holding losses of available-for-sale securities and held-to-maturity securities, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at March 31, 2014 and 2013 were as follows. There were no investments in a continuous unrealized loss position for 12 months or more at March 31, 2014 and 2013:

	Millions of Yen				Thousands of U.S.dollars	
	2014		2013		2014	
	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses
Available-for-sale:						
Domestic stocks:						
Retail industry	¥179	¥(12)	¥491	¥(13)	\$1,738	\$(117)
Others	38	(2)	40	(1)	369	(19)
Held-to-maturity:						
Japanese government bonds	190	0	200	0	1,845	0
Total	¥407	¥(14)	¥731	¥(14)	\$3,952	\$(136)

The proceeds from sales of available-for-sale securities were ¥204 million (\$1,981 thousand), ¥74 million and ¥50 million for the years ended March 31, 2014, 2013 and 2012, respectively. These sales resulted in gross realized gains and losses as follows:

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Realized gains	¥86	¥30	¥25	\$835
Realized losses	0		0	0

In determining realized gains and losses, the cost of securities sold was based on the moving average cost of all shares of such security held at the time of sale.

Future maturities of debt securities classified as held-to-maturity at March 31, 2014 were as follows:

	Millions of Yen		Thousands of U.S.dollars	
	2014		2014	
	Cost	Fair Value	Cost	Fair Value
Due within one year	¥190	¥190	\$1,845	\$1,845

Non-marketable equity securities, for which there is no practicable method to estimate fair values, were carried at their cost of ¥3,899 million (\$37,854 thousand) and ¥3,898 million at March 31, 2014 and 2013, respectively.

Investments in associated companies at March 31, 2014 and 2013 are as follows:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Investments in capital stock	¥2,993	¥2,550	\$29,058

The carrying value of investments in associated companies approximated NH Foods Ltd.'s equity in their net assets at March 31, 2014 and 2013.

#### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2014 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Land	¥ 83,329	¥ 83,794	\$ 809,019
Buildings	271,632	261,707	2,637,204
Machinery and equipment	228,415	219,635	2,217,621
Construction in progress	3,718	1,182	36,097
Total	587,094	566,318	5,699,941
Less accumulated depreciation	(350,425)	(341,533)	(3,402,184)
Property, plant and equipment – net	¥236,669	¥224,785	\$2,297,757

Depreciation expense of property, plant and equipment was ¥15,735 million (\$152,767 thousand), ¥16,097 million and ¥20,488 million for the years ended March 31, 2014, 2013 and 2012, respectively. The Group recorded a net gain of ¥1,211 million (\$11,757 thousand), a net loss of ¥682 million and a net gain of ¥12 million on dispositions of property, plant and equipment, for the years ended March 31, 2014, 2013 and 2012, respectively. The gains and losses for the years ended March 31, 2014, 2013 and 2012 were included in other operating costs and expenses (income) – net in the consolidated statements of income.

## 5. INTANGIBLE ASSETS

Intangible assets subject to amortization included in intangible assets in the consolidated balance sheets at March 31, 2014 and 2013 consisted of the following:

	Millions of Yen				Thousands of U.S.dollars	
	2014		2013		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	<b>¥22,518</b>	<b>¥18,893</b>	¥21,973	¥16,350	<b>\$218,621</b>	<b>\$183,427</b>
Software in progress	<b>322</b>		259		<b>3,126</b>	
Other	<b>1,017</b>	<b>423</b>	1,021	352	<b>9,874</b>	<b>4,107</b>
<b>Total</b>	<b>¥23,857</b>	<b>¥19,316</b>	¥23,253	¥16,702	<b>\$231,621</b>	<b>\$187,534</b>

Intangible assets not subject to amortization at March 31, 2014 and 2013 were immaterial.

Amortization expense was ¥2,914 million (\$28,291 thousand), ¥3,226 million and ¥3,268 million for the years ended March 31, 2014, 2013 and 2012, respectively.

The weighted average amortization period is approximately 5 years.

Estimated amortization expense for the next five years ending March 31 is as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S.dollars
2015	<b>¥1,942</b>	<b>\$18,854</b>
2016	<b>1,000</b>	<b>9,709</b>
2017	<b>695</b>	<b>6,748</b>
2018	<b>403</b>	<b>3,913</b>
2019	<b>130</b>	<b>1,262</b>

The carrying amounts of goodwill at March 31, 2014 and 2013 and changes in its carrying amounts for the years ended March 31, 2014 and 2013 were immaterial to the Group's operations.

## 6. IMPAIRMENT OF LONG-LIVED ASSETS

The Group recognized impairment losses of ¥1,738 million (\$16,874 thousand) for the year ended March 31, 2014. The impairment losses relate principally to idle assets which were related to Processed Foods Business Division and were reported in other operating costs and expenses (income) — net in the consolidated statements of income. The impairment losses were incurred mainly due to a decline in market value of the assets.

The Group recognized impairment losses of ¥1,519 million for the year ended March 31, 2013. The impairment losses relate principally to idle assets which were related to Processed Foods Business Division and were reported in other operating costs and expenses (income) — net in the consolidated statements of income. The impairment losses were incurred mainly due to a decline in market value of the assets.

The Group recognized impairment losses of ¥ 2,213 million for the year ended March 31, 2012. The impairment losses relate principally to idle assets which were related to Processed Foods Business Division and to assets used for business damaged by the floods in Thailand. They were reported in other operating costs and expenses (income) — net in the consolidated statements of income. The impairment losses were incurred mainly due to a decline in market value of the assets and the damage from the floods which had been expected in early disposing of the assets by that time. The Group had insured the assets used for business damaged by the floods, and its final insurance amount was determined in the year ended March 31, 2013.

The fair value of assets is calculated based on independent appraisal or market value whichever the management considers the most appropriate.

## 7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The annual interest rates applicable to the short-term bank loans outstanding at March 31, 2014 and 2013 were ranged from 0.4% to 6.7% and 0.5% to 6.7%, respectively.

NH Foods Ltd. entered into contracts with certain financial institutions for committed credit lines totaling ¥75,000 million (\$728,155 thousand) at March 31, 2014 and 2013, which were available for immediate borrowings. There were no borrowings against these credit lines.

Long-term debt at March 31, 2014 and 2013 consisted of the following:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Long-term debt with collateral:			
Mainly banks and insurance companies, maturing through 2019, interest rates ranging from 1.5% to 2.1% in 2014 and 1.3% to 2.1% in 2013	¥ 1,022	¥ 1,718	\$ 9,923
Long-term debt without collateral:			
Mainly banks and insurance companies, maturing through 2022, interest rates ranging from 0.2% to 3.9% in 2014 and 0.2% to 5.0% in 2013	28,750	30,675	279,127
2.01% bonds due December 2017	10,000	10,000	97,087
0.551% bonds due September 2019	10,000	10,000	97,087
0.934% bonds due September 2022	10,000	10,000	97,087
Zero coupon convertible bonds due March 2014			
Conversion price, ¥1,309 per share			
Exercise period of the stock acquisition rights, April 1, 2010 to February 27, 2014		29,985	
Euro yen zero coupon convertible bonds due September 2018			
Conversion price, ¥2,239 per share	29,626		287,631
Capital lease obligations, maturing through 2029, interest rates ranging from 0.2% to 4.2% in 2014 and 0.2% to 4.2% in 2013	9,399	9,390	91,252
Total	98,797	101,768	959,194
Less current maturities	(8,395)	(35,320)	(81,505)
Long-term debt, less current maturities	¥90,402	¥ 66,448	\$877,689

The Euro Yen Zero Coupon Convertible Bonds Due September 2018 have conversion limitation clause and call option clause (cash settlement type). Unconverted portion of these bonds on September 26, 2018 (maturity date) will be redeemed at 100% of the face amount. The conversion price of these stock acquisition rights is ¥2,239 (\$22), and the increasing number of common stock upon exercise of the stock acquisition rights and issuance of new shares is 13,398,838.

As of March 31, 2014, the bonds mentioned above were separately accounted for the equity and liabilities as follows;

	Millions of Yen	Thousands of U.S.dollars
	2014	2014
Component of equity:		
Carrying amount	¥ 336	\$ 3,262
Component of liability:		
Principle amount	30,000	291,262
Less unamortized discounts	(374)	(3,631)
Net carrying amount	¥29,626	\$287,631

At March 31, 2014, the aggregate annual maturities of long-term debt are as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S.dollars
2015	¥ 8,395	\$ 81,505
2016	8,987	87,252
2017	10,019	97,272
2018	11,117	107,932
2019	30,386	295,010
Thereafter	29,893	290,223
Total	¥98,797	\$959,194

At March 31, 2014, property, plant and equipment with a net book value of ¥7,504 million (\$72,854 thousand) was pledged as collateral for long-term debt of ¥1,022 million (\$9,922 thousand), and inventories of ¥535 million (\$5,194 thousand) were pledged as collateral for short-term bank loans of ¥278 million (\$2,699 thousand).

Substantially all the short-term and long-term loans from banks are made under agreements which provide as is customary in Japan that under certain conditions, the banks may require the Group to provide collateral (or additional collateral) or guarantors with respect to the loans, or may treat any collateral, whether furnished as security for short-term and long-term loans or otherwise, as collateral for all indebtedness to such banks. Default provisions of certain agreements grant certain rights of possession to the banks.

## 8. INCOME TAXES

Through the application of the consolidated tax filing system, the amount of taxable income for national income tax purposes is calculated by combining the taxable income of NH Foods Ltd. and its wholly owned subsidiaries located in Japan. In addition, the realizable amounts of deferred tax assets relating to national income tax as of March 31, 2014 and 2013 were assessed based on the estimated future taxable income of NH Foods Ltd. and its wholly owned subsidiaries located in Japan.

Income taxes in Japan applicable to NH Foods Ltd. and domestic subsidiaries, imposed by the national, prefectural and municipal governments, in the aggregate result in a normal effective statutory rate of approximately 38.0% for the years ended March 31, 2014 and 2013 and 41.0% for the year ended 2012. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

In accordance with ASC Topic 740, a change in tax laws and rates requires an adjustment of deferred tax assets and liabilities, and the difference caused by the adjustment shall be included in deferred tax expenses.

The effective rates of income taxes reflected in the consolidated statements of income differed from the normal Japanese statutory tax rates for the following reasons:

	2014	2013	2012
Normal Japanese statutory tax rates	38.0%	38.0%	41.0%
Increase (decrease) in taxes resulting from:			
Difference in foreign subsidiaries tax rates	(3.0)	(2.3)	0.2
Change in the valuation allowance	(6.4)	4.3	3.9
Permanently non-deductible expenses	2.1	0.1	3.1
Tax credit	(1.2)	(1.0)	(0.7)
Tax rate change	0.9		7.2
Other – net	0.9	1.4	3.1
Effective income tax rates	31.3%	40.5%	57.8%

The approximate effects of temporary differences, net operating loss and tax credit carryforwards that gave rise to deferred tax balances at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Deferred tax assets:			
Inventories	¥ 154	¥ 437	\$ 1,495
Certain accrued prefectural income taxes	377	884	3,660
Accrued bonuses	3,104	3,315	30,136
Liability under retirement and severance programs	7,613	9,104	73,913
Fixed assets	3,901	4,343	37,874
Other temporary differences	3,062	3,359	29,728
Net operating loss and tax credit carryforwards	7,733	9,870	75,078
Total	25,944	31,312	251,884
Less valuation allowance	(8,552)	(11,124)	(83,029)
Total deferred tax assets	17,392	20,188	168,855
Deferred tax liabilities:			
Securities	(1,350)	(1,054)	(13,107)
Inventories	(749)	(450)	(7,272)
Investments in subsidiaries	(2,145)	(2,132)	(20,825)
Fixed assets	(292)	(232)	(2,835)
Other temporary differences	(153)	(405)	(1,486)
Total deferred tax liabilities	(4,689)	(4,273)	(45,525)
Net deferred tax assets	¥12,703	¥15,915	\$123,330



The net changes in the total valuation allowance for the years ended March 31, 2014 and 2013 were a decrease of ¥2,572 million (\$24,971 thousand) and increase of ¥2,360 million, respectively.

At March 31, 2014, the net operating loss carryforwards of the Group for corporate income tax and local income tax purposes amounted to ¥21,498 million (\$208,718 thousand) and ¥10,863 million (\$105,466 thousand), respectively. The net operating loss carryforwards for corporate income tax and local income tax purposes subject to expiration in the period from 2015 to 2019 are ¥336 million (\$3,262 thousand) and ¥3,189 million (\$30,961 thousand), respectively. The remaining balances for corporate income tax and local income tax purposes, ¥21,162 million (\$205,456 thousand) and ¥7,674 million (\$74,505 thousand), respectively, will expire in years beyond 2019 or have an indefinite carryforward period. At March 31, 2014, the Group also had tax credit carryforwards of ¥349 million (\$3,388 thousand), of which ¥301 million (\$2,922 thousand) will expire within 5 years while the remaining ¥48 million (\$466 thousand) will expire beyond 2019 or have an indefinite carryforward period.

## 9. RETIREMENT AND SEVERANCE PROGRAMS

NH Foods Ltd. has a contributory pension plan and a lump-sum severance indemnities plan to establish a formula for determining benefits including “point-based benefits system” under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification, performance and years of service. Market-related interest is added to the benefit of the contributory pension plan. The pension plans provide for annuity payments for the periods of 10 to 20 years commencing

The portion of the undistributed earnings of foreign subsidiaries which is deemed to be permanently invested amounted to ¥26,265 million (\$255,000 thousand) at March 31, 2014. Provisions are not made for taxes on undistributed earnings and cumulative translation adjustments of foreign subsidiaries whose earnings are deemed to be permanently invested.

The Group recognizes tax-related interest and penalties in income taxes in the consolidated statements of income. Total amounts of tax-related interest and penalties recognized in the consolidated statements of income for the years ended March 31, 2014, 2013 and 2012 were not significant.

The Group files income tax returns in Japan and various foreign tax jurisdictions. NH Foods Ltd. and its major domestic subsidiaries are no longer subject to, with limited exception, income tax examinations by tax authorities for years ended on or before March 31, 2013. Major subsidiaries in the United States, Australia and other foreign countries are no longer subject to, with limited exception, income tax examinations by tax authorities for years ended on or before March 31, 2010.

with mandatory retirement. NH Foods Ltd. also introduced a defined contribution pension plan. Certain of NH Foods Ltd.’s subsidiaries have defined benefit pension plans, lump-sum severance plans and defined contribution plans. Assumptions used for those plans were generally the same as those used for NH Foods Ltd.’s plans.

The Group recognized the defined contribution cost of ¥1,629 million (\$15,816 thousand), ¥1,480 million and ¥1,426 million for the years ended March 31, 2014, 2013 and 2012, respectively.

Net periodic benefit cost under the Group’s retirement and severance programs for the years ended March 31, 2014, 2013 and 2012 included the following components:

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Service cost	¥2,624	¥2,587	¥2,327	\$25,476
Interest cost	455	597	695	4,417
Expected return on plan assets	(527)	(476)	(416)	(5,116)
Amortization of prior service credit	(303)	(303)	(303)	(2,942)
Recognized actuarial loss	959	1,111	1,416	9,311
Settlement loss	291	372	479	2,825
Net periodic benefit cost	¥3,499	¥3,888	¥4,198	\$33,971

The following table sets forth various information about the Group's plans as of March 31, 2014 and 2013:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Change in the projected benefit obligations:			
Projected benefit obligations at the beginning of the year	¥ 53,498	¥ 51,727	\$ 519,398
Service cost	2,624	2,587	25,476
Interest cost	455	597	4,417
Actuarial loss (gain)	(1,149)	1,910	(11,155)
Benefits paid:			
Settlement paid	(1,551)	(1,790)	(15,058)
Others	(1,493)	(1,533)	(14,495)
Projected benefit obligations at the end of the year	52,384	53,498	508,583
Change in fair value of plan assets:			
Fair value of plan assets at the beginning of the year	38,642	34,998	375,165
Actual gain on plan assets	3,128	3,712	30,369
Employer contribution	1,775	1,669	17,233
Benefits paid:			
Settlement paid	(182)	(204)	(1,767)
Others	(1,493)	(1,533)	(14,495)
Fair value of plan assets at the end of the year	41,870	38,642	406,505
Funded status at the end of the year	¥(10,514)	¥(14,856)	\$(102,078)

Amounts recognized by the Group in the consolidated balance sheets at March 31, 2014 and 2013 consisted of:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Prepaid benefit cost	¥ 2,096		\$ 20,349
Accrued expenses	(655)	¥ (445)	(6,359)
Accrued benefit liability	(11,955)	(14,411)	(116,068)
	¥(10,514)	¥(14,856)	\$(102,078)

Amounts recognized by the Group in accumulated other comprehensive loss at March 31, 2014 and 2013 consisted of:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Actuarial loss	¥11,409	¥16,409	\$110,767
Prior service credit	(1,503)	(1,806)	(14,592)
	¥ 9,906	¥14,603	\$ 96,175

The Group's accumulated benefit obligations for defined benefit plans at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Accumulated benefit obligations	¥52,384	¥53,498	\$508,583

The projected benefit obligations and the fair value of the plan assets for the Group's pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of the plan assets for the Group's pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	¥21,300	¥53,498	\$206,796
Fair value of plan assets	8,690	38,642	84,369
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	21,300	53,498	206,796
Fair value of plan assets	8,690	38,642	84,369

Amounts recognized by the Group in the other comprehensive income and reclassification adjustments of the other comprehensive income for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Current year actuarial gain	¥(3,750)	¥(1,326)	¥ 8	\$(36,408)
Amortization of prior service credit	303	303	303	2,942
Recognition of actuarial loss	(1,250)	(1,483)	(1,895)	(12,136)

The estimated prior service credit and actuarial loss for the Group's defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are summarized as follows:

	Millions of Yen	Thousands of U.S.dollars
	2014	2014
Prior service credit	¥(273)	\$(2,650)
Actuarial loss	623	6,049

### Assumptions

Weighted-average assumptions used to determine the Group's benefit obligations at March 31, 2014 and 2013 were as follows:

	2014	2013
Discount rate	0.9%	0.9%

Weighted-average assumptions used to determine the Group's net periodic benefit cost for the years ended March 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate	0.9%	1.2%	1.4%
Expected long-term rate of return on plan assets	2.0%	2.0%	2.0%

NH Foods Ltd. has a contributory pension plan and a lump-sum severance indemnities plan to establish a formula for determining benefits including "point-based benefits system." Accordingly, rate of increase in future compensation levels was not used to determine net periodic benefit cost for the years ended March 31, 2014, 2013 and 2012.

NH Foods Ltd.'s expected long-term rate of return was determined by estimating the future rate of return of each plan asset considering actual historical returns.

Assumptions used for NH Foods Ltd.'s subsidiaries' plans were generally the same as those used for NH Foods Ltd.'s plans.

### Plan Assets

The Group's fundamental policy for the investment of plan assets is to secure the necessary profit on a long term basis to enable the Group to fund the payments for future pension benefits to eligible participants. Plan assets are allocated in accordance with the plan assets allocation policy, which is established for the purpose of achieving a stable rate of return on a mid to long term basis, by taking into account the expected rate of return on each plan asset, a standard deviation and a correlation coefficient. The variance between expected long-term return and actual return on invested plan assets is evaluated on an annual basis. The plan assets allocation policy is revised, when considered necessary, to achieve the expected long-term rate of return.

The Group's portfolio consists of four major components; approximately 41% is invested in equity securities, approximately 25% is invested in debt securities, approximately 20% is invested in life insurance company general accounts, and approximately 14% is invested in mutual funds and other investment vehicles.

The equity securities consist primarily of stocks that are listed on the stock exchanges. The Group investigates the business condition of the investee companies and appropriately diversifies investments by industry types and other relevant factors. The debt securities consist primarily of government bonds, public debt instruments and corporate bonds. The Group investigates the quality of the bonds, including credit rating, interest rate and repayment dates, and appropriately diversifies the investments. Mutual funds are invested using the strategy consistent with the equity and debt securities described above. As for the life insurance general accounts, life insurance companies guarantees certain interest rate and repayment of principal.

The target asset allocation of the Group's defined benefit pension plans by asset class was 21% for equity securities, 36% for debt securities, 32% for life insurance company general accounts and 11% for others for the year ended March 31, 2014, and the target allocation for the year ending March 31, 2015 is 22% for equity securities, 33% for debt securities, 30% for life insurance company general accounts and 15% for others. Plan assets of the employee retirement benefit trust were included in plan assets, which amounted to ¥13,898 million (\$134,932 thousand) and ¥12,487 million for the years ended March 31, 2014 and 2013, respectively.

The fair values of the Group's pension plans' asset allocations at March 31, 2014 and 2013 by asset class were as follows:

Asset class:	Millions of Yen							
	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity securities:								
Domestic stocks	¥14,004			¥14,004	¥12,485			¥12,485
Foreign stocks	3,197			3,197	2,621			2,621
Debt securities:								
Japanese government bonds and domestic municipal bonds	6,351			6,351	5,423			5,423
Domestic corporate bonds	2,355			2,355	2,210			2,210
Foreign government bonds and foreign municipal bonds	1,179			1,179	804			804
Foreign corporate bonds	689			689	630			630
Life insurance company general accounts		¥ 8,421		8,421		¥ 8,471		8,471
Others:								
Mutual funds		3,995		3,995		2,398		2,398
Others	1,607	51	¥21	1,679	3,336	62	¥202	3,600
Total	¥29,382	¥12,467	¥21	¥41,870	¥27,509	¥10,931	¥202	¥38,642

Asset class:	Thousands of U.S.dollars			
	2014			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Domestic stocks	\$135,961			\$135,961
Foreign stocks	31,039			31,039
Debt securities:				
Japanese government bonds and domestic municipal bonds	61,660			61,660
Domestic corporate bonds	22,864			22,864
Foreign government bonds and foreign municipal bonds	11,447			11,447
Foreign corporate bonds	6,689			6,689
Life insurance company general accounts		\$ 81,758		81,758
Others:				
Mutual funds		38,786		38,786
Others	15,602	495	\$204	16,301
Total	\$285,262	\$121,039	\$204	\$406,505

Level 1 assets are comprised principally of equity securities and government bonds, which are valued using unadjusted quoted market prices in active markets with sufficient volume and frequency of transactions. Level 2 assets are comprised principally of mutual funds that invest in equity and debt securities, and investments in life insurance company general accounts. Mutual funds, which are redeemable in the near term, are valued at their net asset values which are calculated by the investment management companies. Investments in life insurance company general accounts are valued at the sum of original principal and accrued interest. The fair value of Level 3 assets consist of funds that invest principally in unlisted equity securities. Actual returns on, and purchases and sales of, these assets during the years ended March 31, 2014 and 2013 were not significant.

### Contributions

The Group expects to contribute ¥1,807 million (\$17,544 thousand) to the defined benefit pension plans in the year ending March 31, 2015.

### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be made by the Group:

Year Ending March 31:	Millions of Yen	Thousands of U.S.dollars
2015	¥ 2,803	\$ 27,214
2016	2,859	27,757
2017	2,701	26,223
2018	2,806	27,243
2019	2,726	26,466
2020 – 2024	14,971	145,350



Certain domestic subsidiaries participate in multiemployer plans. This disclosure uses the most recently available information:

	Zone Status		Contributions of NH Foods Ltd.'s subsidiaries			Thousands of U.S.dollars
	2014	2013	2014	2013	2012	2014
Pension Fund:						
Japan Ham & Sausage Processors Pension Fund	<b>Less than 65% (March 31, 2013)</b>	Less than 65% (March 31, 2012)	<b>¥317</b>	¥306	¥264	<b>\$3,078</b>
Nationwide Dainty Pension Fund	<b>At least 80% (March 31, 2013)</b>	At least 80% (March 31, 2012)	<b>235</b>	230	224	<b>2,282</b>
Total			<b>¥552</b>	¥536	¥488	<b>\$5,360</b>

The risks of participating in these multiemployer plans are different from single-employer plans primarily in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the multiemployer plan may be borne by the remaining participating employers.
- If the Group chooses to stop participating in some of those multiemployer plans, the Group may be required to pay those plans an amount based on the underfunded status of the multiemployer plan, referred to as a withdrawal liability.

Plan information for Japan Ham & Sausage Processors Pension Fund is not publicly available. This fund provides monthly retirement payments on the basis of the contributions earned by the participating employees. To the extent that the plan is underfunded, the future contributions to the plan may increase.

This fund's financial statements for the year ended March 31, 2013 indicated pension plan assets of ¥24,698 million (\$239,786 thousand); underfunded amounts of ¥17,919 million (\$173,971 thousand); and total contributions of all participating employers of ¥2,276 million (\$22,097 thousand).

This fund's financial statements of the year ended March 31, 2012 indicated pension plan assets of ¥23,123 million; underfunded amounts of ¥17,243 million; and total contributions of all participating employers of ¥2,406 million.

Japan Ham & Sausage Processors Pension Fund resolved a special dissolution policy at a conference of representatives based on Act of Partial Revision of Pension of the Employees' Pension Insurance Act which was promulgated on June 26, 2013. As of March 31, 2014, it was in the process of aiming for dissolution. However, a resolution for dissolution has not been approved yet. Moreover, an impact on the income statement regarding this issue is not able to be calculated reasonably due to many uncertainties at this time.

Plan information for Japan Nationwide Dainty Pension Fund is not publicly available. This fund provides monthly retirement payments on the basis of the contributions earned by the participating employees. To the extent that the plan is underfunded, the future contributions to the plan may increase.

This fund's financial statements for the year ended March 31, 2013 indicated pension plan assets of ¥12,607 million (\$122,398 thousand); overfunded amounts of ¥41 million (\$398 thousand); and total contributions of all participating employers of ¥1,206 million (\$11,709 thousand).

This fund's financial statements for the year ended March 31, 2012 indicated pension plan assets of ¥11,214 million; underfunded amounts of ¥2,080 million; and total contributions of all participating employers of ¥1,169 million.

Japan Nationwide Dainty Pension Fund resolved a dissolution policy at a conference of representatives on September 19, 2013. As of March 31, 2014, it was in the process of aiming for dissolution. However, a resolution for dissolution has not been approved yet. Moreover, the impact on the income statement regarding this issue is not able to be calculated reasonably due to many uncertainties at this time.

Pension Fund:	Year Contributions to Plan Exceeded More Than 5 Percent of Total Contributions (as of March 31 of the Plan's Year-End)	
	2013 and 2012	
Japan Ham & Sausage Processors Pension Fund	2013 and 2012	
Nationwide Dainty Pension Fund	2013 and 2012	

Additionally, the Group provided for directors' retirement allowances of ¥629 million (\$6,107 thousand) and ¥594 million at March 31, 2014 and 2013, respectively, based on the Group's internal regulations.

Special severance benefits of ¥124 million (\$1,204 thousand), ¥128 million and ¥107 million were paid in 2014, 2013 and 2012, respectively, to employees transferred to certain subsidiaries. The amounts of special severance payments are included in other operating costs and expenses (income) - net in the consolidated statements of income.

## 10. STOCK-BASED COMPENSATION

On May 9, 2008, the Board of Directors resolved to abolish the stock option plan except for those stock options granted before March 31, 2008.

A summary of option activity under NH Foods Ltd.'s stock option plan at March 31, 2014 and changes during the year then ended were as follows:

	Shares	Yen	Years	Millions of Yen	U.S. Dollars	Thousands of U.S. Dollars
	Number of Options	Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value	Exercise Price	Aggregate Intrinsic Value
Outstanding at March 31, 2013	<b>236,000</b>	<b>¥1</b>			<b>\$0</b>	
Exercised	<b>(22,000)</b>	<b>1</b>			<b>0</b>	
Forfeited	<b>(1,000)</b>	<b>1</b>			<b>0</b>	
Outstanding at March 31, 2014	<b>213,000</b>	<b>1</b>	<b>8.6</b>	<b>¥327</b>	<b>0</b>	<b>\$3,175</b>
Exercisable at March 31, 2014	<b>64,000</b>	<b>¥1</b>	<b>2.7</b>	<b>¥98</b>	<b>\$0</b>	<b>\$ 951</b>

The total intrinsic values of options exercised during the years ended March 31, 2014, 2013 and 2012 were ¥34 million (\$330 thousand), ¥25 million and ¥23 million, respectively.

Cash received from options exercised for the years ended March 31, 2014, 2013 and 2012 was immaterial.

## 11. EQUITY

Companies in Japan are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below;

### (a) Dividends

Under the Companies Act, companies in Japan can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies in Japan that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having Audit & Supervisory Board and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if NH Foods Ltd. has prescribed so in its articles of incorporation. NH Foods Ltd. meets all the above criteria.

The Companies Act permits companies in Japan to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of NH Foods Ltd. so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The amount available for dividends under the Companies Act is based on the amount recorded in NH Foods Ltd.'s nonconsolidated books of accounts in accordance with Japanese accounting practices. The amount available for dividends under the Companies Act as of March 31, 2014 was ¥109,446 million (\$1,062,583 thousand).

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, additional paid-in capital and legal reserve may be reversed upon resolution of the shareholders. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies in Japan to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

On May 20, 1993, NH Foods Ltd. made a stock split by way of a free share distribution at the rate of 0.1 shares for each outstanding share, and 20,703,062 shares were issued to shareholders of record on March 31, 1993, resulting in no change in the balance of common stock or capital surplus. Corporations in the United States issuing shares in similar transactions would be required to account for them by reducing retained earnings and increasing appropriate capital accounts by an amount equal to the fair value of the shares issued. If such United States practice had been applied to the fiscal 1994 free share distribution made by NH Foods Ltd., capital surplus would have increased by ¥33,746 million with a corresponding decrease in unappropriated retained earnings.

## 12. OTHER COMPREHENSIVE INCOME (LOSS)

The change in accumulated other comprehensive loss for the year ended March 31, 2014 was as follows:

	Millions of Yen			Thousands of U.S.dollars		
	Before-Tax Amount	Income Tax	After-Tax Amount	Before-Tax Amount	Income Tax	After-Tax Amount
Net unrealized gains on securities available-for-sale:						
Balance, April 1, 2013	¥ 5,823	¥(2,207)	¥ 3,616	\$ 56,534	\$(21,427)	\$ 35,107
Other comprehensive income before reclassification	807	(291)	516	7,835	(2,825)	5,010
Amounts reclassified from accumulated other comprehensive income	(46)	16	(30)	(447)	155	(292)
Other comprehensive income	761	(275)	486	7,388	(2,670)	4,718
Other comprehensive income attributable to noncontrolling interests	0	0	0	0	0	0
Balance, March 31, 2014	6,584	(2,482)	4,102	63,922	(24,097)	39,825
Pension liability adjustments:						
Balance, April 1, 2013	(14,603)	7,978	(6,625)	(141,777)	77,456	(64,321)
Other comprehensive income before reclassification	3,750	(1,350)	2,400	36,408	(13,107)	23,301
Amounts reclassified from accumulated other comprehensive loss	947	(341)	606	9,194	(3,311)	5,883
Other comprehensive income	4,697	(1,691)	3,006	45,602	(16,418)	29,184
Other comprehensive income attributable to noncontrolling interests	(3)	1	(2)	(29)	10	(19)
Balance, March 31, 2014	(9,909)	6,288	(3,621)	(96,204)	61,048	(35,156)
Foreign currency translation adjustments:						
Balance, April 1, 2013	(5,764)		(5,764)	(55,961)		(55,961)
Other comprehensive income before reclassification	4,077		4,077	39,583		39,583
Amounts reclassified from accumulated other comprehensive loss	360		360	3,495		3,495
Other comprehensive income	4,437		4,437	43,078		43,078
Other comprehensive income attributable to noncontrolling interests	(218)		(218)	(2,116)		(2,116)
Balance, March 31, 2014	(1,545)		(1,545)	(14,999)		(14,999)
Total, Accumulated other comprehensive loss:						
Balance, April 1, 2013	(14,544)	5,771	(8,773)	(141,204)	56,029	(85,175)
Other comprehensive income before reclassification	8,634	(1,641)	6,993	83,826	(15,932)	67,894
Amounts reclassified from accumulated other comprehensive loss	1,261	(325)	936	12,242	(3,156)	9,086
Other comprehensive income	9,895	(1,966)	7,929	96,068	(19,088)	76,980
Other comprehensive income attributable to noncontrolling interests	(221)	1	(220)	(2,145)	10	(2,135)
Balance, March 31, 2014	¥ (4,870)	¥ 3,806	¥(1,064)	\$ (47,281)	\$ 36,951	\$(10,330)

Reclassification from other comprehensive income and loss (before-tax amount) of net unrealized gains on securities available-for-sale and foreign currency translation adjustments are included in other income (expenses) – net. Reclassification from other comprehensive loss (before-tax amount) of pension liability adjustments is included in net periodic benefit cost.

The amounts of income tax allocated to each component of other comprehensive income and reclassification adjustments for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen					
	2013			2012		
	Before-Tax Amount	Income Tax	After-Tax Amount	Before-Tax Amount	Income Tax	After-Tax Amount
<b>Net unrealized gains (losses) on securities available-for-sale:</b>						
Amounts arising during the year	¥2,548	¥ (917)	¥1,631	¥1,411	¥ (519)	¥ 892
Reclassification adjustments for losses realized in net income	58	(21)	37	157	(65)	92
Net change during the year	2,606	(938)	1,668	1,568	(584)	984
<b>Net unrealized gains on derivative financial instruments:</b>						
Amounts arising during the year				(110)	45	(65)
Reclassification adjustments for losses realized in net income				579	(237)	342
Net change during the year				469	(192)	277
<b>Pension liability adjustments:</b>						
Amounts arising during the year	1,326	(477)	849	(8)	3	(5)
Reclassification adjustments for losses realized in net income	1,180	(425)	755	1,592	(607)	985
Net change during the year	2,506	(902)	1,604	1,584	(604)	980
<b>Foreign currency translation adjustments:</b>						
Amounts arising during the year	3,598		3,598	(1,536)		(1,536)
Net change during the year	3,598		3,598	(1,536)		(1,536)
Other comprehensive income	¥8,710	¥(1,840)	¥6,870	¥2,085	¥(1,380)	¥ 705

Accumulated other comprehensive loss, net of tax effects, at March 31, 2013 consisted of the following:

	Millions of Yen
	2013
Net unrealized gains on securities available-for-sale	¥ 3,616
Pension liability adjustments	(6,625)
Foreign currency translation adjustments	(5,764)
Accumulated other comprehensive loss	¥(8,773)



### 13. LEASED ASSETS AND RENT EXPENSE

The Group leases certain buildings, machinery and equipment under capital leases. The amounts of these leased assets included in the consolidated balance sheets at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Buildings	¥ 5,300	¥ 5,300	\$ 51,456
Machinery and equipment	14,061	13,500	136,515
Total	19,361	18,800	187,971
Less accumulated depreciation	(10,908)	(10,943)	(105,903)
Total	¥ 8,453	¥ 7,857	\$ 82,068

The following is a schedule of the future minimum lease payments under capital leases together with the present value of net minimum lease payments which are included in the consolidated balance sheet at March 31, 2014:

	Millions of Yen	Thousands of U.S.dollars
Year Ending March 31:	2014	2014
2015	¥2,607	\$25,311
2016	2,250	21,845
2017	1,768	17,165
2018	1,027	9,971
2019	662	6,427
Thereafter	1,504	14,602
Total minimum lease payments	9,818	95,321
Less amount representing interest	(419)	(4,069)
Present value of net minimum lease payments	9,399	91,252
Less current capital lease obligations	(2,504)	(24,311)
Long-term capital lease obligations	¥6,895	\$66,941

The Group also leases office space, employee housing and office equipment under operating leases. Rent expense under these leases amounted to ¥10,264 million (\$99,650 thousand), ¥10,117 million and ¥10,558 million for the years ended March 31, 2014, 2013 and 2012, respectively.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2014 are as follows:

	Millions of Yen	Thousands of U.S.dollars
Year Ending March 31:	2014	2014
2015	¥ 2,225	\$ 21,602
2016	2,062	20,019
2017	1,363	13,233
2018	748	7,262
2019	539	5,233
Thereafter	3,398	32,990
Total minimum lease payments	¥10,335	\$100,339

### 14. FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES

Foreign currency transaction net loss of ¥3,773 million (\$36,631 thousand), net loss of ¥4,413 million and net loss of ¥623 million were included in the determination of net income for the years ended March 31, 2014, 2013 and 2012, respectively.

## 15. FAIR VALUE MEASUREMENTS

ASC Topic 820 clarifies fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. ASC Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. Under ASC Topic 820, the Group is required to classify certain assets and liabilities based on the following fair value hierarchy:

Level 1 Input — Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date

Level 2 Input — Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3 Input — Unobservable inputs for the assets or liabilities

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and 2013 were as follows:

Millions of Yen								
Assets:	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Domestic stocks:								
Retail industry	¥ 7,260			¥ 7,260	¥ 7,202			¥ 7,202
Others	9,592			9,592	8,977			8,977
Mutual funds		¥ 327		327		¥ 315		315
Derivative instruments (see Note 16)		1,622		1,622		2,678		2,678
Total assets	¥16,852	¥1,949		¥18,801	¥16,179	¥2,993		¥19,172

Millions of Yen								
Liabilities:	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative instruments (see Note 16)	¥36	¥185		¥221	¥11	¥876		¥887
Total liabilities	¥36	¥185		¥221	¥11	¥876		¥887

Thousands of U.S. Dollars				
Assets:	2014			
	Level 1	Level 2	Level 3	Total
Domestic stocks:				
Retail industry	\$ 70,485			\$ 70,485
Others	93,127			93,127
Mutual funds		\$ 3,175		3,175
Derivative instruments (see Note 16)		15,748		15,748
Total assets	\$163,612	\$18,923		\$182,535

Thousands of U.S. Dollars				
Liabilities:	2014			
	Level 1	Level 2	Level 3	Total
Derivative instruments (see Note 16)	\$350	\$1,796		\$2,146
Total liabilities	\$350	\$1,796		\$2,146

Valuation processes and techniques used to measure fair value are as follows:

### Domestic stocks

Domestic stocks are measured at fair value using quoted prices in active markets for identical assets. These inputs fall within Level 1.

### Mutual funds

Mutual funds are measured using observable inputs, such as published prices based on market trends obtained from financial institutions, and classified as Level 2.

### Derivative instruments

Derivative instruments consist of commodity futures contracts, foreign currency forward exchange contracts, interest rate swap contracts, currency swap contracts and cross-currency swap contract. Commodity futures contracts are measured at fair value using quoted prices in active markets for identical assets. These inputs fall within Level 1. Foreign currency forward exchange contracts, interest rate swap contracts, currency swap contracts and cross-currency swap contract are measured at fair value using discounted cash flow model matched to the contractual terms with observable market data such as forward exchange rates and market interest rates, which fall within Level 2.

The table below shows assets measured at fair value on a nonrecurring basis during the years ended March 31, 2014 and 2013, of which ¥267 million (\$2,592 thousand) and ¥50 million have already been sold to a third party for the years ended March 31, 2014 and 2013, respectively:

Millions of Yen				
2014				
	Level 1	Level 2	Level 3	Total
Long-lived assets			<b>¥1,115</b>	<b>¥1,115</b>

Millions of Yen				
2013				
	Level 1	Level 2	Level 3	Total
Non-marketable equity securities			¥ 0	¥ 0
Long-lived assets			1,222	1,222

Thousands of U.S. Dollars				
2014				
	Level 1	Level 2	Level 3	Total
Long-lived assets			<b>\$10,825</b>	<b>\$10,825</b>

Valuation processes and techniques used to measure fair value are as follows:

#### Non-marketable equity securities

In accordance with ASC Topic 320, "Investments – Debt and Equity Securities," the Group recognizes impairment losses of non-marketable equity securities when their fair values are below the carrying amounts and the decline in fair values is considered to be other than temporary. These non-marketable equity securities are measured at fair value using unobservable inputs based mainly on the valuation by the cost approach, which fall within Level 3.

#### Long-lived assets

In accordance with ASC Topic 360, the Group recognizes impairment losses on long-lived assets when the carrying amounts of the assets are considered to be unrecoverable. These long-lived assets are measured at fair value using unobservable inputs such as future expected cash flows and the prices calculated based upon market data for comparable assets, which fall within Level 3.

The carrying amounts and fair values of financial instruments at March 31, 2014 and 2013 were as follows:

	Millions of Yen				Thousands of U.S.dollars	
	2014		2013		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale securities and held-to-maturity securities (see Note 3)	<b>¥17,369</b>	<b>¥17,369</b>	¥26,694	¥ 26,694	<b>\$168,632</b>	<b>\$168,632</b>
Derivative instruments:						
Assets	<b>1,622</b>	<b>1,622</b>	2,678	2,678	<b>15,748</b>	<b>15,748</b>
Liabilities	<b>(221)</b>	<b>(221)</b>	(887)	(887)	<b>(2,146)</b>	<b>(2,146)</b>
Long-term debt	<b>(89,398)</b>	<b>(90,716)</b>	(92,378)	(100,030)	<b>(867,942)</b>	<b>(880,738)</b>

The carrying values of all other financial instruments approximate their estimated fair values. The fair values of long-term debt are estimated using quoted market prices for identical debt or present values of cash flows using borrowing rates currently available to the Group for bank loans with similar terms, which fall within Level 2.

The Group does not have any significant concentration of business transacted with an individual counter-party or groups of counter-parties that could severely impact their operations.

## 16. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Group is exposed to certain risks relating to their ongoing business operations. The primary risks managed by using derivative instruments are foreign currency forward exchange rate risk (principally in U.S. dollars), interest rate risk and commodity price risk. The Group uses foreign currency forward exchange contracts, currency swap contracts, currency option contracts and cross-currency swap contract to mitigate foreign currency forward exchange rate risk. NH Foods Ltd. uses interest rate swap contracts and cross-currency swap contract to mitigate interest rate risk relating to floating-rate borrowing. Commodity futures contracts are entered into to mitigate commodity price risk.

The Group documents its risk management objectives and strategies for undertaking hedge transactions. All derivative financial instruments are entered into under these objectives and strategies and related rules which regulate transactions.

ASC Topic 815 requires the Group to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with ASC Topic 815, the Group designates certain foreign currency forward exchange contracts as cash flow hedges of forecasted transactions and designate interest rate swap contracts as cash flow hedges of future interest payments.

### Cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. If the critical terms of derivative instruments and the hedged items are the same, changes in cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. The net gains or losses excluded from the assessment of hedge effectiveness were immaterial for the years ended March 31, 2012.

### Derivative instruments which do not qualify for hedge accounting

These derivative instruments are used to mitigate foreign currency forward exchange rate risk, interest rate risk and commodity index risk. The changes in fair value of such derivative instruments are recorded in earnings immediately.

At March 31, 2014 and 2013, contract amounts or notional principal amounts of derivative instruments that do not qualify for hedge accounting are set forth below:

	Millions of Yen		Thousands of U.S.dollars
	2014	2013	2014
Interest rate swap contracts	¥ 7,121	¥11,303	\$ 69,136
Foreign currency forward exchange contracts and currency swap contracts	67,548	56,645	655,806
Cross-currency swap contracts	2,000	2,000	19,417
	Millions of Bushels		
	2014	2013	
Commodity futures contracts (corn)			2.5
	Millions of Pounds		
	2014	2013	
Commodity futures contracts (hog)	6.0		

The Group also has a policy that derivatives are not used for other than hedging activities.

As of March 31, 2014, the Group had no significant concentration of credit risk.

The Group's derivative instruments contained no provisions that require the Group's debt to maintain an investment grade credit rating from each of the major credit rating agencies.



The location and fair value amounts of derivative instruments on the consolidated balance sheets were as follows:

Millions of Yen				
2014				
	Derivative assets		Derivative liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under ASC Topic 815:				
Interest rate swap contracts			Other current liabilities	¥ 37
Foreign currency forward exchange contracts and currency swap contracts	Other current assets	¥ 942	Other current liabilities	148
Cross-currency swap contracts	Other current assets	13		
	Other assets	667		
Commodity futures contracts			Other current liabilities	36
Total (see Note 15)		¥1,622		¥221

Millions of Yen				
2013				
	Derivative assets		Derivative liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under ASC Topic 815:				
Interest rate swap contracts			Other current liabilities	¥ 61
Foreign currency forward exchange contracts and currency swap contracts	Other current assets	¥2,242	Other current liabilities	815
Cross-currency swap contracts	Other current assets	13		
	Other assets	423		
Commodity futures contracts			Other current liabilities	11
Total (see Note 15)		¥2,678		¥887

Thousands of U.S. Dollars				
2014				
	Derivative assets		Derivative liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under ASC Topic 815:				
Interest rate swap contracts			Other current liabilities	\$ 359
Foreign currency forward exchange contracts and currency swap contracts	Other current assets	\$ 9,146	Other current liabilities	1,437
Cross-currency swap contracts	Other current assets	126		
	Other assets	6,476		
Commodity futures contracts			Other current liabilities	350
Total (see Note 15)		\$15,748		\$2,146

The effect of derivative instruments designated and qualifying as cash flow hedges under ASC Topic 815 on the consolidated statements of income and changes in equity for the year ended March 31, 2012 was as follows:

Millions of Yen					
	Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Location	Amount of Loss Reclassified from Accumulated Other Comprehensive Loss into income (Effective Portion)	
	2012			2012	
Foreign currency forward exchange contracts	¥(110)		Cost of goods sold	¥(579)	
Total	¥(110)			¥(579)	

The effects of derivative instruments not designated or qualifying as hedging instruments under ASC Topic 815 on the consolidated statements of income for the years ended March 31, 2014, 2013 and 2012 were as follows:

		Millions of Yen	Thousands of U.S. Dollars
		Amount of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
	Location	2014	2014
Interest rate swap contracts	Interest expense	¥ (25)	\$ (243)
Foreign currency forward exchange contracts and currency swap contracts	Net sales	299	2,903
	Cost of goods sold	5,824	56,544
	Other income (expenses) – net	89	864
Cross-currency swap contracts	Interest expense	24	233
	Other income (expenses) – net	231	2,243
Commodity futures contracts	Cost of goods sold	156	1,515
Total		¥6,598	\$64,059

		Millions of Yen
		Amount of Gain or (Loss) Recognized in Income on Derivative
	Location	2013
Interest rate swap contracts	Interest expense	¥ (59)
Foreign currency forward exchange contracts and currency swap contracts	Net sales	659
	Cost of goods sold	6,665
	Other income (expenses) – net	(231)
Cross-currency swap contracts	Interest expense	6
	Other income (expenses) – net	309
Commodity futures contracts	Cost of goods sold	(11)
Total		¥7,338

		Millions of Yen
		Amount of Gain or (Loss) Recognized in Income on Derivative
	Location	2012
Interest rate swap contracts	Interest expense	¥ 1
Foreign currency forward exchange contracts and currency swap contracts	Net sales	654
	Cost of goods sold	284
	Other income (expenses) – net	(367)
Cross-currency swap contracts	Interest expense	8
	Other income (expenses) – net	114
Total		¥694

## 17. SEGMENT INFORMATION

ASC Topic 280, "Segment Reporting" requires a public business entity to report information about operating segments in financial statements. Operating segments are defined as components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The operating segments are determined based on the nature of the products and services offered. The Group's operating segments consist of the following three business groups:

Processed Foods Business Division — Production and sales of mainly hams and sausages, and processed foods

Fresh Meats Business Division — Production and sales of mainly fresh meats

Affiliated Business Division — Production and sales of mainly marine products and dairy products

Intersegment transactions are made with reference to prevailing market prices.

The operating segment information at March 31, 2013 and 2012, and for the years then ended has been reclassified to conform to the current year presentation.

The following table presents certain information regarding the Group's operating segments at March 31, 2014, 2013 and 2012 and for the years then ended:

### Operating segment information

	Millions of Yen					
	2014					
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:						
External customers	¥325,740	¥668,102	¥145,186	¥1,139,028	¥ (16,931)	¥1,122,097
Intersegment	26,254	98,407	2,952	127,613	(127,613)	
Total	351,994	766,509	148,138	1,266,641	(144,544)	1,122,097
Operating expenses	345,513	739,694	147,140	1,232,347	(145,950)	1,086,397
Segment profit	6,481	26,815	998	34,294	1,406	35,700
Assets	169,517	347,914	54,915	572,346	54,874	627,220
Depreciation and amortization	6,995	8,596	1,280	16,871	1,778	18,649
Capital expenditures	14,759	8,945	3,893	27,597	1,555	29,152

	Millions of Yen					
	2013					
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:						
External customers	¥317,192	¥584,015	¥134,769	¥1,035,976	¥ (13,137)	¥1,022,839
Intersegment	21,774	89,671	2,876	114,321	(114,321)	
Total	338,966	673,686	137,645	1,150,297	(127,458)	1,022,839
Operating expenses	329,401	658,126	136,118	1,123,645	(128,827)	994,818
Segment profit	9,565	15,560	1,527	26,652	1,369	28,021
Assets	170,725	322,466	50,507	543,698	66,595	610,293
Depreciation and amortization	7,261	8,404	1,400	17,065	2,258	19,323
Capital expenditures	9,656	18,567	2,606	30,829	2,456	33,285

	Millions of Yen					
	2012					
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:						
External customers	¥320,722	¥577,443	¥132,470	¥1,030,635	¥ (12,851)	¥1,017,784
Intersegment	21,464	89,225	2,719	113,408	(113,408)	
Total	342,186	666,668	135,189	1,144,043	(126,259)	1,017,784
Operating expenses	334,156	650,477	133,229	1,117,862	(126,591)	991,271
Segment profit	8,030	16,191	1,960	26,181	332	26,513
Assets	171,336	294,407	49,206	514,949	74,176	589,125
Depreciation and amortization	9,695	9,494	1,747	20,936	2,820	23,756
Capital expenditures	8,752	8,494	1,604	18,850	637	19,487

	Thousands of U.S. Dollars					
	2014					
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:						
External customers	\$3,162,524	\$6,486,427	\$1,409,573	\$11,058,524	\$ (164,378)	\$10,894,146
Intersegment	254,893	955,408	28,660	1,238,961	(1,238,961)	
Total	3,417,417	7,441,835	1,438,233	12,297,485	(1,403,339)	10,894,146
Operating expenses	3,354,495	7,181,495	1,428,544	11,964,534	(1,416,990)	10,547,544
Segment profit	62,922	260,340	9,689	332,951	13,651	346,602
Assets	1,645,796	3,377,806	533,155	5,556,757	532,758	6,089,515
Depreciation and amortization	67,913	83,456	12,427	163,796	17,262	181,058
Capital expenditures	143,291	86,845	37,796	267,932	15,097	283,029

1. "Eliminations, adjustments and others" includes unallocated items and intersegment eliminations.
2. Except for a few unallocated items, corporate overhead expenses and profit and loss of certain subsidiaries are allocated to each reportable operating segment. These subsidiaries provide indirect services and operational support for the Group included in each reportable operating segment.
3. Segment profit represents net sales less cost of goods sold and selling, general and administrative expenses.
4. Unallocated corporate assets included in "Eliminations, adjustments and others" mainly consist of time deposits, marketable securities and other investment securities of NH Foods Ltd.
5. Depreciation and amortization consist of depreciation of property, plant and equipment and amortization of intangible assets. Depreciation and amortization related to each reportable segment do not include those which are included in the corporate overhead expenses and profit and loss of certain subsidiaries as described at Note 2 above.
6. Capital expenditures represent the additions to property, plant and equipment and intangible assets.

The following table shows reconciliations of the total of the segment profit to income before income taxes and equity in earnings of Associated Companies for the years ended March 31, 2014, 2013 and 2012:

	Millions of Yen			Thousands of U.S. dollars
	2014	2013	2012	2014
Segment profit total	¥34,294	¥26,652	¥26,181	\$332,951
Gain from the transfer through the posting system			4,017	
Other operating costs and expenses (income) – net	686	131	2,319	6,660
Interest expenses	1,502	1,582	1,727	14,583
Other income (expenses) – net	1,791	1,723	282	17,388
Eliminations, adjustments and others	1,406	1,369	332	13,651
Income before income taxes and equity in earnings of associated companies	¥35,303	¥28,031	¥26,766	\$342,747



Net sales to external customers by products for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Hams and sausages	¥ 143,490	¥ 139,948	¥ 137,286	\$ 1,393,107
Processed foods	208,084	204,756	203,167	2,020,233
Fresh meats	619,333	541,598	544,054	6,012,942
Marine products	91,809	83,829	82,836	891,350
Dairy products	26,253	25,155	23,261	254,883
Others	33,128	27,553	27,180	321,631
Total	¥1,122,097	¥1,022,839	¥1,017,784	\$10,894,146

Certain information by geographic areas at March 31, 2014, 2013 and 2012 and for the years then ended was as follows:

(1) Net sales to external customers

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Japan	¥1,021,009	¥ 946,705	¥ 938,846	\$ 9,912,709
Other countries	101,088	76,134	78,938	981,437
Total	¥1,122,097	¥1,022,839	¥1,017,784	\$10,894,146

Net sales to external customers are attributed to geographic areas based on the countries of the Group's domiciles.

(2) Long-lived assets

	Millions of Yen			Thousands of U.S.dollars
	2014	2013	2012	2014
Japan	¥224,943	¥213,309	¥205,522	\$2,183,913
Other countries	19,350	18,870	17,069	187,864
Total	¥244,293	¥232,179	¥222,591	\$2,371,777

Long-lived assets mainly consist of property, plant and equipment.

There were no sales to a single major external customer exceeding 10% of net sales for the years ended March 31, 2014, 2013 and 2012.

## 18. COMMITMENTS AND CONTINGENT LIABILITIES

The Group guarantees certain debt of Associated Companies and certain suppliers. At March 31, 2014, the maximum potential amount of future payments which the Group could be required to make under these guarantees was ¥537 million (\$5,214 thousand), and the

carrying amount of the liability recognized under these guarantees was ¥19 million (\$184 thousand). The guarantees with suppliers are secured by certain properties and real estates.

## 19. EVENTS SUBSEQUENT TO MARCH 31, 2014

NH Foods Ltd. cancelled its treasury stock as follows under Article 178 of the Companies Act, based on the resolution at the meeting of the Board of Directors held on May 8, 2014;

- Class of shares cancelled Common shares of NH Foods Ltd.
- Number of shares cancelled 24,445,350 shares  
(10.7% of the total number of issued shares before the cancellation)
- Date of cancellation May 30, 2014
- Total number of issued shares after cancellation 204,000,000 shares

On May 12, 2014, the Board of Directors resolved to pay cash dividends to shareholders of record at March 31, 2014 of ¥37 (\$0.36) per share for a total of ¥7,536 million (\$73,165 thousand).

The Group evaluated subsequent events that have occurred after March 31, 2014 through the date that the Yukashouken-houkokusho (Annual Securities Report filed under the Financial Instruments and Exchange Act of Japan) was issued (June 27, 2014).

## Deloitte.

Deloitte Touche Tohmatsu LLC  
Yodoyabashi Mitsui Building  
4-1-1, Imabashi, Chuo-ku  
Osaka 541-0042  
Japan  
Tel: +81 (6) 4560 6000  
Fax: +81 (6) 4560 6001  
www.deloitte.com/jp

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of NH Foods Ltd.:

We have audited the accompanying consolidated financial statements of NH Foods Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2014, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NH Foods Ltd. and its subsidiaries as of March 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

#### Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 27, 2014

Member of  
Deloitte Touche Tohmatsu Limited

# Management's Report on Internal Control

## NOTE TO READERS:

Following is an English translation of management's report on internal control over financial reporting filed under the Financial Instruments and Exchange Act of Japan. Readers should be aware that this report is presented merely as supplemental information.

Readers should be particularly aware of the differences between an assessment of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the standards of the Public Company Accounting Oversight Board (United States) ("ICFR under PCAOB");

- In an assessment of ICFR under FIEA, there is detailed guidance on the scope of an assessment of ICFR, such as quantitative guidance on business location selection and/or account selection. In an assessment of ICFR under PCAOB, there is no such detailed guidance. Accordingly, for the assessment of entity-level internal controls, the companies which represent the top 95% of consolidated net sales and other financial indicators are selected. For the assessment of internal control over business processes, the companies which cover approximately two-thirds of the previous year's consolidated net sales and cost of goods sold (excluding inter-company transactions) are selected. Additional business processes, if any, which could have a significant impact on financial reporting, are also included in the scope.
- In an assessment of ICFR under FIEA, the scope includes ICFR of equity method investees. In an assessment of ICFR under PCAOB, the scope does not include ICFR of equity method investees.

## Management's Report on Internal Control

### 1. Matters relating to the basic framework for internal control over financial reporting

Noboru Takezoe, President and Representative Director, is responsible for designing and operating effective internal control over financial reporting of our company ("the Company") and has designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### 2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2014, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("entity-level controls") and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries and equity-method affiliated companies, from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of entity-level controls conducted for the Company and its consolidated subsidiaries, we reasonably determined the scope of assessment of internal control over business processes. Regarding certain consolidated

subsidiaries and equity-method affiliated companies that did not fall within the top 95% in terms of potential financial impact, calculated using net sales and other financial indicators, we concluded that they do not have any material impact on the consolidated financial statements, and thus, did not include them in the scope of assessment of entity-level controls.

Regarding the scope of assessment of internal control over business processes, we selected locations and business units to be tested based on the previous year's consolidated net sales and cost of sales (after elimination of inter-company transactions), and top eighteen companies whose net sales and cost of sales reach two-thirds of the total sales and cost of sales on a consolidation basis, were selected as "significant locations and/or business units". We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to sales, accounts receivable and inventories as significant accounts that may have a material impact on the business objectives of the Company. Further, in addition to selected significant locations and/or business units, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

### 3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the Company's internal control over financial reporting of the consolidated financial statements was effectively maintained.

### 4. Supplementary information

—

### 5. Other matters warranting special mention

—

Noboru Takezoe  
President and Representative Director  
NH Foods Ltd.

# INDEPENDENT AUDITOR'S REPORT

## NOTE TO READERS:

Following is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act of Japan. Readers should be aware that this report is presented merely as supplemental information.

Readers should be particularly aware of the differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the standards of the Public Company Accounting Oversight Board (United States) ("ICFR under PCAOB");

- In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under PCAOB, the auditors express an opinion on the Company's ICFR directly.
- In an audit of ICFR under FIEA, there is detailed guidance on the scope of an audit of ICFR, such as quantitative guidance on business location selection and/or account selection. In an audit of ICFR under PCAOB, there is no such detailed guidance. Accordingly, for the assessment of entity-level internal controls, the companies which represent the top 95% of consolidated net sales and other financial indicators are selected. For the assessment of internal control over business processes, the companies which cover approximately two-thirds of the previous year's consolidated net sales and cost of goods sold (excluding inter-company transactions) are selected. Additional business processes, if any, which could have a significant impact on financial reporting, are also included in the scope.
- In an audit of ICFR under FIEA, the scope includes ICFR of equity method investees. In an audit of ICFR under PCAOB, the scope does not include ICFR of equity method investees.

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

June 27, 2014

To the Board of Directors of NH Foods Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Seiichiro Azuma

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Wakyu Shinmen

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Takashige Ikeda

### [Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2014 of NH Foods Ltd. and its subsidiaries, and the related consolidated statement of income, comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2013 to March 31, 2014, and the related notes and consolidated supplementary schedules.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America pursuant to the third paragraph of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (No.11 of the Cabinet Office Ordinance in 2002), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NH Foods Ltd. and its subsidiaries as of March 31, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

### [Audit of Internal Control]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of NH Foods Ltd. as of March 31, 2014.

### Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of NH Foods Ltd. as of March 31, 2014 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

### Interest

Our firm and the engagement partners do not have any interest in NH Foods Ltd. for which disclosure is required under the provisions of the Certified Public Accountants Act.



# Main Companies of the Group

(As of April 1, 2014)

## Production and Breeding

- Nippon White Farm Co., Ltd. (Japan)
- Interfarm Co., Ltd. (Japan)
- Nippon Feed Co., Ltd. (Japan)
- Whyalla Beef Pty. Ltd. (Australia) (formerly Oakey Holdings Pty. Ltd.)
- Texas Farm, LLC (USA)

## Processing and Packing of Fresh Meats

- Nippon Food Packer, Inc. (Japan)
- Nippon Food Packer Kagoshima, Inc. (Japan)
- Nippon Food Packer Shikoku, Inc. (Japan)
- Nippon Pure Food, Inc. (Japan)
- Oakey Beef Exports Pty. Ltd. (Australia) (formerly Oakey Abattoir Pty. Ltd.)
- Wingham Beef Exports Pty. Ltd. (Australia)
- Thomas Borthwick & Sons (Australia) Pty. Ltd. (Australia)

## Sales of Fresh Meats

- Higashi Nippon Food, Inc. (Japan)
- Kanto Nippon Food, Inc. (Japan)
- Naka Nippon Food, Inc. (Japan)
- Nishi Nippon Food, Inc. (Japan)
- NH Foods Australia Pty. Ltd. (Australia) (formerly Nippon Meat Packers Australia Pty. Ltd.)
- Beef Producers Australia Pty. Ltd. (Australia)
- Australian Premium Brands, Inc. (USA)
- Day-Lee Foods, Inc. (USA)
- Nippo Food (Shanghai) Co., Ltd. (China)

## Production and Sales of Hams and Sausages

- Nipponham Factory Ltd. (Japan) (formerly Nippon Ham Factory Co., Ltd.)
- Nipponham Hokkaido Factory Ltd. (Japan) (formerly Nippon Ham Hokkaido Factory Co., Ltd.)
- Nipponham Northeast Ltd. (Japan) (formerly Tohoku Nippon Ham Co., Ltd.)
- Tochiku Ham Co., Ltd. (Japan)
- Kyodo Foods Co., Ltd. (Japan)
- Japan Assorted Business Services Co., Ltd. (Japan)
- Nipponham Southwest Ltd. (Japan) (formerly Minami Nippon Ham Co., Ltd.)
- Hakodate Carl Raymon Co., Ltd. (Japan)
- Kamakura Ham Tomioka Co., Ltd. (Japan)
- NH Foods Vietnam Joint Stock Company (Vietnam) (formerly Nippon Golden Pig Joint Stock Company Co., Ltd.)
- Redondo's, LLC (USA)
- Tianjin Longtai Food Co., Ltd. (China)

## Production of Processed Foods

- Nipponham Processed Foods Ltd. (Japan) (formerly Nippon Ham Shokuhin Co., Ltd.)
- Nipponham Delicatessen Ltd. (Japan) (formerly Nippon Ham Sozai Co., Ltd.)
- NH Foods Mexicana S.A. DE C.V. (Mexico) (formerly Nippon Shokuhin Mexicana S.A. de C.V.)
- Weihai Nippon Shokuhin Co., Ltd. (China)
- Shandong Rilong Foodstuffs Co., Ltd. (China)
- Thai Nippon Foods Co., Ltd. (Thailand)

## Sales of Hams and Sausages, and Processed Foods

- Nipponham Hokkaido Sales Ltd. (Japan) (formerly Nippon Ham Hokkaido Hanbai Co., Ltd.)
- Nipponham East Sales Ltd. (Japan) (formerly Nippon Ham Higashi Hanbai Co., Ltd.)
- Nipponham West Sales Ltd. (Japan) (formerly Nippon Ham Nishi Hanbai Co., Ltd.)
- Nipponham Customer Communications Ltd. (Japan) (formerly Nippon Ham Customer Communication Co., Ltd.)

## Production and Sales of Processed Marine Products

- Marine Foods Corporation (Japan)
- Hoko Co., Ltd. (Japan)

## Production and Sales of Dairy Products and Lactic Acid Probiotic Beverages

- Nippon Luna, Inc. (Japan)
- Hoko Co., Ltd. (ROLF Division) (Japan)

## Production and Sales of Natural Seasonings

- Nippon Pure Food, Inc. (Japan)

## Production and Sales of Freeze-Dried and Frozen Foods

- Nippon Dry Foods Co., Ltd. (Japan)
- Nipponham Frozen Foods Sales Ltd. (Japan) (formerly Nippon Ham Deli News Co., Ltd.)

## Production and Sales of Health Foods

- Nipponham HealthCreate Ltd. (formerly Nippon Ham Health Creation Co., Ltd.)

## Professional Sports

- Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd. (Japan)
- Osaka Football Club Co., Ltd. (Cerezo Osaka) (Japan) (associated company)

## IT, Services, and Other Businesses

- Nipponham Business Experts Ltd. (Japan) (formerly Nippon Ham Business Expert Corporation)
- Nipponham Life Services Ltd. (Japan) (formerly Nippon Ham Life Service Co., Ltd.)
- Nipponham Career Consulting Ltd. (Japan) (formerly Nippon Ham Career Consulting, Inc.)
- Nipponham Designing Ltd. (Japan) (formerly Nippon Ham Designing, Inc.)

## Logistics and Trading

- Nippon Chilled Logistics, Inc. (Japan)
- Nippon Logistics Center, Inc. (Japan)
- Nippon Daily Net Co., Ltd. (Japan)
- Nippon Route Service Co., Ltd. (Japan)
- Japan Food Corporation (Japan)
- NH Foods Chile Y Compania Limitada (Chile) (formerly Nippon Meat Packers Inc. (Chile) Y Compania Limitada)
- NH Foods Singapore Pte. Ltd. (Singapore) (formerly Nippon Meat Packers Singapore Pte. Ltd.)
- NH Foods (Thailand) Ltd. (Thailand) (formerly Thai Nippon Meat Packers Co., Ltd.)
- NH Foods Taiwan Ltd. (Taiwan) (formerly Nippon Meat Packers (Taiwan) Inc.)
- NH Foods U.K. Ltd. (The United Kingdom) (formerly Nippon Meat Packers U.K. Ltd.)
- NH Foods Ltd. (formerly Nippon Meat Packers, Inc.)

# Corporate Data, Stock Information

## Corporate Data

Corporate name	NH Foods Ltd.
Established	May 30, 1949
Capital	¥24,166 million
President	Noboru Takezoe
Employees (As of March 31, 2014)	28,140 (consolidated) 2,427 (non-consolidated) (including the average number of temporary employees)
Main Businesses	<ul style="list-style-type: none"> <li>• Manufacture and sale of processed meats (hams and sausages, etc.) and cooked foods (retort-packed food, pre-prepared foods, etc.)</li> <li>• Breeding of livestock, and processing and sale of fresh meats</li> <li>• Production and sale of marine and dairy products</li> </ul>
Head Office	4-9, Umeda 2-chome, Kita-ku, Osaka 530-0001, Japan
Telephone	+81-6-7525-3026

## Share Data (As of March 31, 2014)

Authorized Shares	570,000,000
Issued and Outstanding	228,445,350
Shareholders	9,926

### ■ Major Shareholders (Leading 10 by Shareholding)

Name of Shareholders	(thousands of shares)
The Master Trust Bank of Japan, Ltd. (Trust account)	16,408
Japan Trustee Services Bank, Ltd. (Trust account)	12,983
The Hyakujushi Bank, Ltd.	7,537
Meiji Yasuda Life Insurance Company	7,354
Nippon Life Insurance Company	6,266
The Norinchukin Bank	5,926
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,494
Sumitomo Mitsui Banking Corporation	4,650
Northern Trust Company (AVFC) Account Non Treaty	3,746
NIPPONKOA Insurance Company, Ltd.	3,493

Note: In addition to the list above, NH Foods Ltd. holds 24,771 thousand shares of common stock.

### ■ Shareholders by Category

	(thousands of shares)	(shareholders)
Financial institutions	102,470	(62)
Foreign investors	65,073	(401)
Individual/Other	16,857	(9,113)
Treasury stock	24,771	(1)
Other companies	10,586	(316)
Securities firms	8,685	(33)

### ■ Shareholders by Holding

	(thousands of shares)	(shareholders)
Less than 1,000	248	(1,684)
1,000–Less than 10,000	11,442	(7,748)
10,000–Less than 100,000	9,811	(312)
100,000–Less than 1 million	44,431	(134)
1 million–Less than 5 million	75,769	(40)
5 million or more	86,742	(8)

## Stock Price Trend

Stock Price (Yen)

Trading Volume



# History

**1942**

**March** Yoshinori Okoso founded the Tokushima Meat Processing Plant located in Terashima-honcho, Tokushima-shi, Japan.

**1951**

**December** Reorganized the company to form Tokushima Ham Co., Ltd.

**1952**

**January** Osaka office upgraded to branch status. Offices also opened in Kobe, Okayama, and Takamatsu.

**1956**

**May** Osaka Plant opened.

**1961**

**October** Listed on the 2nd Section of the Osaka Securities Exchange.

**1962**

**February** Listed on the 2nd Section of the Tokyo Stock Exchange.

**1963**

**August** Merged with Torisei Ham Co., Ltd., and renamed Nippon Meat Packers, Inc. (now NH Foods Ltd.).

**1966**

**February** Launched *Winny* brand nationwide.

**1967**

**December** Stock listing changed to the 1st section of both the Osaka Securities Exchange and Tokyo Stock Exchange.

**1968**

**February** Established a consumer service office.  
**March** Entered the farm business with establishment of Nippon Broiler Co., Ltd. as a joint company.

**1969**

**September** Introduced Consumer Delegate Committee System.

**1973**

**April** Implemented an integrated production system of fresh meats with establishment of Nippon Pork Co., Ltd. (now Nippon Food Packer Kagoshima, Inc.).

**1973**

**November** Pro baseball team Nippon-Ham Fighters Baseball Club, established.

**1977**

**March** Began development of distribution and sales setup of fresh meats with establishment of Sendai Food, Co., Ltd.

**March**

Began overseas expansion with acquisition of Day-Lee Meats, Inc., of Los Angeles, USA (now Day-Lee Foods, Inc.).

**1978**

**January** Established Nippon Meat Packers Australia Pty. Ltd. in Sydney, Australia (now NH Foods Australia Ltd.).

**1979**

**April** Full entry into the processed foods business with establishment of Nippon Ham Shokuhin Co., Ltd. (now Nipponham Processed Foods Ltd.).



Offices opened in Kobe, Okayama and Takamatsu



Listed on the 2nd Section of the Osaka Securities Exchange



Merger agreement signing ceremony for Tokushima Ham and Torisei Ham



Introduction of customer input in product development under the consumer delegate committee system



Plant interior at the time



Taking over the business of Marine Foods Corporation



Purchasing the Whyalla Feedlot (Australia)



Taking over Kansai Luna, Inc. (now Nippon Luna, Inc.).



Established Texas Farm



Ono Plant received the first ISO 14001 certification in industry

**1981**

**July** Entered the marine foods processing business with acquisition of the Marine Foods Corporation.

**1984**

**January** Established Research and Development Center.  
**March** Entered freeze-dried foods business with establishment of Nippon Dry Foods Co., Ltd.

**1986**

**April** Established Corporate Philosophies.

**1988**

**July** Implemented an integrated system from production to marketing of fresh meats overseas with purchase of the Whyalla Feedlot (Australia).

**1992**

**July** Entered the lactic acid bacterial beverages business with acquisition of Kansai Luna, Inc. (now Nippon Luna, Inc.).

**1993**

**December** Participated in the establishment and operation of Osaka Football Club Co., Ltd., team Cerezo Osaka.

**1995**

**February** Entered the hog farming business in the USA with the establishment of Texas Farm, LLC in Perryton, Texas.

**March**

Established Nippon Pure Food, Inc. to bolster natural flavoring business.

**1998**

**August** Established Environment Charter.

**1999**

**November** Ono Plant is the first in the industry to receive ISO 14001 certification.

**2003**

**April** Launched the New Medium-Term Management Plan Part I and launched a new-born the Group.  
**July** Purchased shares in Hoko Co., Ltd. (formerly Hoko Suisan Co., Ltd.) to strengthen the company's position in the marine foods and dairy products businesses.

**August**

Established Hokkaido Nippon-Ham Fighters Baseball Club Co., Ltd.

**2004**

**August** Purchased shares in Maruwa & Co., Inc. (now Nipponham HealthCreate Ltd.) to strengthen the company's position in the health foods business.

**2005**

**January** The Group brand established.

**2010**

**January** Started carbon footprint labeling on hams and sausages products.

**2011**

**June** Established Nippon Golden Pig Joint Stock Company Co., Ltd. in Vietnam (now NH Foods Vietnam Joint Stock Company).

**2014**

**April** Change its the Group brand and corporate brand logos.

# NH Foods Ltd.

<http://www.nipponham.co.jp/eng/>

