

# Nipponham Group Annual Report 2017

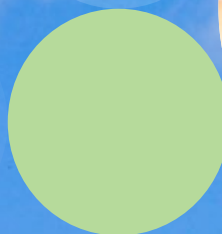
Year Ended March 31, 2017



Nipponham Group



Providing the greatest “Joy of Eating” in the world



## 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.



## Contents

Growth Trajectory of the Nipponham Group	01	Sales Overview	34	Providing Opportunities to Play Sports	55
Solving Social Problems about Food and the System for Delivering the Joy of Eating – Value Creation Process –	06	Messages from General Managers		Nutritional Support for Athletes	55
Performance Highlights	10	Processed Foods Business Division	36	Human Resources Initiatives	56
Consolidated Financial Highlights	11	Fresh Meats Business Division	38	Environmental Activities	57
		Affiliated Business Division	40	Corporate Governance	58
		Overseas Business Division	42	Internal Control	62
A Message to Stakeholders	12	Sustainability Highlights	44	Interview with Outside Director	63
A Message from the Vice President	20	Research and Development	46	Board Members and Executive Officers	64
Special Feature: Cultivating the Bounty of Nature with Our Own Hands		Approaches to Ensure Product Quality	48	Management’s Discussion and Analysis	66
Creating Value through Our Vertical Integration System	24	Initiatives on CSR Procurement	51	Consolidated Financial Statements	74
		Working with Customers	51	Notes to Consolidated Financial Statements	79
		Food Allergy Initiatives	52	Main Companies of the Group	110
		Initiatives by the Nipponham Foundation	53	Corporate Data, Stock Information	111
		Food Education Initiatives	54		

### 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.

# Growth Trajectory of the Nipponham Group

The history of the Nipponham Group started in 1942 with the establishment of the Tokushima Meat Processing Plant, which produced hams and sausages. We have since grown to handle everything from fresh meat, an ingredient in our products, to processed foods, marine products, dairy products, and natural flavorings. The Group continues to evolve into the world leader in delivering the “Joy of Eating.”

## Proposing a new culinary culture

### STARTED PRODUCING HAMS AND SAUSAGES

●1942

Established the Tokushima Meat Processing Plant (the predecessor of Tokushima Ham Co., Ltd., and the current Nipponham Group)



Advertising truck sent around western Japan from 1953 to 1960

## Socially significant transitions completed by the Group

### 1940s–1950s Founding days: Contributing to the diversification of food culture

- End of World War II
- Electric refrigerators become commonplace
- First supermarket in Japan opens

A society of mass consumption emerged in the 1950s following food shortages before and after World War II. Production capacity increased due to the rising demand for hams and sausages caused by the Westernization of food culture, refrigerators became commonplace in households, and income levels increased.

## Overseas expansion begun

### OVERSEAS BUSINESSES LAUNCHED

- 1977 Acquired Day-Lee Meats, Inc., of Los Angeles, U.S. (now Day-Lee Foods, Inc.)



## Enhanced product safety and security by producing ham and sausage ingredients in-house

### ENTERED FARMING BUSINESS

- 1968 Established Nippon Broiler Co., Ltd. (now Nippon White Farm Co., Ltd.)



### ●1970

Established the Fresh Meats Division

### IMPLEMENTED INTEGRATION SYSTEM

- 1973 Established Nippon Pork Co., Ltd. (now Nippon Food Packer Kagoshima, Inc.) and built an integrated system going from fresh meat production to processing



### ●1963

Tokushima Ham Co., Ltd., and Torisei Ham Co., Ltd., merged to form Nippon Meat Packers, Inc. (now NH Foods Ltd.)



## Skinless wiener line launched

### ●1966

Introduced *Winny*®



## Responding to the diversification of culinary culture

### ●1972

Entered the processed foods business

### ●1972

Introduced *Sauce for Yakiniku* (Japanese-style barbecue)



### ●1973

Introduced *Gyudon no Gu* (cooked beef)



### ●1967

Introduced *Kon-chan Sausages*



### ●1970

Introduced *Buntatta Sausages*



### ●1967

Promoted to the 1st Section of the Osaka Securities Exchange and Tokyo Stock Exchange

## Launched program to incorporate homemaker feedback in product development

### ●1969

Introduced the Consumer Delegate Committee System, a unique monitoring system



## Promoting health through sports

### ●1973

Established the professional baseball team Nippon-Ham Fighters Baseball Club Co., Ltd.

## 1960s

### ➤ Pursued stable supply of safe and reliable products

- Westernization of eating habits ●Tokyo Olympics held

The Group entered the farm business to guarantee stable procurement of raw materials and to respond to a growing demand for hams and sausages. By producing products from our own raw materials, we became able to guarantee their safety and reliability to consumers.

## 1970s

### ➤ Proposals for a new food culture

- Liberalization of pork imports ●Oil shocks
- Expansion of nuclear families
- Development of the restaurant industry

The Group ambitiously proposed a new food culture of fresh meats and diversified its business through efforts that included supplying ground beef and pork cutlets to the quickly growing restaurant industry.

## INTEGRATION SYSTEM SET UP OVERSEAS

●1988

Implemented an integrated system from production to the marketing of fresh meats overseas with the purchase of Whyalla Feedlot (Australia)



## ENTERED THE PROCESSED FOODS BUSINESS OVERSEAS

●1989

Established Thai Nippon Foods Co., Ltd.



**Branded overseas beef to reinforce food safety and security**

●1997

Launched *Omugi-Gyu*®



●1998

Established Nippon Shokuhin Mexicana S.A. DE C.V. (now NH Foods Mexicana S.A. DE C.V.)

**Launched the hog farming business**

●1977

Created a meat sales system

●1977

Established Yakumo Farm (now Interfarm Co., Ltd., Donan Office)

**Enhanced fresh meat safety and security**

●1993

Began branding fresh meats



●1993

Fresh meat sales company, the Nipponham Food Group, reached 100 business sites



**Ultrathin-sliced ham launched for particularly health-conscious consumers**

●1983

Introduced *Sharo Wanzu*



●1985

Introduced *SCHAU ESSEN*®



**Launched coarse-ground pork wieners for customers seeking authentic products**

**Easily prepared authentic Chinese meals brought out**

**Improving convenience with new chilled pizza line**

●1981

Introduced *Thin Slice*® Hams



●1984

Introduced *Chicken Nuggets*



●1987

Introduced *CHIKICHIKI Bone*®



●1994

Introduced *Entier*®



●1994

Launched the *Chuka Meisai*® series



●1996

Introduced the *Tenshinkaku*® series



●1998

Entered the chilled pizza market

●1999

Introduced *Mori-no-Kaori*® coarse-ground wieners



**Broadened food operations**

## ENTERED THE MARINE PRODUCTS BUSINESS

●1981

Acquired Marine Foods Corporation

## ENTERED THE FREEZE-DRIED FOODS BUSINESS

●1984

Established Nippon Dry Foods Co., Ltd. (now Freeze-dried Division of Hoko Co., Ltd.)

## LAUNCHED THE YOGURT AND LACTIC ACID PROBIOTIC BEVERAGES BUSINESS

●1992

Inherited the business of Kansai Luna, Inc. (now Nippon Luna, Inc.), which began to sell yogurt beverages ahead of other companies in Japan



●1993

Introduced *Vanilla Yogurt*



## ENTERED THE NATURAL FLAVORING BUSINESS

●1995

Established Nippon Pure Food, Inc.

1985 to 2003

Medium-Term Management Plan Parts I to VI

●1991

Completed the Research and Development Center in Tsukuba, Ibaraki



1980s

**Faced the challenges of expanding food product categories and building integration systems abroad**

- Spread of microwave ovens
- Enactment of the Equal Employment Opportunity Law

The Group expanded its food product categories to the processed marine products business, the freeze-dried products business, the yogurt and lactic acid probiotic beverages business, and others, promoting evolution to a comprehensive food company. We also aimed to strengthen our business foundation by integrating our beef business in Australia.

1990s

**Proposals for a product lineup suited to diversifying lifestyles**

- Liberalization of imports of beef and oranges
- Growth of the ready-made meal market

In response to the social advancement of women and growing interest in authentic food, the Group expanded its product lineup so that customers can easily enjoy authentic flavors. We also enhanced our competitiveness by developing category-leading products.

Sales in the fiscal year ended March 31, 2008:  
Over 1 trillion yen

●2011

Established Nippon Golden Pig Joint Stock Company Co., Ltd. in Vietnam (now NH Foods Vietnam Joint Stock Company)



●2014

Launched *Dolce Porco*®



●2014

Established NH Foods Brazil

●2002

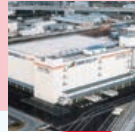
Launched *Sakurahime*®, domestically produced chicken



Construction of fresh meats logistics system

●2002

Started operations of the Kansai Office, Nippon Logistics Center, Inc.



●2003

Started operations of the Tokyo Office, Nippon Logistics Center, Inc.



●2013

Launched *Megumi-no-Kuni*®



●2015

Launched *Mugikomachi*®



Launched allergen-free products

●2002

Launched the *Ishigama Kobo*® series



●2006

Launched *Domestic Premium*® *Utsukushi-no-Kuni*



●2010

Introduced *Tokujo*



●2011

Launched the *Irodori Kitchen*® series



●2013

Launched the *Sucre et Sucre* (currently *SUCRE CAFE*) series



●2003

Integrated the Hams and Sausages Division, the Processed Foods Division, the Delicatessen Division, and the Sales & Marketing Division to launch the Processed Foods Business Division

●2004

Launched the *Minna-no-Shokutaku*® series



●2011

Launched the *Yakitate Pie* series



●2011

Introduced *Hanetsuki Gyoza*



ENTERED THE CHEESE BUSINESS

●2003

Purchased shares in Hoko Co., Ltd. (formerly Hoko Suisan Co., Ltd.)



Expansion of food product categories

●2003

Established the Affiliated Business Division

●2005

Introduced *Glucosamine Chondroitin EX*



●2011

Introduced *ROLF Baby Cheese*



●2002

Scandals within the Nipponham Group  
Established the Quality Assurance Department and the Customer Service Office



●2003

Launched New Medium-Term Management Plan Part 1 and established newly born "Group"

●2005

Established the Group brand

●2014

Changed the Group brand

2004 to 2006

New Medium-Term Management Plan Part 1

2007 to 2009

New Medium-Term Management Plan Part 2

2010 to 2012

New Medium-Term Management Plan Part 3

2013 to 2015

New Medium-Term Management Plan Part 4

2000–2009

## Improved customer satisfaction with top-notch management for No. 1 quality

- Consumers' demand for food safety and reliability increased
- Japan's first BSE outbreak ●Soaring raw material and fuel costs

The Group built a quality value chain structure based on safety and reliability, which continues to develop products and services that produce a satisfying and moving experience. In addition to ensuring the safety of products, we strengthened mechanisms that help reflect customers' opinions in our services and in the improvement of products.

2010–2016

## Pioneering the future of food

In a severe business environment, with high raw material and fuel prices and consumers' attachment to low prices, the Group promoted product development and marketing from the consumer's perspective. We also started cross-division projects that make use of the divisions' respective strengths and utilized synergies in product development and distribution channels to reach greater heights.

**Building integrated poultry system overseas**

●2015

Strengthened overseas farm business by acquiring Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi



●2017

Acquired stock in Breeders & Packers Uruguay S.A. (BPU)

●2016

Established NHF Manufacturing (Malaysia) Sdn. Bhd.  
Established the Overseas Business Division

Sales target for the fiscal year ending March 31, 2018:  
**1,250 billion yen**



Nipponham Group

The Group's Brand Statement

**The Brilliance of People for the Future of Food**

**The 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.

Four Management Objectives

Valuing the "Bounty of Nature"

No Compromise on Quality

The Brilliance of People for the Future of Food

New Potential of Food

"Joy of Eating" Happy and Healthy Lives

●2015

Introduced Kanade Blended Cheese



●2017

Introduced Hojun® coarse-ground wieners



●2016

Introduced Kiwami-yaki® Hamburg Steak



●2015

Full-scale expansion of the TOPCUP series



**Pursuing new potential in food by making use of the comprehensive strengths of the Nipponham Group**



2016 to 2018  
New Medium-Term Management Plan Part 5

# Solving Social Problems about Food and the – Value Creation Process –

As the eating habits of Japanese have improved, the Nipponham Group has also developed. However, various social issues involving food have appeared in recent years. To respond to these social demands, the Nipponham Group will use its unique business model to reaffirm its core competence and strive for sustainable growth and value creation for all its stakeholders.



## Megatrends affecting food

<b>Changes in the supply-demand balance of food due to the world's growing population*<sup>1</sup></b>	2015 World Population	7.35 billion	→	2030 Forecast	8.5 billion
<b>Support for increased consumption of fresh meat worldwide*<sup>2</sup></b>	2014 Meat Consumption	293 million tons	→	2024 Forecast	336 million tons
<b>Progress of Japan's aging society*<sup>3</sup></b>	2016 Percentage of the population aged 65 or older	27.3%	→	2030 Forecast	31.6%
<b>Decrease in the number of domestic livestock farmers*<sup>4</sup></b>	Cattle 1965 Households	1,440 thousand	→	2015	54 thousand
	Hogs 1965 Households	702 thousand	→	2014	5.3 thousand
	Chickens 1965 Households	20,490	→	2014	2,380
<b>Number of people with food allergies domestically*<sup>5</sup></b>	2014 Rate of food allergies				Infants: approx. 10% 3-year-olds: approx. 5%
<b>Problems concerning food safety and reliability*<sup>6</sup></b>	2003 Voluntary recall of food products cases (in Japan)	159	→	2014	1,014

Sources:

\*1 The Ministry of Internal Affairs and Communications, "Sekai no Tokei (International Statistical Compendium) 2016"

\*2 OECD-FAO Agricultural Outlook

\*3 Population Estimates by the Ministry of Internal Affairs and Communications, "Population Projections for Japan," by the National Institute of Population and Social Security Research

\*4 Statistics from the Ministry of Agriculture, Forestry and Fisheries

\*5 Complete survey by the Tokyo Metropolitan Government about allergies among three-year-olds

\*6 The Food and Agricultural Materials Inspection Center, an Incorporated Administrative Agency (Annual figures)





# System for Delivering the Joy of Eating



## Nipponham Group

### CORE COMPETENCE

- **Vertical integration system** built for many years
- **Development of high-quality branded fresh meats** through integration
- **Synergy** at each business division
  - Product development by linking food in multiple categories
  - Mutual utilization of assets of each business division, including product development ability, knowledge of food, and distribution channels
- **Procurement capabilities from top market shares** in three livestock species (cattle, hogs, and chickens)
- **Ability to develop category-leading products**

### BUSINESS MODEL

#### VERTICAL INTEGRATION SYSTEM



See page 26 for details.

### A FOUNDATION THAT SUPPORTS VALUE CREATION

- **Our DNA to pursue flavor without compromise**
- **Quality assurance framework to comply with international standards:** SQF certification at 25 business sites
- **Human resources supporting the level of quality:** Quality Assurance Managers: Japan: 794 / Overseas: 220
- **Research and development to verify food at the molecular level, for development of the next generation of food products, etc.**
- **Connection with consumers represented by the Consumer Delegate Committee, established in 1969**



## New Medium-Term Management Plan Part 5



See page 12 for details.

See page 44 for details.

# Steady implementation of New Medium-Term Management Plan Part 5

## Responses to five important CSR issues

TOPICS

### Creating a stable business model through reform

#### MANAGEMENT POLICY

- 1 Establish competitive advantages of domestic businesses
- 2 Accelerate to a global company

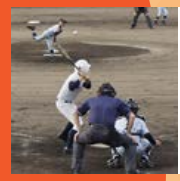
**Top-notch management for No. 1 quality that promotes a growth strategy**

#### QUANTITATIVE GOALS FOR THE FISCAL YEAR ENDING MARCH 31, 2018

Net sales	Operating income ratio
¥ <b>1,250.0</b> billion	<b>4.5</b> %
Operating income	Net income
¥ <b>56.0</b> billion	¥ <b>37.0</b> billion



Producing food that is safe and reliable



Supporting people's mental and physical well-being through food and sports



Maintaining workplaces that motivate employees



Securing a food supply for the next generation



Preserving the environment



Providing the greatest  
"Joy of Eating" in the world



# Performance Highlights (Fiscal year ended March 31, 2017)

## OPERATING INCOME

¥ **53.8** billion

## NET INCOME ATTRIBUTABLE TO NH FOODS LTD.

¥ **35.0** billion

## OVERSEAS NET SALES

¥ **91.6** billion

Note: Net sales to external customers

## SHARE OF FRESH MEATS SALES

**No.1** in Japan

Domestic market shares by sales volume in fresh meats (domestic and imported) (Based on NH Foods data)

## RATIO OF OPERATING INCOME TO NET SALES

**4.5%**

## ROE

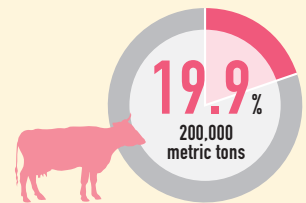
**9.2%**

## DOMESTIC MARKET SHARE

Hams and sausages **18.8%**

(SCI data from INTAGE Inc.)

## BEEF

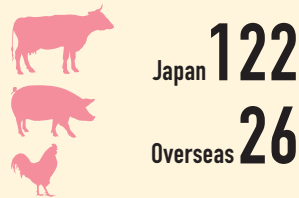


## DOMESTIC MARKET SHARE



(Based on NH Foods data)

## NUMBER OF OWN FARMS



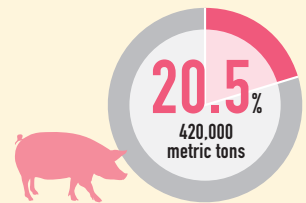
(As of April 1, 2017)

## NUMBER OF DOMESTIC PRODUCTION BASES

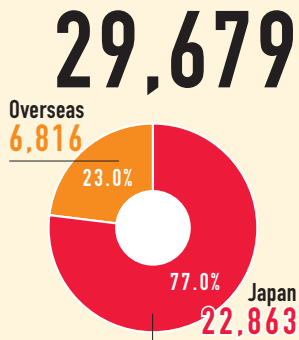


(As of April 1, 2017)

## PORK

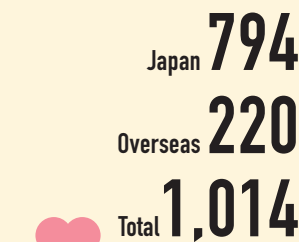


## NUMBER OF EMPLOYEES BY REGION



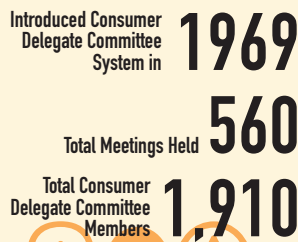
(As of March 31, 2017)

## NUMBER OF QUALITY ASSURANCE MANAGERS



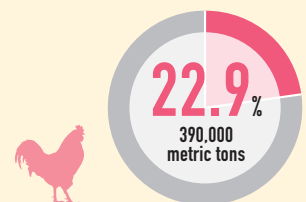
(As of March 31, 2017)

## INTERACTION WITH CUSTOMERS



(As of March 31, 2017)

## CHICKEN



## VEHICLES WITH THE "ECO DRIVE" SYSTEM\*



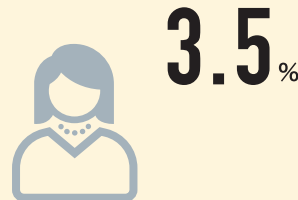
\* A system for aggregating data about fuel consumption and vehicle mileage and measuring how much fuel efficiency has been improved

## INTERACTION WITH STAKEHOLDERS ON THE TOPIC OF FOOD EDUCATION



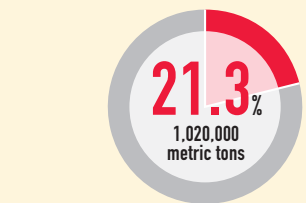
(As of March 31, 2017)

## RATIO OF WOMEN IN MANAGERIAL POSITIONS



Note: NH Foods Ltd. (as of March 31, 2017)

## TOTAL (Including other fresh meats)



# Consolidated Financial Highlights

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

	Millions of Yen					Thousands of U.S. Dollars
	2017	2016	2015	2014	2013	2017
Net Sales	¥1,202,293	¥1,229,324	¥1,199,956	¥1,110,766	¥1,011,619	\$10,734,759
Operating Income	53,802	49,207	47,770	36,089	30,447	480,375
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	49,112	35,309	43,797	35,673	30,552	438,500
Net Income Attributable to NH Foods Ltd.	35,004	21,779	31,048	24,524	16,459	312,536
Total Assets	720,276	682,855	661,567	627,220	610,293	6,431,036
Total NH Foods Ltd. Shareholders' Equity	404,126	356,353	353,664	320,984	293,414	3,608,267
Interest-Bearing Debt	138,284	154,583	136,758	144,901	149,821	1,234,679
Net Cash Provided by Operating Activities	65,254	52,535	29,681	32,952	37,407	582,625
Net Cash Used in Investing Activities	(38,271)	(49,139)	(31,517)	(27,021)	(22,384)	(341,705)
Free Cash Flow	26,983	3,396	(1,836)	5,931	15,023	240,920
Net Cash Provided by (Used in) Financing Activities	(11,439)	8,182	(17,187)	(9,373)	(10,964)	(102,134)
Capital Expenditures	43,765	36,799	35,694	29,152	33,285	390,759
Depreciation and Amortization	19,765	19,445	18,951	18,649	19,323	176,473

## Per Share Amounts:

	Yen					U.S. Dollars
Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 171.80	¥ 122.78	¥ 148.85	¥ 124.01	¥ 91.47	\$ 1.53
Discontinued operations	(0.06)	(15.86)	3.58	(1.90)	(12.05)	(0.00)
Total	¥ 171.74	¥ 106.92	¥ 152.43	¥ 122.11	¥ 79.42	\$ 1.53
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	¥ 161.33	¥ 115.30	¥ 139.75	¥ 112.64	¥ 82.28	\$ 1.44
Discontinued operations	(0.06)	(14.86)	3.36	(1.72)	(10.84)	(0.00)
Total	¥ 161.27	¥ 100.44	¥ 143.11	¥ 110.92	¥ 71.44	\$ 1.44
Total NH Foods Ltd. Shareholders' Equity	¥1,916.47	¥1,749.36	¥1,736.18	¥1,575.97	¥1,474.60	\$17.11
Cash Dividends	¥ 52.00	¥ 33.00	¥ 46.00	¥ 37.00	¥ 24.00	\$ 0.46

## Financial Indicators:

Ratio of Operating Income to Net Sales	4.5%	4.0%	4.0%	3.2%	3.0%
Return on Equity (ROE)	9.2%	6.1%	9.2%	8.0%	5.6%
Return on Invested Capital	7.0%	6.5%	6.4%	4.9%	4.3%
NH Foods Ltd. Shareholders' Equity Ratio	56.1%	52.2%	53.5%	51.2%	48.1%
Debt/Equity Ratio	0.34 times	0.43 times	0.39 times	0.45 times	0.51 times
Interest Coverage Ratio	57.4 times	35.1 times	24.2 times	21.3 times	22.8 times
Payout ratio (Consolidated)	30.3%	30.9%	30.2%	30.3%	30.2%

## 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.
- The United States dollar amounts represent translations of Japanese yen at the rate of ¥112=\$1. See Note 1 to the consolidated financial statements.
- Figures have been rounded to the nearest unit.
- Certain figures for the years ended on or before March 31, 2014 were adjusted retroactively as a result of a change in accounting policy about the classification of "cash and cash equivalents" for the year ended March 31, 2015.
- In accordance with Accounting Standards Codification ("ASC") Topic 205, "Presentation of Financial Statements," certain figures for the years ended on or before March 31, 2016 relating to the discontinued operation have been reclassified to conform to the current year's presentation.
- Operating income represents net sales less cost of goods sold and selling, general and administrative expenses.
- 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 = (Net income attributable to NH Foods Ltd. / Average total NH Foods Ltd. shareholders' equity) × 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  
Debt / Equity Ratio = Interest-bearing debt / NH Foods Ltd. shareholders' equity  
Interest Coverage Ratio = Net cash provided by operating activities / Interest paid

# We will accelerate change and position ourselves to enter the next growth stage

The Nipponham Group has endeavored to create a stable business model through reform, and thereby become a world leader in delivering the “Joy of Eating.” In the year ended March 31, 2017, the second year of New Medium-Term Management Plan Part 5, we generated record operating income but ended the period with challenges in expanding net sales that we need to address. We will step up reforms in driving toward our next growth stage and will redouble efforts to materialize ongoing growth.



ROE **5.6%**  
Year ended March 31,  
2013

## CAPITAL EXPENDITURES

¥**98.1** billion

## OVERSEAS BUSINESS FACILITIES

¥**6.4** billion  
(primarily Asia and Australia)

## FARMS AND PROCESSING FACILITIES

¥**19.8** billion

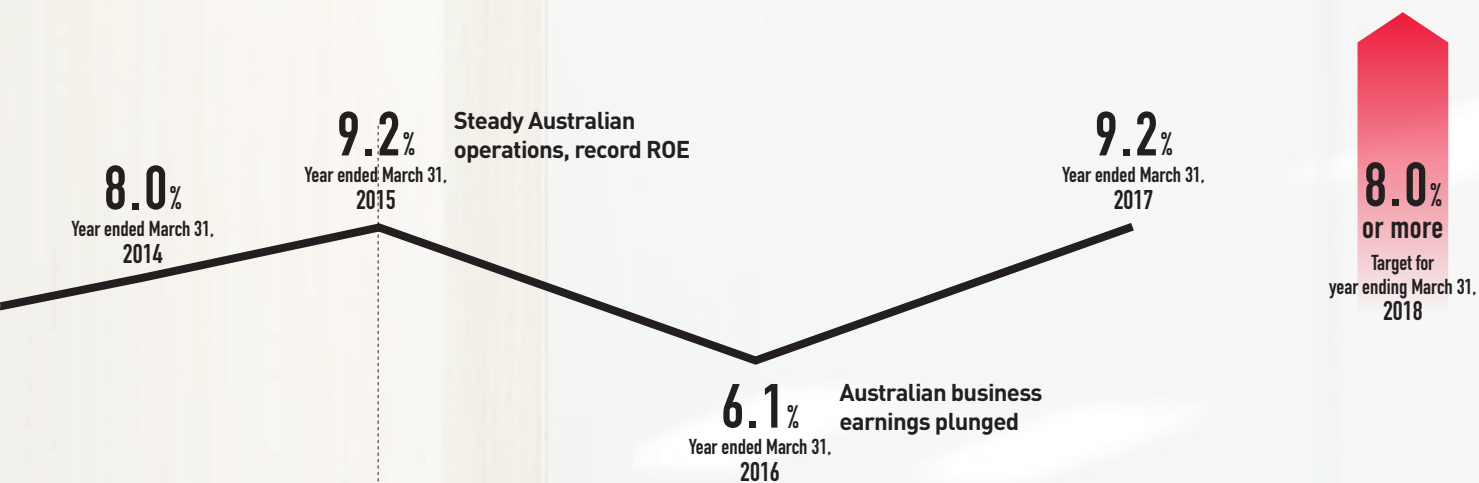
## CASH FLOWS

- Cash flows from operating activities
- Cash flows from investing activities
- Cash flows from financing activities

2013–2015  
New Medium-Term Management Plan Part 4

**JUICHI SUEZAWA**

President and Representative Director



### PROGRESS OF CAPITAL EXPENDITURES

#### TOTAL CAPITAL EXPENDITURES

**¥147.0 billion**  
(difference from Plan Part 4 + ¥48.9 billion)

#### OVERSEAS BUSINESS FACILITIES

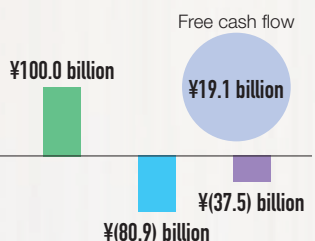
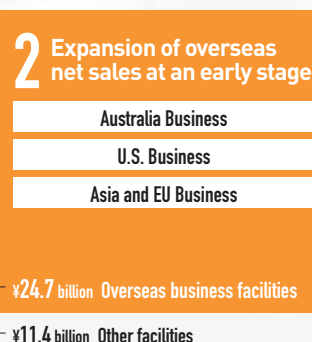
**¥24.7 billion**

#### FARMS AND PROCESSING FACILITIES

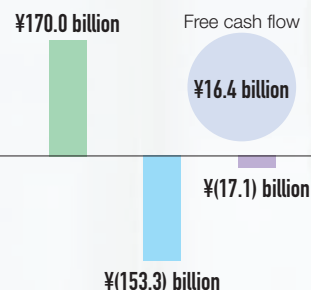
**¥28.0 billion**



Proactive investment for our growth strategy



NEW MEDIUM-TERM MANAGEMENT PLAN PART 4 (3-year cumulative)



NEW MEDIUM-TERM MANAGEMENT PLAN PART 5 (3-year cumulative) (Forecasts)

2016–2018 New Medium-Term Management Plan Part 5 Theme: Creating a stable business model through reform

### MANAGEMENT STRATEGIES OF NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

**1 Continuous strengthening of profitability in domestic businesses**

**2 Expansion of overseas net sales at an early stage**

**3 Promotion of strategic branding**

**4 Reinforcement of cross-Group corporate functions**

## OVERVIEW OF FISCAL YEAR ENDED MARCH 31, 2017

### Net sales decreased to ¥1,202.3 billion, while operating income rose to ¥53.8 billion.

In April 2015, the Nipponham Group embarked on New Medium-Term Management Plan Part 5, a three-year initiative that aims to create a stable business model through reform that is impervious to diverse changes in the operating climate.

The second year of this initiative saw various external changes. Although Japan experienced a moderate economic recovery, there were labor shortages amid a declining population, while markets contracted. Consumption thus remained somewhat slow. Consumer concerns about food safety and security intensified. On the international front, population growth in emerging nations and climate change greatly affected the demand for and supply of fresh meat. Trends in economic partnerships should greatly shape the trade environment.

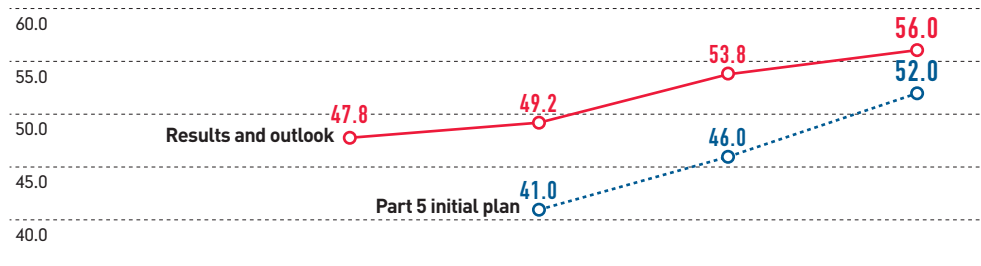
Against this backdrop, net sales dropped ¥27.0 billion, to ¥1,202.3 billion. Conversely, operating income rose ¥4.6 billion, to ¥53.8 billion. Operating income posted a record high due to progress in our fresh meats businesses. We reached our target of ¥52.0 billion a year ahead of schedule. At the same time, we faced several challenges in expanding revenues domestically and overseas.

## NEW MEDIUM-TERM MANAGEMENT PLAN PART 5 PROGRESS AND FUTURE INITIATIVES

We have entered the final year of New Medium-Term Management Plan Part 5 and will continue to deploy initiatives in keeping with management policies for establishing competitive advantages of domestic businesses and accelerate to become a global company. In addition, we will roll out a total of ¥147.0 billion in capital expenditures over three years to deepen the reach of our integration system and enter our next growth stage.

### PROGRESS OF NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

#### OPERATING INCOME (Billions of yen)



(Billions of yen)	3/15	3/16	3/17	3/18 (plan)
Net sales	1,200.0	1,229.3	1,202.3	1,250.0
Operating income	47.8	49.2	53.8	56.0
Operating income ratio (%)	4.0%	4.0%	4.5%	4.5%
Net income attributable to NH Foods Ltd.	31.0	21.8	35.0	37.0
ROE (%)	9.2%	6.1%	9.2%	8.0% or more (target)



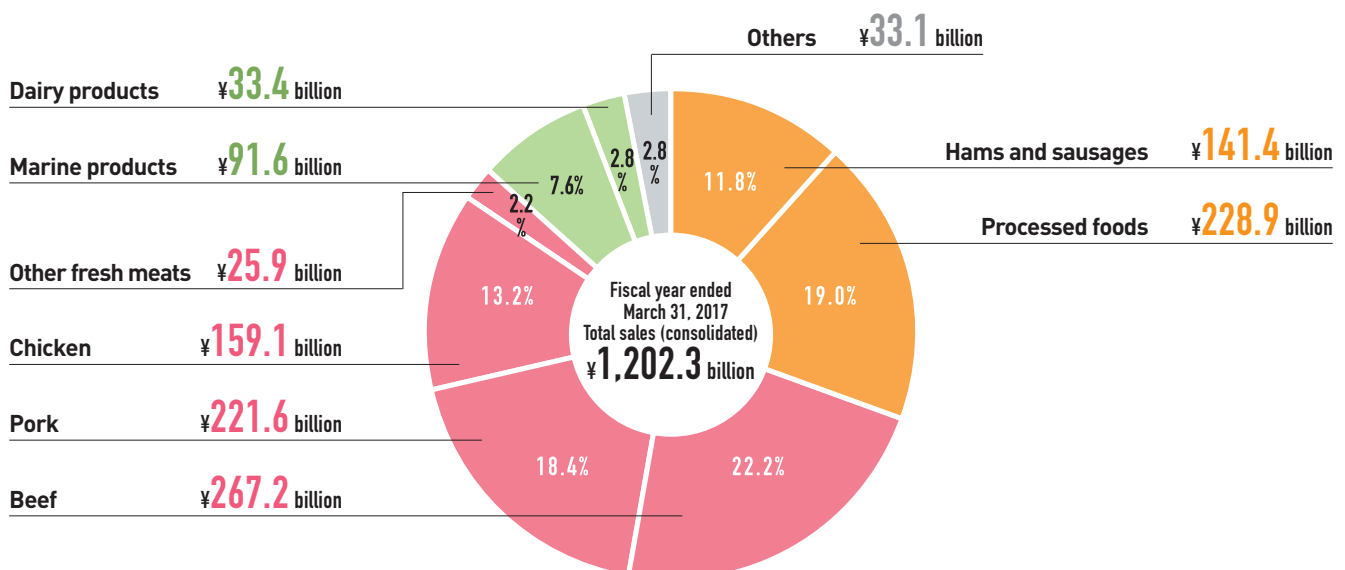
### Continuous Strengthening of Profitability in Domestic Business

The Group's domestic operations are the Processed Foods Business Division, whose offerings include hams and sausages, the Fresh Meats Business Division, which breeds cattle, hogs, and chickens, and the Affiliated Business Division, which handles marine and dairy products.

The Processed Foods Business Division will optimize its ham and sausage production system and strengthen its capabilities in the growing frozen foods field so it can improve profitability through manufacturing and sales integration. One move to optimize the production system was the completion of the Hyogo Plant of Nipponham Factory Ltd. in October 2016, replacing a predecessor facility in Kakogawa City that ceased operations in December. We thus put in place a structure to concentrate production of the top-selling *SCHAU ESSEN*<sup>®</sup> and other major offerings, primarily at the Hyogo and Ibaraki plants. We have boosted sales of *Hojun*<sup>®</sup> coarse-ground wieners, which we launched in February 2017, and will set up a highly efficient line at the Shizuoka Plant to increase production. Regarding the frozen foods business, Nippon Ham Deli News Co., Ltd. was renamed Nippon Ham Frozen Foods Ltd. on April 1, 2017 to highlight frozen food operations. Sales of that subsidiary were ¥14.8 billion in the year under review. It targets sales of ¥30 billion four years from now and will consider setting up specialized plants.

The Fresh Meats Business Division will draw on our marketing clout as Nippon Food Group in endeavoring to expand sales, primarily of such brands as *Sakurahime*<sup>®</sup> domestic chicken and *Mugikomachi*<sup>®</sup> domestic pork. We will continue to invest extensively in upstream farming and processing facilities for hogs and chickens to bolster our long-term production and procurement capabilities. We launched *ANGUS Valley* American beef through a strategic partnership with Tyson Foods, Inc., a leading overseas packer. The red meat and fat proportions suit the tastes of Japanese consumers. We aim to sell 8,000 metric tons of this brand to retailers and restaurant chains annually.

#### TOTAL SALES (CONSOLIDATED) (NET SALES BY PRODUCT CATEGORY)





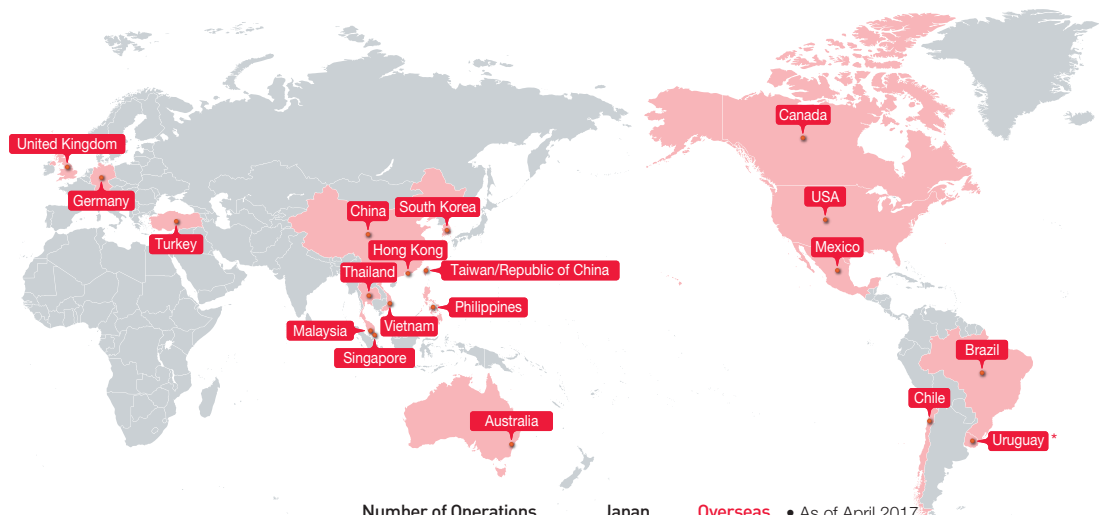
## Accelerating efforts to become a global company by focusing on local uniqueness worldwide, as a community-oriented enterprise

The long-selling *Vanilla Yogurt*, produced by Nippon Luna, Inc., which offers lactic acid probiotic beverages, and the *Tokimeki Café* line of lactic acid probiotic beverages, which incorporate the HSK201 bacterium, have helped expand sales in the Affiliated Business Division. We plan to start operating the Takasaki Plant in 2019 to expand production for the growing yogurt market. In marine products, we will increase profitability by raising the ratio of in-house manufactured goods.

### Expansion of Overseas Net Sales at an Early Stage

One policy under New Medium-Term Management Plan Part 5 is to accelerate to a global company. We established the Overseas Business Division in April 2016 to drive that effort. In the year under review, we sold the hog farming operation Texas Farm, LLC, as part of efforts to withdraw from unprofitable businesses. In the current term, we look to bolster our business foundations to secure new sources of earnings. One initiative in that direction was our acquisition of Breeders & Packers

### GLOBAL NETWORK



	Number of Operations	Japan	Overseas
Farms	555	374	181
Plants	95	72	23
Logistics and sales locations, etc.	342	304	38

• As of April 2017  
 • Including commissioned operations and equity method affiliates  
 • Names of countries indicate resident offices  
 Note: As Breeders & Packers Uruguay S.A. (BPU) became a consolidated subsidiary as of June 1, 2017, it has not been included in the number of operations.

Uruguay S.A. (BPU), a leading beef processor and marketer. We will leverage synergies between that company and our years of breeding and sales at our Australian operations to enhance our position in the global market. The business climate in Australia has remained tough, as the effects of climate change have kept cattle prices high. Nonetheless, we aim to stabilize our operations in that country by shifting from grass-fed to grain-fed beef, which is less vulnerable to market fluctuations, while increasing the proportion of branded beef.

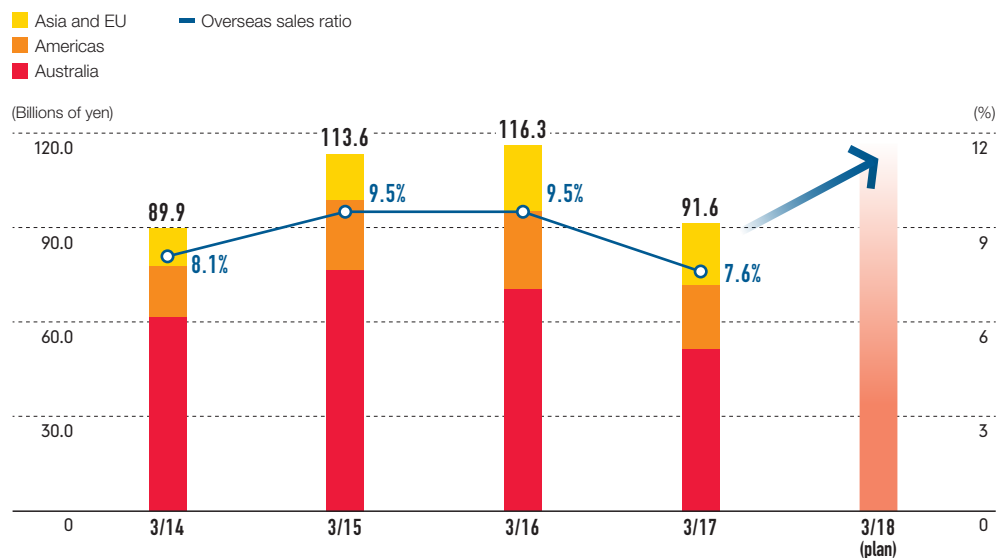
We will make efforts with Group companies overseas to become a global company by concentrating on local uniqueness worldwide, a focus that enables us to boost local sales. In Southeast Asia, we will strengthen our fresh meat integration system, processing operations, and sales. In North America, Day-Lee Foods, Inc. there intends to set up a second plant in September 2018 to cater to the growing demand for frozen and other processed foods by expanding our manufacturing and sales structure. In Europe, we will manufacture and sell processed food products that reflect consumers' growing awareness of health.

Having gained a better understanding of our overseas operations from our reviews, we have concluded that it is unlikely that these businesses will account for more than 15% of net sales, one goal under our New Medium-Term Management Plan Part 5. We will accordingly seek to steadily and profitably expand our operations and optimize our structure.

### Deepening Our Integration System

The Group maintains cattle, hog, and chicken farms in Japan and overseas. We created a fresh meats value chain through an integration system that extends from production and breeding to processing, logistics, and sales. I am proud of this system as a great strength of the Group. On top of that, we have accelerated efforts to expand our integration system. We will build

### NET SALES OVERSEAS AND OVERSEAS SALES RATIO



revenues by cultivating untapped areas between production, processing, and logistics while strengthening our stable system for supplying customers.

### **Strengthening Group Collaboration**

As a comprehensive food manufacturer, we must present proposals not just for single items, such as processed foods, fresh meats, or marine and dairy products, but also from the perspectives of supermarkets and other food sellers so our offerings can please consumers. Group collaboration is thus vital. We set up a range of cross-division projects enabling sales representatives to share various kinds of information so they can identify trends in food areas outside the scopes of their responsibilities and propose consumer-driven ideas based on broad perspectives.

Under our organizational structure, we are also reinforcing Group collaboration by integrating sales and logistics sites. In the year under review, we established a hybrid site in Okayama Prefecture for the use of both companies running fresh meat operations and those running processed food logistics businesses. To focus on local community-oriented sales, we sent processed food business sales representatives to the sites of food companies that sell fresh meat around Japan to deploy a structure that makes it possible to efficiently harness sales routes for both processed foods and fresh meats. This approach has led to greater delivery volumes per store, and in the year ending March 31, 2018, we plan to set up five to 10 new sites. We will formulate detailed proposals for each customer and deliver the resulting products by establishing a production system that matches regional characteristics, even at manufacturing sites.

We will not only reinforce collaboration between manufacturing and sales but also with administrative departments and overhaul business processes, notably to ensure highly responsive customer management for the entire Group. Sales units will thus be able to visit customers more frequently and communicate better with them.

We will continue to increase our sales clout as a comprehensive food manufacturer by ensuring that all our companies and divisions have access to Group assets.

## **HELPING TO REALIZE SOCIAL SUSTAINABILITY**

The Nipponham Group has to satisfy certain requirements to achieve growth over the medium and long terms. To do so, from a CSR perspective, we must reflect such social issues as worker shortages and the growing health interest in the Group's policy and contribute to society through core businesses, producing sales and earnings. We will also focus on CSR from manufacturing perspectives that help attract and cultivate human resources and resolve social issues.

### **Developing Human Resources and Optimizing Our Overall Business**

In my two years as president, I have noticed changing employee behavior patterns. In the past year, we made personnel changes at various positions domestically and overseas, between divisions, and between manufacturing, sales, and other units, to reinforce our corporate structure and globalize businesses, giving our highly motivated people numerous opportunities to pursue their challenges. We will continue to cultivate and respect our people by creating stimulating work environments.

**We will deliver the “Joy of Eating” to people around the world and make the Nipponham brand more meaningful**



At the same time, we must address worker shortages, notably by relocating plants to locations where we can more easily secure human resources or, where that proves difficult, by automating operations. We will strive to optimize production and logistics sites from human resources, logistics, and other perspectives.

#### **Delivering the “Joy of Eating” to People Everywhere**

The Group’s mission is to help resolve social issues and deliver the “Joy of Eating” to people around the world. We want to ensure that all family members, including allergy sufferers, can enjoy the same meals. We therefore created the *Minna-no-Shokutaku*® series and other foods that are free of some specific ingredients: eggs, milk, wheat, buckwheat, peanuts, prawns, and crab. Another initiative was to form a joint venture between a Turkish chicken firm in the Group and a leading integrated poultry company in Malaysia to provide Halal-certified food ingredients. We are responding to a growing interest around the world in good health by expanding our business in chicken, which is healthy, entails relatively low production costs, and has solid consumption growth potential. Our efforts will encompass partnerships, mergers and acquisitions, and other approaches.

#### **TO ALL STAKEHOLDERS**

For the Nipponham Group to become more appealing, it is important to keep in mind that we are continuing to change. To that end, we will drive our transformation and communicate both internally and externally that we will change. We also seek to make the Nipponham brand more meaningful by enhancing the attractiveness of our products for consumers and society.

In the final year of New Medium-Term Management Plan Part 5, the Nipponham Group will accelerate its transformation by creating a stable business model through reform and move to the next stage of growth. We will complete plan initiatives in concert with all our employees. We will need to undertake various changes and investments to achieve our goals. We look forward to the long-term support of our shareholders and other investors for these endeavors.

## A Message from the Vice President

### We will pursue business restructuring for the Nipponham Group to cement stakeholder support

The Nipponham Group embarked on Group business restructuring in April 2017. We face numerous management and business challenges, necessitating a range of reforms. We will solve these issues by bolstering existing reform efforts, supporting unfinished endeavors, and accelerating efforts to reach high goals. My special mission is to engage in frontline discussions, help make our organization more robust, and reinforce CSR initiatives linked to social issues. We will thereby secure solid stakeholder support by becoming a Group that can sustain growth.

#### KAZUNORI SHINOHARA

Vice President and Representative Director



#### Three Objectives of Group Business Restructuring

I took the helm of Group business restructuring in April 2017. In addition to setting priorities among various pressing issues and gauging the progress of restructuring, I want to accelerate our efforts to pursue higher goals and enhance precision. We have three goals for Group business restructuring. The first is to pursue our corporate philosophy and fulfill our responsibilities to society and our employees. The second is to secure solid stakeholder support and enable sustainable growth. I want to retain and build customers' and other stakeholders' support of the Group. The third objective is to enhance corporate value through such efforts.

#### Reinforcing Our Position through Initiatives Linked to Social Issues

The Nipponham Group faces various challenges, many of which are linked to social issues. By identifying the key issues and collaborating with the relevant business units, we can transform challenges into opportunities for sustainable growth. But these challenges are constantly changing, and we will reprioritize and flexibly address them according to circumstances.

#### Retaining Technological Advantages and Generating Sustainable Growth through Development

Many Japanese companies are increasingly concerned about the impact of workers' retirement on their technological positions. We are no exception. To continue expanding as a manufacturer, we need to keep our quality assurance, manufacturing, and other technologies. We are therefore

working on a structure that enables us organizationally to retain our technologies with manuals.

For example, we have young employees acquire skills from talented older workers and former employees, mastering everything from ham and sausage making to the impact of a change in animal feed on texture and flavor. We will thereby be able to evolve technologically and maintain and enhance technological development. By having selected domestic and overseas personnel acquire advanced skills, we will put in place a structure to share the “Joy of Eating” at our locations worldwide and contribute to each country’s culinary culture.

### Creating Work Environments that Motivate Diverse Employees

In Japan, it is anticipated that the declining population will make it harder to secure human resources. For us to be a place where employees can feel truly happy and fulfilled, we need to create work environments that motivate diverse employees and cater to new work patterns to allow employees to meet their child care and nursing care commitments. It is also important to overhaul work practices to attract people, reduce labor, and automate to overcome personnel shortages.

### Pursuing CSR as a Good Corporate Citizen

Stakeholder support is vital for the Nipponham Group to meet society’s expectations. Stakeholders include people living in the communities around the nation where we have business sites and people who are not particularly loyal Nipponham Group customers. People worldwide who have yet to use our offerings are prospective stakeholders that we will reach as our business expands. We need to broaden

our approach from that viewpoint, which includes our environmental stance. We treasure dialogue and cooperation with stakeholders, and we will undertake CSR initiatives based on long-term perspectives.

### Increasing Our Presence in Marine and Dairy Products

We aim to make marine and dairy products into core businesses to complement our processed foods and fresh meats businesses. The Affiliated Business Division specializes in such processed marine products as raw fish for sushi and other seafood delicacies, as well as yogurt, cheese, and other dairy products. Annual sales of the division are now ¥159.0 billion.

It is important for these businesses to build solid presences inside and outside the Group and win strong stakeholder recognition. For example, by reorganizing each business segment, we expect to have a synergy effect that enables us to expand and reinforce the marine and dairy products businesses. We will endeavor to become an outstanding player, engaging in far more attentive marketing and product development than major competitors as we move into third place in the domestic market.

### Pursuing Realistic Structural Reforms

Speed is important in identifying issues and deploying reforms. By seeing reality for myself in Japan and overseas, I can bring issues to light, share challenges with the relevant business units, and share information with the president and the rest of the management team to formulate measures for solutions. Through business restructuring, I look for our initiatives and product development to find acceptance with stakeholders.

#### GROUP BUSINESS RESTRUCTURING GOALS

##### 1. Materialize our corporate philosophies

1. Under the basic theme of the “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.

##### 2. Secure solid stakeholder support and enable the Nipponham Group’s sustainable growth

##### 3. Enhance corporate value

#### GROWING CHALLENGES FOR THE NIPPONHAM GROUP

Management challenges	Work sharing	Empowering women	Securing and developing human resources
	Robust organization	CSR	Diversity
	Work reforms	Corporate culture reforms	Working hours

Business challenges	Developing and retaining technologies	Sports business	Overseas manufacturing and sales
	Capital expenditures	M&A (alliances)	Deepening integration
	Preventing allergens and contamination	Logistical innovations	Group merchandising

Explore resolutions for key issues with relevant business units

## A Message from the Vice President



### Deploying business, financial, and capital strategies to boost our growth potential and profitability while pursuing strategic CSR and improving our long-term competitive advantage

We will continue to invest extensively to boost our growth potential and profitability during the final year of New Medium-Term Management Plan Part 5. We will push ahead with Groupwide strategies and optimize synergies. Regarding the financial and capital strategies, we aim to enhance our capital efficiency and cut the weighted average cost of capital (WACC). We will continue to value dialogue with stakeholders and move forward strategically with CSR, thereby contributing to building a sustainable society. I believe that linking our strategies organically and driving them ahead should build our long-term competitive advantage.

#### YOSHIHIDE HATA

Vice President and Representative Director

Note: Please see page 44 for our CSR initiatives.

### Progress on Financial Targets of New Medium-Term Management Plan Part 5

Net sales in the fiscal year ended March 31, 2017, were ¥1,202.3 billion, or ¥67.7 billion less than targeted under New Medium-Term Management Plan Part 5. The gap reflected the divestments and liquidations of unprofitable businesses, including the sale of a U.S. hog breeding subsidiary. At the same time, operating income was ¥7.8 billion higher than projected, at ¥53.8 billion. The operating income ratio rose 0.9 percentage point, to 4.5%. The main drivers were solid domestic businesses. Income before income taxes and equity in earnings of associated companies was ¥49.1 billion, against an initial target of ¥42 billion. Net income attributable to NH Foods Ltd. was ¥35 billion, compared with a targeted ¥29 billion. Both figures were record highs. ROE advanced 3.1 percentage points, to 9.2%. The return on invested capital (ROIC) increased 0.5 percentage point, to 7.0%, reflecting higher efficiencies. Cash flows from

operating activities were ¥65.3 billion, up ¥12.7 billion, owing to higher net income and the normalization of inventories. Free cash flow increased ¥23.6 billion, to ¥27.0 billion.

For the fiscal year ending March 31, 2018, we target net sales of ¥1,250 billion (¥50 billion lower than under that plan), operating income of ¥56 billion (¥4 billion higher), and an operating income ratio of 4.5% (0.5 percentage point higher). We also look to generate ¥51 billion in income before income taxes and equity in earnings of associated companies (¥1 billion higher) and ¥37 billion in net income attributable to NH Foods Ltd. (¥4 billion higher). Our other projections are for an ROE of 8.9% (against more than 8% under the plan), an ROIC of 6.9% (against more than 6%), and total free cash flow over three years of ¥16.4 billion (¥12 billion under that initiative).

We target a consolidated dividend payout ratio of 30% for the year ended March 31, 2017, commensurate with consolidated results. After considering our consolidated financial position, results, and other factors, we decided to pay a dividend



of ¥52.00 per share, up ¥19. We look to stably and continuously expand dividends in the years ahead. At the same time, we will repurchase shares flexibly to help enhance shareholder value per share in line with our growth investment requirements and financial position.

## Expanding Our Business Domains through Capital Expenditures and Strengthening Our Ongoing Profitability

Our capital expenditures in the year under review were ¥43.8 billion. We have earmarked ¥66.4 billion for such spending in the fiscal year ending March 31, 2018. Our accumulated capital expenditures under Part 5 should be ¥147 billion, as projected (see chart below). We will increase expenditures more than envisaged earlier on production facilities in keeping with our commitment to top-notch management for No. 1 quality. We will continue to invest extensively in growth strategies for farming, processing, and overseas business facilities. We will endeavor to enhance invested capital efficiency through selection and focus, notably by rebuilding our infrastructure for the future and by optimizing our production structure. We will make more accurate investment decisions based on quantitative and qualitative information and conduct reviews to ensure that we recover our investments.

## Pursuing Invested Capital Efficiency and Improving Our Profitability and Efficiency

In addition to improving our cash flow creation capability, the Nipponham Group believes that we can boost corporate value by optimizing the equity spread, which means ROE exceeding the weighted average cost of capital. This leads to

### CAPITAL EXPENDITURES UNDER NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

(Billions of yen)

	Initial target for three-year total under New Medium-Term Management Plan Part 5	3/16 Results	3/17 Results	3/18 Plan	Total difference from the three-year target
Production facilities	50.1	17.1	16.9	24.5	+8.4
Sales and logistics facilities	16.6	3.5	12.4	8.5	+7.8
Farms and processing facilities	36.0	7.7	7.8	12.4	(8.0)
Overseas business facilities	30.9	4.1	3.6	17.0	(6.2)
Other facilities	13.4	4.4	3.0	4.0	(2.0)
Total	147.0	36.8	43.8	66.4	0

shareholder-focused management. We added ROIC as a key business benchmark to make business strategies more specific and incorporated it into the officer evaluation index so we can enhance ROE. ROIC trends and its elements are shown in the chart below. Although the operating income ratio rose in the year under review, a decline in net sales caused the invested capital turnover ratio to drop 0.18 point, to 2.26 times, which is a major issue. Although invested capital was ¥30.7 billion higher than a year earlier, at ¥546.7 billion, all-important inventories were ¥132.7 billion, down ¥800 million from the end of the previous term. The inventory turnover period was 40.4 days, the same as the previous term. We will improve profitability and efficiency for invested capital by constructing an optimal production system and logistics system. Although invested capital tends to increase in line with growth strategies, management will continue to pursue capital efficiencies.

## About Partial Conversions of Convertible Bonds

In March 2017, there were some conversion requests (¥15.8 billion as of the end of March 2017, for a conversion rate of 52.8%) for euroyen convertible bonds (with a face value of ¥30 billion, due September 26, 2018). The stock dilution ratio after conversion was 3.38%, and the face value of the remaining bonds was ¥14.2 billion. The bonds are subject to conversion restriction provisions (where exceeding 120% of the conversion price during a certain period and cash settlement provisions for the principal) to constrain dilution.

The debt/equity ratio for the year under review was 0.34 times, reflecting the conversion. An ideal ratio is around 0.4 times, which is close to the optimal debt/equity ratio for lowering our WACC. We will pursue a growth strategy and push ahead with financial and capital strategies to boost capital efficiency.

### ROIC=RETURN ON INVESTED CAPITAL

#### Return on invested capital (working capital + capital investment)

$$\begin{aligned}
 \text{Return on invested capital} &= \frac{\text{Net sales}}{\text{Invested capital}} \times \frac{\text{Operating income}}{\text{Net sales}} \times \text{After tax} \\
 &= \left[ \frac{\text{Invested capital}}{\text{Invested capital turnover}} \right] \times \left[ \frac{\text{Operating income ratio}}{\text{Operating income ratio}} \right] \times \left[ \text{Tax rate} \right] \\
 \frac{3/16 \text{ results}}{6.5\%} &= 2.44 \text{ (times)} \times 4.0\% \times 0.67 \\
 \left[ \frac{3/17 \text{ results}}{7.0\%} \right] &= 2.26 \text{ (times)} \times 4.5\% \times 0.69 \\
 \frac{3/18 \text{ plan}}{6.9\%} &= 2.23 \text{ (times)} \times 4.5\% \times 0.69
 \end{aligned}$$

## Special Feature: Cultivating the Bounty of Nature with Our Own Hands

# Creating Value through Our Vertical

The mission of the Nipponham Group as a food enterprise is to contribute to a happy and healthy life by respecting the Bounty of Nature. We accordingly built a vertical integration system, a proprietary business model, and are creating value throughout our supply chain.

### Vertical Integration System

Our vertical integration system handles everything from production and breeding to packing, processing, distribution, and sales of domestic beef, pork, chicken, and imported beef. We can ensure reliable deliveries of safe, high-quality fresh meats by building our own supply chain.



### Integration Flow

Production and Breeding > Packing and Processing >

- We produce safe fresh meats at farms in Japan and overseas.
- We ensure speedy and stable supplies by slaughtering, processing, and shipping meats so that they are as fresh as possible.

#### KEY STAKEHOLDERS

Livestock industry producers, local residents, and plant employees

Consignment and Distribution >

- We maintain meat freshness in one of Japan's biggest refrigeration and freezing facilities.
- We created a rapid supply system that links domestic and overseas production and sales bases.

#### KEY STAKEHOLDERS

Local residents and drivers

Sales > Volume Retailers and Restaurants > Consumers

- We have various sales channels including volume retailers, restaurants and regular retailers.
- We maintain speedy sales capabilities by drawing on a network of around 230 domestic Group sales sites.
- We established a locally oriented direct sales system to cater to the specific needs of customers.

#### KEY STAKEHOLDERS

Consumers and retailers

# Integration System

## Value Created by Handling Everything from Meat Production to Sales Internally

Value **1**

### Fulfilling our mission as a food producer

- We will cultivate the Bounty of Nature and responsibly deliver products to our customers.
- We harness the Bounty of Nature as effectively as possible.

Value **2**

### Producing top-quality branded fresh meats safely and reliably

- We pursue safety and reliability by managing everything from production to sales.
- Our feed and breeding environments produce high-quality branded fresh meats.

Value **3**

### Attaining procurement and supply dominance

- We can reliably obtain fresh meats on the strength of our many domestic and overseas farms and our procurement network.
- Our numerous domestic distribution channels and logistics network give us a dominant sales presence.

Value **4**

### Realizing a stable business model

- By maintaining farms in Japan and overseas, we can avoid procurement risks from diseases and other adverse events.
- We can flexibly sell in optimal locations to overcome changes in the business environment.



Special Feature: Cultivating the Bounty of Nature with Our Own Hands



Production and  
breeding



Packing and  
processing

# Production, Breeding, Packing, and Processing Phases

In 1942, the Nipponham Group initiated operations by manufacturing hams and sausages. We launched full-fledged farming operations in 1968. We began building our fresh meat integration system in 1973. We now breed cattle, hogs, and chickens at 555 sites in Japan and overseas, including consignment operations (as of April 2017).

## Producing and Breeding in Japan and Overseas

The Nipponham Group produces and breeds cattle, hogs, and chickens in Japan. Our hog farming business deploys outstanding breeding animals to enhance the quality of our pork. Our chicken farming business maintains natural environments to ensure the birds' health and produce delicious chicken. In our cattle farming business, we breed black Wagyu and other quality cattle around Japan.

We began our Australian cattle farming business in 1988 and inaugurated our Turkish chicken farming operations in April 2015. We have strengthened our integration system by producing and breeding both domestically and overseas, enhancing the stability of our fresh meat supplies.

## Why We Operate from the Production and Breeding Stages

While pursuing product safety and reliability, the Group maintains an integrated system for fresh meat production to stabilize supplies. We accumulate expertise in such areas as enhanced feeding and breeding environments to produce high-quality, branded fresh meats. We value the bounty of nature by doing our best to ensure that nothing goes to waste. We ensure timely supplies to high-demand markets as part of our endeavor to build a business model that is impervious to changes in the operating climate.

## Business Environment (Opportunities and Risks)

We look for domestic fresh meat consumption to trend upward amid rising demand for domestically produced meats and increased purchasing by older age groups. We anticipate that the market for chicken will expand further as people become more health conscious, as the market for Halal food grows, and because of the attractive pricing. While domestic meat production is increasing per farm, the number of farms is declining. On top of that, with the risks of such livestock diseases as BSE, avian influenza, foot-and-mouth disease and the porcine epidemic diarrhea virus factored in, we cannot expect significant volume growth. Mechanization and other measures to overcome labor shortages stemming from a declining population are becoming major production issues.

Against this backdrop, the Group has invested extensively to bolster its farm and packing facilities. We will accelerate efforts to build a structure that can stably increase production in a changing domestic business climate. We thereby seek to establish competitive advantages of domestic businesses and contribute to upholding and enhancing food self-sufficiency rates in the nation's farming sector.

# DOMESTIC PORK BUSINESS: Interfarm Co., Ltd.

Our Breeding Expertise Began with Hog Farming  
Cultivating Branded Pork by Drawing on Expertise from Enhanced  
Feed Formulations and Breeds

ANNUAL SHIPMENTS

Around **605,000** hogs

ANNUAL NUMBER OF HOGS  
PROCESSED

Around **1,800,000**

Note: 3/17 results



● As the nation's largest hog farmer, we ship about 600,000 head annually from 27 farms nationwide. Interfarm Co., Ltd. oversees farming while Nippon Food Packer, Inc. manages processing.

## Rigorously Maintaining Sanitation to Produce Quality Pork

Our hog farming business integrates everything from sow production to mating and delivery, raising, and fattening at each farm. We maintain hog health and comfort by controlling

air-conditioning inside hog houses

and by requiring showers of employees

and vehicles before they enter farms to keep diseases out.

The comfort requirements of hogs vary by growth stage

and, as we must relocate them accordingly, we have to

wash and disinfect locations to prepare for new occupants

(the all-in/all-out method). We ensure that our carefully raised

hogs do not experience stress at the slaughtering stage, maintaining freshness

by swiftly processing and delivering the meat to customers.



## Developing Branded Fresh Meats

At our farms, we modify feed formulations and

breeding according to consumer tastes to

develop meat brands, including the

domestically produced *Mugikomachi*<sup>®</sup>,

*Kenko Buta*<sup>®</sup>, and *Shiretoko Pork*.

We also offer the flagship *Domestic*

*Premium*<sup>®</sup> *Utsukushi-no-Kuni*. This

domestically produced premium gift

brand, as well as other regular lines of

products, uses pork from hogs carefully

raised on our farms.



## > Creating More Value

### PICK UP ! Overseeing porcine health

Veterinarians patrol farms every other day to monitor the health of hogs. They vaccinate and medicate to prevent infections from occurring or spreading to other hogs.

They also contribute to the supply of safe and reliable pork by gathering information on infectious diseases prevalent in

regions or on our farms, and strive to prevent diseases by using more effective antiseptics.



Veterinarian from a Kyushu livestock clinic of Interfarm

### PICK UP ! Wasting nothing from the Bounty of Nature

We make sure that we use bones, collagen, and as many other resources as possible from hog processing for supplements and extract seasoning for such items as noodle soups and sauces.



### PICK UP ! Using manure in organic fertilizer

We use bacteria to break down hog manure and create organic fertilizer for vegetable and flower cultivation. Onions that we provide as shareholder incentives are grown with this fertilizer in fields at our subsidiary.



# DOMESTIC CHICKEN BUSINESS: Nippon White Farm Co., Ltd.

Processing and Packing the Popular *Sakurahime*® Brand Chicken in Just 70 Minutes

ANNUAL SHIPMENTS

Around **69** million chickens

Note: 3/17 results

● Nippon White Farm produces *Sakurahime*® and other domestically produced chicken at sites in Abashiri and the town of Atsuma in Hokkaido Prefecture, the town of Yokohama in Aomori Prefecture, and Hyuga in Miyazaki Prefecture. Our commitment to raising poultry in keeping with local conditions has enabled us to capture around a 10% share of Japanese chicken production.

## Optimizing Freshness

Our farms have expert breeders care for parent stock. Fertilized eggs are hatched under optimal conditions. The chicks are then transferred and raised on breeding farms that are extensively cleaned and disinfected with the all-in/all-out method (placing and removing whole flocks in and from coops). The chickens are carefully raised over 48 days or so. After a chicken is delivered to a plant, it takes only around 70 minutes to process and pack the meat, which is delivered fresh to stores through the Group logistics network.



## Developing *Sakurahime*® and Other Chicken Brands

The Nipponham Group actively develops proprietary branded chicken products. *Sakurahime*® features pink meat, has no smell, and contains three times more vitamin E than regular chicken.\* We grow *Shiretoko Chicken*® on the Shiretoko Peninsula, whose surrounding waters have ice floes. We also produce *White Chicken* with a proprietary feed formulation. Marketing of *Sakurahime*® centers on television commercials that highlight safety, reliability, and taste.



Using television commercials to highlight safety and reliability



## > Creating More Value

PICK UP !

### Using livestock manure for fuel

Nippon White Farm Co., Ltd. dries chicken manure and incinerates it in an on-site boiler, using the hot water for heating and cleaning poultry houses. The ash is used in phosphorus and other fertilizers.



Boiler facility for incinerating chicken droppings

PICK UP !

### Using the Bounty of Nature as much as possible

We produce seasonings for soups, sauces, and sauce extracts from chicken breasts and other processed parts in our commitment to using chickens that were carefully raised since they were hatched.



\* Numerical comparison according to Standard Tables of Food Composition in Japan -2015-

# AUSTRALIAN BEEF BUSINESS: The Whyalla Feedlot

Australian Branded Beef Testament to Pursuit of High Quality:  
Grain-Fed and Raised in Less Stressful Environments

ANNUAL WHYALLA BEEF SHIPMENTS

Around **158,000** head

ANNUAL NUMBER OF CATTLE PROCESSED  
AT THREE PLANTS IN AUSTRALIA

Around **429,000**

Note: 3/17 results

● Darling Downs in Queensland, blessed with a warm climate, is one of Australia's richest grain belts. It is here that we maintain the 6,000-hectare Whyalla

Feedlot, which feeds grain to

around 50,000 head of cattle at any

one time and ships around 160,000

animals per year. All the branded Australian beef we sell in Japan, including *Omugi-Gyu*<sup>®</sup>, is grown at this feedlot.



## Computerized Control of Cattle Health

As well as providing the right feed, Whyalla Feedlot is very careful about the health of cattle, with such measures as providing drinking water from safe wells and sheltering animals from the sun.

It also uses computer systems to track each head's history and health and manages traceability with an electronic tag on each animal.

## Deploying Advanced Safety and Hygiene Systems

We operate Oakey Beef Exports Pty. Ltd., an abattoir and processing plant in Oakey, Queensland, about a two-hour drive from the Whyalla Feedlot. This facility slaughters cattle from farms, processing them into carcasses or boxed beef for shipment. After this work is finished, specialists undertake an exhaustive cleaning regime of up to eight hours per day.

In 1994, the facility was the first abattoir to adopt HACCP<sup>\*1</sup>. In 1998, it commenced management using the Meat Safety Quality Assurance Program that was developed based on HACCP by the Australian Quarantine Inspection Service, and has also obtained accreditation under the BRC Global Standard for Food Safety<sup>\*2</sup> and other international standards. This way, the facility maintains hygiene levels that meet these global standards in producing high-quality fresh meat that is safe and reliable.



<sup>\*1</sup> HACCP, for Hazard Analysis and Critical Control Point method, continuously monitors and records vital processes to safeguard against microorganism pollution, metals contamination, and other risks from the stage of accepting raw materials to the final production stage.

<sup>\*2</sup> BRC Global Standard for Food Safety is formulated by the British Retail Consortium. It also includes requirements concerning quality and legal compliance, and it is widely adopted mainly in Europe and the United States.

## > Creating More Value

PICK UP !

**Harnessing natural energy with a biogas plant**

In April 2015, Oakey Beef Exports installed a biogas plant that extracts methane from factory wastewater and uses it as energy. This facility has reduced natural gas consumption, cutting annual carbon dioxide emissions by around 8,000 metric tons.



PICK UP !

**Acquiring Halal accreditation at three plants in Australia**

Three local Group cattle abattoir and processing facilities\* have acquired Halal accreditation. To qualify, production systems must adhere to Muslim teachings, match Halal requirements for raw materials, and set up quality management structures that comply with ISO 9001 and other international standards. These facilities produce beef that is acceptable for Muslims, who account for a quarter of the world's population.

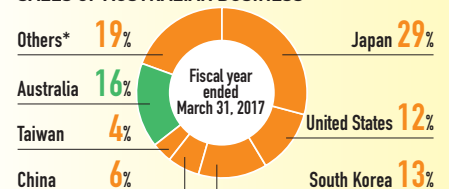
\* They are Oakey Beef Exports, T.B.S., and Wingham Beef Exports.

PICK UP !

**Establishing a business model that can spread risks**

It is not uncommon for demand for a product to be simultaneously low in Japan and high abroad. Building a sales structure to third countries enables us to choose where best to sell our offerings in line with foreign exchange rates and meat price trends in each country, thereby spreading risks.

### SALES OF AUSTRALIAN BUSINESS



\*Others include the EU, Indonesia, the Middle East, etc.



Special Feature: Cultivating the Bounty of Nature with Our Own Hands



# Consignment, Distribution, and Sales Phases

**Our vertical integration system handles everything from development and production to sales and marketing within the Group. This makes it possible to deliver the high-added-value products and services that distributors and consumers want.**

## Consignment and Distribution

Our distribution operations play a vital role midstream by collecting high-quality fresh meats produced upstream and delivering them downstream. Nippon Logistics Center, Inc. handles distribution for the Fresh Meats Business Division and maintains one of Japan's largest refrigeration and frozen storage facilities. The site in Kawasaki, Kanagawa Prefecture, serves east Japan, and the one in Nishinomiya, Hyogo Prefecture, serves west Japan. Both operate around the clock. They also serve as bonded warehouses so they can accept shipments from abroad. Most of the Group's fresh meats for the domestic market go through one of these logistics centers. From there, Nippon Chilled Logistics, Inc. swiftly distributes products nationwide to Nippon Food Group companies that oversee sales of fresh meats.

## Sales: Developing High-Quality Proprietary Branded Fresh Meats

By drawing on our integration system and producing our own branded fresh meats, we can develop unique high-value-added products. One key offering is the domestic chicken brand *Sakurahime*<sup>®</sup>, which accounts for around 30% of the Group's poultry shipments. We are striving to enhance brand value by expanding integration that crosses business divisions, notably by using domestically produced pork from our farms in the flagship *Domestic Premium*<sup>®</sup> *Utsukushi-no-Kuni* gift brand.

## Business Environment (Opportunities and Risks)

As we are unlikely to significantly increase domestic production, we will need to reinforce procurement of imported fresh meats to cater to growing domestic demand. At the same time, global meat consumption is set to expand, especially in developing nations around Asia as populations rise and incomes climb. This trend should thus transform the traditional global market setup in which developed nations have determined supply and demand. Import prices may change as future free trade agreements lower tariffs. Still, conditions remain uncertain amid growing global demand and rising feed and labor costs worldwide. In Japan, we will need to streamline operations as the working population dwindles, notably by developing standardized products that necessitate less manufacturing and sales manpower and by leveraging joint distribution to local areas.

The Group sees these challenges as growth opportunities. We will maintain stable supplies to customers nationwide by drawing on the overseas procurement capacity that we have cultivated over the years, including that of our own farms, and will also make use of our swift domestic distribution system. We will endeavor to provide solutions to customers by exploiting our advanced expertise in fresh meat marketing.



# CONSIGNMENT AND DISTRIBUTION: Nippon Logistics Center, Inc.

Maintaining Freshness and Quality and Delivering the Right Volumes

● The state-of-the-art Nippon Logistics Center has refrigeration and freezer facilities to maintain the quality of fresh foods and product sorting capabilities to satisfy the needs of supermarkets and other diverse business partners. This setup enables just-in-time deliveries of exactly what customers require. In recent years, we have drawn on our expertise in handling products at various temperatures to cater to an array of customer requirements. We offer advanced defrosting technology through a proprietary program employing high-frequency thawing machines.



Tokyo site of Nippon Logistics Center

## Pursuing No. 1 Delivery Quality in Wasting Nothing from the Bounty of Nature

Nippon Chilled Logistics and the Nippon Food Group aim to become No. 1 in delivery quality in keeping with a commitment to respecting the Bounty of Nature by preventing waste from product damage and disposal. Every day we check every process between shipment and delivery to customers. We investigate the causes of flaws and defects, if any, and deploy extensive measures to prevent recurrences.



## > Creating More Value

### PICK UP ! Renewable energy initiatives

Nippon Logistics Center installed around 6,200 solar panels on the roofs of warehouses at its Tokyo and Kansai facilities. The two solar sites generate 1,915 thousand kilowatts annually, equivalent to the annual power consumption of around 583 households. They lower carbon dioxide emissions by 982 metric tons per year.



Solar panels on roof

### PICK UP ! Tracking four variables to ensure safety and reliability

Nippon Chilled Logistics is building a delivery management system to enhance quality. The company ensures that its operations are safe and reliable by using global positioning systems for real-time tracking of driving locations, driving speeds, temperatures inside refrigerated vehicles, and sudden braking.

### PICK UP ! Overhauling logistics setup to alleviate driver burdens

Nippon Chilled Logistics has reviewed the setup of relay points and delivery schedules to resolve such driver issues as long working hours and labor shortages. It is gradually expanding its fleet of fuel-efficient vehicles. The company holds workshops to enhance awareness of good driving from the perspectives of employee safety and the environment.





# SALES: Nippon Food Group

No. 1 Share of Domestic Market through Nationwide Network of 114 Sales Offices and Bases

● Underpinning our dominant supply setup under our vertical integration system are our production capacity and robust sales position. We can thus supply customers around Japan swiftly and stably. Nippon Food Group companies downstream support our system with strong sales capabilities. We therefore have No. 1 shares in the Japanese markets for beef, pork, and chicken.

Nippon Food Group sales personnel stationed at our 114 sales offices and bases around Japan develop fresh meat solutions. Each of these people supplies products and resolves issues for customers as a local fresh meat sales specialist.



## Developing Branded Fresh Meats

Expanding product sales entails presenting proposals that boost the sales and profits of supermarkets, butcher shops, and other retailers. The Group develops high-value-added branded fresh meat products. This is

possible only because of our integration system. Our diverse

lineup includes such offerings as *Sakurahime*<sup>®</sup> domestically produced chicken, *Mugikomachi*<sup>®</sup> domestically produced pork, *Omugi-Gyu*<sup>®</sup> Australian beef, and *Angus Valley* American beef.

## Conveying the Value of Branded Fresh Meats

We convey our value with our packaging of branded fresh meats for consumers.

*Sakurahime*<sup>®</sup> domestic chicken brand offerings are vacuum-packed where the chicken is processed and delivered straight to the table. We maintain a website that lists stores that handle this line. Our website also presents product descriptions, recipes, consumer reports, and other information as part of marketing to encourage initial and repeat buying. We are also using that approach for *Domestic Premium*<sup>®</sup> *Utsukushi-no-Kuni* brand hams, made from pigs raised on our domestic farms. During Japan's summer and winter gift-giving seasons, we put up a special *Utsukushi-no-Kuni* website to highlight the pork's melt-in-your-mouth flavor, great ways to enjoy its taste, and how our farms work.



## > Creating More Value

### PICK UP ! Using food advisors

No matter how attractive the merchandise is, it will not sell if consumers do not understand its value. It is therefore helpful to propose creating sales areas that generate interest in merchandise and use food advisors who can suggest cooking methods and provide information on new products to expand branded fresh meat sales.



### PICK UP ! Collaborating with Kodomo Shokudo

Naka Nippon Food, Inc. agreed with a Kodomo Shokudo\* idea of providing meals to local children, sponsoring that organization's initiatives by supplying pork, chicken, and other ingredients. In the year ended March 31, 2017, Naka Nippon Food donated 325 kilograms of fresh meat for preparing *shabu-shabu* pork, Japanese deep-fried chicken, and other dishes. We hope that such meals help revitalize communities.

\* Kodomo Shokudo offers free or inexpensive meals to local residents and also provides locations where children can spend time after school and local residents can interact with each other.





# SALES: Leveraging Comprehensive Strengths through Inter-Divisional Collaboration

## Reinforcing Customer Proposals by Unlocking Organizational Synergies

● The Group creates new value by engaging in initiatives that cross divisional boundaries, notably by sharing sales expertise and sales channels and establishing a hybrid base.

### Providing Solutions by Drawing On Comprehensive Strengths Across Divisional Boundaries

Salespeople from the Processed Foods Business Division draw on their manufacturing and product knowledge in working closely with counterparts from the Fresh Meats Business Division who can explain the situation of and outlook for fresh meat prices. We are reinforcing trust with customers by providing comprehensive solutions, not just for products but also in suggesting choices for raw materials and optimal methods and times for procurement. Sales personnel from the Processed Foods Business Division, Fresh Meats Business Division, and Affiliated Business Division collaborate closely in the restaurant, convenience store, and other channels. They are making tangible progress by delivering proposals to customers while sharing information and conducting joint presentations.

### Unlocking Synergies by Having Nippon Food Group Share Sales Bases with the Processed Foods Business Division

From the fiscal year ended March 31, 2017, we started sending sales personnel from the Processed Foods Business Division to the sites of the Nippon Food Group, which spearheads marketing for the Fresh Meats Business Division, to create a system for sharing divisional route sales resources. While only some offices currently share such resources, we plan to gradually increase the number of such sites. Sharing information on customers and local events has made it possible to present timely proposals that reflect local needs and reinforce customer



relationships. Sales personnel from the Processed Foods Business Division who oversee wide territories can be stationed closer to customers. They can thus visit customers more frequently and streamline sales activities by slashing travel time.

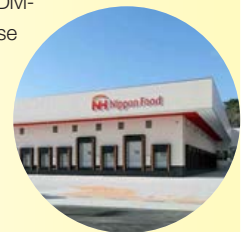


## > Creating More Value



### Establishing a new hybrid base

In February 2017, the Okayama sales office of fresh meat marketer Nishi Nippon Food, Inc. set up a hybrid base with a logistics company from the Processed Foods Business Division. This move made it possible to handle more fresh meat sales through volume sales channels and allocate more people previously working in distribution to sales. Likewise, the Processed Foods Business Division has been able to increase distribution volumes, generating synergies in such roles as reinforcing area sales while controlling costs by sharing facilities with Nippon Food Group companies.



### Using branded fresh meats in processed foods

The Group uses such branded fresh meats as *Sakurahime*® domestically produced chicken and *Dolce Parco*® from slowly fattened Italian hogs in such processed foods as *Ishigama Kobo*® and the canned foods of Hoko Co., Ltd., as part of an effort to develop safe and reliable high-value-added products. We ensure effective use of branded assets by developing products that cross divisional barriers.



# Sales Overview

With the establishment of the new Overseas Business Division in April 2016, Nipponham Group has adopted a segment setup composed of four business divisions.

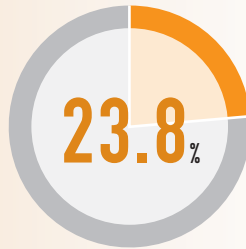
Previously, overseas businesses and affiliated companies operated under separate business divisions: the Processed Foods Business Division, Fresh Meats Business Division, and Affiliated Business Division. However, through the establishment of the Overseas Business Division, these businesses and companies have now become more centralized and transparent, helping the Group to accelerate to a global company.

## Processed Foods Business Division

SEGMENT SALES

¥ **348.3** billion

SHARE OF NET SALES



OPERATING INCOME

¥ **7.9** billion

Notes: 1. Sales share is after eliminations, adjustments, and others  
2. Sales figure above is for the operating segment and includes intersegment transactions

### MAIN PRODUCTS

Hams and Sausages Business



Deli and Processed Foods Business



### BUSINESS MODEL

Product Development



We seek to increase demand in our pursuit of delicious hams and sausages. We also develop new cooked foods.

Production



Each of our 23 domestic 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



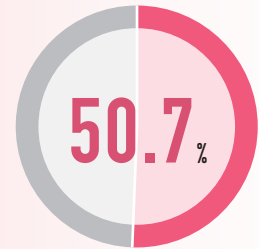
At our 58 sales bases throughout Japan, we allocate specialists according to segment for supermarkets, convenience stores, restaurants, and other customers.

## Fresh Meats Business Division

SEGMENT SALES

¥ **741.6** billion

SHARE OF NET SALES



OPERATING INCOME

¥ **43.9** billion

Notes: 1. Sales share is after eliminations, adjustments, and others  
2. Sales figure above is for the operating segment and includes intersegment transactions

### MAIN PRODUCTS

Imported Fresh Meats Business



Domestic Fresh Meats Business



### BUSINESS MODEL

Production and Breeding



The Group breeds its own cattle, hogs, and chickens at 122 domestic farms.

Packing and Processing



With 17 domestic plants, we process and package our own products.

Logistics



We own one of the nation's largest distribution centers in both east and west Japan, and a state-of-the-art international logistics facility.

Sales



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

## Affiliated Business Division

### SEGMENT SALES

¥ **159.0** billion

### SHARE OF NET SALES



### OPERATING INCOME

¥ **3.7** billion

Notes: 1. Sales share is after eliminations, adjustments, and others  
2. Sales figure above is for the operating segment and includes intersegment transactions

### MAIN PRODUCTS

#### Marine Products Business



#### Dairy Products Business



### BUSINESS MODEL

#### Marine Products Business



We carry out production and sales of processed marine products.

#### Dairy Products Business



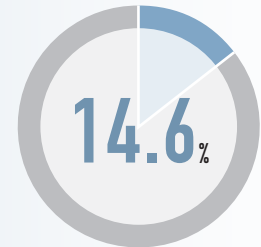
We produce and sell not only cheese and other dairy products but also yogurt and lactic acid probiotic beverages.

## Overseas Business Division

### SEGMENT SALES

¥ **214.4** billion

### SHARE OF NET SALES



### OPERATING INCOME (LOSS)

¥ **(1.3)** billion

Notes: 1. Sales share is after eliminations, adjustments, and others  
2. Sales figure above is for the operating segment and includes intersegment transactions

### MAIN PRODUCTS



### BUSINESS MODEL

#### Production and Breeding



We breed cattle, hogs, and chickens at 26 of our own farms.

#### Packing and Processing



We process and package fresh meats at five overseas plants.

#### Production



Each of our 16 overseas plants has obtained various recognized third-party certifications.

#### Export and Sales



Selling products that meet local tastes at our 37 overseas sales offices.

## Processed Foods Business Division

# Production and Marketing Operations Collaborating to Push Ahead with Reforms and Enhance Profitability

### KOJI KAWAMURA

Representative Director and Senior Managing Executive Officer,  
General Manager of Processed Foods Business Division



### OVERVIEW OF YEAR UNDER REVIEW

During the second year of New Medium-Term Management Plan Part 5, the Processed Foods Business Division recorded increases in income and profit, posting sales of ¥348.3 billion, operating income of ¥7.9 billion, and an operating margin of 2.3%. Operating income was less than projected, however, as expenses rose in the second half to accommodate higher production volumes and a shift to an optimal manufacturing structure.

In the previous term, we focused on rebuilding our competitive position through the major themes of expanding sales volumes and reinforcing our cost-competitiveness. *SCHAU ESSEN*® posted record sales. Also performing well were *Kiwami-yaki*® *Hamburg*, launched in 2016, and *Hojun*® *coarse-ground wieners*, brought out in February 2017. Sales volumes were significantly higher than a year earlier, including those of products for commercial use. During the year-end gift-giving season, intensive promotional activities enabled us to greatly outstrip average sales growth in the market for ham and sausage gift brands through the flagship *Domestic Premium*® *Utsukushi-no-Kuni*, which marked its 10th anniversary.

During the term, we undertook promotional initiatives, introduced new products at very attractive prices, conducted a sale to celebrate the Japan Series title victory of the Nippon-Ham Fighters Baseball Club, against a backdrop of stable raw materials costs, thereby increasing sales volumes. These efforts

helped us to enhance utilization rates at plants and improve production efficiency. At the same time, we incurred some non-recurring expenses associated with merchandise transfers between plants to optimize our production structure. Labor costs increased more than expected amid tight supply and demand for workers during busy periods. Manufacturing cost reductions were delayed, thus ¥400 million below our initial plan of ¥8.3 billion, an issue that we will need to address.

### PROGRESS UNDER MEDIUM-TERM MANAGEMENT PLAN PART 5 AND FUTURE INITIATIVES

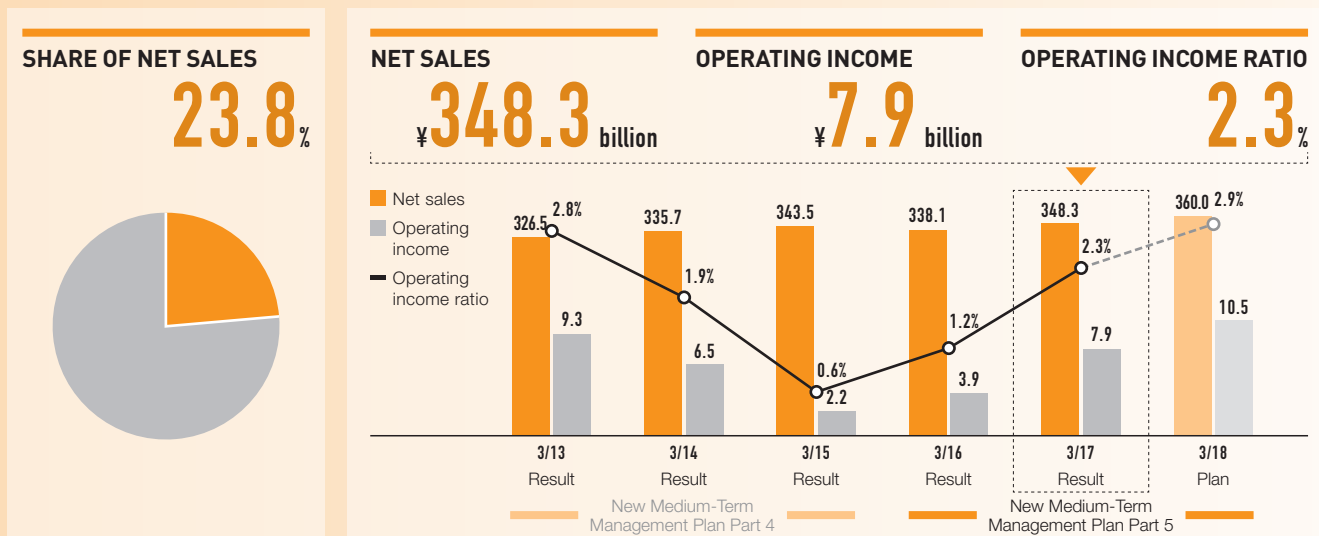
#### ● Increasing earnings by optimizing production structure and boosting sales of high-value-added merchandise

We will endeavor to overcome the higher cost of raw materials and generate earnings by enhancing productivity while increasing sales volumes, particularly of high-value-added offerings.

We increased productivity in October 2016, when Nipponham Factory Ltd. merged its Hyogo and Ono plants as the Hyogo Plant. Thus, we reduced the number of ham and sausage plants from 15 to 13, solidifying the foundation for an optimal production structure. We will concentrate on manufacturing major brands such as *SCHAU ESSEN*® and the *Irodori Kitchen*® series at high-productivity lines, centered on the Hyogo and Ibaraki plants, with these items accounting for a greater proportion of offerings while we reduce overall costs. At other plants, we will shift to a production setup that matches merchandise to the needs of local



## PROCESSED FOODS BUSINESS DIVISION RESULTS OF FISCAL YEAR ENDED MARCH 31, 2017



markets and provides healthy and high-value-added items. We will therefore cater to consumer needs while reinforcing our sales structure and collaboration between manufacturing and marketing in keeping with area requirements.

We aim to reduce manufacturing costs around 8% by the end of this fiscal year by optimizing our production structure. Given recent higher personnel costs, it will be vital for us to pursue further labor savings and automation. During this year, we will add a highly efficient wiener line at the Shizuoka Plant to boost output and cut costs while raising quality. We are exploring a very flexible line structure that integrates merchandise and sales plans and can handle the manufacture of frozen foods and other offerings besides chilled merchandise to optimize production lines.

We will strive to increase sales volumes through extensive marketing efforts, including expanding and cultivating demand for such brands as *SCHAU ESSEN*<sup>®</sup>, *Hojun*<sup>®</sup> coarse-ground wieners, and *Ishigama Kobo*<sup>®</sup>. We will draw on our receiving the Premium Gift Prize in the Japan Gift Awards 2017 to continue expanding sales of the flagship *Utsukushi-no-Kuni*. We

will also bring out offerings that reflect the polarization of consumption and the recently growing demand for gift-giving at home.

### ● Expanding new product categories and sales channels

We will develop new products using branded meat *Sakurahime*<sup>®</sup> and *Dolce Porco*<sup>®</sup> and expand their sales channels. We will also expand sales channels by reinforcing area sales, leveraging our business sites as part of collaborative efforts in the Group. We will stimulate demand for dinners that are tasty, easy to prepare, and add a touch of class, examples being the *Kiwami-yaki*<sup>®</sup> series and *Entier*<sup>®</sup> Dinner Würstchen. With the *Healthy Kitchen* series, we will use functional labeling and strengthen our response to demand for healthy offerings, including hams and bacons that are free of sugar.

We will step up efforts to manufacture and sell frozen foods as consumer products, a growth area. We aim to become a comprehensive supplier of such foods by broadening our product categories, including cooked rice and noodles, beyond the current lineup focused on side dishes and lunchboxes, to cater to demand for dinners.

CSR

TOPICS

### EXPANDING OUR RANGE OF ALLERGEN-FREE FOOD PRODUCTS

The Group makes such allergen-free items as the *Minna-no-Shokutaku*<sup>®</sup> series and rice flour bread at dedicated facilities of Nipponham Northeast Ltd. Such production began in 2007. By 2015, all buildings at the plant had shifted to allergen-free production systems, including for raw materials. We are constructing a second plant to expand supply capacity. We will continue to improve safety and security standards in the years ahead.



## Fresh Meats Business Division

Pursuing a 25% market share by strengthening the capacity to supply fresh meat and expanding sales

### KATSUMI INOUE

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



### OVERVIEW OF YEAR UNDER REVIEW

The Fresh Meats Business Division aims to continuously strengthen the profitability of domestic businesses by bolstering its vertical integration system, which handles everything from production and breeding to slaughter, processing, distribution, and marketing. We seek a market share of 25% over the medium to long term. In production and fattening, we will boost domestic capacity by upgrading existing facilities and investing in new farms. On the sales front, we will undertake multifaceted efforts to develop meat brands that reduce our vulnerability to market price swings, a good example being *Sakurahime*<sup>®</sup> chicken.

In the year ended March 31, 2017, the second year of New Medium-Term Management Plan Part 5, net sales decreased, to ¥741.6 billion, while operating income was up, to ¥43.9 billion. The operating income ratio was 5.9%.

Sales were down owing to a delayed recovery in imported poultry prices. We posted record operating income in a lack-luster meat market. Sales rose favorably for *Sakurahime*<sup>®</sup> chicken on the strength of extensive promotion. Another factor is that we appropriately procured domestic and imported meat, cattle, hogs, and poultry in line with market conditions and established a system to stabilize earnings, actions that contributed to the stabilization of earnings. Sales

with the Nippon Food Group, which engages in fresh meat sales, continued to expand, boosting gross profit and increasing operating income.

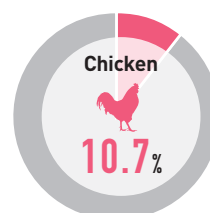
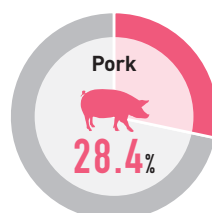
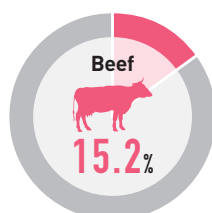
### PROGRESS UNDER NEW MEDIUM-TERM MANAGEMENT PLAN PART 5 AND FUTURE INITIATIVES

#### ● Reinforce medium- and long-term production capacity by continuing to invest in farm business

To capture 25% of the domestic market, we will need to accelerate efforts to build structures for boosting production. We will accordingly continue to invest extensively in the upstream farm business. In the fiscal year ended March 31, 2017, we invested ¥2.0 billion to procure land and construct facilities for a hog farm in the south of Hokkaido, build poultry farms in Shiretoko and Niigata, and install automated chicken breast processing equipment to conserve labor. In the current fiscal year, we plan to invest ¥2.5 billion to build a structure for boosting production.

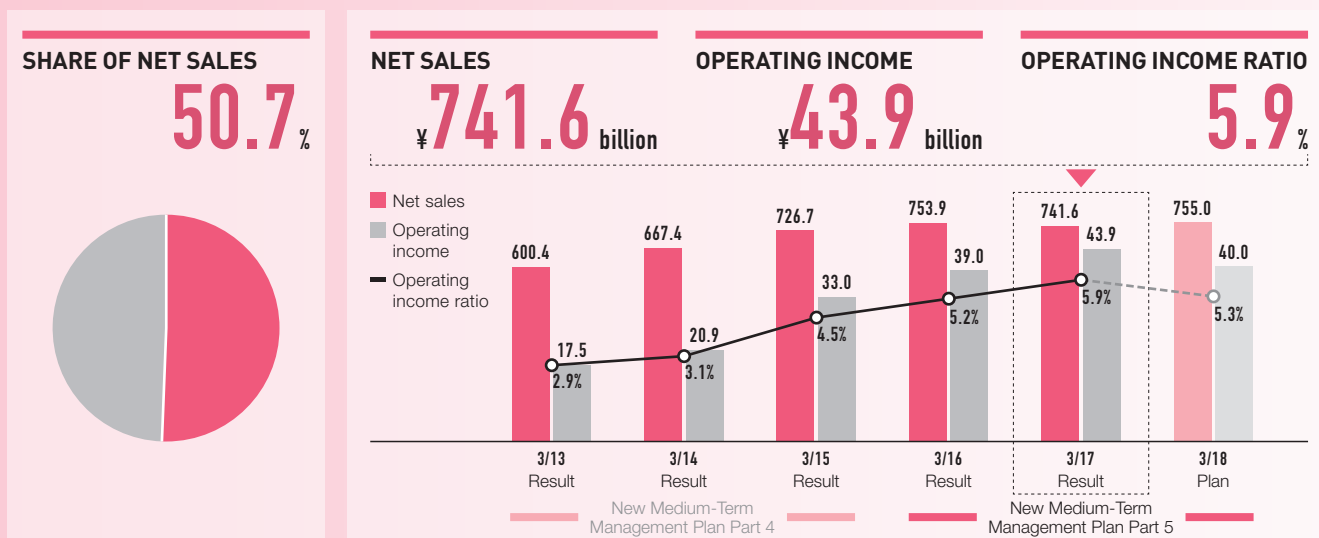
We fell behind our production increase targets under the initial phase of New Medium-Term Management Plan Part 5 owing to changes in the operating climate. For the current fiscal year, we intend to expand our upstream business, for a final medium-term plan total of 630,000 pigs and 71 million chickens. We have steadily boosted branded meat

#### FRESH MEATS SOLD UNDER OUR BRANDED FRESH MEATS





## FRESH MEATS BUSINESS DIVISION RESULTS OF FISCAL YEAR ENDED MARCH 31, 2017



production in line with our targets of around 28 million *Sakurahime*<sup>®</sup> chickens and about 240,000 *Mugikomachi*<sup>®</sup> domestically produced pigs.

### ● Reinforce medium- and long-term procurement through strategic partnerships

We will strengthen procurement by undertaking initiatives through strategic partnerships with top overseas packers. We launched the *ANGUS Valley* American beef brand with Tyson Foods, Inc., in North America. *ANGUS* Beef balances the red meat and fat proportions that Japanese consumers prefer, and we aim to sell 8,000 metric tons of this brand to restaurant chains and retailers annually. We also have strategic partnerships to stabilize procurement with PINI S.r.l. of Italy for *Dolce Porco*<sup>®</sup> imported pork from slowly fattened hogs and with AGROSUPER S.A. of Chile for the *Andes Kogen-buta* pork brand.

### ● Expanding sales and earnings to secure a 25% market share

In branded meats, we will cultivate *Mugikomachi*<sup>®</sup> pork to rank alongside *Sakurahime*<sup>®</sup> chicken. We will boost awareness through television commercials and other promotional activities. We will endeavor to make these brands of choice for consumers while expanding the number of stores handling them. In imported beef, we are promoting *ANGUS Valley* to restaurants and retailers. We also want to boost awareness of the brand by leveraging its special features in the manufacture of processed products.

We will expand sales and secure stable earnings by drawing on the Nippon Food Group with 116 sales sites nationwide to strengthen branded meat proposals for retailers while seeking to increase sales to restaurant chains.

The Fresh Meats Business Division has endeavored to stabilize earnings by expanding volumes based on the strong capacity of our integration system. We will continue to increase volumes to secure a domestic market share of 25%. At the same time, we look to stabilize earnings. We will also expand sales of branded meats, refine domestic production and overseas procurement, and pursue stable growth.

CSR

TOPICS

### PROVIDING SPECIALIZED TECHNICAL INSTRUCTION TO HIGH SCHOOL STUDENTS

The Aomori Plant of Nippon Food Packer, Inc., which processes cattle and hogs, conducted a workshop to nurture successors for livestock farms during which local agricultural high school students learned how to work with hogs and process carcasses. We will continue to collaborate with high schools and universities to highlight the attractions of the livestock and meat industries and help cultivate people who will ultimately oversee the livestock industry.



## Affiliated Business Division

# Focusing on Reinforcing Our Range of High-Value-Added Marine Products and Expanding Sales of Dairy Products

### KANJI BANDO

Managing Executive Officer,  
General Manager of Affiliated Business Division



### OVERVIEW OF YEAR UNDER REVIEW

The Affiliated Business Division comprises three core companies, centered on marine products and dairy products. Marine Foods Corporation specializes in raw fish products for sushi and processed marine products. Hoko Co., Ltd. handles cheese, canned foods, frozen foods, and freeze-dried foods. Nippon Luna, Inc. offers yogurt and lactic acid probiotic beverages.

In the second year of New Medium-Term Management Plan 5, our sales increased to ¥159.0 billion. Operating income rose to ¥3.7 billion. The ratio of operating income to net sales was 2.4%.

In marine products, we focused on sales of sushi ingredients for retail channels and on in-house manufactured goods. Market prices soared, however, owing to lower catches in Japan and reduced supplies from overseas, resulting in lower sales. In dairy products, sales of yogurt and lactic acid probiotic beverages expanded, reflecting greater sales of core yogurt offerings and stronger demand for new chilled cup beverages. Cheese sales benefited from higher demand for both commercial products and consumer products. Overall dairy product sales therefore rose.

Operating income was up for marine products, as a higher in-house production ratio and price revisions boosted margins. The operating income of dairy products also increased. This stemmed from raw materials' costs stabilizing, with sales volumes rising. Another factor was improved factory utilization rates.

### PROGRESS UNDER MEDIUM-TERM MANAGEMENT PLAN PART 5 AND FUTURE INITIATIVES

#### ● Undertaking bold reforms to expand scale

Companies in the division share a mission of providing products that exceed customer expectations and continuing to evolve and inspire with a diverse product range. The division is the key to the Nipponham Group becoming a truly comprehensive foods enterprise.

We will create vibrant workplaces that instill pride in our company and products among all Affiliated Business Division employees and enhance their creativity while undertaking bold reforms to expand the scale of business.

#### ● Marine Foods Corporation

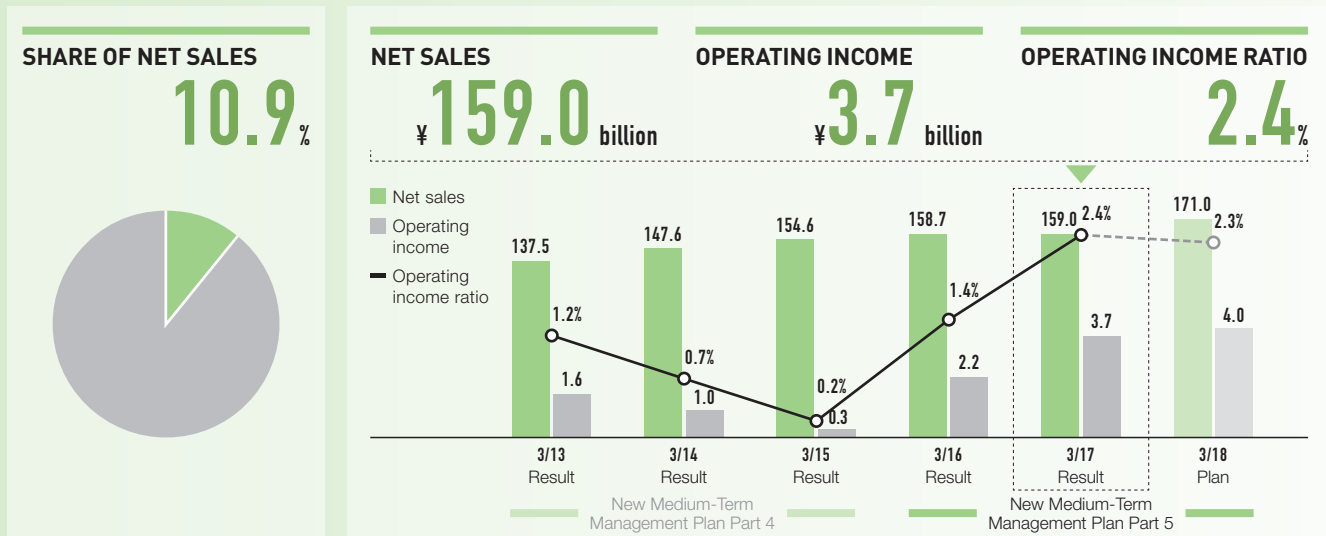
##### Enhancing high-value-added offerings and expanding sales of in-house manufactured items to boost sales

This company will build a competitive edge by prioritizing quality raw materials and manufacturing methods in developing and marketing marine products. Also, the company will focus on expanding sales of in-house manufactured products to boost earnings.

In raw fish products for sushi, Marine Foods will accelerate development and provide more products that customers love. Marine Foods Group company Kushiro Marusui Co., Ltd. markets Hokkaido brand products nationwide through the Marine Foods sales network. The company will also expand sales by stepping up proposals for Hokkaido-themed fairs. One focus will be *Umami Tako*, a specially processed octopus line. At the Mie Plant, Marine Foods employs ultrahigh-pressure processing\* for long-life chilled



## AFFILIATED BUSINESS DIVISION RESULTS OF FISCAL YEAR ENDED MARCH 31, 2017



items sold to convenience stores as part of efforts to develop and market new offerings.

\* This process has attracted considerable attention as an alternative to heating. It entails applying 1,000 atmospheres of pressure (equivalent to pressure 10,000 meters below sea level) to sterilize without heat and stimulate enzyme activity.

### ● Hoko Co., Ltd.

#### Strengthening profitability by expanding cheese sales and boosting the in-house manufactured goods ratio

In cheese, the company will strengthen its production systems and conduct promotional activities to expand consumer product sales. It will draw on manufacturing and development techniques to strengthen our proposal-based marketing and expand market share for commercial products.

Hoko endeavored to increase internal production capacity for foods kept at room temperature and frozen foods. For foods kept at room temperature, the company is expanding sales of its mainline canned mackerel, which is popular for its health benefits. For frozen foods, Hoko will promote sales of high-value-added items that use the company's cheese. Through such approaches, Hoko will strengthen profitability by

increasing the ratio of in-house manufactured goods.

Hoko will reinforce sales, incorporating such branded fresh meats as *Sakurahime*<sup>®</sup> domestically produced chicken and *Dolce Porco*<sup>®</sup> pork from slowly fattened Italian hogs. It will also strengthen Group collaboration to optimize OEM production within the Group, including making Nipponham brand products at the company's plants.

### ● Nippon Luna, Inc.

#### Generating growth in yogurt and lactic probiotic beverages

*Vanilla Yogurt*, launched in 1993, and *Smoothie*, released in 2016, are contributing to sales growth. The company will continue to provide healthy and tasty offerings by developing yogurts with new functions and other products that capitalize on health trends.

The company will cater to rising demand by establishing a new plant in Takasaki, aiming to start operations in January 2019. It will also improve the productivity of the plant at its headquarters in Kyoto. It will enhance its presence in the yogurt and lactic probiotic beverage markets by developing merchandise based on solid marketing and increased production capacity.

CSR

TOPICS

## FOOD EDUCATION ACTIVITIES THROUGH YOGURT

Nippon Luna, Inc. conducts food education activities such as in-class lessons at local elementary schools and offers plant tours and cooking classes, aiming to communicate the importance of food through yogurt. In fiscal 2016, around 13,800 people participated in 19 such events. These initiatives draw on easy-to-understand pamphlets and quizzes to build understanding about lactic acid and health. Another objective is to enhance understanding about the company among the employees engaging in these educational activities, and foster their motivation and training. Nippon Luna will leverage PDCA cycles in continuing such initiatives.



## Overseas Business Division

We are strengthening our regional foundations for business expansion by establishing a structure for profits

### HIROJI OKOSO

Director and Senior Managing Executive Officer,  
General Manager of Overseas Business Division



### OVERVIEW OF YEAR UNDER REVIEW

The Overseas Business Division, established in April 2016, is working to build foundations for Group companies operating in 19 countries and regions, to achieve results through independent management under appropriate governance structures, so that all Group companies can operate businesses that are deeply rooted in local culinary cultures, and develop and grow together with those countries and regions. With the aim of accelerating to a global company, we will continue to increase the transparency of our overseas operations, which had been under the control of each business division, to optimize those operations from the Group's perspective, while moving ahead with the expansion of profitable business.

In the fiscal year ended March 31, 2017, its first year of operation, the Overseas Business Division posted net sales of ¥214.4 billion and an operating loss of ¥1.3 billion, which amounted to reduced sales and income. Operating income was heavily impacted by higher purchase prices for cattle caused by climate change in Australia, and even though progress was made in the production and sales of distinctive branded beef and through various efforts to improve efficiency, the challenging business environment as a whole resulted in significant decreases.

### PROGRESS UNDER NEW MEDIUM-TERM MANAGEMENT PLAN PART 5 AND FUTURE INITIATIVES

In the previous fiscal year, the Group promoted selection and concentration by making revenues from business more

transparent, and reorganized unprofitable business by selling the hog farming business, Texas Farm, LCC, in the United States. In the fiscal year ending March 31, 2018, we will strive to actively expand business by investing in areas that are expected to grow further.

#### ● Focusing on processed foods in the United States

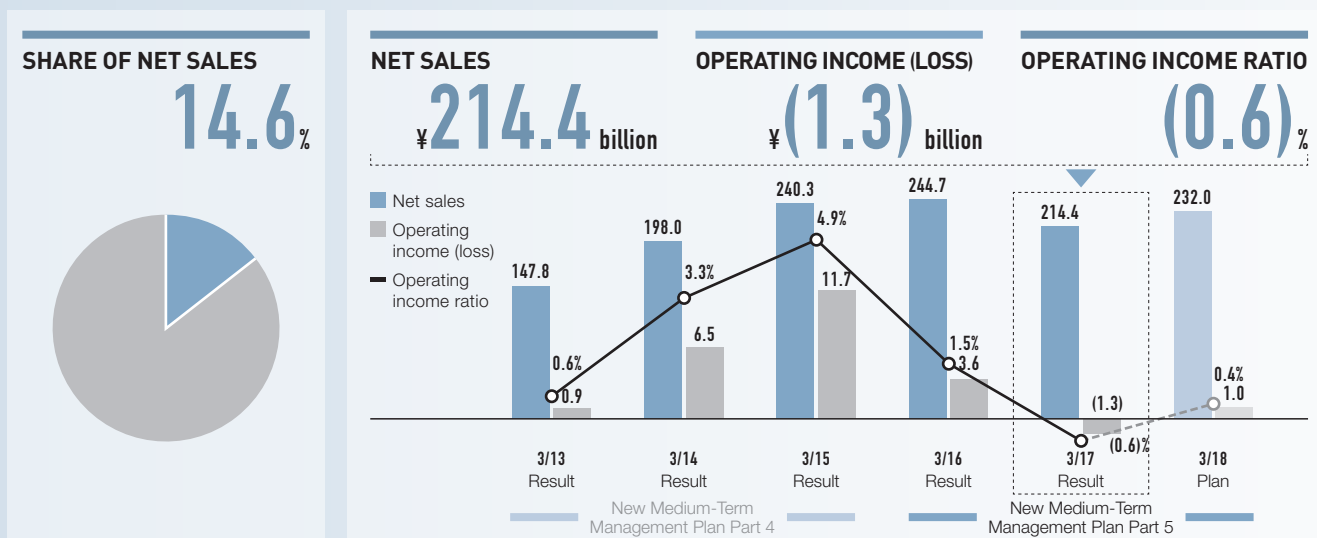
Day-Lee Foods, Inc. in the United States sells frozen processed foods for consumers under the two brands Crazy Cuisine and DayLeePride, and sales are growing steadily. With the current manufacturing system based entirely in the Molette Plant in California, an urgent task was to build a supply system for the East Coast market. Therefore, we will expand our manufacturing volume and strengthen sales to the East Coast by building a new plant with an annual production capacity of 26,000 tons in Dallas, Texas, which starts operations in September 2018. By increasing sales of frozen processed foods, whose demand is growing, we aim to double net sales of processed foods in the United States in five years, from approximately ¥7.0 billion in the fiscal year ended March 31, 2017.

#### ● Toward stabilizing income in the Australian business

In the Australian business, we will increase the ratio of grain-fed beef from less than 40% to just under 50%, with the aim of expanding the ratio of branded beef that is relatively impervious to market price changes. We also plan to stabilize income by improving the yield of factories, raising sales prices by



## OVERSEAS BUSINESS DIVISION RESULTS OF FISCAL YEAR ENDED MARCH 31, 2017



increasing the weight of cattle, and improving plant utilization rates by accepting consignment processing.

### ● Enhancing beef supply to capture growing demand

Consumption of beef worldwide is expected to increase by about 15% in the next 10 years. In response, in June 2017, the Group acquired Breeders & Packers Uruguay S.A. (BPU), a major meat processing company, to strengthen its supply capacity.

Because Uruguay has a relatively stable political and economic climate and is suffering few effects of climate change, the country is competitive in the beef business with stable feeder cattle prices. Uruguay's government mandates a system of thorough beef traceability and bans the use of growth hormones and antibiotics because livestock is the country's main industry. BPU in particular is an export-certified factory with the highest processing capacity of individual companies in Uruguay. Its strengths include state-of-the-art facilities that make large-scale additional investment unnecessary and an advantage in collecting shipments due to its inland location.

To further improve profitability, we will increase synergy with NH Foods Australia Pty. Ltd. Specifically, we will strive to expand sales by boosting supply to major beef markets such as North America, Europe, and China, as well as to emerging nations such as Asia, with our expertise in grain-fed cattle breeding, operations expertise in improving yields, and worldwide sales support by collaborating in branding and marketing.

### ● Toward expanding business in Asia and Europe

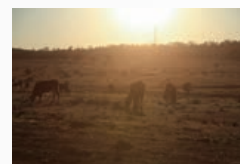
In Malaysia, we plan to set up a new factory in the fiscal year ending March 31, 2019 to produce frozen foods such as sausages, chicken nuggets, and fried chicken for the Middle East and Asia, where demand for halal food is expected to increase. In Vietnam, which is experiencing remarkable economic growth, we will start operations at our new factory in Hanoi in October 2017, with the aim of meeting demand and strengthening sales in the country's northern area. In addition, at Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi in Turkey, we aim to increase operating income by improving productivity and expanding sales of value-added products, including cuts of meat.

CSR

TOPICS

CYCLICAL AGRICULTURE INITIATIVES

In Australia, at the Group's three cattle processing plants and at Whyalla Beef Pty. Ltd., which handles production and the breeding of cattle, rather than merely throwing away cattle waste and dirty water, the facilities use them to grow grain and grass to nurture and fatten up the cattle. For example, wastewater from the Wingham Plant is sent to the nearby Glenyarra ranch to grow quality grass. Due to the increasing popularity of lean beef, a type called "Pasture-Fed," produced by raising cattle on nutritious grass, has become available in Japan. The Group aims to conduct sustainable operations by placing as minimal a burden on the environment as possible and participating in the recycling aspects of cyclical agriculture.

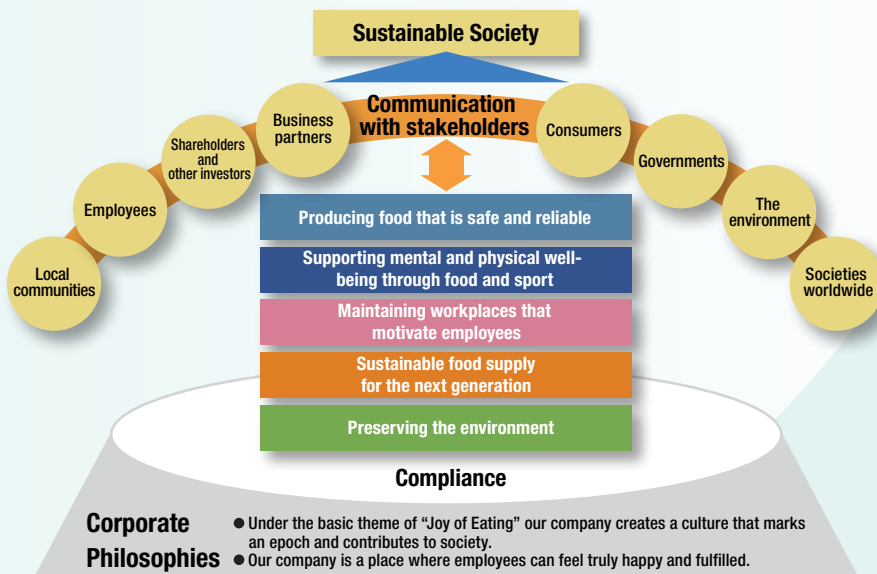


# Sustainability Highlights

The Nipponham Group aims to contribute to happy and healthy lives by delivering the “Joy of Eating” to people everywhere. We will also meet the needs of customers and other stakeholders by undertaking initiatives befitting our position as a food business, fostering coming generations and contributing to realize a sustainable society.

## We focus on five CSR material issues as we engage in valued communication with stakeholders.

With its Corporate Philosophies underpinning management, the Nipponham Group values communication with stakeholders in pursuing CSR focused on five material issues based on compliance. We believe that we can help establish a sustainable society by addressing these issues with stakeholders.



## Message from the General Manager of the Corporate Management Division

In January 2016, the Nipponham Group identified five material issues in driving strategic CSR progress. In the year under review, we endeavored to resolve these issues by evaluating our direction through discussions with consumers and business partners and through deliberations at the Board of Directors. We will continue to step up resolution efforts while engaging closely with stakeholders. We will enhance corporate value by undertaking strategic CSR and branding that are linked with business strategies.

### ENHANCING CORPORATE VALUE BY PURSUING STRATEGIC CSR

The Nipponham Group has focused on making progress in five CSR material issues to translate its Corporate Philosophies into reality. These are “producing food that is safe and reliable,” “supporting mental and physical well-being through food and sport,” “maintaining workplaces that motivate employees,” “sustainable food supply for the next generation,” and “preserving the environment.”

“Producing food that is safe and reliable” entails establishing a quality assurance system based on international trends and addressing food allergies to realize management for No. 1 quality. Since 1996, our efforts have included researching food allergies, developing allergen-free products, and conducting R&D for food allergen testing kits. We publicize food allergy information online and elsewhere. In April 2017, we established the Nipponham Group CSR Procurement Policy. We aim to attain

We will enhance corporate value by undertaking strategic CSR and branding that are linked with business strategies.



**YOSHIHIDE HATA**  
Vice President and Representative Director

high-quality management by engaging in CSR activities within the Group and with business partners throughout our entire supply chain.

“Supporting mental and physical well-being through food and sport” means that we aim to contribute to mental and physical health as an entity doing business in both areas by educating about food, contributing to culinary culture, and promoting sports, by using knowledge gained from providing nutrition to athletes.

For “maintaining workplaces that motivate employees,” we promote diversity and reform work practices. Our prime challenges are to enhance time management, mental and physical health, and diversity. We will press forward with business reforms that overcome limits of time and labor to boost productivity. We ourselves need to be mentally and physically healthy to realize “supporting mental and physical well-being through food and sport.” We pursue true diversity in terms of individual skills, experience, knowledge, and values, in addition to gender and age.

For securing a “sustainable food

supply for the next generation,” we will ensure the sustainability of ingredients and develop the domestic livestock industry. The global world population should rise around 11% over the next 10 years. This could increase the consumption of fresh meat by around 14%, fish by 17%, and dairy products by 27%. Bolstering the business model based on our Group integration system will help feed future generations.

For “preserving the environment,” we endeavor to cut greenhouse gas emissions of not just the Group but of our entire supply chain, and consume water and energy more efficiently. We will also focus on initiatives for reducing food waste and conserving the natural environment.

I believe that we can pursue CSR strategically only by clarifying the relationships between our five material issues and our operations and embracing them in the course of routine business. We will formulate key performance indicators and other targets for these five issues, verifying results and reinforcing our activities through a CSR management cycle.

## EFFORTS UNDER OUR FUNDAMENTAL POLICY ON CORPORATE GOVERNANCE

The Group continues efforts to build an optimal corporate governance structure and strengthen functions to fulfill its social responsibilities and materialize its Corporate Philosophies and goal of becoming the world leader in delivering the “Joy of Eating.” In the year under review, we enhanced Board of Directors deliberations by providing directors and audit & supervisory board members training to acquire particular knowledge about Group operations. We convened gatherings of the Board of Independent Officers and the Board of Independent Officers and Representative Directors, which offer opinions and advice to the Board of Directors, to deepen deliberations on enhancing corporate value and undertaking organizational and corporate culture reforms. We accordingly evaluated the effectiveness of the Board of Directors for a second straight year, concluding that this entity has the right number of members and meets frequently enough. We also found that it engaged in vigorous and free debate, deepened its deliberations, and effectively oversaw decision-making and business implementation. We also identified challenges for the Board of Directors, one being how to improve deliberations about management issues over the medium and long terms. We will reinforce the monitoring role of the Board of Directors while drawing on the structures of voluntary committees. We will continue to enhance management transparency and efficiency for the entire Group and ensure prompt and adequate decision-making and proper business implementation.

# Research and Development

As the core research institute of the Nipponham Group, the Research and Development Center (RDC) of NH Foods Ltd. conducts research to achieve four visions: “Sustainable Production of Food,” “Happy Food, Happy Life,” “World-leading Expertise in Food Safety,” and “Creating New Value.” RDC aims to contribute to the growth of the entire food industry, as well as the Group.

## Producing food that is safe and reliable

### RESEARCH CENTER FOR FOOD SAFETY AND QUALITY OPENS

In April 2017, RDC established the Research Center for Food Safety and Quality by integrating two ISO/IEC 17025 accredited labs: the Food Testing Lab of RDC and the Safety Testing Lab of the Quality Assurance Department. This integration enables the expansion of testing services and improving customers' experience by providing one-stop services. Aiming to improve the reliability of the entire food industry as well as the Group's products, we will strengthen the research capacity on food hygiene and food quality. The Research Center for Food Safety and Quality contributes to the improvement of the Nipponham Group's quality assurance framework by providing proficiency tests and technical training to testing personnel in factories.



## Sustainable food supply for the next generation

### PIG GROUP WITH IMPROVED IMMUNE TRAITS ESTABLISHED THROUGH JOINT RESEARCH

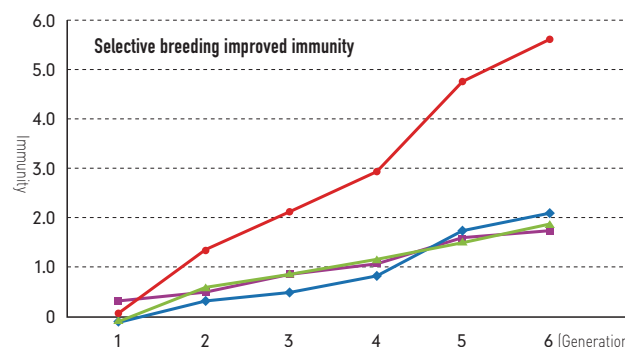
RDC has been conducting research on pig breeding to improve productivity by collaborating with Japanese research institutes, prefectural laboratories, and universities. A group of pigs with higher immunity levels was established through selective breeding based on immune traits for six generations. Extensive research confirmed that these pigs are less prone to contagious diseases.



In 2015, we identified several features of immune-related genes preserved in the group with higher immunity levels, suggesting that these features may be relevant to the

improvement of immunity (patent pending). We are trying to establish a testing method of the genetic features to enable effective selection of pigs.

#### IMMUNITY CHANGE DURING BREEDING

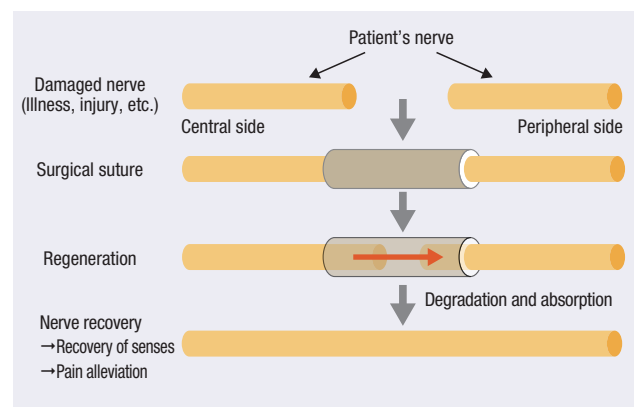




## APPLICATION IN REGENERATIVE MEDICINE

Through extensive research on collagen, RDC developed NMP Collagen PS, collagen for medical use. It is well recognized for its quality and performance in the medical device industry, and is used to develop various devices. Nerve regeneration inducing tubes, an example of such devices, enhance regeneration and recovery of nerves damaged by illness or injury.

### SCHEMATIC REPRESENTATION OF NERVE REGENERATION WITH A NERVE REGENERATION INDUCING TUBE



## DEVELOPMENT OF FOODS WITH FUNCTION CLAIMS

The Nipponham Group develops health conscious food products to meet customers' needs for healthy foods. We have launched *Healthy Kitchen Green Label*, a line of foods with function claims. In the line, Pork Loin Ham and Half Bacon have 30% less salt than those in the conventional line (*Irodori Kitchen*<sup>®</sup>) and contain  $\gamma$ -amino butyric acid (GABA\*). We will expand our line of foods with function claims to meet the needs of health-conscious customers.

\* Amino acid with beneficial functions for people with high blood pressure



Food with function claims *Healthy Kitchen Green Label* (Low in salt)

## Approaches to Ensure Product Quality

To deliver safe, reliable food and quality that inspires customers, Nipponham Group has established a unique quality assurance framework based on the concept of Open Quality and has promoted initiatives in all processes from planning and development to manufacturing and sales.

### ● FIVE QUALITY POLICIES

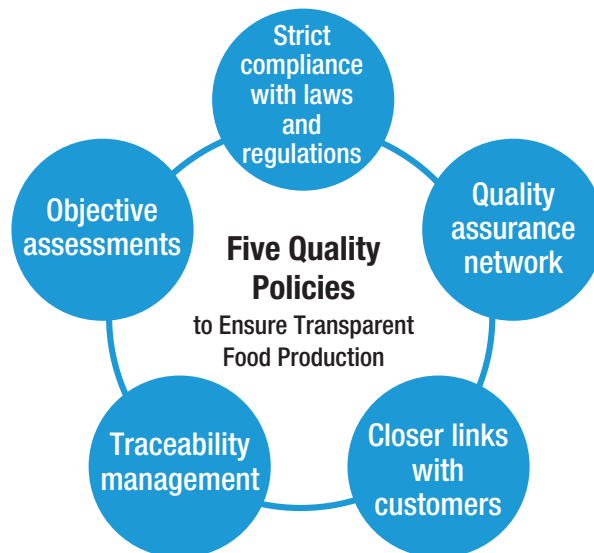
Nipponham Group has created an Open Quality\* system based on the conviction that our efforts to offer safe, high-quality products must reflect customer perspectives, and that to the best of our ability we must disclose the information that customers require.

At the same time, 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 collaboration among Group businesses—that extends from farm to table.



\* Open Quality: Open = Disclosing all the information that customers want.

### More open food manufacturing **OPEN Quality**



### ● QUALITY ASSURANCE FRAMEWORK

Nipponham Group believes it is our responsibility to deliver safe and reliable products so that customers can enjoy good food with peace of mind. To do so, the Group has organically linked the three functions of safety assessments, quality audits, and safety inspections, and has also promoted the development of human resources to support these functions and taken initiatives to guarantee safety across the entire Nipponham Group.



## Safety Assessments

Nipponham Group conducts safety assessments of all ingredients and products before products are launched. These safety assessments include not only legal and safety aspects, but also areas such as descriptions of products and methods of food preparation.

The Group avoids errors in its labels by checking information from the various perspectives of its development and production divisions, the administrative division and the quality assurance division, and collects and checks

information from related government ministries and agencies and outside parties, as necessary.

Information on products and their ingredients is registered and managed on *Seijitsu-kun*<sup>®</sup>, Nipponham Group's proprietary and comprehensive product information management system. Through such initiatives, the Group provides safe and reliable products to customers.

\* A comprehensive product information system that centrally manages necessary data for the process of collecting information on ingredients and creating product specifications.

### SAFETY ASSESSMENT DETAILS



- 1 Product packaging
- 2 Product name
- 3 Best before date

加熟食肉製品(加熱後包装)

1 名 称 ポークソーセージ(ウインナー)

2 原 材 料 豚肉、豚脂肪、糖類(水あめ、ぶどう糖、砂糖)、食塩、香辛料、リン酸塩(Na)、調味料(アミノ酸)、酸化防止剤(ビタミンC)、発色剤(亜硝酸Na)

3 賞味期限 表面右下に記載

4 内 容 量 127g

5 保 存 方 法 10℃以下で保存してください。

6 販 売 者 日本ハム株式会社  
大阪市北区梅田2-4-9  
製造所固有記号は表面の賞味期限の後に記載

7 賞味期限は、記載の保存方法にて未開封で保存した場合の期限です。保存料は使用しておりませんので、開封後はお早めに召し上がってください。

8 マジックカット部分をつまんで、左右に裂いて開封します。

9 袋のまま電子レンジで加熱しないでください。

10 「パリッ!としたおいしさ」の確保は、  
・パソコンの場合  
<http://www.nipponham.co.jp/seo/>  
・スマートフォンの場合  
<http://www.nipponham.co.jp/seo/>

11 JAS 認証マーク

12 栄養成分表示(100g当たり)  
エネルギー 311kcal  
たんぱく質 32.1g  
脂 質 27.8g  
炭 水 化 物 3.0g  
ナトリウム 840mg  
食塩相当量 2.1g  
(サンプリング分析による推定値)

- 1 Food name
- 2 Ingredients
- 3 Food additives
- 4 Volume
- 5 Best before date, Expiration date
- 6 Preservation method
- 7 Manufacturer, etc.
- 8 Allergens
- 9 Food preparation methods
- 10 Identification mark
- 11 JAS mark
- 12 Nutrition information

## Quality Audits

To deliver products of dependable quality, the Group checks the suitability of the manufacturing environment of ingredients and products and the quality assurance system both in Japan and abroad, based on the GFSI\* international standard for quality and the Group's own proprietary quality assurance regulations. Internal quality audits are generally conducted at Japanese production plants at least twice a year and at overseas production plants at least once a year.

The Group has also pursued initiatives in its strategy for protecting food to prevent intentional contamination of its plant facilities and equipment or ingredients and products. The Group has promoted initiatives such as vigilance at plant entrances and

exits, management of chemicals, education of employees, and the creation of an employee-friendly work environment, to improve not only food safety but quality as well.

\* GFSI: The GFSI (Global Food Safety Initiative) evaluates food safety standards, food safety systems, and certification systems based on GFSI guidance documents, and presents such standards, etc., that meet requirements as GFSI-approved plans, for the purpose of delivering safe food to consumers everywhere.



## Safety Testing

The Nipponham Group conducts safety testing of all ingredients and products according to the laws of Japan and the Group's quality assurance regulations. Testing of ingredients includes for residues, microorganisms, and histamine. Products are tested for microorganisms, food allergens, additives, foreign bodies, and nutrients. Sensory testing on products is also conducted.



Safety testing of ingredients



Safety testing of products

### NOTE

#### DEVELOPMENT OF FOOD TESTING METHOD

Every year, customers show greater concern and demand for food safety. Using the expertise of a research institute run by a food manufacturer, NH Foods Ltd., the Research and Development Center develops user-friendly food testing kits for food allergens, foodborne pathogens, and mycotoxins.

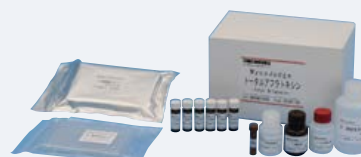
These kits include products compliant with guidelines and standards from Japanese government agencies. A kit certified by an international body is also included. The kits manufactured by NH Foods Ltd. are used by a wide range of industries (for example, the food, logistics, and restaurant industries) and government agencies to ensure the safety and security of food.



Testing kit for food allergens  
FASTKIT® ELISA Ver. III



Testing kit for foodborne pathogens  
NH Immunochromato



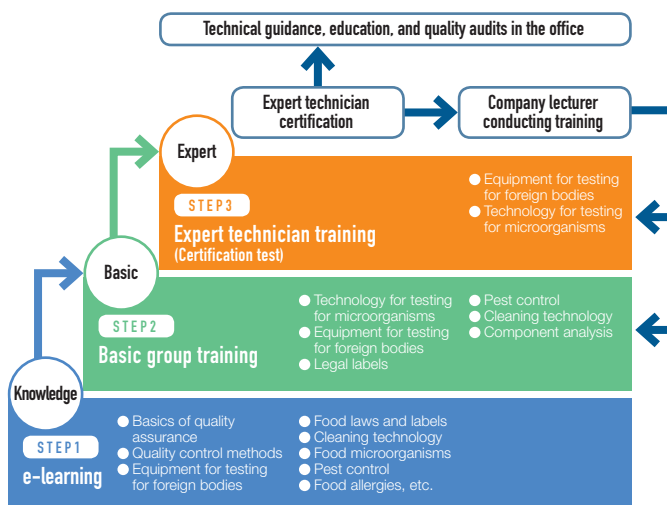
Testing kit for mycotoxin  
MycJudge® Total Aflatoxin

## Human Resource Development

Based on the idea that people ensure dependable quality, we have built a proprietary human resource development framework for employees to gradually acquire knowledge, basic skills, and expert skills related to quality.

In Step 1, trainees acquire basic knowledge about quality through e-learning (22,109 graduates since 2005\*). In Step 2, they acquire techniques to utilize this knowledge in the workplace and improve their knowledge and skills through basic group training (1,396 graduates since 2005). In Step 3, they are trained to become technicians on the cutting edge of technology by acquiring more advanced skills through expert technician training (41 graduates). Human resources who have received specialist technician certification are actively involved in training junior trainees by providing technical guidance and other ways.

\* Total number (Target: Employees as of May 31, 2017)



## Initiatives on CSR Procurement

The Group established the Nipponham Group CSR Procurement Policy on April 1, 2017 with the goal of producing food that is safe and reliable.

The Nipponham Group CSR Procurement Policy sets forth the Group's basic philosophy on procurement. In practicing CSR procurement, the Group will also establish guidelines with specific action items and advance initiatives with its business partners.

### Nipponham Group CSR Procurement Policy

Nipponham Group is proceeding with initiatives on Corporate Social Responsibility (CSR) procurement activities, collaborating with business partners and creating relationships of trust based on the principles of coexistence and co-prosperity

**1. Comply with laws and social norms, and build a system for compliance**

We comply with laws and regulations and social norms. In additions, we build a system for such compliance.

**2. Securing the quality and safety of products and services**

We work to raise the safety and quality of products following the Nipponham Group Quality Assurance Policy.

**3. Fair and impartial transactions**

We judge quality, service, results price, reliability, etc., in a comprehensive manner. Also, we establish fair and impartial opportunities for entry into the market.

**4. Respect for human rights**

We respect and give serious consideration to international standards and opinions regarding human rights.

**5. Occupational safety and health**

We make a safe environment where employees can work with peace of mind.

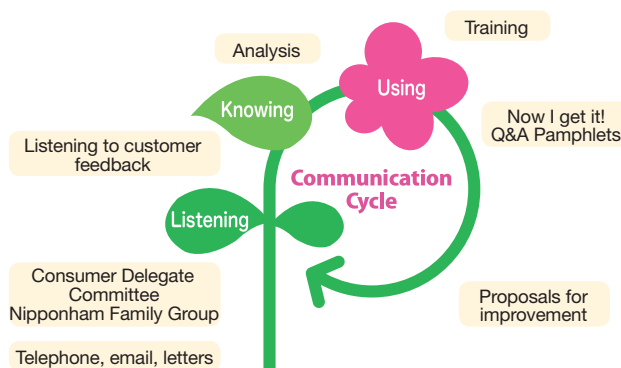
**6. Concern for the global environment**

We work to decrease the environmental impact of our supply chain following the Nipponham Group Environmental Policy as we head toward bringing about a sustainable society.

## Working with Customers

To further promote its consumer-oriented management, in January 2017, the Group enacted the "Consumer-oriented Voluntary Declaration."

The Group follows a cycle of listening to, knowing about, and utilizing customer feedback to increase customer satisfaction and improve products and services.



### Listening

The customer support desk endeavors to respond swiftly and sincerely to turn customers' anxiety and complaints into reassurance and satisfaction. It works to understand the real intentions and expectations behind customer feedback and apply them to the development and improvement of products, services, and proposal-based marketing by sharing them within the Group via a database.

### Knowing

We have set up a monitoring room in the Customer Service Department to listen to feedback from customers, to learn whether they are angry, dissatisfied, or happy. In 2016, about 100 Group employees including the president participated in these sessions. We have also conducted activities to get customer feedback in plants, with nearly 10,000 employees participating annually.



Hakodate Carl Raymon Co., Ltd.

### Using

Utilizing customer feedback, we have made improvements that allow customers to enjoy safer and more delicious food, including labels about allergies and how to open packages. We also conduct telephone support training and on-site support training approximately 50 times a year to improve communication and strengthen trust with customers.



It says, "Easy to Open," but how do you open it? I can't open it. It says, "Easy to Open" on the bottom right, so

I thought that is where you're supposed to open it. (Woman, in her 70s or older, Osaka Prefecture)

#### Before improvement



#### After improvement



Improvement was made by moving the "Easy to Open" icon to the same position as the opening.

## Food Allergy Initiatives

The Group started research on food allergies in 1996, and in 1997 developed sausages that do not use specified raw ingredients that cause food allergies. Currently, we are developing allergen-free products, doing research, developing food allergen testing technology, and communicating information on food allergies.

### DEVELOPMENT OF ALLERGEN-FREE PRODUCTS

The Group manufactures and sells *Minna no Shokutaku*®, a product series that is free of seven specific raw materials\*, to help customers with food allergies enjoy the same food as the rest of their family. Sales of ham and sausages started in 2004 and the Group has now expanded the lineup to include *Gochiso Hamburg*, a dinner side dish, and *Komeko Pan* (bread made from rice flour), which can serve as a food staple. *Komeko Pan*, made from 100% rice flour produced in Sakata City, Yamagata Prefecture, is used for school lunches in all elementary and junior high schools in Sakata City. It can be enjoyed by both people with wheat allergies and those without, and also contributes to local production and local consumption initiatives.

\* Seven specified raw materials: eggs, milk, wheat, buckwheat, peanuts, shrimp, crab



The *Minna no Shokutaku*® series consists of 13 items.

### INITIATIVES AT THE DEDICATED ALLERGEN-FREE PRODUCT FACTORIES

At Nipponham Northeast Ltd., which manufactures products in the *Minna no Shokutaku*® series, as the dedicated allergen-free product factories, ingredients and products are strictly checked with specialized inspection kits to ensure that the seven specified raw materials are not used. When employees enter the factory, they are carefully treated with an air shower and a roller. We also pay special attention to the ingredients of lunches employees bring in.



Factories for dedicated allergen-free products

## Initiatives by the Nipponham Foundation

To deliver the joy of eating to everyone who has food allergies, the Nipponham Foundation, established in 2015, assists research efforts, disseminates information, and hosts educational activities about food allergies. This spring, the foundation was certified as a public interest corporation by the prime minister, and has continued its activities as the “Public Interest Corporation Nipponham Foundation” since April 2017.

### ● ASSISTANCE FOR FOOD ALLERGY RESEARCH

The Nipponham Foundation offers funding to Japanese research groups (collaborative research) and individual researchers, selected applications open to the public, to conduct food allergy research and solve allergy problems. The former is aimed at fundamental problem-solving through collaboration by researchers in different fields (such as

medicine and food science), while the latter is intended to nurture young researchers tackling food allergy challenges.

When the foundation started aiding research in fiscal 2016, it gave out ¥63.23 million in 25 grants. In fiscal 2017, the foundation received 65 applications for assistance and decided to aid 19 applicants.

### ● DISSEMINATION OF INFORMATION ABOUT FOOD ALLERGIES

#### Implementation of an “Allergen-Free Food Cooking Contest”

Cooking contests are held to pass on and develop allergen-free food cooking techniques for children with food allergies. In the second contest, held in fiscal 2016, 20 winners were selected from 631 entries, and an awards ceremony was held in March 2017. The award-winning dishes are made public on the website and through other means.



The awards ceremony



[Student Division]  
First Prize  
“Vegan Macaron”



[General Division]  
First Prize  
“Wheat-Free Udon Noodles with a Smooth Texture”

### Holding Food Allergy Seminars

The foundation held food allergy seminars at five venues nationwide\* for registered dietitians and others at nursery schools, regular schools, and hospitals. Doctors and university professors active on the front line of the food allergy field take the rostrum and speak on a wide range of topics, from basic knowledge to practical information useful in the workplace. In fiscal 2016, the number of applicants exceeded capacity at all venues, with a total of 813 people participating.

\* Held in Sapporo, Tokyo, Kanazawa, Hiroshima, and Oita in fiscal 2016.



A food allergy seminar

## Food Education Initiatives

To eat is to receive life. Communicating the importance of the blessings of life is the mission of all companies involved in food. The Group communicates the importance and joy of food to elementary, junior high and high school students—who are responsible for our future—through more than 500 activities a year, including in-class lessons and factory tours, aimed at nurturing a sense of the importance of food.

### FOOD EDUCATION SLOGAN



#### FOOD EDUCATION ACTIVITIES POLICY

- 1 Support healthy minds and bodies by eating right
- 2 Provide opportunities to enjoy eating and learn to enjoy eating
- 3 Nurture an attitude cherishing food and showing gratitude for the Bounty of Nature

### ● KIDZANIA TOKYO AND KIDZANIA KOSHIEIN

We opened “Sausage Workshop” pavilions at KidZania Koshien in 2013 and KidZania Tokyo in 2016. “Eating” means “receiving life.” That is why we hope to have children not only enjoy cooking, but also understand how food is made and learn to appreciate that they are receiving the Bounty of Nature. With this wish in mind, we will support children, who are responsible for our future, so that as many of them as possible can use the experience of cooking to gain an interest in food, which is so important to their growth.



Children enjoying sausage-making at KidZania



### ● IN-CLASS LESSONS AT SCHOOLS

The Group conducts in-class lessons on the subjects of food and health. To date, 23,448 elementary, junior high and high school students have participated in our wiener sausage-making workshops, which started in 2006. In fiscal 2016, Nippon Luna, Inc. began classes on the topics of yogurt and health.



In-class lesson at local elementary school (conducted by Nippon Luna)

### ● MANUFACTURING PLANT TOURS

The Group periodically offers plant tours at three ham and sausage manufacturing plants across Japan, striving to communicate our commitments toward our quality assurance framework, toward manufacturing, and toward strengthening people’s interest in food. We also accept applications by local elementary schools for field trips at processed food and dairy product plants.



Observing a manufacturing site from a corridor (Ibaraki Plant, Nipponham Factory Ltd.)



## Providing Opportunities to Play Sports

The Group provides opportunities for children to enjoy sports by holding and supporting athletic events, aiming to foster healthy minds and bodies. The Group also participates in the operation of a professional baseball team, the Hokkaido Nippon-Ham Fighters, and the J. League's Cerezo OSAKA, whose operation the Company supports as a partner company.

### OFFERING SPORTS LESSONS

We offer lessons in baseball and soccer across Japan, with former professional baseball players and J. League soccer players serving as coaches, to promote health and interest in sports among children. Approximately 3,100 students from elementary schools across the country participated in baseball lessons in fiscal 2016. At those lessons, coaches from the Hokkaido Nippon-Ham Fighters Baseball Academy offered tips on the techniques of catching and the pitcher-catcher battery. In addition, before and after games, registered dietitians from the RDC spoke to guardians about meals for children's growth period.



Training by coaches from the Baseball Academy



A food education seminar offered by registered dietitians from the RDC

## Nutritional Support for Athletes

Three registered dietitians from the RDC (two of whom are certified sports dietitians\*) give nutritional support to members of the Hokkaido Nippon-Ham Fighters and Cerezo OSAKA Academy.

\* Certified sports dietitian: a joint certification from the Japan Dietetic Association and the Japan Sports Association. Across Japan, 212 sports dietitians have been certified as sports nutrition experts who can precisely respond to the needs of players, coaches, trainers, and medical and scientific staff (number current as of October 1, 2016).

### NUTRITIONAL SUPPORT FOR THE HOKKAIDO NIPPON-HAM FIGHTERS

As part of the cultivation of young players, which has been a focus of the Hokkaido Nippon-Ham Fighters, the Group offers nutritional support for players who join the team after graduating from high school until their fourth year, and for players who join the team after graduating from university or adults joining from company baseball teams until their second year. This program provides nutritional guidance suited to the challenges

and goals of individual players via nutrition workshops, counseling, physical measurements, meal surveys, etc.



Hokkaido Nippon-Ham Fighters rookie nutrition workshop

### NUTRITIONAL SUPPORT FOR CEREZO OSAKA ACADEMY

Cerezo OSAKA Academy is a training organization for the professional soccer team Cerezo OSAKA, with more than 270 registered male aged 18 and under, and female players. The academy has one on-site registered dietitian who offers age-appropriate nutritional guidance for players from elementary school up to 23 years of age.



Nutrition workshop at Cerezo OSAKA Academy

## Human Resources Initiatives

The Group has formulated “ideal human resources sought by Nipponham Group” as a guide for growth and the ideal form for employees to realize our corporate philosophy. We aim to be a company chosen by society for its desirable human resources development that realizes the ideals of a working environment that respects diversity.

### ○ HUMAN RESOURCES DEVELOPMENT

Nipponham Group promotes the growth of each employee and respects diversity, while also working to develop strong organizations and human resources for promoting business globally.

#### Educational System

As part of the management system we envision, managers set goals for human resources development and organizational reform, and regular employees set goals to develop

### IDEAL HUMAN RESOURCES SOUGHT BY NIPPONHAM GROUP

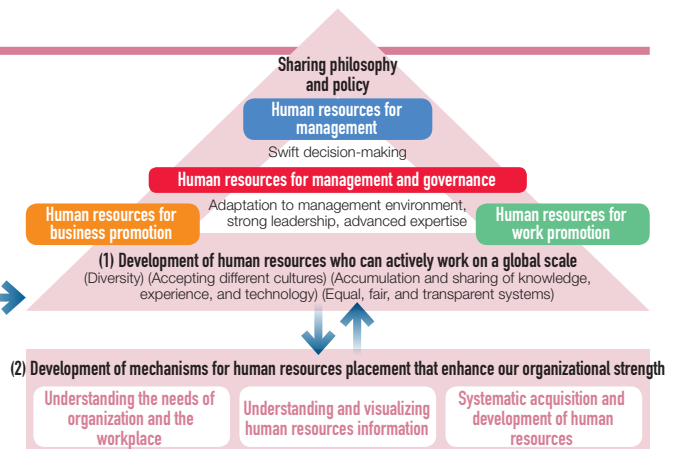
Absolute Reliability	Human resources who can communicate bilaterally, inside and outside the company
Novel Creativity	Human resources who are not satisfied with the status quo but who can create something new in terms of products and services
Endless Challenges	Human resources who can constantly strive to reach higher goals

#### Global Human Resources Development

The Group simultaneously promotes the development of human resources who can actively work on a global scale, along with the development of mechanisms for human resources placement that enhance our organizational strength. We also conduct on-site training at overseas offices for employees to systematically learn about business in other countries through actual work experience.



their own abilities. We promote human resources development through on-the-job training and also hold training programs to nurture next-generation management.



### ○ RESPECT FOR DIVERSITY

We pursue the development of worker-friendly workplace environments, to allow each employee to grow through diverse working styles and contribute to the company’s growth.

#### Promoting Women

NH Foods Ltd. has set a goal for female employees to hold 12% of leadership positions by the year 2020 and, for that, implements various measures including an active policy of job rotation.



#### Employing People with Special Needs

NH Foods Ltd. employs 41 people with special needs, accounting for 2.04% of our workforce.

#### Work-Life Balance

The Group holds time management meetings for the top managers of each department, human resources managers, and labor unions, with the goal of reducing overtime work. The Group also holds seminars on returning to the workplace after taking child care leave, with the goal of balancing work and child care.

## Environmental Activities

Nipponham Group operates businesses that nurture life in an irreplaceable environment and make good use of nature's bounties. To show appreciation for the blessings of nature and to realize corporate activities that are in harmony with the natural environment, the Group sets environmental targets every three years in its new medium-term management plan, while striving to understand and reduce its environmental impact.

### ENVIRONMENTAL TARGETS AND PROGRESS IN NEW MEDIUM-TERM MANAGEMENT PLAN PART 5

In New Medium-Term Management Plan Part 5, the Group formulated environmental targets for mitigation of climate change, initiatives to conserve resources, and ways to promote recycling. Environmental targets and progress in the second year are shown in the table.

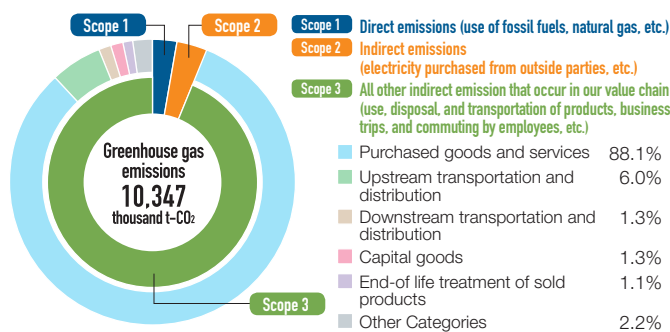
Targets in New Medium-Term Management Plan Part 5				
Indicators		Targets (Average between fiscal 2015 and fiscal 2017)	Baseline (Average between fiscal 2005 and fiscal 2010)	Progress in fiscal 2016
Mitigation of climate change	CO <sub>2</sub> emissions per unit of production	18.5% reduction (665.2kg-CO <sub>2</sub> /t)	816.2kg-CO <sub>2</sub> /t	13.3% reduction (707.9kg-CO <sub>2</sub> /t)
	Energy efficiency per unit of production	16.0% reduction (11.4GJ/t)	13.6GJ/t	13.2% reduction (11.8GJ/t)
Resource saving	Water consumption per unit of production	4.0% reduction (17.2m <sup>3</sup> /t)	17.9m <sup>3</sup> /t	3.4% reduction (17.3m <sup>3</sup> /t)
	Waste per unit of production*	6.0% reduction (231.1kg/t)	245.8kg/t	0.8% increase (247.7kg/t)*
Resource recycling	Waste recycling rate	More than 98.0%	95.8%	94.6%

\* Excluding farms

### UNDERSTANDING CO<sub>2</sub> EMISSIONS OF THE ENTIRE SUPPLY CHAIN

As an evaluation standard for proactively promoting environmental activities in cooperation with stakeholders, the Group works to understand not only the energy and resources used by the Group itself, but CO<sub>2</sub> emissions of the overall supply chain, including the use, disposal, and transportation of products, as well as effects of business trips and commuting by employees. CO<sub>2</sub> emissions in the fiscal year ended March 31, 2017 reached a total of 10,347 thousand tons.

### GREENHOUSE GAS EMISSIONS IN THE NIPPONHAM GROUP AND OUR VALUE CHAIN (FISCAL 2016)



Note: SGS Japan Inc. verified as a third party

### UNDERSTANDING CO<sub>2</sub> EMISSIONS OF THE OVER-ALL PRODUCT LIFE CYCLE

Nipponham Group works to understand CO<sub>2</sub> emissions during the overall product life cycle, from procurement of raw materials, to production, distribution, use, maintenance and management, disposal, and recycling, and to bring emissions to a level that effectively reduces the environmental burden. Also, to share information with customers, the Group has displayed carbon footprint marks on the *Mori-no-Kaori*® series since 2010.

### CO<sub>2</sub> EMISSIONS OF *Mori-no-Kaori*® COARSE-GROUND WIENERS (85G)



# Corporate Governance

The Nipponham Group aims to enhance the management transparency and efficiency of the entire Group and increase its corporate value by pursuing thorough compliance management and enhanced corporate governance.

\* For more information, see the Company website.

**WEB** <http://www.nipponham.co.jp/eng/ir/policy/governance.html>

## BASIC VIEWS ON CORPORATE GOVERNANCE

In order to establish a corporate governance system which Nipponham Group (the “Group”) considers most appropriate and in order to make such system functional so that the Company is able to exercise its social responsibility for the Group and to realize its vision of the Group as the ‘world’s leader in delivering the “Joy of Eating,”’ the Company hereby presents its basic views on the corporate governance of the Group, and will

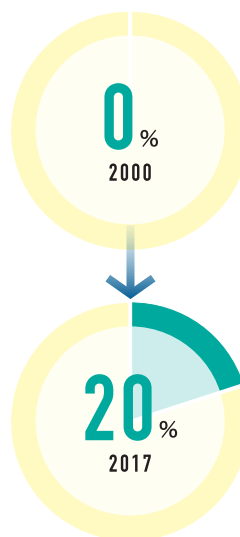
continuously strive to enhance such corporate governance.

The principles of corporate governance of the Group are to increase its management transparency and efficiency, to ensure timely and proper decision-making as well as appropriate business operations, to enable proactive and courageous business judgments and to clarify its responsibilities.

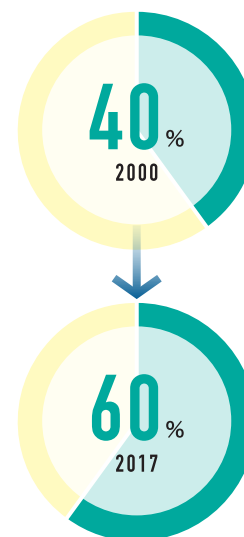
## EFFORTS TO STRENGTHEN CORPORATE GOVERNANCE

April 2003	Established Investment & Finance Committee
April 2003	Established Compensation Committee
April 2004	Established Corporate Governance Committee
May 2006	Established Corporate Value Evaluation Committee
April 2007	Established Risk Management Committee
April 2008	Established JSOX Committee
April 2009	Renamed JSOX Committee the Internal Control/JSOX Committee
April 2011	Established Executive Appointments Committee
April 2016	Established Board of Independent Officers and Representative Directors and Board of Independent Officers

### PROPORTION OF OUTSIDE DIRECTORS



### PROPORTION OF OUTSIDE AUDIT & SUPERVISORY BOARD MEMBERS



● Outside Directors and Outside Audit & Supervisory Board Members  
● Internal Directors and Internal Audit & Supervisory Board Members

The Board of Directors of the Company currently comprises eight internal executive directors and two independent outside directors, with the aims of enhancing management transparency, supervising business operation, and strengthening governance.

## CORPORATE GOVERNANCE SYSTEM

### Directors and Board of Directors

The Company has clarified responsibility and authority for monitoring by the Board of Directors and business implementation by executive officers. We limited the Board of Directors to fewer

than 12 members to ensure prompt decision-making and minimize the scope of liability of that body, with more than one outside director also being appointed, in principle, to ensure the transparency of the Board of Directors. The term of each director is set at one year to facilitate annual accountability. A meeting of the Board of Directors is held once a month, at which the

president and representative director serves as chairman. As the supreme decision-making body, the Board of Directors decides on matters set forth in laws and regulations and the Articles of Incorporation, as well as other important matters.

The Management Strategy Committee holds meetings twice a month and comprises directors (excluding outside directors) and executive officers appointed by the president. It makes decisions on important matters (excluding matters that require the Board of Directors' approval under laws and regulations as well as important management matters set forth in the Rules of the Board of Directors) and facilitates communication and coordination within the Group.

The matters to be submitted to the Board of Directors and the Management Strategy Committee are discussed in advance at semimonthly meetings of the Investment & Finance Committee and the Corporate Governance Committee.

## Audit & Supervisory Board Members and the Audit & Supervisory Board

In collaboration with the Board of Directors, the Audit & Supervisory Board's function is to supervise the Company, being an independent body entrusted by shareholders with the duty of auditing the execution of duties by directors. To ensure proper monitoring of directors and the execution of their duties, in principle, the number of Audit & Supervisory Board Members is five, of whom more than three are outside Audit & Supervisory Board Members.

Audit & Supervisory Board Members consist of one or more persons who have considerable expertise and knowledge of finance and accounting, as well as one or more with legal expertise, such as a lawyer. The Audit & Supervisory Board holds a meeting once a month and makes decisions on important matters concerning auditing.

### OPINIONS OF OUTSIDE DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS AND MEETING ATTENDANCE RECORD

Category	Name	Opinions Expressed	Attendance Record at Meetings of the Board of Directors and Audit & Supervisory Board
Outside Directors	Toshiko Katayama	Ms. Katayama, from time to time, expressed opinions on management in compliance with laws and the promotion of the consumer-oriented "Management for No. 1 Quality" from her professional standpoint as an attorney and from her abundant experience and knowledge of consumer affairs. She also served as chairman of the Compensation Committee, a member of the Executive Appointments Committee, and a member of the Compliance Committee.	Attended 19 of 19 Board of Directors' meetings
	Iwao Taka	Mr. Taka, from time to time, expressed his opinions on management in general toward the promotion of sound and efficient management, from his professional standpoint as a university professor specializing in corporate ethics and CSR, as well as his broad knowledge of international economics. He also served as chairman of the Executive Appointments Committee, a member of the Compensation Committee, and a member of the Corporate Value Enhancement Committee.	Attended 18 of 19 Board of Directors' meetings
Outside Audit & Supervisory Board Members	Akira Otsuka	Mr. Otsuka, from time to time, expressed his opinions toward ensuring the legality and appropriateness of Group management from his professional standpoint as an attorney-at-law and abundant experience with fairness and objectivity. He also served as a member of the Compensation Committee and a member of the Corporate Value Enhancement Committee.	Attended 19 of 19 Board of Directors' meetings Attended 20 of 20 Audit & Supervisory Board meetings
	Akihiko Shiba	Mr. Shiba, from time to time, expressed his opinions toward ensuring the legality and appropriateness of Group management from his professional standpoint as an attorney-at-law and abundant experience with fairness and objectivity. He also served as an observer of the Compliance Committee.	Attended 19 of 19 Board of Directors' meetings Attended 19 of 20 Audit & Supervisory Board meetings
	Atsushi Iwasaki	Mr. Iwasaki, from time to time, expressed his opinions on financial accounting as well as management in general from his professional standpoint as a certified public accountant and his abundant experience.	Attended 18 of 19 Board of Directors' meetings Attended 19 of 20 Audit & Supervisory Board meetings

## EVALUATION OF EFFECTIVENESS OF THE BOARD OF DIRECTORS

To ensure the evaluation of the effectiveness of directors' decision-making, the Board of Directors conducts self-assessments at each fiscal year-end on matters such as the progress of management issues, the composition of the Board of Directors and its operating method, and the status of deliberations, with the aim of enhancing the Board's effectiveness.

### Method and Process of Evaluating Effectiveness

Since fiscal 2016, the Company has distributed to all the directors and Audit & Supervisory Board Members the "Questionnaire on the

Effectiveness of the Board of Directors," reviewed by the Board of Independent Officers, and the Board of Directors has used the questionnaire's results to analyze and evaluate its effectiveness.

#### OUTLINE OF THE QUESTIONNAIRE SURVEY

##### Answering manner:

Evaluation by points, free answers

##### Answering method:

Anonymous responses

##### Officers subject to questionnaire:

All directors and Audit & Supervisory Board Members (15 individuals)

Issues will be identified based on the results of the analysis and evaluation, whereby the effectiveness of the Board of Directors will be enhanced with a view toward increasing corporate value and attaining the Group's objectives.

Results of the evaluation for fiscal 2016 revealed that effectiveness in decision-making and supervision of business operations by the Board of Directors have been secured reasonably in line with basic views on the Group's corporate governance.

\* The results of the evaluation are published in the "Nipponham Group Fundamental Policy on Corporate Governance" on the website of NH Foods Ltd.

## OPTIONAL COMMITTEES

To enhance the objectivity and transparency of decisions on management, the Company has established the following optional committees as advisory bodies to the Board of Directors.

	Objectives	When convened
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.	Meets quarterly and otherwise as needed
Executive Appointments Committee	Aims to enhance the transparency and objectivity of decisions regarding appointments of directors and Audit & Supervisory Board Members and improve supervision of the Board of Directors.	In principle, meets twice a year and otherwise as needed
Compensation Committee	Enhances the transparency and objectivity of decisions on compensation for corporate officers (including executive officers) and improves supervision of the Board of Directors.	In principle, meets twice a year and otherwise as needed
Board of Independent Officers and Representative Directors	To improve the Group's corporate value and provide a venue for proposing reformation of corporate culture, the board facilitates free and open discussions among Independent Officers and Representative Directors.	Meets at least once annually
Board of Independent Officers	Exchanges information and shares knowledge from an independent and objective perspective.	Meets at least once annually
Corporate Value Enhancement Committee	To receive recommendations, made from the standpoint of a disinterested party, to the Company's Board of Directors on the Company's desired antitakeover measures as well as measures for increasing the Group's corporate value, from the viewpoint of ensuring and enhancing the Group's corporate value and the common interests of its shareholders.	Meets at least four times annually

### COMPOSITION OF OPTIONAL COMMITTEES (As of July 1, 2017)

● Committee Chairperson ● Committee Member \*Independent Officers

Position	Name	Executive Appointments Committee	Compensation Committee	Board of Independent Officers and Representative Directors	Board of Independent Officers	Compliance Committee	Corporate Value Enhancement Committee
President and Representative Director	Juichi Suezawa		●	●		●	Observer
Vice President and Representative Director	Yoshihide Hata	●	●	●		●	Observer
Vice President and Representative Director	Kazunori Shinohara			●		●	
Representative Director	Koji Kawamura			●			
Director	Hajime Takamatsu	●				●	
Director (Outside)	Toshiko Katayama*	●	●	●	●	●	
Director (Outside)	Iwao Taka *	●	●	●	●		●
Audit & Supervisory Board Member (Outside)	Akira Otsuka*		●	●	●		●
Audit & Supervisory Board Member (Outside)	Akihiko Shiba*	●		●	●	Observer	
Audit & Supervisory Board Member (Outside)	Atsushi Iwasaki*			●	●		

- Notes: 1. From the perspective of eliminating any arbitrariness, President and Representative Director Juichi Suezawa and Vice President and Representative Director Yoshihide Hata will not attend meetings of the Corporate Value Enhancement Committee that are held in the event of a large purchase action (a purchase of the shares of the Company for the purpose of holding or resulting in holding 20% or more of the voting rights of the Company).
2. The Compliance Committee comprises the Compliance Department manager, external experts, and union representatives, in addition to the above members.
3. The Corporate Value Enhancement Committee comprises three external experts independent from the Company, in addition to the above members.

## COMPENSATION OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

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 Members.

We ensure that the compensation of directors and Audit & Supervisory Board Members is 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.

The compensation of each director comprises a basic salary, based on his or her position, and stock acquisition-based compensation.

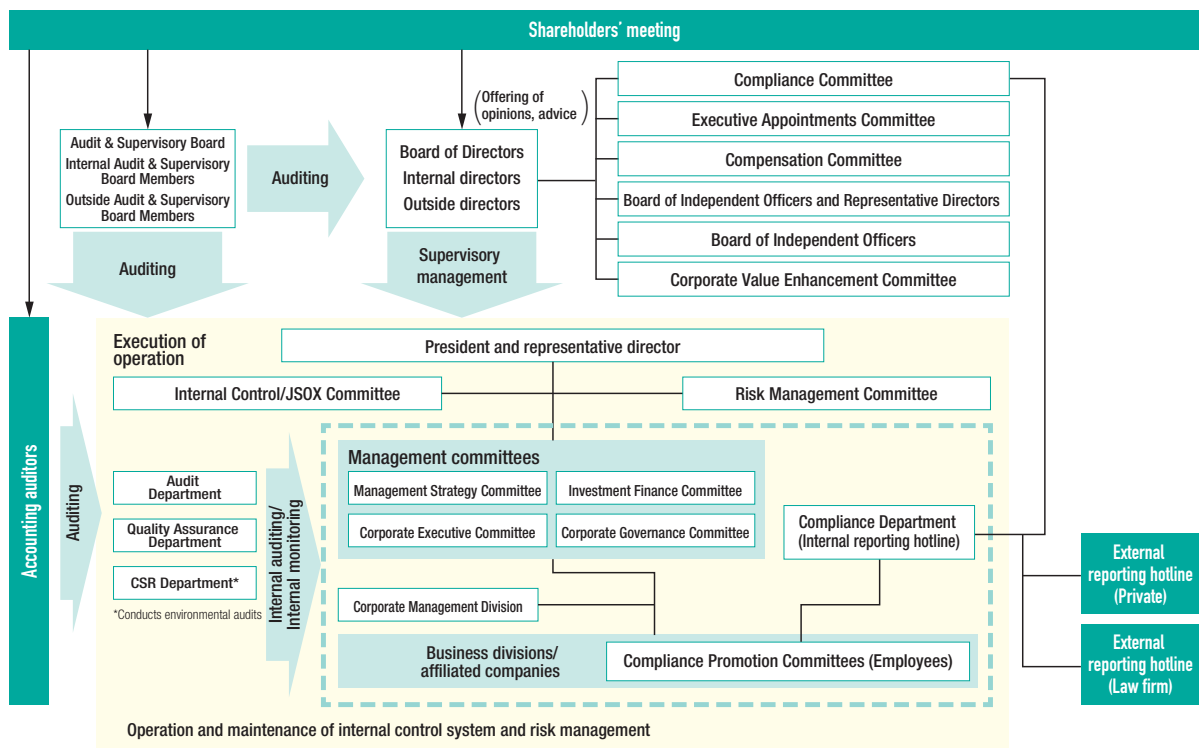
The compensation of each outside director is limited to just basic compensation, as determined by his or her position.

The compensation of each Audit & Supervisory Board Member is limited to just basic compensation, taking into consideration his or her position. No retirement gratuity or stock acquisition-based compensation is paid.

### TOTAL COMPENSATION FOR DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS, TOTAL FOR ALL TYPES OF COMPENSATION, AND NUMBER OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

	Total for All Types of Compensation (Millions of yen)	Total Compensation (Millions of yen)			Number of Directors and Audit & Supervisory Board Members
		Basic Compensation	Performance-based Compensation	Stock Acquisition-based Compensation	
Directors (excluding outside directors)	328	216	58	54	8
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	48	48	-	-	3
Outside directors and Audit & Supervisory Board Members	60	60	-	-	5

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



## AUDITING SYSTEM

### Internal Audits and Audits by Audit & Supervisory Board Members

Internal audits (assigned by 21 auditing staff in the Audit Department) are carried out jointly by Audit & Supervisory Board Members and accounting auditors. Such audits are conducted at plants, business offices and other facilities, as well as at both domestic and overseas subsidiaries to assess their accounts and operations. The results of internal audits are reported at the Board of Directors, and are carefully considered to ensure both thorough compliance and improvement of business conduct.

To assess the effectiveness of internal controls, accounting auditors hold discussions with the Audit Department to obtain an understanding of the status of internal audits. They also exchange information concerning audit results to increase the efficiency of audits.

With regard to audits by Audit & Supervisory Board Members

(five appointed members), these members attend meetings of the Board of Directors and Management Strategy Committee, as well as other relevant meetings to confirm proper business operation by directors. Audit & Supervisory Board Members also monitor the effectiveness of internal controls. To implement highly effective internal controls, they seek detailed information regarding matters they judge to be important in the performance of their duties (including matters concerning accounting auditors' audit plans, their judgments on accounting treatment and presentation, and audit results, among others), and set up opportunities for discussions with accounting auditors, on a timely basis, to determine the presence of actual or potential problems that the Audit & Supervisory Board has identified while performing its duties.

## ACCOUNTING AUDITS

### Accounting Audits

The Company has concluded an auditing contract with Deloitte Touche Tohmatsu LLC, to carry out audits in accordance with the Companies Act of Japan and the Financial Instruments and Exchange Act. In addition, the department in charge of accounting holds discussions with accounting auditors, as necessary, with the aim of improving the transparency and correctness of accounting procedures.

Names of CPAs who performed audits	Name of independent auditor
Wakyu Shinmen	Deloitte Touche Tohmatsu LLC
Koichi Sekiguchi	Deloitte Touche Tohmatsu LLC
Shunsuke Matsumoto	Deloitte Touche Tohmatsu LLC

Notes: 1. Assistants who helped with accounting audits included 23 CPAs, 11 CPA-certified individuals and 19 other individuals.  
2. As the number of consecutive years that audits have been performed does not exceed seven years, this information is not stated.

# Internal Control

The Nipponham Group is committed to strengthening internal controls at our offices and at Group companies, in recognition of the importance of not only the management framework, but also cumulative efforts in the workplace to fulfill responsibilities to all stakeholders and enhance the effectiveness of compliance and risk management.

## COMPLIANCE PROMOTION FRAMEWORK

### Compliance Committee

Chaired by the president of NH Foods Ltd., the Compliance Committee comprehensively evaluates issues such as verification of compliance status, development of a compliance promotion framework, and the formulation of compliance policies for the entire Nipponham Group. It also plans measures to promote compliance awareness and proposes them to the Board of Directors and other management committees.

### Compliance Promotion Committees

The Compliance Promotion Committees, which have been established within individual Group companies and business divisions, discuss compliance and proactively develop compliance awareness activities.

### Compliance Leader Conference



Compliance Leader Conference for fiscal 2017  
Chairperson  
Vice chairpersons

The Compliance Leader Conference comprises representatives of the Compliance Promotion Committees and plans specific activities for

ensuring compliance awareness for the entire Nipponham Group. In 2016, we produced a DVD covering misconduct in 2002 that gave rise to the compliance activities of the Group and led to organized study sessions for all employees. In fiscal 2017, we will promote our compliance activities under the theme “We all are partners of each other; let’s create and coordinate workplaces we can be proud of.”

#### Establishment of clear guidelines for compliance

- Nipponham Group’s action standards
- Manuals for Group company action standards



#### Execution of publicity campaigns

- Compliance training
- Compliance meetings
- Office study groups



Compliance training

#### Monitoring

- Compliance questionnaires/surveys
- Consultation desks
- Centralized management of critical information in accordance with the Company’s rules for information processing and management
- On-site visits

## RISK MANAGEMENT

The Risk Management Team was established within the General Affairs Department to comprehensively manage the risks that the entire Group faces. 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.



## Interview with Outside Director

### WHAT IS YOUR ADVICE FOR ENSURING THE TRANSPARENCY AND OBJECTIVITY OF THE NIPPONHAM GROUP'S GOVERNANCE? AS AN OUTSIDE DIRECTOR, HOW DO YOU MEET THE HIGH EXPECTATIONS OF SHAREHOLDERS AND OTHER INVESTORS?

Independent outside directors must closely monitor whether companies properly formulate management policies and execute business operations to ensure sustainable growth over the medium to long terms while enhancing corporate value. It is vital to remain aware of and to proactively engage in Corporate Social Responsibility (CSR) activities to truly enhance corporate value. The Nipponham Group focuses on five critical CSR issues. They include producing food that is safe and reliable, supporting mental and physical well-being through food and sports, and maintaining workplaces that motivate employees. I consider it imperative for corporate management to look beyond short-term profits and results to solidify social reputations well into the future. I present my advice after assessing whether the Nipponham Group is meeting society's demands by posing difficult questions from the perspectives of consumers and other stakeholders.



**TOSHIKO KATAYAMA**  
Outside Director

### WHAT DO YOU THINK OF THE NIPPONHAM GROUP'S CORPORATE GOVERNANCE?

The Group maintains an appropriate governance system. I laud its efforts to reflect the views of outside directors in implementing and improving governance. For example, it now more extensively explains agendas before meetings of the Board of Directors. That has provided more opportunities for asking questions and exchanging views with relevant people before those gatherings. This has significantly enhanced board deliberations. One challenge will be to improve communication among various stakeholders within and outside divisions. That should lead to further discussions and create a working environment that is conducive to people acting after fully understanding and accepting tasks, thus bolstering governance commitments.

### WHAT ARE THE GROUP'S STRENGTHS AND OPPORTUNITIES?

Food should provide numerous benefits to people.

The Nipponham Group's mission is to deliver healthy, delicious food that enhances the joy of eating for people around the globe. The Group thus has unlimited potential and opportunities.

I believe the Nipponham Group's strengths lie in employees who put their hearts into constantly pursuing new challenges with food by drawing on the Group's top-quality technologies, integration system, and the fruits of its research.

# Board Members and Executive Officers (As of June 28, 2017)



**JUICHI SUEZAWA**  
President and Representative Director (President and CEO)

- April 1976 Joined Nippon Meat Packers, Inc.
- 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 Nippon Meat Packers, Inc.
- April 2012 Managing Executive Officer, General Manager of Fresh Meats Business Division of Nippon Meat Packers, Inc.
- June 2012 Director and Managing Executive Officer, General Manager of Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2014 Director and Senior Managing Executive Officer, General Manager of Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2015 President and Representative Director (President and CEO) of NH Foods Ltd., to date



**HIROJI OKOSO**  
Director and Senior Managing Executive Officer

- April 1980 Joined Nippon Meat Packers, Inc.
- June 1990 Director, General Manager of Market Development Office, General Manager of Sales Planning Department of Nippon Meat Packers, Inc.
- June 1992 Executive Managing Director, General Manager of Sales Planning Department of Nippon Meat Packers, Inc.
- June 1994 Senior Executive Managing Director, General Manager of Sales Planning Department of Nippon Meat Packers, Inc.
- June 1996 President and Representative Director of Nippon Meat Packers, Inc.
- August 2002 Senior Executive Managing Director, General Manager of Tokyo Branch Office of Nippon Meat Packers, Inc.
- April 2003 Director and Managing Executive Officer, General Manager of Tokyo Branch Office, General Manager of Affiliated Business Division of Nippon Meat Packers, Inc.
- April 2015 Director and Senior Managing Executive Officer, in charge of Quality Assurance Department, Customer Service Department, and General Manager of Tokyo Branch Office of NH Foods Ltd.
- April 2016 Director and Senior Managing Executive Officer, General Manager of Overseas Business Division of NH Foods Ltd., to date



**YOSHIHIDE HATA**  
Vice President and Representative Director (Executive Vice President)

- April 1981 Joined Nippon Meat Packers, Inc.
- April 2009 Executive Officer, General Manager of Accounting & Finance Department of Nippon Meat Packers, Inc.
- June 2011 Director and Executive Officer, General Manager of Accounting & Finance Department and in charge of IT Planning Department of Nippon Meat Packers, Inc.
- April 2012 Director and Managing Executive Officer, General Manager of Corporate Management Division, in charge of Accounting & Finance Department and IT Strategy Department of Nippon Meat Packers, Inc.
- April 2015 Vice President and Representative Director (Executive Vice President), General Manager of Corporate Management Division of NH Foods Ltd., to date



**KATSUMI INOUE**  
Director and Senior Managing Executive Officer

- April 1978 Joined Nippon Meat Packers, Inc.
- April 2003 Executive Officer of Nippon Meat Packers, Inc., Vice President and Director, General Manager of Production Management of Nippon Meat Packers Australia Pty. Ltd. (currently NH Foods Australia Pty. Ltd.)
- April 2013 Executive Officer, General Manager of Imported Fresh Meats Sales Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2015 Senior Managing Executive Officer, General Manager of Fresh Meats Business Division of NH Foods Ltd.
- June 2015 Director and Executive Officer, General Manager of Fresh Meats Business Division of NH Foods Ltd., to date



**KAZUNORI SHINOHARA**  
Vice President and Representative Director (Executive Vice President)

- April 1979 Joined Nippon Meat Packers, Inc.
- April 2010 Executive Officer, General Manager of Corporate Planning Department, Corporate Management Division of Nippon Meat Packers, Inc.
- April 2012 Executive Officer, General Manager of Administrative Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2014 Executive Officer, General Manager of Administrative Division and Business Planning Office, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- June 2015 Director and Executive Officer, General Manager of Affiliated Business Division of NH Foods Ltd.
- April 2016 Director and Managing Executive Officer, General Manager of Affiliated Business Division of NH Foods Ltd.
- April 2017 Vice President and Representative Director (Executive Vice President), in charge of Group business restructuring of NH Foods Ltd., to date



**TETSUHIRO KITO**  
Director and Managing Executive Officer

- April 1982 Joined Nippon Meat Packers, Inc.
- April 2011 Executive Officer, General Manager of Food Services Division, Sales & Marketing Division, Processed Foods Business Division of Nippon Meat Packers, Inc.
- April 2013 Executive Officer, General Manager of General Merchandising Division, Sales & Marketing Division, Processed Foods Business Division of Nippon Meat Packers, Inc.
- April 2015 Executive Officer, General Manager of Sales & Marketing Division, Processed Foods Business Division of NH Foods Ltd.
- June 2015 Director and Executive Officer, General Manager of Sales & Marketing Division, Processed Foods Business Division of NH Foods Ltd.
- April 2017 Director and Managing Executive Officer, General Manager of Sales & Marketing Division, Processed Foods Business Division of NH Foods Ltd., to date



**KOJI KAWAMURA**  
Representative Director and Senior Managing Executive Officer

- April 1983 Joined Nippon Meat Packers, Inc.
- April 2009 Executive Officer, General Manager of Corporate Planning Department, Corporate Management Division of the Group of Nippon Meat Packers, Inc.
- April 2010 Executive Officer, General Manager of Affiliated Business Division of Nippon Meat Packers, Inc.
- June 2010 Director and Executive Officer, General Manager of Affiliated Business Division of Nippon Meat Packers, Inc.
- April 2015 Representative Director and Senior Managing Executive Officer, General Manager of Processed Foods Business Division of NH Foods Ltd., to date



**HAJIME TAKAMATSU**  
Director and Managing Executive Officer

- April 1981 Joined Nippon Meat Packers, Inc.
- April 2012 Executive Officer, General Manager of General Affairs Department, in charge of Human Resources Department and Legal Affairs Department of Nippon Meat Packers, Inc.
- April 2013 Executive Officer, in charge of General Affairs Department, Human Resources Department, Legal Affairs Department and Engineering Department of Nippon Meat Packers, Inc.
- April 2014 Executive Officer, General Manager of Corporate Planning Department, Corporate Management Division, in charge of Research & Development Center of Nippon Meat Packers, Inc.
- April 2015 Executive Officer, General Manager of Corporate Planning Department, in charge of CSR Department and IT Strategy Department, Corporate Management Division, and in charge of Research & Development Center of NH Foods Ltd.
- June 2015 Director and Executive Officer, General Manager of Corporate Planning Department, in charge of CSR Department and IT Strategy Department, Corporate Management Division, and in charge of Research & Development Center of NH Foods Ltd.
- April 2016 Director and Executive Officer, in charge of Quality Assurance Department and Customer Service Department, in charge of Human Resources Department, Legal Affairs Department, General Affairs Department, Accounting & Finance Department, IT Strategy Department, Corporate Management Division, and General Manager of Tokyo Branch Office of NH Foods Ltd.
- April 2017 Director and Managing Executive Officer, in charge of Human Resources Department, Legal Affairs Department, General Affairs Department, Accounting & Finance Department and IT Strategy Department of Corporate Management Division, and General Manager of Tokyo Branch Office of NH Foods Ltd., 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 Established Katayama Toshiko Law Office
- July 2005 Established Katayama, Kuroki and Hiraizumi Law Office (currently Katayama and Hiraizumi Law Office), to date
- June 2008 Director of Nippon Meat Packers, Inc., to date



**AKIRA OTSUKA**  
Outside  
Audit & Supervisory  
Board Member

- April 1973 Registered with Kobe Bar Association (currently 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.
- April 1994 Civil Law Mediator of Kobe Summary Court
- April 2001 President of Hyogo-ken Bar Association
- October 2003 Kobe City Education Board Member
- April 2004 Vice President of the Japan Federation of Bar Associations
- April 2005 Visiting Professor of Kobe Gakuin University, Graduate School of Law Practices
- April 2008 Established Kobe Kyoryuchi Law Firm, to date, Professor of Kobe Gakuin University, Graduate School of Law Practices
- March 2011 Substitute Auditor of Noritz Corporation, to date
- June 2011 Outside Auditor of Kobe Port Terminal Corporation
- June 2011 Audit & Supervisory Board Member of Nippon Meat Packers, Inc., to date



**IWAO TAKA**  
Outside Director

- September 1991 Fisher-Smith Visiting Fellow of the Wharton School of Business, University of Pennsylvania
- April 1994 Full-time lecturer of Faculty of International Economics, Reitaku University
- April 2001 Professor of Faculty of International Economics (currently Faculty of Economics), Reitaku University, to date
- April 2002 Professor of School of International Economics (currently School of Economics), Graduate School, Reitaku University, to date
- June 2005 Outside Director of Mitsui Sumitomo Insurance Company, Ltd.
- April 2007 Visiting Professor of Business Management Graduate School, Kyoto University
- April 2008 Outside Director of Mitsui Sumitomo Insurance Group Holdings, Inc.
- April 2009 Dean of Faculty of Economics, Reitaku University
- June 2010 Director of Nippon Meat Packers, Inc., to date
- June 2015 Outside Statutory Auditor of Mitsubishi Estate Company, Limited
- June 2016 Outside Director (Audit and Supervisory Committee Member) of Mitsubishi Estate Company, Limited, to date



**AKIHIRO SHIBA**  
Outside  
Audit & Supervisory  
Board Member

- April 1991 Joined National Police Agency
- January 1993 Associate Professor of National Police Academy
- July 1996 Manager of Foreign Affairs Division, Security Department of Kanagawa Prefectural Police Headquarters
- July 1998 Assistant Manager of Foreign Affairs Division, Security Bureau of National Police Agency
- October 2004 Registered with Daini Tokyo Bar Association Joined T.Kunihiro & Co. Attorneys-at-Law
- April 2010 Representative of Shiba Management Legal Office, to date
- May 2010 Outside Corporate Auditor of Fukuda Denshi Co. Ltd.
- June 2010 Outside Director of Veriserve Corporation
- June 2011 Substitute Audit & Supervisory Board Member of Nippon Meat Packers, Inc.
- June 2011 Outside Corporate Auditor of Okamoto Glass Co., Ltd.
- June 2013 Outside Corporate Auditor of AIRPORT FACILITIES CO., LTD., to date
- December 2013 Outside Director of Minnano Wedding Co., Ltd.
- June 2015 Audit & Supervisory Board Member of NH Foods Ltd., to date
- June 2016 Outside Director (Audit and Supervisory Committee Member) of VeriServe Corporation, to date



**KOICHI NISHIHARA**  
Audit & Supervisory  
Board Member

- April 1975 Joined Nippon Meat Packers, Inc.
- March 2003 General Manager of Public Relations Office of Nippon Meat Packers, Inc.
- April 2003 General Manager of Public Relations Office, Management Division of Nippon Meat Packers, Inc.
- August 2003 General Manager of Public Relations Department, Management Division of Nippon Meat Packers, Inc.
- April 2008 General Manager of Public & Investor Relations Department, Corporate Management Division of Nippon Meat Packers, Inc.
- March 2009 General Manager of General Affairs Department of Nippon Meat Packers, Inc.
- April 2012 Executive Officer, General Manager of Compliance Department, in charge of Environmental & Social Responsibility Office of Nippon Meat Packers, Inc.
- March 2015 Special Advisor of NH Foods Ltd.
- June 2015 Audit & Supervisory Board Member of NH Foods Ltd., to date



**ATSUSHI IWASAKI**  
Outside  
Audit & Supervisory  
Board Member

- November 1990 Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
- March 1991 Registered as certified public accountant
- March 1997 Registered as real estate appraiser
- September 2005 Head of Iwasaki Certified Public Accountant Office, to date
- June 2013 Outside Director of ISEKI & CO., LTD., to date
- June 2015 Audit & Supervisory Board Member of NH Foods Ltd., to date
- June 2016 Outside Audit & Supervisory Board Member of OLYMPUS CORPORATION, to date



**SHUNICHI OGATA**  
Audit & Supervisory  
Board Member

- April 1979 Joined Nippon Meat Packers, Inc.
- March 2003 General Manager of Domestic Pork Department, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- August 2003 General Manager of Domestic Business Management Office, Domestic Fresh Meats Sales Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- February 2005 General Manager of Administrative Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2007 Executive Officer, General Manager of Administrative Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2010 Executive Officer, General Manager of Domestic Fresh Meats Sales Division, Fresh Meats Business Division of Nippon Meat Packers, Inc.
- April 2013 Executive Officer, General Manager of Quality Assurance Department and Customer Communications Department of Nippon Meat Packers, Inc.
- April 2015 Managing Executive Officer, General Manager of Quality Assurance Department and Customer Service Department of NH Foods Ltd.
- April 2016 Special Advisor of NH Foods Ltd.
- June 2016 Audit & Supervisory Board Member of NH Foods Ltd., to date

#### Managing Executive Officers

Sadanori Miyagai      Kanji Bando      Koichi Oyama

#### Executive Officers

Hiroyuki Yano	Keiji Maeda	Kenichi Nagai
Shuji Okoso	Shigeru Nakajima	Takao Seki
Sadakazu Ogawa	Nobuo Oda	Nobuyuki Tazawa
Fumio Maeda	Tadaaki Ito	Hiroyuki Tsukuda
Masahito Kataoka	Nobuhisa Ikawa	Takeo Kudo
Hideki Fujii	Kuniharu Hirai	Kenya Maruyama

# Financial Section

## Management's Discussion and Analysis

### 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 foreign exchange. Actual performance may differ significantly from the targets in this presentation, and investment decisions should not be based exclusively on them.

### Explanation of Company Name

In this annual report, the "Group" refers to NH Foods Ltd. and its subsidiaries unless otherwise indicated.

## OVERVIEW OF BUSINESS RESULTS

Despite delays in improvement in some economic sectors, the Japanese economy recovered slowly in the year ended March 31, 2017, reflecting a better employment environment owing to the government's economic policies. At the same time, consumption trends around the world remained adverse in light of unclear economic, foreign exchange, and stock market movements stemming from policy uncertainties.

The operating climate in the food industry was again adverse. This was because while raw material costs stabilized, the domestic fresh meats market weakened, logistics costs rose amid a human resources shortage, and competition intensified.

Against this backdrop, the Group pushed ahead with New Medium-Term Management Plan Part 5, launched in April 2015. This initiative is in line with the aim of "Creating a stable business model through reform," and its two management policies are to "Establish competitive advantages of domestic businesses" and "Accelerate to a global company."

Specific measures included establishing the Overseas Business Division, reinforcing the domestic farm business, developing and promoting new products, enhancing productivity to strengthen cost competitiveness and improve profitability, developing human resources, and reinforcing risk management. The Group held a sale to show appreciation to fans of the Hokkaido Nippon-Ham Fighters, who won the 2016 Japan Championship Series of the Nippon Professional Baseball Organization. It also aired corporate television commercials featuring professional baseball and soccer players to highlight awareness of the Group and its businesses. Overseas, the Group established a joint venture company in Malaysia, and divested its hog farming business in the United States and other underperforming operations. The Group also continued to reinforce its management structure in keeping with the Nipponham Group Fundamental Policy on Corporate Governance, established in November 2015.

As a result of these activities, consolidated net sales for the year declined 2.2%, to ¥1,202,293 million, although operating

income increased 9.3%, to ¥53,802 million. Income before income taxes and equity in earnings (losses) of associated companies increased 39.1%, to ¥49,112 million. Net income attributable to NH Foods Ltd. rose 60.7%, to ¥35,004 million.

### NET SALES

Sales of hams and sausages were unchanged from a year earlier. This reflected lower sales volumes of private brand merchandise, offsetting a gain in sales of national brand consumer products as a result of favorable demand for *SCHAU ESSEN*<sup>®</sup> due to solid promotion and the addition of the new product *Hojun*<sup>®</sup> coarse-ground wieners and other offerings. Sales of commercial products were robust, as major restaurant chains deployed mainstay items. The Group greatly increased unit sales of gift packs during a generally challenging year-end gift-giving season, reflecting promotion centered on the flagship *Utsukushi-no-Kuni* brand, launched 10 years earlier. Sales in the hams and sausages segment thus declined 0.1%, to ¥141,362 million.

In processed foods, the Group heavily promoted new *Kiwami-yaki*<sup>®</sup> *Hamburg*, key prefried offerings *CHIKIHIKI Bone*<sup>®</sup> and *Chicken Nuggets*, and *Tenshinkaku*<sup>®</sup>, a Chinese dumpling line. It also developed *SCHAU ESSEN Soup* and other new categories. Convenience store chains began offering major commercial products. Segment sales therefore increased 3.4%, to ¥228,904 million.

In fresh meats, the Group undertook an array of promotional initiatives, including having the Hokkaido Nippon-Ham Fighters hold a *Sakurahime & Mugikomachi* (brands of chicken and pork) night game, running *Sakurahime*<sup>®</sup> television commercials and advertising on radio. The Group also undertook extensive marketing activities for domestic chicken, for which production was favorable, and for U.S. beef, for which supply volumes and prices were stable, thereby boosting sales volumes. Although food company sales volumes increased on the strength of tie-ups with partners, the fresh meats market weakened, which decreased segment sales 4.5%, to ¥673,871 million.

In marine products, the Group focused on selling sushi items and in-house manufactured goods through major retail channels, but struggled in a harsh sales environment due to decreased catches of salmon, squid, and scallops in Japan, as well as a decreased supply of crabs, etc., from overseas. Segment sales accordingly fell 3.2%, to ¥91,637 million.

In dairy products, sales of yogurt and lactic acid probiotic beverages were up owing to favorable demand for the mainstay *Vanilla Yogurt* and yogurt beverages through convenience store channels, as well as stronger sales of a new smoothie series. Demand was solid for cheese, reflecting growth in commercial demand from key bakeries, restaurants, and food producers, as well as its popularity with consumers. Sales of the dairy products segment thus advanced 6.3%, to ¥33,380 million.

As a result of these factors, consolidated net sales dropped 2.2%, to ¥1,202,293 million.

## GROSS PROFIT, INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS (LOSSES) OF ASSOCIATED COMPANIES, AND NET INCOME ATTRIBUTABLE TO NH FOODS LTD.

The cost of goods sold decreased 3.6% year on year, to ¥968,995 million. The ratio of the cost of goods sold to net sales was 80.6%, compared with 81.8% in the previous fiscal year. Gross profit grew 4.3%, to ¥233,298 million. Selling, general and administrative expenses increased 2.8%, to ¥179,496 million, while the ratio of selling, general and administrative expenses to net sales increased 0.7% from the previous fiscal year, to 14.9%.

Income before income taxes and equity in earnings (losses) of associated companies rose 39.1%, to ¥49,112 million, reflecting an increase in operating income.

As a result, net income attributable to NH Foods Ltd. increased 60.7% year on year, to ¥35,004 million. Basic earnings per share attributable to NH Foods Ltd. amounted to ¥171.74.

## BUSINESS RESULTS BY SEGMENT

The Group established the Overseas Business Division on April 1, 2016. The new division assumed control of foreign subsidiaries and affiliates that previously operated under the Processed Foods Business Division, Fresh Meats Business Division, and Affiliated Business Division.

### ● Processed Foods Business Division

Sales of hams and sausages were unchanged from a year earlier. This reflected lower sales volumes of private brand merchandise, offsetting a gain in sales of national brand consumer products as a result of favorable demand for *SCHAU ESSEN*® due to solid promotion and the popularity of *Hojun*® coarse-ground wieners and other new offerings. Sales of commercial products were robust, as major restaurant chains deployed mainstay items. The Group greatly increased unit sales of gift packs during a generally challenging year-end gift-giving season, reflecting promotion centered on the flagship *Utsukushi-no-Kuni* brand, launched 10 years earlier.

In processed foods, the Group heavily promoted new

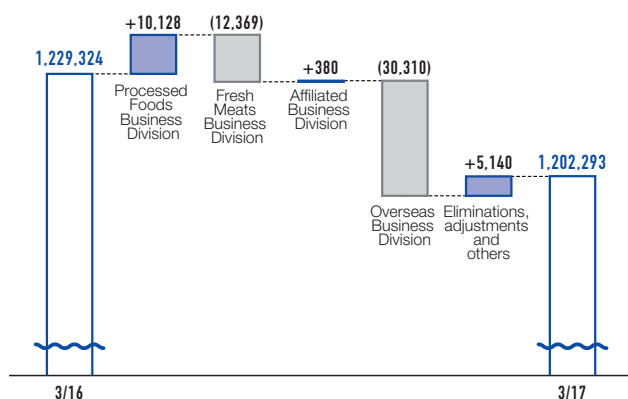
*Kiwami-yaki*® Hamburg, key prefried offerings *CHIKICHIKI Bone*® and *Chicken Nuggets*, and *Tenshinkaku*®, a Chinese dumpling line. It also developed *SCHAU ESSEN Soup* and other new categories. Convenience store chains began offering major commercial products. Segment sales were thus up from the previous fiscal year and the overall sales of the division increased.

Although personnel expenses owing to labor shortages increased, earnings increased as higher volumes drove gross margins up and fuel prices stabilized.

As a result of such factors, segment sales increased 3.0%, to ¥348,253 million, and operating income surged 103.0%, to ¥7,911 million.

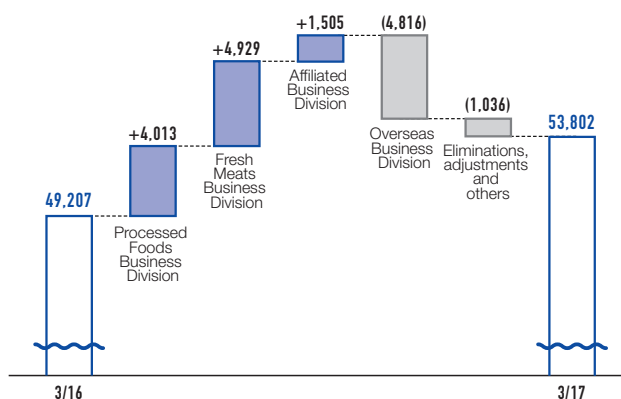
### FACTORS IMPACTING NET SALES

(Millions of yen)



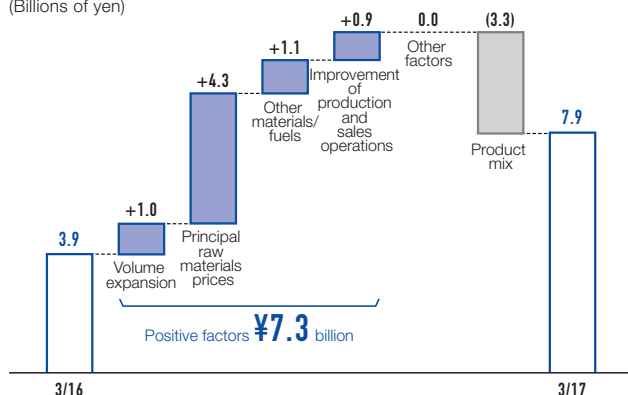
### FACTORS IMPACTING OPERATING INCOME

(Millions of yen)



## FACTORS IMPACTING OPERATING INCOME (PROCESSED FOODS BUSINESS DIVISION)

(Billions of yen)



### ● Fresh Meats Business Division

In fresh meats, the Group undertook an array of promotional initiatives, including having the Hokkaido Nippon-Ham Fighters hold a *Sakurahime & Mugikomachi* (brands of chicken and pork) night game, running *Sakurahime*® television commercials and advertising on radio. The Group also undertook extensive marketing activities for domestic chicken, for which production was favorable, and for U.S. beef, for which supply volumes and prices were stable, thereby boosting sales volumes. Although food company sales volumes increased on the strength of tie-ups with partners, the fresh meats market weakened, which decreased segment sales from the previous fiscal year.

Earnings rose for the full year because, while meat prices in the domestic farm business were lower than a year earlier and an avian influenza outbreak at year-end hampered the business climate, the Group endeavored to expand production volumes and lower costs. Sales businesses experienced intensified competition, but they undertook extensive marketing and promotional efforts with mass merchandising stores, restaurants, convenience stores, and other diverse partner channels, increasing sales volumes, cutting costs, and thereby improving profits.

As a result of these factors, segment sales declined 1.6%, to ¥741,565 million. Operating income, however, increased 12.6%, to ¥43,898 million.

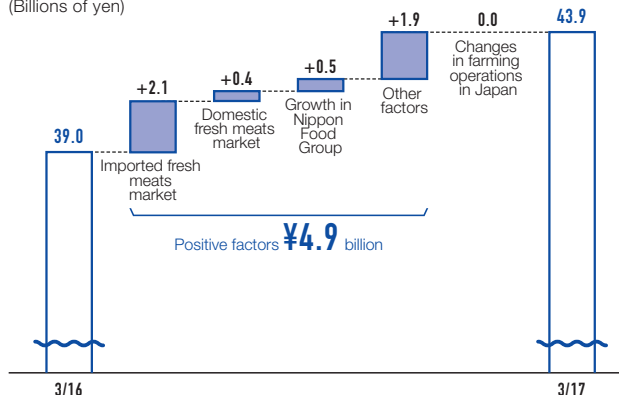
### ● Affiliated Business Division

In marine products, the Group focused on selling sushi items and in-house manufactured goods through major retail channels, but struggled in a harsh sales environment due to decreased catches of salmon, squid, and scallops in Japan, as well as a decreased supply of crabs, etc., from overseas. Segment sales accordingly fell from the previous fiscal year.

In dairy products, sales of yogurt and lactic acid probiotic beverages were up owing to favorable demand for the mainstay *Vanilla Yogurt* and yogurt beverages through convenience store channels, as well as stronger sales of a new smoothie series. Demand was solid for cheese, reflecting growth in commercial

## FACTORS IMPACTING OPERATING INCOME (FRESH MEATS BUSINESS DIVISION)

(Billions of yen)



demand from key bakeries, restaurants, and food producers, as well as its popularity with consumers. Therefore, dairy product earnings increased overall.

Earnings of the marine products business grew on increased sales of high-value-added merchandise and price revisions that enhanced margins. In the dairy products business, profits were higher for yogurt and lactic acid probiotic beverages, owing to higher sales and stabilized raw materials costs. Earnings in cheese improved on increased sales, which bolstered plant operation rates and stabilized raw materials prices. Therefore, dairy product earnings increased overall.

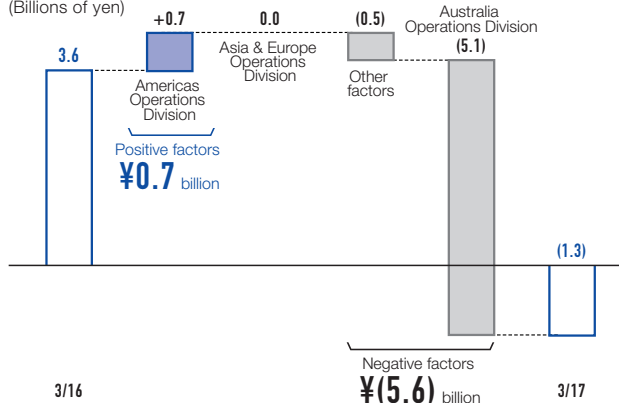
Owing to these factors, segment sales advanced 0.2%, to ¥159,041 million, while operating income rose 67.2%, to ¥3,746 million.

### ● Overseas Business Division

Sales of this division were down owing to the impact of foreign currency translations that offset growth at processed food sales units in the Americas and steady exports of fresh meat. In Australia, cattle numbers decreased and purchase prices remained high, greatly impeding sales. In Asian and European businesses, sales were down owing to the impact of foreign currency translations

## FACTORS IMPACTING OPERATING INCOME (LOSS) (OVERSEAS BUSINESS DIVISION)

(Billions of yen)



that overshadowed gains in Thai export sales and steady domestic sales in Vietnam, Turkey, and China. Sales overall were down because of the sales downturn at Australian operations.

On the earnings front, operations in the Americas performed steadily, with processed food production and sales and fresh meat exports contributing to results. In Australia, profits declined owing to such factors as lower operation rates accompanying a drop in

cattle numbers. In Asia and Europe, operations experienced difficulties because foreign currency and raw materials trends hampered Thai plant production and Turkish poultry farming.

As a result of these factors, sales of the Overseas Business Division dropped 12.4%, to ¥214,384 million. There was an operating loss of ¥1,251 million, compared with ¥3,565 million in operating income a year earlier.

## OUTLOOK FOR THE YEAR ENDING MARCH 31, 2018

Management expects the economic picture to remain unclear in the year ahead owing to turmoil in financial markets stemming from uncertain policies around the world and personnel shortages in Japan driving logistics costs higher, offsetting ongoing benefits from domestic government stimulus measures. The Group will thus move forward with the New Medium-Term Management Plan Part 5, launched in April 2015, with the aim of “Creating a stable business model through reform.” The two prime policies of this initiative are to “Establish competitive advantages of domestic businesses” and “Accelerate to a global company.”

In the Processed Foods Business Division, despite signs of a gradual recovery in consumption, the operating climate will probably remain adverse owing to intensifying price competition, higher raw materials and fuel prices, and other factors. Production and marketing operations will thus collaborate in moving ahead with growth strategies and plans to strengthen the Group's underpinnings.

Growth strategies will be to analyze markets according to customer perspectives, cultivate brand products and build new brands to drive forward with the Category Leader Strategy, and reinforce area sales. The Group will endeavor to increase market share and profitability by reinforcing marketing capabilities while pushing ahead with strategies in its consumer, commercial, frozen foods, and other businesses while strengthening collaboration within the Group. In product development, the Group will bolster its mass-produced volume zone lineup while leveraging high-value-added offerings and innovative products to cultivate new markets. Plans to strengthen the Group's underpinnings will entail installing high-productivity lines as part of strategic capital investments for the future and drawing on production and sales collaborations to enhance visualization of production lines and strengthen cost competitiveness.

In the Fresh Meats Business Division, the Group expects the operating climate to remain challenging amid changes in the meat and grain markets and the volatility in global supply and demand. The Group will therefore reinforce its unique integration system, covering everything from its own farms to sales companies, to bolster its position in branded meats and further expand domestic market share. In Japan and abroad, the Group will bolster production and procurement capabilities from medium- and long-term

perspectives and continue to reinforce its efficient sales and delivery systems nationwide.

The Affiliated Business Division will strengthen its manufacturing, development, and sales capabilities, primarily in the marine and dairy products businesses, expanding the scale of domestic operations. The manufacturing sector will invest strategically to drive efficiencies through capital expenditures and establish a structure to increase production over the medium and long terms. Raw materials prices will probably rise amid dramatic swings in supply and demand. The Group will reinforce its procurement and development capabilities in Japan and abroad to differentiate in-house manufactured goods and deliver high added value, thereby enhancing profitability. On the sales front, the focus will be on customer-oriented marketing and Group collaboration in driving forward with multiproduct channel strategies and cultivating new markets.

The Overseas Business Division will continue to integrate production and sales, expanding sales in nations where it does business. Group companies in these markets will collaborate to boost sales to third countries. They will drive growth by harnessing the Group's comprehensive strengths, such as by leveraging product development capabilities and quality control techniques cultivated in Japan, and deliver an array of merchandise and services that matches local preferences. We will bolster our manufacturing and sales sites from medium- and long-term perspectives while continuing to focus on reinforcing governance.

With the harsh operating climate posing numerous challenges, the Group will make a concerted effort to deploy management policies and strategies and optimize synergies through Group collaboration with the aim of “Creating a stable business model through reform” under the New Medium-Term Management Plan Part 5.

For the year ending March 31, 2018, management targets consolidated net sales of ¥1,250.0 billion, an increase of 4.0% year on year. It also anticipates operating income to rise 4.1%, to ¥56.0 billion, income before income taxes, and equity in earnings (losses) of associated companies to increase 3.8%, to ¥51.0 billion, and net income attributable to NH Foods Ltd. to rise 5.7%, to ¥37.0 billion.

## ANALYSIS OF FINANCIAL POSITION

### ASSETS

At year-end, total assets stood at ¥720,276 million, a rise of 5.5% from a year earlier. Current assets relating to discontinued operations were down ¥8,206 million owing to an American subsidiary's divestment of its hog farming business. Cash and cash equivalents increased 22.8%, however, to ¥82,639 million, and time deposits rose 79.8%, to ¥18,616 million. Current assets therefore increased 4.2% from the close of the year, to ¥379,398 million. Property, plant and equipment (less accumulated depreciation) rose 7.3%, to ¥283,364 million, reflecting gains in capital investment.

### LIABILITIES

Short-term bank loans increased 18.0%, to ¥48,804 million, and trade notes and accounts payable rose 8.0%, to ¥101,857 million. Long-term debt (less current maturities) was down 24.7%, to ¥76,658 million. This decline mainly reflected the conversion of euroyen convertible bonds with stock acquisition rights due September 2018. Liabilities of ¥311,920 million were thus down 3.0% from a year earlier.

### TOTAL NH FOODS LTD. SHAREHOLDERS' EQUITY

Total NH Foods Ltd. shareholders' equity increased 13.4% from the close of the previous year, to ¥404,126 million. Among the prime factors were ¥35,004 million in net income attributable to NH Foods Ltd. and the issuance of new shares from conversions of euroyen convertible bonds with stock acquisition rights due September 2018, adding ¥7,640 million to common stock and ¥7,915 million to capital surplus. Also, interest-bearing debt dropped ¥16,299 million, to ¥138,284 million.

As a result of these factors, the total NH Foods Ltd. shareholders' equity ratio rose 3.9 percentage points, to 56.1%.

Note: 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.

### CASH FLOWS

#### ● Cash Flows from Operating Activities

Net cash provided by operating activities was ¥65,254 million, compared with ¥52,535 million a year earlier. This was due largely to increases in net income, depreciation and amortization, and trade notes and accounts payable, which offset a decrease in accrued expenses and other current liabilities.

#### ● Cash Flows from Investing Activities

Net cash used in investing activities was ¥38,271 million, down from ¥49,139 million a year earlier, reflecting capital expenditures and an increase in time deposits that offset a net increase in cash and cash equivalents from business sales.

#### ● Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,439 million, compared with net cash provided by financing activities of ¥8,182

million a year earlier. Key factors included cash dividends and repayments of debt, although there was an increase in short-term bank loans as well as proceeds from debt.

As a result, cash and cash equivalents at year-end increased ¥15,318 million, to ¥82,639 million.

### CAPITAL EXPENDITURES

The Group has created an "integration system" that covers all aspects of its operations—from farming to processing, production, distribution, and sales—and invests in fixed assets as necessary to enhance, rationalize, and strengthen this system. These investments totaled approximately ¥43.8 billion (including software) for the fiscal year. The principal investments are as described below.

#### ● Processed Foods Business Division

This division, primarily Nipponham Factory Ltd., Nipponham Processed Foods Ltd., and other subsidiaries, used approximately ¥11.3 billion, mainly to expand and upgrade production facilities for hams and sausages, and processed foods.

#### ● Fresh Meats Business Division

Capital expenditures by the division totaled approximately ¥22.1 billion. This spending included approximately ¥6.3 billion by Nippon White Farm Co., Ltd., Interfarm Co., Ltd., and other subsidiaries to upgrade and refurbish breeding facilities; approximately ¥12.0 billion by Nippon Logistics Center, Inc., Nishi Nippon Food, Inc., and other subsidiaries to improve operational and logistics facilities; and approximately ¥3.7 billion by Nippon Food Packer, Inc., Nippon Pure Food, Inc., and other subsidiaries to upgrade processing and packing facilities.

#### ● Affiliated Business Division

Capital expenditures totaling ¥3.8 billion were made in such areas as updating production and operational facilities in the marine and dairy products businesses of Hoko Co., Ltd. and Nippon Luna, Inc., among others.

#### ● Overseas Business Division

The Overseas Business Division made around ¥3.6 billion in capital investments, including upgrading production and breeding facilities at Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi.

### SHAREHOLDER RETURNS POLICY

The Group prioritizes returns to shareholders as one of its most important management issues and, as a basic policy, aims to pay dividends that are commensurate with results. Management seeks to use retained earnings to fund investments to enhance corporate value over the long term and to further strengthen the Group's financial position.

In keeping with this basic policy, management targets a consolidated payout ratio of 30%, although it plans a lower dividend limit of ¥16.00 per share for the time being. Management will flexibly



acquire treasury stock, taking into account growth investments and the Group's financial position, to enhance shareholder value per share and return on equity.

As stated in the Notice of Dividends of Surplus, announced on May 9, 2017, management paid a year-end dividend of ¥52.00 per share of common stock (for a consolidated payout ratio of

30.3%) for the year ended March 31, 2017. Based on a projection of ¥37.0 billion in net income attributable to NH Foods Ltd. for the year ending March 31, 2018, management targets a year-end dividend of ¥53.00 per share of common stock on 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 are related to future events, based on judgments made by the Group as of March 31, 2017.**

### 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 products. As a consequence, the Group's operating results and financial condition are vulnerable to fluctuations 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 and crude oil prices. The Group also manufactures marine and dairy products, and is thus vulnerable to market conditions and fluctuations in the prices of raw materials used in these businesses.

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 livestock market and the Group's operating results and financial condition may also be significantly affected by outbreaks of disease—such as BSE, avian influenza, foot-and-mouth disease, and the porcine epidemic diarrhea (PED) virus—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 laws and regulations; creation of a quality and safety assurance network; objective assessment of product safety; product traceability; and closer links with customers.

In line with these policies, the Group has built a rigorous quality assurance framework 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 its food defense strategy. 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, it will ensure prompt disclosure and take all necessary measures to prevent exacerbation of any such problems and 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 increases in costs have 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 foreign currency forward exchange contracts, currency swap contracts, currency option contracts, and cross currency swap contracts. Such measures do not, however, guarantee protection against the impact of these risks. Moreover, the use of hedging instruments to minimize foreign exchange risks 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 risks. All foreign currency forward exchange contracts, currency swap contracts, currency option contracts, and cross-currency swap contracts are carried out based on these policies and on internal regulations governing transactional authority and transaction amount limits.

## 5. Interest Rate Risks

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—¥138.3 billion as of March 31, 2017—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, 2017, 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. Risks of Impairment Losses on Long-Lived Assets

Should the value of long-lived 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. Risks 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 laws or regulations, or the repealing of laws or regulations
- Unforeseen adverse economic or social event
- Occurrence of social or economic disorder caused by such events as war, conflict, or terrorist attack

## 9. Risks 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 measures 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 to 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 instill awareness of compliance matters. The Group has established a risk management structure that ensures its ability to respond swiftly to recognized risks. The Compliance Committee, which is chaired by an executive who is appointed 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 CSR Department, 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 that 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				
	2017	2016	2015	2014	2013
Net Sales	<b>¥1,202,293</b>	¥1,229,324	¥1,199,956	¥1,110,766	¥1,011,619
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	<b>49,112</b>	35,309	43,797	35,673	30,552
Net Income Attributable to NH Foods Ltd.	<b>35,004</b>	21,779	31,048	24,524	16,459
Total Assets	<b>720,276</b>	682,855	661,567	627,220	610,293
Total NH Foods Ltd. Shareholders' Equity	<b>404,126</b>	356,353	353,664	320,984	293,414
Interest-Bearing Debt	<b>138,284</b>	154,583	136,758	144,901	149,821
Net Cash Provided by Operating Activities	<b>65,254</b>	52,535	29,681	32,952	37,407
Net Cash Used in Investing Activities	<b>(38,271)</b>	(49,139)	(31,517)	(27,021)	(22,384)
Free Cash Flow	<b>26,983</b>	3,396	(1,836)	5,931	15,023
Net Cash Provided by (Used in) Financing Activities	<b>(11,439)</b>	8,182	(17,187)	(9,373)	(10,964)
Capital Expenditures	<b>43,765</b>	36,799	35,694	29,152	33,285
Depreciation and Amortization	<b>19,765</b>	19,445	18,951	18,649	19,323

Per Share Amounts:		Yen				
Basic Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	<b>¥ 171.80</b>	¥ 122.78	¥ 148.85	¥ 124.01	¥ 91.47	
Discontinued operations	<b>(0.06)</b>	(15.86)	3.58	(1.90)	(12.05)	
Total	<b>¥ 171.74</b>	¥ 106.92	¥ 152.43	¥ 122.11	¥ 79.42	
Diluted Earnings per Share Attributable to NH Foods Ltd. Shareholders						
Continuing operations	<b>¥ 161.33</b>	¥ 115.30	¥ 139.75	¥ 112.64	¥ 82.28	
Discontinued operations	<b>(0.06)</b>	(14.86)	3.36	(1.72)	(10.84)	
Total	<b>¥ 161.27</b>	¥ 100.44	¥ 143.11	¥ 110.92	¥ 71.44	
Total NH Foods Ltd. Shareholders' Equity	<b>¥1,916.47</b>	¥1,749.36	¥1,736.18	¥1,575.97	¥1,474.60	
Cash Dividends	<b>¥ 52.00</b>	¥ 33.00	¥ 46.00	¥ 37.00	¥ 24.00	

Financial Indicators:		Percent				
Return on Equity (ROE)	<b>9.2%</b>	6.1%	9.2%	8.0%	5.6%	
Return on Assets (ROA)	<b>7.0%</b>	5.3%	6.8%	5.8%	5.1%	
NH Foods Ltd. Shareholders' Equity Ratio	<b>56.1%</b>	52.2%	53.5%	51.2%	48.1%	

		Times				
Debt/Equity Ratio	<b>0.34</b>	0.43	0.39	0.45	0.51	
Interest Coverage Ratio	<b>57.40</b>	35.10	24.20	21.30	22.80	

### 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.
- Certain figures for the years ended on or before March 31, 2014 were adjusted retrospectively as a result of a change in accounting policy about the classification of "cash and cash equivalents" for the year ended March 31, 2015.
- In accordance with Accounting Standards Codification ("ASC") Topic 205, "Presentation of Financial Statements," certain figures for the years ended on or before March 31, 2016 relating to the discontinued operation have been reclassified to conform to the current year's presentation.
- 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 = (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 operating activities + Net cash used in investing activities  
NH Foods Ltd. Shareholders' Equity Ratio = (NH Foods Ltd. shareholders' equity / Total assets) × 100  
Debt / Equity Ratio = Interest-bearing debt / NH Foods Ltd. shareholders' equity  
Interest Coverage Ratio = Net cash provided by operating activities / Interest paid

## Consolidated Balance Sheets

NH Foods Ltd. and Subsidiaries  
March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents (Note 1)	¥ 82,639	¥ 67,321	\$ 737,848
Time deposits	18,616	10,354	166,214
Trade notes and accounts receivable (Note 1)	128,579	128,285	1,148,027
Allowance for doubtful accounts	(373)	(382)	(3,330)
Inventories (Notes 1, 2 and 7)	132,697	133,518	1,184,795
Deferred income taxes (Notes 1 and 8)	6,650	6,041	59,376
Other current assets (Note 16)	10,590	10,830	94,553
Current assets of discontinued operations (Note 18)		8,206	
<b>Total current assets</b>	<b>379,398</b>	<b>364,173</b>	<b>3,387,483</b>
<b>Property, Plant and Equipment – At Cost, Less Accumulated Depreciation (Notes 1, 4, 6, 7, 13 and 15)</b>	<b>283,364</b>	<b>264,014</b>	<b>2,530,035</b>
<b>Intangible Assets, Less Accumulated Amortization (Notes 1, 5, 6 and 15)</b>	<b>4,715</b>	<b>4,832</b>	<b>42,098</b>
<b>Investments and Other Assets:</b>			
Investments in associated companies (Notes 1 and 3)	5,100	4,737	45,536
Other investment securities (Notes 1, 3 and 15)	28,828	24,978	257,393
Other assets (Note 9)	11,244	10,800	100,393
<b>Total investments and other assets</b>	<b>45,172</b>	<b>40,515</b>	<b>403,322</b>
<b>Deferred Income Taxes – Non-current (Notes 1 and 8)</b>	<b>7,627</b>	<b>9,321</b>	<b>68,098</b>
<b>Total Assets</b>	<b>¥720,276</b>	<b>¥682,855</b>	<b>\$6,431,036</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
<b>Liabilities and Equity:</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 7)	¥ 48,804	¥ 41,374	\$ 435,750
Current maturities of long-term debt (Notes 7, 13 and 15)	12,822	11,450	114,482
Trade notes and accounts payable	101,857	94,276	909,438
Accrued income taxes (Notes 1 and 8)	8,920	7,122	79,643
Deferred income taxes (Notes 1 and 8)	1,402	1,584	12,518
Accrued expenses (Note 9)	22,357	21,611	199,616
Other current liabilities (Note 16)	21,591	23,015	192,777
Current liabilities of discontinued operations (Notes 16 and 18)		488	
Total current liabilities	217,753	200,920	1,944,224
Liability under Retirement and Severance Programs (Notes 1 and 9)	13,268	14,426	118,464
Long-term Debt, Less Current Maturities (Notes 7, 13 and 15)	76,658	101,759	684,447
Deferred Income Taxes – Non-current (Notes 1 and 8)	2,561	2,632	22,866
Other Long-term Liabilities	1,680	1,758	15,000
Total Liabilities	311,920	321,495	2,785,001
<b>Commitments and Contingent Liabilities (Notes 1, 9, 13 and 19)</b>			
<b>NH Foods Ltd. Shareholders' Equity:</b>			
Common stock, no par value – authorized, 570,000,000 shares; issued: 2017 – 210,895,298 shares 2016 – 204,000,000 shares (Notes 7 and 11)	31,806	24,166	283,982
Capital surplus (Notes 7, 10 and 11)	58,873	50,958	525,652
Retained earnings:			
Appropriated for legal reserve (Note 11)	8,275	8,150	73,884
Unappropriated (Notes 11 and 20)	303,208	275,051	2,707,214
Accumulated other comprehensive income (loss) (Note 12)	2,005	(1,515)	17,901
Treasury stock, at cost: 2017 – 25,901 shares 2016 – 295,049 shares (Note 11)	(41)	(457)	(366)
Total NH Foods Ltd. shareholders' equity	404,126	356,353	3,608,267
Noncontrolling Interests	4,230	5,007	37,768
Total Equity	408,356	361,360	3,646,035
Total Liabilities and Equity	¥720,276	¥682,855	\$6,431,036

## Consolidated Statements of Income

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Net Sales (Notes 1 and 16)	¥1,202,293	¥1,229,324	¥1,199,956	\$10,734,759
Cost of Goods Sold (Notes 2 and 16)	968,995	1,005,646	981,127	8,651,741
Selling, General and Administrative Expenses (Note 1)	179,496	174,471	171,059	1,602,643
Other Operating Costs and Expenses (Income) – Net (Notes 4, 5 and 6)	5,320	11,849	4,305	47,500
Interest Expense (Note 16)	1,140	1,384	1,344	10,179
Other Income (Expenses) – Net (Note 16)	1,770	(665)	1,676	15,804
Income from Continuing Operations before Income Taxes and Equity in Earnings (Losses) of Associated Companies	49,112	35,309	43,797	438,500
Income Taxes (Notes 1 and 8):				
Current	15,787	12,905	12,959	140,955
Deferred	(1,257)	212	536	(11,223)
Total income taxes	14,530	13,117	13,495	129,732
Income from Continuing Operations before Equity in Earnings (Losses) of Associated Companies	34,582	22,192	30,302	308,768
Equity in Earnings (Losses) of Associated Companies – Net of Applicable Income Taxes (Note 1)	485	(207)	133	4,330
Net Income from Continuing Operations	35,067	21,985	30,435	313,098
Income (Loss) from Discontinued Operations – Net of Applicable Income Taxes (Notes 16 and 18)	(12)	(3,230)	729	(107)
Net Income	35,055	18,755	31,164	312,991
Net (Income) Loss Attributable to Noncontrolling Interests	(51)	3,024	(116)	(455)
Net Income Attributable to NH Foods Ltd.	¥ 35,004	¥ 21,779	¥ 31,048	\$ 312,536
Per Share Amounts (Note 1):		Yen		U.S. Dollars
Basic earnings per share attributable to NH Foods Ltd. shareholders				
Continuing operations	¥ 171.80	¥ 122.78	¥ 148.85	\$ 1.53
Discontinued operations	(0.06)	(15.86)	3.58	(0.00)
Total	¥ 171.74	¥ 106.92	¥ 152.43	\$ 1.53
Diluted earnings per share attributable to NH Foods Ltd. shareholders				
Continuing operations	¥ 161.33	¥ 115.30	¥ 139.75	\$ 1.44
Discontinued operations	(0.06)	(14.86)	3.36	(0.00)
Total	¥ 161.27	¥ 100.44	¥ 143.11	\$ 1.44

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
Net Income	¥35,055	¥18,755	¥31,164	\$312,991
Other Comprehensive Income (Loss) – Net of Applicable Income Taxes (Note 12):				
Net unrealized gains (losses) on securities available-for-sale (Notes 1 and 3)	3,063	(677)	2,162	27,348
Pension liability adjustments (Note 9)	1,727	(4,082)	2,318	15,419
Foreign currency translation adjustments	(1,886)	(5,535)	4,778	(16,839)
Total other comprehensive income (loss)	2,904	(10,294)	9,258	25,928
Comprehensive Income	37,959	8,461	40,422	338,919
Net Comprehensive (Income) Loss Attributable to Noncontrolling Interests	565	3,677	(184)	5,045
Net Comprehensive Income Attributable to NH Foods Ltd.	¥38,524	¥12,138	¥40,238	\$343,964

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31, 2017, 2016 and 2015

	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, 2014</b>	¥24,166	¥55,655	¥7,748	¥271,902	¥(1,064)	¥(37,423)	¥320,984	¥2,991	¥323,975
Net income				31,048			31,048	116	31,164
Other comprehensive income (Note 12)					9,190		9,190	68	9,258
Cash dividends (Note 11)				(7,536)			(7,536)	(83)	(7,619)
Transfer to retained earnings appropriated for legal reserve (Note 11)			157	(157)					
Acquisition of treasury stock (Note 11)						(21)	(21)		(21)
Disposition of treasury stock (Note 11)		(57)				56	(1)		(1)
Cancellation of treasury stock		(4,560)		(32,370)		36,930			
Sales of subsidiary shares								(332)	(332)
<b>Balance, March 31, 2015</b>	24,166	51,038	7,905	262,887	8,126	(458)	353,664	2,760	356,424
Net income				21,779			21,779	(3,024)	18,755
Other comprehensive loss (Note 12)					(9,641)		(9,641)	(653)	(10,294)
Cash dividends (Note 11)				(9,370)			(9,370)	(41)	(9,411)
Transfer to retained earnings appropriated for legal reserve (Note 11)			245	(245)					
Acquisition of treasury stock (Note 11)						(10)	(10)		(10)
Disposition of treasury stock (Note 11)		(10)				11	1		1
Acquisition and capital increase of subsidiaries								6,094	6,094
Others		(70)					(70)	(129)	(199)
<b>Balance, March 31, 2016</b>	24,166	50,958	8,150	275,051	(1,515)	(457)	356,353	5,007	361,360
Net income				35,004			35,004	51	35,055
Other comprehensive income (Note 12)					3,520		3,520	(616)	2,904
Cash dividends (Note 11)				(6,722)			(6,722)	(22)	(6,744)
Transfer to retained earnings appropriated for legal reserve (Note 11)			125	(125)					
Acquisition of treasury stock (Note 11)						(9)	(9)		(9)
Disposition of treasury stock (Note 11)		(29)				31	2		2
Conversion of convertible bonds (Note 7)	7,640	7,770				394	15,804		15,804
Capital increase of subsidiaries		235					235	150	385
Others		(61)					(61)	(340)	(401)
<b>Balance, March 31, 2017</b>	¥31,806	¥58,873	¥8,275	¥303,208	¥ 2,005	¥ (41)	¥404,126	¥4,230	¥408,356

	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, 2016</b>	\$215,768	\$454,983	\$72,768	\$2,455,812	\$(13,527)	\$(4,081)	\$3,181,723	\$44,706	\$3,226,429
Net income				312,536			312,536	455	312,991
Other comprehensive income (Note 12)					31,428		31,428	(5,500)	25,928
Cash dividends (Note 11)				(60,018)			(60,018)	(196)	(60,214)
Transfer to retained earnings appropriated for legal reserve (Note 11)			1,116	(1,116)					
Acquisition of treasury stock (Note 11)						(80)	(80)		(80)
Disposition of treasury stock (Note 11)		(259)				277	18		18
Conversion of convertible bonds (Note 7)	68,214	69,375				3,518	141,107		141,107
Capital increase of subsidiaries		2,098					2,098	1,339	3,437
Others		(545)					(545)	(3,036)	(3,581)
<b>Balance, March 31, 2017</b>	\$283,982	\$525,652	\$73,884	\$2,707,214	\$ 17,901	\$ (366)	\$3,608,267	\$37,768	\$3,646,035

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31, 2017, 2016 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017	2016	2015	2017
<b>Operating Activities:</b>				
Net income	¥ 35,055	¥ 18,755	¥ 31,164	\$ 312,991
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	20,287	19,926	19,405	181,134
Impairment losses	2,285	11,081	3,047	20,402
Income taxes deferred	(1,257)	272	554	(11,223)
Foreign exchange translation adjustments	715	(3,193)	(963)	6,384
Increase in trade notes and accounts receivable	(796)	(113)	(8,929)	(7,107)
Decrease (increase) in inventories	1,305	5,894	(20,259)	11,652
Decrease (increase) in other current assets	742	(34)	(2,260)	6,625
Increase (decrease) in trade notes and accounts payable	7,705	(304)	(3,617)	68,795
Increase (decrease) in accrued income taxes	1,808	(598)	3,294	16,143
Increase (decrease) in accrued expenses and other current liabilities	(1,039)	232	8,727	(9,277)
Others – net	(1,556)	617	(482)	(13,894)
Net cash provided by operating activities	65,254	52,535	29,681	582,625
<b>Investing Activities:</b>				
Capital expenditures	(40,183)	(37,604)	(34,519)	(358,777)
Proceeds from sales of capital assets	1,211	1,839	2,212	10,813
Increase in time deposits	(7,735)	(202)	(1,027)	(69,063)
Purchases of marketable securities and other investment securities	(624)	(2,798)	(308)	(5,571)
Proceeds from sales and maturities of marketable securities and other investment securities	2,481	475	2,185	22,152
Investments in associated companies	(195)	(1,891)		(1,741)
Net decrease in cash and cash equivalents resulting from purchase of business		(8,563)		
Net increase in cash and cash equivalents resulting from sale of business	5,372		358	47,964
Others – net	1,402	(395)	(418)	12,518
Net cash used in investing activities	(38,271)	(49,139)	(31,517)	(341,705)
<b>Financing Activities:</b>				
Cash dividends	(6,744)	(9,411)	(7,619)	(60,214)
Increase (decrease) in short-term bank loans	4,063	18,506	(18,532)	36,277
Proceeds from debt	6,282	30,408	19,631	56,089
Repayments of debt	(15,277)	(32,614)	(10,646)	(136,402)
Contributions from noncontrolling interests	424	1,502		3,786
Acquisition of treasury stock	(9)	(10)	(21)	(80)
Others – net	(178)	(199)	0	(1,590)
Net cash provided by (used in) financing activities	(11,439)	8,182	(17,187)	(102,134)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(226)	(1,661)	1,499	(2,018)
Net Increase (Decrease) in Cash and Cash Equivalents	15,318	9,917	(17,524)	136,768
Cash and Cash Equivalents at Beginning of the Year	67,321	57,404	74,928	601,080
Cash and Cash Equivalents at End of the Year	¥ 82,639	¥ 67,321	¥ 57,404	\$ 737,848
<b>Additional Cash Flow Information:</b>				
Interest paid	¥ 1,136	¥ 1,496	¥ 1,229	\$ 10,143
Income taxes paid	14,305	13,165	10,493	127,723
Capital lease obligations incurred	3,864	4,686	2,773	34,500
Conversion of convertible bonds	15,771			140,813

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

NH Foods Ltd. and Subsidiaries  
For the Years Ended March 31, 2017, 2016 and 2015

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

**Nature of Operations** – NH Foods Ltd. and its subsidiaries (the “Group”) are 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, 2017 are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112=\$1, the approximate rate of exchange on March 31, 2017. 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. 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, demand deposits and highly liquid investments with original maturities of three months or less.

**(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 available-for-sale 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. 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

**(7) Impairment of Long-Lived Assets** – The Group applies Accounting Standards Codification (“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 qualifies 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 (loss) 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 not 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, 2017 and 2016.

**(12) Fair Value Measurements** – The Group applies ASC Topic 820, “Fair Value Measurement.” 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
	2017	2016	2015	2017
<b>Net Income (Numerator):</b>				
Net income attributable to NH Foods Ltd.	¥35,004	¥21,779	¥31,048	\$312,536
Dilutive effect of convertible bonds	57	59	56	509
Diluted net income attributable to NH Foods Ltd. shareholders	¥35,061	¥21,838	¥31,104	\$313,045
<b>Shares (Denominator):</b>				
Thousands of Shares				
	2017	2016	2015	
Average shares outstanding for basic earnings per share	203,824	203,701	203,686	
Dilutive effect of stock options	160	173	194	
Dilutive effect of convertible bonds	13,424	13,538	13,466	
Average shares outstanding for diluted earnings per share	217,408	217,412	217,346	

**(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) 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.

**(17) Advertising** – Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to ¥10,233 million (\$91,366 thousand), ¥11,104 million and ¥11,187 million for the years ended March 31, 2017, 2016 and 2015, respectively.

**(18) Research and Development** – Research and development costs are expensed as incurred. Research and development costs amounted to ¥2,643 million (\$23,598 thousand), ¥2,689 million and ¥3,354 million for the years ended March 31, 2017, 2016 and 2015, respectively.

**(19) 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.

**(20) 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.

**(21) Recent Accounting Pronouncements:**

**Simplifying the Presentation of Debt Issuance Costs** – The Group adopted Accounting Standards Update (“ASU”) 2015-03, which amends the guidance in ASC Topic Subtopic 835-30, “Imputation of Interest,” for the year ended March 31, 2017. This update specifies that debt issuance costs related to a recognized debt liability shall be reported in the balance sheet as a direct deduction from the carrying amount of that debt liability and that amortization of debt issuance costs also shall be reported as interest expense. The adoption of this update had no significant impact on the consolidated financial statements.

**Amendments to the Fair Value Disclosures of Investments Using the Practical Expedient** – The Group adopted ASU 2015-07, which amends the guidance in ASC Topic 820, “Fair Value Measurement,” for the years ended March 31, 2017. This update removes the requirements to categorize within the fair value hierarchy all the investments for which fair value is

measured using the net asset value per share practical expedient. The adoption of this update had no significant impact on the consolidated financial statements.

**Simplifying the Measurement of Inventory** – In July 2015, Financial Accounting Standards Board (“FASB”) issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which amends ASC Topic 330, “Inventory.” This update requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and an earlier application is permitted. 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 Topic 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.

**Revenue from Contracts with Customers (Deferral of the Effective Date)** – In August 2015, FASB issued ASU 2015-14, “Revenue from Contracts with Customers - Deferral of the Effective Date.” This update defers the effective date of ASU 2014-09, “Revenue from Contracts with Customers,” for one year mainly because ASU 2014-09 was issued approximately nine months later than FASB had anticipated when it selected the effective date. With this update, ASU 2014-09 will be effective for annual reporting periods, beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of ASU 2014-09 is still permitted but not before the original effective date for public business entities (annual reporting periods beginning after December 15, 2016). The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

**Balance Sheet Classification of Deferred Taxes** – In November 2015, FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified balance sheet. It is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier

application is permitted for all entities as of the beginning of an interim or annual reporting period. The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

**Recognition and Measurement of Financial Assets and Financial Liabilities** – In January 2016, FASB issued ASU 2016-01 which amends ASC Topic 825-10, “Financial Instruments – Overall.” This update mainly requires equity investments to be measured at fair value with changes in fair value recognized in net income and changes related disclosures. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Except for the early application guidance discussed in this update, early adoption of the amendments is not permitted. The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

**Leases** – In February 2016, FASB issued ASU 2016-02 “Leases.” ASU 2016-02 creates a new ASC Topic 842, “Leases,” and supersedes ASC Topic 840, “Leases.” This update mainly requires

the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous Generally Accepted Accounting Principles (“GAAP”). It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Group is currently in the process of evaluating the impact of the adoption on the consolidated financial statements.

**Simplifying the Transition to the Equity Method of Accounting** – In March 2016, FASB issued ASU 2016-07, “Simplifying the Transition to the Equity Method of Accounting,” which amends ASC Topic 323, “Investments - Equity Method and Joint Ventures.” This update eliminates the requirement that an entity retrospectively adopt the equity method if an investment qualifies for the equity method as a result of an increase in the level of ownership or degree of influence. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and earlier adoption is 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, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Finished goods and merchandise	¥ 81,525	¥ 85,926	\$ 727,902
Raw materials and work-in-process	46,444	43,710	414,679
Supplies	4,728	3,882	42,214
Total	¥132,697	¥133,518	\$1,184,795

The Group recognized losses of ¥756 million (\$6,750 thousand), ¥863 million and ¥730 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, 2017, 2016 and 2015, 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 included in other investment securities at March 31, 2017 and 2016:

	Millions of Yen				Thousands of U.S. Dollars							
	2017		2016		2017							
	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	¥ 4,493	¥ 5,443	¥ 0	¥ 9,936	¥ 4,662	¥ 4,838	¥ (24)	¥ 9,476	\$ 40,116	\$ 48,598	\$ 0	\$ 88,714
Others	6,595	6,984	(15)	13,564	6,512	4,481	(322)	10,671	58,884	62,357	(134)	121,107
Stock acquisition rights		1,000		1,000						8,929		8,929
Mutual funds	250	0		250	250	0		250	2,232	0		2,232
Total	¥11,338	¥13,427	¥(15)	¥24,750	¥11,424	¥9,319	¥(346)	¥20,397	\$101,232	\$119,884	\$(134)	\$220,982

Fair value and gross unrealized holding losses of available-for-sale securities aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at March 31, 2017 and 2016 were as follows. There were no investments in a continuous unrealized loss position for 12 months or more at March 31, 2017 and 2016:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
	Less than 12 Months		Less than 12 Months		Less than 12 Months	
	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	¥ 4	¥ 0	¥ 148	¥ (24)	\$ 36	\$ 0
Others	485	(15)	2,750	(322)	4,330	(134)
Total	¥489	¥(15)	¥2,898	¥(346)	\$4,366	\$(134)

The proceeds from sales of available-for-sale securities were ¥397 million (\$3,545 thousand), ¥280 million and ¥1,919 million for the years ended March 31, 2017, 2016 and 2015, respectively. These sales resulted in gross realized gains and losses as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Realized gains	¥163	¥149	¥670	\$1,455
Realized losses	0	0	(1)	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.

Non-marketable equity securities, for which there is no practicable method to estimate fair values, were carried at their cost of ¥4,078 million (\$36,411 thousand) and ¥4,581 million at March 31, 2017 and 2016, respectively.

The differences of the carrying value of investments in associated companies and NH Foods Ltd.'s equity in their net assets at March 31, 2017 and 2016 were not monetarily significant.

The carrying values and fair values of marketable securities in investments in associated companies at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Carrying values of marketable securities	¥1,955	¥1,934	\$17,455
Fair values of marketable securities	3,057	3,509	27,295

#### 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥ 87,033	¥ 83,185	\$ 777,080
Buildings	290,831	280,284	2,596,705
Machinery and equipment	239,127	236,164	2,135,063
Construction in progress	2,629	3,477	23,473
Total	619,620	603,110	5,532,321
Less accumulated depreciation	(336,256)	(339,096)	(3,002,286)
Property, plant and equipment – net	¥ 283,364	¥ 264,014	\$ 2,530,035

Depreciation expense of property, plant and equipment was ¥18,275 million (\$163,170 thousand), ¥17,144 million and ¥16,040 million for the years ended March 31, 2017, 2016 and 2015, respectively. The Group recorded a net loss of ¥137 million (\$1,223 thousand), a net loss of ¥765 million and a net loss of ¥1,402 million on dispositions of property, plant and equipment, for the years ended March 31, 2017, 2016 and 2015, respectively. The losses for the years ended March 31, 2017, 2016 and 2015 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, 2017 and 2016 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software	¥25,283	¥22,254	¥24,077	¥21,224	\$225,741	\$198,696
Software in progress	275		346		2,455	
Other	974	627	870	530	8,696	5,598
Total	¥26,532	¥22,881	¥25,293	¥21,754	\$236,892	\$204,294

Intangible assets not subject to amortization at March 31, 2017 and 2016 were immaterial.

Amortization expense was ¥1,226 million (\$10,946 thousand), ¥1,392 million and ¥1,978 million for the years ended March 31, 2017, 2016 and 2015, respectively.

The weighted-average amortization periods of intangible assets acquired during the years ended March 31, 2017 and 2016 were approximately 7 years and 10 years, respectively.

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
2018	¥1,183	\$10,563
2019	891	7,955
2020	697	6,223
2021	479	4,277
2022	197	1,759

The gross amount and accumulated impairment losses of goodwill at March 31, 2017 were ¥6,719 million (\$59,991 thousand) and ¥6,168 million (\$55,071 thousand). Changes in the carrying amounts of goodwill for the year ended March 31, 2017 were mainly caused by foreign exchange translation adjustments and were not significant for the Group's operations.

## 6. IMPAIRMENT OF LONG-LIVED ASSETS

The Group recognized impairment losses of ¥2,285 million (\$20,402 thousand) for the year ended March 31, 2017. The impairment losses relate principally to idle assets and to assets used for business which were related to the 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 resulted mainly from a decline in market value of the assets and a decline in profitability of certain subsidiaries.

The Group recognized impairment losses of ¥3,391 million for the year ended March 31, 2016. The impairment losses relate principally to the Ege-Tav's intangible assets except for goodwill and to idle assets which were related to the Processed Foods Business Division and were reported in other operating costs and expenses (income) – net in the consolidated statements of income. The impairment losses related to Ege-Tav are described

The gross amount and accumulated impairment losses of goodwill at March 31, 2016 were ¥8,408 million and ¥7,722 million. Changes in the carrying amounts of goodwill for the year ended March 31, 2016 were an increase of ¥8,556 million by the acquisition of Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi ("Ege-Tav"), a decrease of ¥7,690 million by impairment losses and a decrease of ¥866 million by foreign exchange translation adjustments. The Group recognized impairment loss of ¥1,889 million of the other intangible assets recognized in connection with the acquisition of Ege-Tav for the year ended March 31, 2016.

The Group revised the business plan for Ege-Tav and evaluated the recoverable amount, as it was expected that the operating result would not achieve the original plan due to the deterioration of external environment such as avian influenza and the heightening of geopolitical risks in Turkey. As a result, the Group reduced the carrying amount of the goodwill and the other intangible assets to the fair value amount. The impairment losses were reported in other operating costs and expenses (income) – net in the consolidated statements of income. The fair value is measured by using discounted cash flow model.

The goodwill was mainly included in the Overseas Business Division in the operating segment information.

in Note 5. The impairment losses related to the Processed Foods Business Division were resulted mainly from a decline in market value of the assets.

The Group recognized impairment losses of ¥3,047 million for the year ended March 31, 2015. The impairment losses relate principally to idle assets and to assets used for business related to the 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 resulted mainly from a decline in market value of the assets and a reorganization of the production base resulting in the future disposal of the assets.

The fair value of assets related to the Processed Foods Business Division was 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, 2017 and 2016 ranged from 1.0% to 11.0% and 0.6% to 4.4%, respectively.

NH Foods Ltd. entered into contracts with financial institutions for committed credit lines.

As of March 31, 2017 and 2016, the amounts of total and unexercised committed credit lines were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Total committed credit lines	<b>¥75,000</b>	¥75,000	<b>\$669,643</b>
Unexercised committed credit lines	<b>75,000</b>	74,090	<b>669,643</b>

Unexercised committed credit lines were available for immediate borrowings.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Long-term debt with collateral:			
Mainly banks and insurance companies, maturing through 2019, interest rate at 1.5% in 2017 interest rate at 1.5% in 2016	<b>¥ 262</b>	¥ 392	<b>\$ 2,339</b>
Long-term debt without collateral:			
Mainly banks and insurance companies, maturing through 2025, interest rates ranging from 0.5% to 1.0% in 2017 and 0.2% to 1.0% in 2016	<b>33,691</b>	42,183	<b>300,813</b>
2.01% bonds due December 2017	<b>9,996</b>	10,000	<b>89,250</b>
0.551% bonds due September 2019	<b>9,982</b>	10,000	<b>89,125</b>
0.934% bonds due September 2022	<b>9,971</b>	10,000	<b>89,027</b>
Euro yen zero coupon convertible bonds due September 2018			
Conversion price, ¥2,216.0 per share	<b>14,098</b>	29,793	<b>125,875</b>
Capital lease obligations, interest rates ranging from 0.0% to 3.0% in 2017 maturing through 2035, and from 0.1% to 3.0% in 2016 maturing through 2035	<b>11,480</b>	10,841	<b>102,500</b>
Total	<b>89,480</b>	113,209	<b>798,929</b>
Less current maturities	<b>(12,822)</b>	(11,450)	<b>(114,482)</b>
Long-term debt, less current maturities	<b>¥ 76,658</b>	¥101,759	<b>\$ 684,447</b>

The euro yen zero coupon convertible bonds due September 2018 have a conversion limitation clause and a call option clause (cash settlement type). The unconverted portion of these bonds on September 26, 2018 (maturity date) will be redeemed at 100% of the face amount. For the year ended March 31, 2017, ¥15,840 million (face amount) of the convertible bonds was converted into 7,148,005 shares of common stock at a conversion price of ¥2,216.0 per share. The conversion price of these stock acquisition rights is ¥2,216.0 (\$19.79) and ¥2,216.0, and the increasing number of common stock upon exercise of the stock acquisition rights and issuance of new shares is 6,389,891 and 13,537,906 for the years ended March 31, 2017 and 2016, respectively.

As of March 31, 2017 and 2016, the bonds mentioned above were separately accounted for the equity and liabilities as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Component of equity:			
Carrying amount	<b>¥ 159</b>	¥ 336	<b>\$ 1,420</b>
Component of liability:			
Principal amount	<b>14,160</b>	30,000	<b>126,429</b>
Less unamortized discounts	<b>(62)</b>	(207)	<b>(554)</b>
Net carrying amount	<b>¥14,098</b>	¥29,793	<b>\$125,875</b>

At March 31, 2017, the aggregate annual maturities of long-term debt are as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2018	<b>¥12,822</b>	<b>\$114,482</b>
2019	<b>16,563</b>	<b>147,884</b>
2020	<b>11,873</b>	<b>106,009</b>
2021	<b>1,290</b>	<b>11,518</b>
2022	<b>784</b>	<b>7,000</b>
Thereafter	<b>46,148</b>	<b>412,036</b>
Total	<b>¥89,480</b>	<b>\$798,929</b>

At March 31, 2017, property, plant and equipment with a net book value of ¥895 million (\$7,991 thousand) was pledged as collateral for long-term debt of ¥262 million (\$2,339 thousand), and inventories of ¥663 million (\$5,920 thousand) were pledged as collateral for short-term bank loans of ¥300 million (\$2,679 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, 2017 and 2016 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 resulted in a normal effective statutory tax rate of approximately 31.0% for the year ended March 31, 2017, 33.0% for the year ended March 31, 2016 and 36.0% for the year ended March 31, 2015. 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 income tax rates reflected in the consolidated statements of income differed from the normal Japanese statutory tax rates for the following reasons:

	2017	2016	2015
Normal Japanese statutory tax rates	31.0%	33.0%	36.0%
Increase (decrease) in taxes resulting from:			
Difference in foreign subsidiaries tax rates	(0.2)	(0.7)	(2.1)
Change in the valuation allowance	0.1	(2.5)	(6.4)
Permanently non-deductible expenses	1.3	1.8	0.9
Tax credit	(2.3)	(2.6)	(1.4)
Tax rate change		2.3	2.7
Impairment losses of goodwill		7.2	
Other – net	(0.3)	(1.3)	1.1
Effective income tax rates	29.6%	37.2%	30.8%

The approximate effects of temporary differences, net operating loss and tax credit carryforwards that gave rise to deferred tax balances at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Inventories	¥ 119	¥ 64	\$ 1,063
Certain accrued prefectural income taxes	841	657	7,509
Accrued bonuses	3,166	2,931	28,268
Liability under retirement and severance programs	6,268	7,171	55,964
Fixed assets	3,869	3,820	34,545
Other temporary differences	3,498	3,251	31,232
Net operating loss and tax credit carryforwards	4,214	3,546	37,625
Total	21,975	21,440	196,206
Less valuation allowance	(4,372)	(3,919)	(39,036)
Total deferred tax assets	17,603	17,521	157,170
Deferred tax liabilities:			
Securities	(3,404)	(2,082)	(30,393)
Inventories	(1,310)	(1,548)	(11,696)
Investments in subsidiaries	(2,194)	(2,161)	(19,589)
Fixed assets	(335)	(393)	(2,991)
Other temporary differences	(46)	(191)	(411)
Total deferred tax liabilities	(7,289)	(6,375)	(65,080)
Net deferred tax assets	¥10,314	¥11,146	\$ 92,090



The net changes in the total valuation allowance for the years ended March 31, 2017 and 2016 were an increase of ¥453 million (\$4,045 thousand) and a decrease of ¥1,358 million, respectively.

At March 31, 2017, the net operating loss carryforwards of the Group for corporate income tax and local income tax purposes amounted to ¥9,458 million (\$84,447 thousand) and ¥12,119 million (\$108,206 thousand), respectively. The net operating loss carryforwards for corporate income tax and local income tax purposes subject to expiration in the period from 2018 to 2022 are ¥632 million (\$5,643 thousand) and ¥983 million (\$8,777 thousand), respectively. The remaining balances for corporate income tax and local income tax purposes, ¥8,826 million (\$78,804 thousand) and ¥11,136 million (\$99,429 thousand), respectively, will expire in years beyond 2022 or have an indefinite carryforward period. At March 31, 2017, the Group also had tax credit carryforwards of ¥453 million (\$4,044 thousand), of which ¥316 million (\$2,821 thousand) will expire within five years while the remaining ¥137 million (\$1,223 thousand) will expire beyond 2022 or have an indefinite carryforward period.

The portion of the undistributed earnings of foreign subsidiaries which is deemed to be permanently invested amounted to ¥33,377 million (\$298,009 thousand) at March 31, 2017.

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, 2017, 2016 and 2015 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.

## 9. RETIREMENT AND SEVERANCE PROGRAMS

NH Foods Ltd. has a contributory pension plan and a lump-sum severance indemnities plan based on 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 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 ¥1,701 million (\$15,188 thousand), ¥1,800 million and ¥1,760 million for the years ended March 31, 2017, 2016 and 2015, respectively.

Net periodic benefit cost under the Group's retirement and severance programs for the years ended March 31, 2017, 2016 and 2015 included the following components:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Service cost	¥3,081	¥2,734	¥2,632	\$27,509
Interest cost	44	329	457	393
Expected return on plan assets	(757)	(808)	(584)	(6,761)
Amortization of prior service credit	(193)	(160)	(272)	(1,723)
Recognized actuarial loss	613	372	623	5,473
Settlement loss	252	79	25	2,250
Net periodic benefit cost	¥3,040	¥2,546	¥2,881	\$27,141

The following table sets forth various information about the Group's plans as of March 31, 2017 and 2016:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Changes in the projected benefit obligations:			
Projected benefit obligations at the beginning of the year	¥57,372	¥ 53,938	\$512,250
Service cost	3,081	2,734	27,509
Interest cost	44	329	393
Actuarial (gain) loss	(744)	3,273	(6,644)
Benefits paid:			
Settlement paid	(2,090)	(1,534)	(18,661)
Others	(1,328)	(1,445)	(11,857)
Business combinations		77	
Transfer to defined contribution pension plan	(254)		(2,268)
Projected benefit obligations at the end of the year	56,081	57,372	500,722
Changes in fair value of plan assets:			
Fair value of plan assets at the beginning of the year	45,381	47,479	405,188
Actual gain (loss) on plan assets	1,836	(2,213)	16,393
Employer contribution	1,762	1,737	15,732
Benefits paid:			
Settlement paid	(133)	(177)	(1,188)
Others	(1,328)	(1,445)	(11,857)
Transfer to defined contribution pension plan	(247)		(2,205)
Fair value of plan assets at the end of the year	47,271	45,381	422,063
Funded status at the end of the year	¥ (8,810)	¥(11,991)	\$ (78,659)

Amounts recognized by the Group in the consolidated balance sheets at March 31, 2017 and 2016 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prepaid benefit cost	¥ 4,473	¥ 2,358	\$ 39,939
Accrued expenses	(604)	(566)	(5,393)
Accrued benefit liability	(12,679)	(13,783)	(113,205)
Total	¥ (8,810)	¥(11,991)	\$ (78,659)

Amounts recognized by the Group in accumulated other comprehensive loss at March 31, 2017 and 2016 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Actuarial loss	¥10,622	¥13,317	\$94,839
Prior service credit	(836)	(1,029)	(7,464)
Total	¥ 9,786	¥12,288	\$87,375

The Group's accumulated benefit obligations for defined benefit plans at March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Accumulated benefit obligations	¥56,081	¥57,372	\$500,722

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
	2017	2016	2017
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	<b>¥28,063</b>	¥28,725	<b>\$250,562</b>
Fair value of plan assets	<b>14,780</b>	14,376	<b>131,964</b>
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	<b>28,063</b>	28,725	<b>250,562</b>
Fair value of plan assets	<b>14,780</b>	14,376	<b>131,964</b>

Amounts recognized by the Group in the other comprehensive (income) loss and reclassification adjustments of the other comprehensive (income) loss for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Current year actuarial (gain) loss	<b>¥(1,830)</b>	¥6,294	¥(3,287)	<b>\$(16,339)</b>
Current year prior service cost			42	
Recognition of actuarial loss	<b>(865)</b>	(451)	(648)	<b>(7,723)</b>
Amortization of prior service credit	<b>193</b>	160	272	<b>1,723</b>

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

	Millions of Yen	Thousands of U.S. Dollars
Prior service credit	<b>¥(161)</b>	<b>\$(1,438)</b>
Actuarial loss	<b>471</b>	<b>4,205</b>

### Assumptions

Weighted-average assumptions used to determine the Group's benefit obligations at March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	<b>0.2%</b>	0.1%

Weighted-average assumptions used to determine the Group's net periodic benefit cost for the years ended March 31, 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Discount rate	<b>0.1%</b>	0.6%	0.9%
Expected long-term rate of return on plan assets	<b>2.5%</b>	2.7%	2.1%

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, 2017, 2016 and 2015.

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 plans of NH Foods Ltd.'s subsidiaries 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 38% is invested in equity securities, approximately 13% is invested in debt securities, approximately 20% is invested in life insurance company general accounts, and approximately 29% 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 company general accounts, life insurance companies guarantee certain interest rate and repayment of principal.

The target asset allocation of the Group's defined benefit pension plans by asset class was 15% for equity securities, 23% for debt securities, 29% for life insurance company general accounts and 33% for others for the year ended March 31, 2017, and the target allocation for the year ending March 31, 2018 is 15% for equity securities, 23% for debt securities, 27% for life

insurance company general accounts and 35% for others. Plan assets of the employee retirement benefit trust were included in plan assets, which amounted to ¥15,910 million (\$142,054 thousand) and ¥15,023 million for the years ended March 31, 2017 and 2016, respectively.

The fair values of the Group's pension plans' asset allocations at March 31, 2017 and 2016 by asset class were as follows:

Asset class:	Millions of Yen									
	2017					2016				
	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Equity securities:										
Domestic stocks	¥15,157				¥15,157	¥14,192				¥14,192
Foreign stocks	3,005				3,005	2,800				2,800
Debt securities:										
Japanese government bonds and domestic public debt instruments	2,097				2,097	3,344				3,344
Domestic corporate bonds	1,595				1,595	2,039				2,039
Foreign government bonds and foreign public debt instruments	2,407				2,407	3,428				3,428
Foreign corporate bonds	115				115	125				125
Life insurance company general accounts		¥9,091			9,091		¥9,026			9,026
Others:										
Mutual funds		39		¥8,337	8,376		37		¥6,647	6,684
Others	5,418	10			5,428	3,710	33			3,743
<b>Total</b>	<b>¥29,794</b>	<b>¥9,140</b>		<b>¥8,337</b>	<b>¥47,271</b>	<b>¥29,638</b>	<b>¥9,096</b>		<b>¥6,647</b>	<b>¥45,381</b>

Asset class:	Thousands of U.S. Dollars					
	2017					
	Level 1	Level 2	Level 3	Net asset value	Total	
Equity securities:						
Domestic stocks	\$135,331				\$135,331	
Foreign stocks	26,830				26,830	
Debt securities:						
Japanese government bonds and domestic public debt instruments	18,723				18,723	
Domestic corporate bonds	14,241				14,241	
Foreign government bonds and foreign public debt instruments	21,491				21,491	
Foreign corporate bonds	1,027				1,027	
Life insurance company general accounts		\$81,170			81,170	
Others:						
Mutual funds		348		\$74,438	74,786	
Others	48,375	89			48,464	
<b>Total</b>	<b>\$266,018</b>	<b>\$81,607</b>		<b>\$74,438</b>	<b>\$422,063</b>	

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. Most of mutual funds are not categorized within the fair value hierarchy as they are valued using the net asset value provided by investment management companies.

## Contributions

The Group expects to contribute ¥979 million (\$8,741 thousand) to the defined benefit pension plans in the year ending March 31, 2018.

## 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
2018	¥2,712	\$24,214
2019	2,690	24,018
2020	2,913	26,009
2021	2,783	24,848
2022	2,939	26,241
2023 – 2027	17,055	152,277

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

Pension Fund:	Zone Status		Contributions of NH Foods Ltd.'s subsidiaries			Thousands of U.S. Dollars
	2017	2016	2017	2016	2015	
Japan Ham & Sausage Processors Pension Fund	At least 80% (February 29, 2016)		¥71	¥245	¥330	\$634
Nationwide Dainty Pension Fund				34	214	
<b>Total</b>			<b>¥71</b>	<b>¥279</b>	<b>¥544</b>	<b>\$634</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.

This fund's financial statements for the year ended February 29, 2016 indicated pension plan assets of ¥27,168 million; underfunded amounts of ¥309 million; and total contributions of all participating employers of ¥2,114 million.

Japan Ham & Sausage Processors Pension Fund resolved a special dissolution of the plan at a conference of representatives on March 24, 2016 based on Act of Partial Revision of Pension of the Employees' Pension Insurance Act which was promulgated on June 26, 2013, and dissolved on July 29, 2016 as a result of approval from the Minister of Health, Labour and Welfare. The Group does not expect that there are costs borne by participating employers associated with this dissolution.

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.

This fund's financial statements for the year ended March 31, 2014 indicated pension plan assets of ¥13,933 million; overfunded amounts of ¥476 million; and total contributions of all participating employers of ¥1,183 million.

Nationwide Dainty Pension Fund resolved a dissolution of the plan at a conference of representatives on July 16, 2015, and dissolved on September 28, 2015 as a result of approval from the Minister of Health, Labour and Welfare. The Group does not expect that there are costs borne by participating employers associated with this dissolution.

Pension Fund:	Year Contributions to Plan Exceeded More Than 5 Percent of Total Contributions (as of March 31 of the Plan's Year-End)
Japan Ham & Sausage Processors Pension Fund	2016 and 2015
Nationwide Dainty Pension Fund	2015

Additionally, the Group provided for directors' retirement allowances of ¥589 million (\$5,259 thousand) and ¥643 million at March 31, 2017 and 2016, respectively, based on the Group's internal regulations.

## 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, 2017 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, 2016	<b>168,000</b>	<b>¥1</b>			<b>\$0</b>	
Exercised	<b>(20,000)</b>	<b>1</b>			<b>0</b>	
Outstanding at March 31, 2017	<b>148,000</b>	<b>1</b>	<b>6.0</b>	<b>¥442</b>	<b>0</b>	<b>\$3,946</b>
Exercisable at March 31, 2017	<b>18,000</b>	<b>¥1</b>	<b>2.9</b>	<b>¥ 54</b>	<b>\$0</b>	<b>\$ 482</b>

The total intrinsic values of options exercised during the years ended March 31, 2017, 2016 and 2015 were ¥54 million (\$482 thousand), ¥17 million and ¥86 million, respectively.

Cash received from options exercised for the years ended March 31, 2017, 2016 and 2015 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 a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board and (4) the term of service of the directors being prescribed as one year rather than the normal two-year 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 the company 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 the company 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, 2017 was ¥117,044 million (\$1,045,036 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 a legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, additional paid-in capital and a legal reserve may be reversed upon resolution of the shareholders. The Companies Act also provides that common stock, a 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 income (loss) for the years ended March 31, 2017, 2016 and 2015 was as follows:

	Millions of Yen			Thousands of U.S. dollars		
	2017			2017		
	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, 2016	¥ 8,966	¥(3,378)	¥ 5,588	\$ 80,054	\$(30,161)	\$ 49,893
Other comprehensive income before reclassification	4,171	(1,293)	2,878	37,241	(11,545)	25,696
Amounts reclassified from accumulated other comprehensive loss	268	(83)	185	2,393	(741)	1,652
Other comprehensive income	4,439	(1,376)	3,063	39,634	(12,286)	27,348
Other comprehensive income attributable to noncontrolling interests	(1)	0	(1)	(9)	0	(9)
Balance, March 31, 2017	13,404	(4,754)	8,650	119,679	(42,447)	77,232
Pension liability adjustments:						
Balance, April 1, 2016	(12,279)	6,902	(5,377)	(109,634)	61,625	(48,009)
Other comprehensive income before reclassification	1,830	(567)	1,263	16,339	(5,063)	11,276
Amounts reclassified from accumulated other comprehensive loss	672	(208)	464	6,000	(1,857)	4,143
Other comprehensive income	2,502	(775)	1,727	22,339	(6,920)	15,419
Other comprehensive income attributable to noncontrolling interests	(7)	1	(6)	(63)	9	(54)
Balance, March 31, 2017	(9,784)	6,128	(3,656)	(87,358)	54,714	(32,644)
Foreign currency translation adjustments:						
Balance, April 1, 2016	(1,726)		(1,726)	(15,411)		(15,411)
Other comprehensive loss before reclassification	(1,709)		(1,709)	(15,259)		(15,259)
Amounts reclassified from accumulated other comprehensive income	(177)		(177)	(1,580)		(1,580)
Other comprehensive loss	(1,886)		(1,886)	(16,839)		(16,839)
Other comprehensive loss attributable to noncontrolling interests	623		623	5,563		5,563
Balance, March 31, 2017	(2,989)		(2,989)	(26,687)		(26,687)
Total, Accumulated other comprehensive income (loss):						
Balance, April 1, 2016	(5,039)	3,524	(1,515)	(44,991)	31,464	(13,527)
Other comprehensive income before reclassification	4,292	(1,860)	2,432	38,321	(16,608)	21,713
Amounts reclassified from accumulated other comprehensive loss	763	(291)	472	6,813	(2,598)	4,215
Other comprehensive income	5,055	(2,151)	2,904	45,134	(19,206)	25,928
Other comprehensive loss attributable to noncontrolling interests	615	1	616	5,491	9	5,500
Balance, March 31, 2017	¥ 631	¥ 1,374	¥ 2,005	\$ 5,634	\$ 12,267	\$ 17,901

Reclassification from accumulated 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 accumulated other comprehensive loss (before-tax amount) of pension liability adjustments is included in net periodic benefit cost.

	Millions of Yen		
	2016		
	Before-Tax Amount	Income Tax	After-Tax Amount
Net unrealized gains on securities available-for-sale:			
Balance, April 1, 2015	¥ 9,963	¥ (3,699)	¥ 6,264
Other comprehensive loss before reclassification	(847)	273	(574)
Amounts reclassified from accumulated other comprehensive income	(151)	48	(103)
Other comprehensive loss	(998)	321	(677)
Other comprehensive loss attributable to noncontrolling interests	1	0	1
Balance, March 31, 2016	8,966	(3,378)	5,588
Pension liability adjustments:			
Balance, April 1, 2015	(6,286)	4,984	(1,302)
Other comprehensive loss before reclassification	(6,294)	2,014	(4,280)
Amounts reclassified from accumulated other comprehensive loss	291	(93)	198
Other comprehensive loss	(6,003)	1,921	(4,082)
Other comprehensive loss attributable to noncontrolling interests	10	(3)	7
Balance, March 31, 2016	(12,279)	6,902	(5,377)
Foreign currency translation adjustments:			
Balance, April 1, 2015	3,164		3,164
Other comprehensive loss before reclassification	(5,391)		(5,391)
Amounts reclassified from accumulated other comprehensive income	(144)		(144)
Other comprehensive loss	(5,535)		(5,535)
Other comprehensive loss attributable to noncontrolling interests	645		645
Balance, March 31, 2016	(1,726)		(1,726)
Total, Accumulated other comprehensive income (loss):			
Balance, April 1, 2015	6,841	1,285	8,126
Other comprehensive loss before reclassification	(12,532)	2,287	(10,245)
Amounts reclassified from accumulated other comprehensive income	(4)	(45)	(49)
Other comprehensive loss	(12,536)	2,242	(10,294)
Other comprehensive loss attributable to noncontrolling interests	656	(3)	653
Balance, March 31, 2016	¥ (5,039)	¥ 3,524	¥ (1,515)



	Millions of Yen		
	2015		
	Before-Tax Amount	Income Tax	After-Tax Amount
Net unrealized gains on securities available-for-sale:			
Balance, April 1, 2014	¥ 6,584	¥(2,482)	¥ 4,102
Other comprehensive income before reclassification	4,133	(1,489)	2,644
Amounts reclassified from accumulated other comprehensive income	(754)	272	(482)
Other comprehensive income	3,379	(1,217)	2,162
Other comprehensive income attributable to noncontrolling interests	0	0	0
Balance, March 31, 2015	9,963	(3,699)	6,264
Pension liability adjustments:			
Balance, April 1, 2014	(9,909)	6,288	(3,621)
Other comprehensive income before reclassification	3,245	(1,168)	2,077
Amounts reclassified from accumulated other comprehensive loss	376	(135)	241
Other comprehensive income	3,621	(1,303)	2,318
Other comprehensive income attributable to noncontrolling interests	2	(1)	1
Balance, March 31, 2015	(6,286)	4,984	(1,302)
Foreign currency translation adjustments:			
Balance, April 1, 2014	(1,545)		(1,545)
Other comprehensive income before reclassification	4,776		4,776
Amounts reclassified from accumulated other comprehensive loss	2		2
Other comprehensive income	4,778		4,778
Other comprehensive income attributable to noncontrolling interests	(69)		(69)
Balance, March 31, 2015	3,164		3,164
Total, Accumulated other comprehensive income (loss):			
Balance, April 1, 2014	(4,870)	3,806	(1,064)
Other comprehensive income before reclassification	12,154	(2,657)	9,497
Amounts reclassified from accumulated other comprehensive loss	(376)	137	(239)
Other comprehensive income	11,778	(2,520)	9,258
Other comprehensive income attributable to noncontrolling interests	(67)	(1)	(68)
Balance, March 31, 2015	¥ 6,841	¥ 1,285	¥ 8,126

### 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, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Buildings	¥ 4,558	¥ 6,999	\$ 40,696
Machinery and equipment	15,072	15,739	134,571
Subtotal	19,630	22,738	175,267
Less accumulated depreciation	(8,320)	(12,193)	(74,286)
Total	¥ 11,310	¥ 10,545	\$100,981

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, 2017:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 2,729	\$ 24,366
2019	2,355	21,027
2020	1,902	16,982
2021	1,354	12,089
2022	839	7,491
Thereafter	2,933	26,188
Total minimum lease payments	12,112	108,143
Less amount representing interest	(632)	(5,643)
Present value of net minimum lease payments	11,480	102,500
Less current capital lease obligations	(2,631)	(23,491)
Long-term capital lease obligations	¥ 8,849	\$ 79,009

The Group also leases office space, employee housing and office equipment under operating leases. Rent expense under these leases amounted to ¥9,735 million (\$86,920 thousand), ¥9,695 million and ¥9,328 million for the years ended March 31, 2017, 2016 and 2015, respectively.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2017 are as follows:

Year Ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 1,961	\$17,509
2019	1,738	15,518
2020	1,677	14,973
2021	1,658	14,804
2022	946	8,446
Thereafter	2,995	26,741
Total minimum lease payments	¥10,975	\$97,991

### 14. FOREIGN CURRENCY TRANSACTION GAINS AND LOSSES

Foreign currency transaction net loss of ¥2,199 million (\$19,634 thousand), net loss of ¥468 million and net loss of ¥7,952 million were included in the determination of net income for the years ended March 31, 2017, 2016 and 2015, 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, 2017 and 2016 were as follows:

Millions of Yen										
2017						2016				
Assets:	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Domestic stocks:										
Retail industry	¥ 9,936				¥ 9,936	¥ 9,476				¥ 9,476
Others	13,564				13,564	10,671				10,671
Stock acquisition rights	1,000				1,000					
Derivative instruments (Note 16)		¥871			871		¥1,502			1,502
Mutual funds				¥250	250				¥250	250
<b>Total assets</b>	<b>¥24,500</b>	<b>¥871</b>		<b>¥250</b>	<b>¥25,621</b>	<b>¥20,147</b>	<b>¥1,502</b>		<b>¥250</b>	<b>¥21,899</b>

Millions of Yen										
2017						2016				
Liabilities:	Level 1	Level 2	Level 3	Net asset value	Total	Level 1	Level 2	Level 3	Net asset value	Total
Derivative instruments (Note 16)		¥720			¥720	¥74	¥2,855			¥2,929
<b>Total liabilities</b>		<b>¥720</b>			<b>¥720</b>	<b>¥74</b>	<b>¥2,855</b>			<b>¥2,929</b>

Thousands of U.S. Dollars					
2017					
Assets:	Level 1	Level 2	Level 3	Net asset value	Total
Domestic stocks:					
Retail industry	\$ 88,714				\$ 88,714
Others	121,107				121,107
Stock acquisition rights	8,929				8,929
Derivative instruments (Note 16)		\$7,777			7,777
Mutual funds				\$2,232	2,232
<b>Total assets</b>	<b>\$218,750</b>	<b>\$7,777</b>		<b>\$2,232</b>	<b>\$228,759</b>

Thousands of U.S. Dollars					
2017					
Liabilities:	Level 1	Level 2	Level 3	Net asset value	Total
Derivative instruments (Note 16)		\$6,429			\$6,429
<b>Total liabilities</b>		<b>\$6,429</b>			<b>\$6,429</b>

Mutual funds are not categorized within the fair value hierarchy as they are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient.

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

### Domestic stocks and stock acquisition rights

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

### Derivative instruments

Derivative instruments consist of commodity futures contracts, foreign currency forward exchange contracts, interest rate swap contracts, and cross-currency swap contracts. 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, and cross-currency swap contracts 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.

### Mutual funds

Mutual funds are measured at fair value using the net asset value provided by financial institutions.

The table below shows assets measured at fair value on a nonrecurring basis during the years ended March 31, 2017 and 2016, of which, ¥139 million (\$1,241 thousand) and ¥157 million of long-lived assets have already been sold to a third party for the years ended March 31, 2017 and 2016, respectively:

Millions of Yen				
2017				
	Level 1	Level 2	Level 3	Total
Non-marketable equity securities			¥ 1	¥ 1
Long-lived assets			3,994	3,994

Millions of Yen				
2016				
	Level 1	Level 2	Level 3	Total
Non-marketable equity securities			¥ 0	¥ 0
Long-lived assets			651	651
Goodwill			0	0

Thousands of U.S. Dollars				
2017				
	Level 1	Level 2	Level 3	Total
Non-marketable equity securities			\$ 9	\$ 9
Long-lived assets			35,661	35,661

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 recognized impairment losses on non-marketable equity securities when their fair values were below the carrying amounts and the decline in fair values was considered to be other than temporary. These non-marketable equity securities were measured at fair value using unobservable inputs based mainly on the valuation by the cost approach, which fell within Level 3.

### Long-lived assets

In accordance with ASC Topic 360, the Group recognized impairment losses on long-lived assets when the carrying amounts of the assets are considered to be unrecoverable. These long-lived assets were 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 fell within Level 3.

### Goodwill

In accordance with ASC Topic 350, the Group recognized impairment losses on goodwill when the carrying amounts of the assets were considered to be unrecoverable. Goodwill was measured at fair value using unobservable inputs included in discounted cash flow model, which fell within Level 3.

The carrying amounts and fair values of financial instruments at March 31, 2017 and 2016 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale securities and stock acquisition rights (Note 3)	¥ 24,750	¥ 24,750	¥ 20,397	¥ 20,397	\$ 220,982	\$ 220,982
Derivative instruments:						
Assets	871	871	1,502	1,502	7,777	7,777
Liabilities	(720)	(720)	(2,929)	(2,929)	(6,429)	(6,429)
Long-term debt	(78,000)	(79,645)	(102,368)	(104,241)	(696,429)	(711,116)

The carrying amounts 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 NH Foods Ltd. 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 exchange rate risk (principally in U.S. dollars), interest rate risk and commodity price risk. The Group uses foreign currency exchange contracts, currency swap contracts, currency option contracts and cross-currency swap contracts to mitigate foreign currency exchange rate risk. NH Foods Ltd. uses interest rate swap contracts and cross-currency swap contracts 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 balance sheet.

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

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

At March 31, 2017 and 2016, 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
	2017	2016	2017
Interest rate swap contracts	¥ 3,000	¥ 3,000	\$ 26,786
Foreign currency forward exchange contracts	76,477	75,954	682,830
Cross-currency swap contracts		2,000	
	Millions of Bushels		
	2017	2016	
Commodity futures contracts (corn)		1.0	
	Millions of Pounds		
	2017	2016	
Commodity futures contracts (hog)		24.8	

The Group also has a policy that derivatives are not used for other than hedging activities. As of March 31, 2017, 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 as of March 31, 2017 and 2016 were as follows:

	Millions of Yen			
	2017			
	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	<b>¥114</b>
Foreign currency forward exchange contracts	Other current assets	<b>¥871</b>	Other current liabilities	<b>606</b>
Total (Note 15)		<b>¥871</b>		<b>¥720</b>

	Millions of Yen			
	2016			
	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	¥ 153
Foreign currency forward exchange contracts	Other current assets	¥ 577	Other current liabilities	2,702
Cross-currency swap contracts	Other current assets	925		
Commodity futures contracts (Note 18)			Current liabilities of discontinued operations	74
Total (Note 15)		<b>¥1,502</b>		<b>¥2,929</b>

	Thousands of U.S. Dollars			
	2017			
	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	<b>\$1,018</b>
Foreign currency forward exchange contracts	Other current assets	<b>\$7,777</b>	Other current liabilities	<b>5,411</b>
Total (Note 15)		<b>\$7,777</b>		<b>\$6,429</b>

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, 2017, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Location	Amount of Gain or (Loss) Recognized in Income on Derivatives	Location	Amount of Gain or (Loss) Recognized in Income on Derivatives
		2017		2017
Interest rate swap contracts	Interest expense	¥ 17		\$ 152
Foreign currency forward exchange contracts	Net sales	706		6,304
	Cost of goods sold	2,304		20,571
Cross-currency swap contracts	Interest expense	(2)		(18)
	Other income (expenses) – net	(907)		(8,098)
Commodity futures contracts (Note 18)	Loss from discontinued operations – net of applicable income taxes	195		1,741
Total		¥2,313		\$20,652

	Millions of Yen	
	Location	Amount of Gain or (Loss) Recognized in Income on Derivatives
		2016
Interest rate swap contracts	Interest expense	¥ (91)
Foreign currency forward exchange contracts	Net sales	583
	Cost of goods sold	(1,358)
Cross-currency swap contracts	Interest expense	11
	Other income (expenses) – net	(196)
Commodity futures contracts (Note 18)	Loss from discontinued operations – net of applicable income taxes	(91)
Total		¥(1,142)

	Millions of Yen	
	Location	Amount of Gain or (Loss) Recognized in Income on Derivatives
		2015
Interest rate swap contracts	Interest expense	¥ (77)
Foreign currency forward exchange contracts and currency swap contracts	Net sales	(578)
	Cost of goods sold	10,697
Cross-currency swap contracts	Interest expense	5
	Other income (expenses) – net	449
Commodity futures contracts (Note 18)	Income from discontinued operations – net of applicable income taxes	512
Total		¥11,008

## 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, as well as the areas where sales or services offered.

As of April 1, 2016, the Group newly established the "Overseas Business Division." Overseas subsidiaries and overseas associated companies which were under the control of each business division (Processed Foods Business Division, Fresh Meats Business Division and Affiliated Business Division) are now under the control of the "Overseas Business Division." Accordingly, the Group has realigned its operating segments from its three conventional operating groups into four business groups since for the year ended March 31, 2017, as follows:

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

Fresh Meats Business Division — Domestic production and sales of mainly fresh meats

Affiliated Business Division — Domestic production and sales of mainly marine products and dairy products

Overseas Business Division — Production and sales of mainly hams and sausages, processed foods, fresh meats and marine products at overseas subsidiaries

Intersegment transactions are made with reference to prevailing market prices.

The operating segment information at March 31, 2016 and 2015, 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, 2017, 2016 and 2015 and for the years then ended:

### Operating segment information

	Millions of Yen						
	2017						
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:							
External customers	¥334,249	¥642,118	¥155,930	¥ 91,566	¥1,223,863	¥ (21,570)	¥1,202,293
Intersegment	14,004	99,447	3,111	122,818	239,380	(239,380)	
Total	348,253	741,565	159,041	214,384	1,463,243	(260,950)	1,202,293
Operating expenses	340,342	697,667	155,295	215,635	1,408,939	(260,448)	1,148,491
Segment profit (loss)	7,911	43,898	3,746	(1,251)	54,304	(502)	53,802
Assets	173,480	328,463	71,505	104,965	678,413	41,863	720,276
Depreciation and amortization	5,951	7,183	1,914	2,104	17,152	2,349	19,501
Capital expenditures	11,306	22,125	3,847	3,568	40,846	2,896	43,742

	Millions of Yen						
	2016						
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:							
External customers	¥324,302	¥654,151	¥155,772	¥116,250	¥1,250,475	¥ (21,151)	¥1,229,324
Intersegment	13,823	99,783	2,889	128,444	244,939	(244,939)	
Total	338,125	753,934	158,661	244,694	1,495,414	(266,090)	1,229,324
Operating expenses	334,227	714,965	156,420	241,129	1,446,741	(266,624)	1,180,117
Segment profit	3,898	38,969	2,241	3,565	48,673	534	49,207
Assets	171,482	311,506	68,498	93,950	645,436	29,213	674,649
Depreciation and amortization	5,797	6,776	1,637	2,122	16,332	2,204	18,536
Capital expenditures	9,386	11,889	7,111	3,916	32,302	4,290	36,592



	Millions of Yen						
	2015						
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:							
External customers	¥330,342	¥623,399	¥151,960	¥113,605	¥1,219,306	¥ (19,350)	¥1,199,956
Intersegment	13,130	103,314	2,661	126,657	245,762	(245,762)	
Total	343,472	726,713	154,621	240,262	1,465,068	(265,112)	1,199,956
Operating expenses	341,292	693,691	154,356	228,585	1,417,924	(265,738)	1,152,186
Segment profit	2,180	33,022	265	11,677	47,144	626	47,770
Assets	169,397	306,878	62,171	89,553	627,999	33,568	661,567
Depreciation and amortization	6,212	6,458	1,452	1,993	16,115	1,903	18,018
Capital expenditures	14,920	9,743	6,797	2,549	34,009	1,468	35,477

	Thousands of U.S. Dollars						
	2017						
	Processed Foods Business Division	Fresh Meats Business Division	Affiliated Business Division	Overseas Business Division	Total	Eliminations, adjustments and others	Consolidated
Net sales:							
External customers	\$2,984,366	\$5,733,196	\$1,392,232	\$ 817,554	\$10,927,348	\$ (192,589)	\$10,734,759
Intersegment	125,036	887,920	27,777	1,096,589	2,137,322	(2,137,322)	
Total	3,109,402	6,621,116	1,420,009	1,914,143	13,064,670	(2,329,911)	10,734,759
Operating expenses	3,038,768	6,229,170	1,386,563	1,925,313	12,579,814	(2,325,430)	10,254,384
Segment profit (loss)	70,634	391,946	33,446	(11,170)	484,856	(4,481)	480,375
Assets	1,548,929	2,932,705	638,438	937,188	6,057,260	373,776	6,431,036
Depreciation and amortization	53,134	64,134	17,089	18,786	153,143	20,973	174,116
Capital expenditures	100,946	197,545	34,348	31,857	364,696	25,858	390,554

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 (loss) 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 cash 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 2 above.
6. Capital expenditures represent the additions to property, plant and equipment and intangible assets.
7. The discontinued operations were previously under control of the Overseas Business Division. In regard to this, they have been excluded from the operating segment information for the years ended March 31, 2017, 2016 and 2015. For more information, see Note 18, "Discontinued Operations."

The following table shows reconciliations of the total of the segment profit (loss) to income from continuing operations before income taxes and equity in earnings (losses) of associated companies for the years ended March 31, 2017, 2016 and 2015:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Segment profit (loss) total	¥54,304	¥48,673	¥47,144	\$484,856
Other operating costs and expenses (income) – net	5,320	11,849	4,305	47,500
Interest expenses	1,140	1,384	1,344	10,179
Other income (expenses) – net	1,770	(665)	1,676	15,804
Eliminations, adjustments and others	(502)	534	626	(4,481)
Income from continuing operations before income taxes and equity in earnings (losses) of associated companies	¥49,112	¥35,309	¥43,797	\$438,500

Net sales to external customers by products for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Hams and sausages	¥ 141,362	¥ 141,459	¥ 150,103	\$ 1,262,161
Processed foods	228,904	221,308	212,413	2,043,786
Fresh meats	673,871	705,495	678,226	6,016,705
Marine products	91,637	94,704	94,396	818,188
Dairy products	33,380	31,396	28,564	298,036
Others	33,139	34,962	36,254	295,883
Total	¥1,202,293	¥1,229,324	¥1,199,956	\$10,734,759

Certain information by geographic areas at March 31, 2017, 2016 and 2015 and for the years then ended was as follows:

(1) Net sales to external customers

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Japan	¥1,110,864	¥1,113,226	¥1,086,474	\$ 9,918,429
Other countries	91,429	116,098	113,482	816,330
Total	¥1,202,293	¥1,229,324	¥1,199,956	\$10,734,759

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
	2017	2016	2015	2017
Japan	¥274,935	¥253,594	¥242,094	\$2,454,777
Other countries	18,361	18,313	15,605	163,938
Total	¥293,296	¥271,907	¥257,699	\$2,618,715

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, 2017, 2016 and 2015.

## 18. DISCONTINUED OPERATIONS

During the year ended March 31, 2017, Texas Farm, LLC, the Company's subsidiary in the United States, which engaged in the hog farming business, was transferred to Seaboard Foods LLC as a result of the review from multiple points of view, such as future prospects and asset efficiency.

As a result of this business transfer, the Company judged that the business fell under the discontinued operation in accordance with ASC Topic 205. Prior years' consolidated balance sheets and consolidated statements of income have been reclassified to conform to the current year's presentation to separately report the financial positions and the results of the discontinued operation. The discontinued operations were previously under control of the Overseas Business Division of the Group's operating segments.

The financial positions of the discontinued operation at March 31, 2017 and 2016 were summarized as follows:

	Millions of Yen	
	2017	2016
Trade notes and accounts receivable		¥ 67
Inventories		3,877
Other current assets		104
Property, plant and equipment – at cost, less accumulated depreciation		4,158
Current assets of discontinued operations		¥8,206

	Millions of Yen	
	2017	2016
Current maturities of long-term debt		¥ 11
Trade notes and accounts payable		144
Accrued expenses		247
Other current liabilities (Note 16)		74
Long-term debt, less current maturities		12
Current liabilities of discontinued operations		¥488

The components of income (loss) from discontinued operations for the years ended March 31, 2017, 2016 and 2015 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Net sales	¥3,401	¥11,404	¥12,846	\$30,366
Cost of goods sold	3,267	13,858	11,896	29,170
Selling, general and administrative expenses	284	413	276	2,536
Other operating costs and expenses (income) – net	35	302	(74)	313
Interest expense	1	2	3	9
Other income (expenses) – net	174	1	2	1,554
Income (loss) from discontinued operations before income taxes	(12)	(3,170)	747	(108)
Income taxes	0	(60)	(18)	0
Income (loss) from discontinued operations – net of applicable income taxes (Note16)	¥ (12)	¥ (3,230)	¥ 729	\$ (108)

The depreciation and capital expenditures from the discontinued operation for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2017	2016	2015	2017
Depreciation	¥264	¥909	¥933	\$2,357
Capital expenditures	23	207	217	205

## 19. COMMITMENTS AND CONTINGENT LIABILITIES

The Group guarantees certain debt of associated companies and certain suppliers. At March 31, 2017, the maximum potential amount of future payments which the Group could be required to make under these guarantees was ¥321 million (\$2,866 thousand). The guarantees with suppliers are secured by certain properties and real estates.

## 20. EVENTS SUBSEQUENT TO MARCH 31, 2017

The Group evaluated subsequent events that have occurred after March 31, 2017 through the date that the Yukashouken-hou-kokusho (Annual Securities Report filed under the Financial Instruments and Exchange Act of Japan) was issued (June 29, 2017).

### Cash Dividend

On May 9, 2017, the Board of Directors resolved to pay cash dividends to shareholders of record at March 31, 2017 of ¥52 (\$0.46) per share for a total of ¥10,965 million (\$97,902 thousand).

### Acquisition of Shares of Breeders & Packers Uruguay S.A.

At the extraordinary meeting of the Board of Directors held on April 28, 2017, NH Foods Ltd. resolved to acquire 100% of the issued shares of Breeders & Packers Uruguay S.A. (“BPU”) to subsidiarize the company, and entered into a share transfer agreement on the same day. On June 1, 2017, the Group was completed the acquisition of all the shares, and BPU became a subsidiary of NH Foods Ltd.

### (i) Reasons for the acquiring the shares:

NH Foods Ltd. believes that the acquisition of shares of BPU, a fresh meat packer in the Oriental Republic of Uruguay, will enable it to expand its base of beef production business into South America in addition to Australia, where it is currently evolving the business, thereby contributing to the enhancement of its corporate value.

### (ii) Outline of the acquired entity:

Trade name: Breeders & Packers Uruguay S.A.  
Headquarters: Montevideo, Oriental Republic of Uruguay  
Main business: Processing and sale of fresh meat (beef)

### (iii) Acquisition date:

June 1, 2017

### (iv) Purchase price of the shares and the Group's equity ratio after acquisition:

Purchase price: USD 131,038 thousand

The purchase price is to be determined after adjusting changes in working capital based as of the agreement and so on, according to the price adjustment clause.

Equity ratio after acquisition: 100%

The Group is currently evaluating the fair value of BPU's acquired assets and liabilities on the acquisition date. Thus, detailed information as to the accounting treatment of the business combination has not been disclosed.

### Share consolidation and change in the number of shares constituting one share unit

At the Board of Directors meeting held on May 9, 2017, NH Foods Ltd. resolved to submit a proposal for share consolidation to its 72nd ordinary general meeting of shareholders held on June 28, 2017 (the “Ordinary General Meeting of Shareholders”).

At the same time, NH Foods Ltd. resolved a change in the number of shares constituting one share unit contingent on the approval of the proposal regarding the share consolidation at the Ordinary General Meeting of Shareholders.

The proposal regarding the share consolidation was approved at the Ordinary General Meeting of Shareholders.

Details are as follows:

**(i) Reason for the share consolidation and the change in the number of shares constituting one share unit**

Japanese stock exchanges have announced the “Action Plan for Consolidating Trading Units”, aiming to unify the trading unit of common stock of domestic companies listed on Japanese stock exchanges to 100 shares by October 2018.

As a company listed on the Tokyo Stock Exchange, NH Foods Ltd., respecting this intention, has decided to change its number of shares constituting one share unit from 1,000 shares to 100 shares as of April 1, 2018.

Also, NH Foods Ltd. will carry out a share consolidation (every two shares will be consolidated into one share) with a view to adjusting the investment unit to an appropriate level.

**(ii) Details of the share consolidation**

1 Type of shares subject to the share consolidation:  
Common shares

2 Method and ratio of the share consolidation:  
Consolidation to be executed on April 1, 2018 at a ratio of one share for each two shares owned by shareholders of record in the latest shareholder register as of March 31, 2018 (virtually March 30, 2018).

3 Share reduction resulting from the share consolidation:

	Shares
Total number of outstanding shares before share consolidation (as of March 31, 2017)	210,895,298
Number of share decrease due to share consolidation	105,447,649
Total number of outstanding shares after share consolidation	105,447,649

(Note)

“Number of share decrease due to the consolidation” is a theoretical value calculated based on multiplying the total number of outstanding shares before the consolidation by the share consolidation ratio.

**(iii) Treatment when less than one share arises**

If a fractional number of shares of less than one share arises as a result of the share consolidation, all of such fractional numbers of shares shall be subject to a bulk sale by NH Foods Ltd. in accordance with the provisions of the Companies Act. The proceeds of the said sale shall be distributed to the shareholders who resulted in owning fractional shares in proportion to their respective fractional shareholdings.

**(iv) Total number of authorized shares as of the effective date**

In conjunction with the reduction of the total number of the outstanding shares as a result of the share consolidation, in order to adjust the total number of authorized shares to an appropriate level, the total number of authorized shares shall be reduced in accordance with the share consolidation ratio (one-half) as of the effective date (April 1, 2018).

	Shares
Total number of authorized shares before change	570,000,000
Total number of authorized shares after change (as of April 1, 2018)	285,000,000

**(v) Details of change in the number of shares constituting one share unit**

Effective from April 1, 2018, the number of share constituting one share unit of NH Foods Ltd. will be changed from 1,000 shares to 100 shares.

**(vi) Effective date**

Effective date of the share consolidation	April 1, 2018
Effective date of the change in the total number of authorized shares	April 1, 2018
Effective date of the change in the number of shares constituting one share unit	April 1, 2018

**(vii) Effect on per share information**

Assuming that the share consolidation had taken place on April 1, 2015, per share information for the years ended March 31, 2016 and 2017 would be as follows:

	Yen		U.S. Dollars
	2017	2016	2017
Total NH Foods Ltd. shareholders' equity per share	¥3,832.95	¥3,498.71	\$34.22
Basic earnings per share attributable to NH Foods Ltd. shareholders	343.47	213.84	3.07
Diluted earnings per share attributable to NH Foods Ltd. shareholders	322.54	200.89	2.88

# INDEPENDENT AUDITORS' REPORT



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/en

## 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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2017 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 29, 2017

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

Juichi Suezawa, President and Representative Director, and Yoshihide Hata, Vice President and Representative Director, are responsible for designing and operating effective internal control over financial reporting of our company (the "Company") and have 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, 2017, 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 the 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 the 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

—

Juichi Suezawa  
President and Representative Director  
Yoshihide Hata  
Vice 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 29, 2017

To the Board of Directors of NH Foods Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Wakyu Shinmen

Designated Unlimited Liability Partner Engagement Partner, Certified Public Accountant: Koichi Sekiguchi

Designated Unlimited Liability Partner Engagement Partner, Certified Public Accountant: Shunsuke Matsumoto

### [Audit of Financial Statements]

Pursuant to the first paragraph of Article 1932 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, 2017 of NH Foods Ltd. and its consolidated subsidiaries, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the fiscal year from April 1, 2016 to March 31, 2017, 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 consolidated subsidiaries as of March 31, 2017, 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.

### [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, 2017.

### 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, 2017 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.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

# Main Companies of the Group

(As of June 30, 2017)

## Production and Breeding

- Nippon White Farm Co., Ltd. (Japan)
- Interfarm Co., Ltd. (Japan)
- Niiburo, Co., Ltd. (Japan)
- Whyalla Beef Pty. Ltd. (Australia)

## Processing and Packing of Fresh Meats

- Nippon Food Packer, Inc. (Japan)
- Nippon Food Packer Kagoshima, Inc. (Japan)
- Nippon Food Packer Shikoku, Inc. (Japan)
- Nippon Food Packer Tsugaru Co., Ltd. (Japan)
- Usune Co., Ltd. (Japan)
- Miyazaki Beef Center Co., Ltd. (Japan)
- Nippon Pure Food, Inc. (Japan)
- Oakey Beef Exports Pty. Ltd. (Australia)
- Wingham Beef Exports Pty. Ltd. (Australia)
- Thomas Borthwick & Sons (Australia) Pty. Ltd. (Australia)
- Ege-Tav Ege Tarım Hayvancılık Yatırım Ticaret ve Sanayi Anonim Şirketi (Turkey)
- Breeders & Packers Uruguay S.A. (Uruguay)

## Sales of Fresh Meats

- Higashi Nippon Food, Inc. (Japan)
- Kanto Nippon Food, Inc. (Japan)
- Naka Nippon Food, Inc. (Japan)
- Nishi Nippon Food, Inc. (Japan)
- NHJF Corporation (Japan)
- Minami Nippon Fresh Food, Ltd. (Japan)
- NH Foods Australia Pty. Ltd. (Australia)
- Beef Producers Australia Pty. Ltd. (Australia)
- Day-Lee Foods, Inc. (USA)
- Nippo Food (Shanghai) Co., Ltd. (China)
- Nippo Food (Hong Kong) Co., Ltd. (China)
- NH Foods Do Brasil Represento Acao Comercial Ltda. (Brazil)

## Production and Sales of Hams and Sausages

- Nipponham Factory Ltd. (Japan)
- Nipponham Hokkaido Factory Ltd. (Japan)
- Nipponham Northeast Ltd. (Japan)
- Kyodo Foods Co., Ltd. (Japan)
- Japan Assorted Business Services Co., Ltd. (Japan)
- Nipponham Southwest Ltd. (Japan)
- Hakodate Carl Raymon Co., Ltd. (Japan)
- Kamakura Ham Tomioka Co., Ltd. (Japan)
- Takamatsu Ham Co., Ltd. (Japan)
- NH Foods Vietnam Joint Stock Company (Vietnam)
- Redondo's, LLC (USA)

## Production of Processed Foods

- Nipponham Processed Foods Ltd. (Japan)
- Nipponham Delicatessen Ltd. (Japan)
- Premium Kitchen Co., Ltd. (Japan)
- NH Foods Mexicana S.A. DE C.V. (Mexico)
- Shandong Rilong Foodstuffs Co., Ltd. (China)
- Thai Nippon Foods Co., Ltd. (Thailand)
- Thai Nippon Vegetable Co., Ltd. (Thailand)
- NHF Manufacturing (Malaysia) Sdn. Bhd. (Malaysia)

## Sales of Hams and Sausages, and Processed Foods

- Nipponham Hokkaido Sales Ltd. (Japan)
- Nipponham East Sales Ltd. (Japan)
- Nipponham West Sales Ltd. (Japan)
- Nipponham Customer Communications Ltd. (Japan)

## Production and Sales of Processed Marine Products

- Marine Foods Corporation (Japan)
- Hoko Co., Ltd. (Japan)
- Uwakai Marinefarm Co., Ltd. (Japan)
- Kushiro Marusui Co., Ltd. (Japan)
- Nippon Porvenir Seafoods Y Compañía Limitada (Chile)

## 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)
- Pure Food Asia, Inc. (Taiwan)

## Production and Sales of Freeze-Dried and Frozen Foods

- Nipponham Frozen Foods Ltd. (Japan)
- Hoko Co., Ltd. (Japan)
- Shandong New Japanese Food Co., Ltd. (China)

## 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)
- Nipponham Life Services Ltd. (Japan)
- Nipponham Career Consulting Ltd. (Japan)
- Nipponham Designing Ltd. (Japan)

## Logistics and Trading

- Nippon Logistics Group, Inc. (Japan)
- 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)
- NH Foods Singapore Pte. Ltd. (Singapore)
- NH Foods (Thailand) Ltd. (Thailand)
- Thai Nippon Cold Storage Co., Ltd. (Thailand)
- NH Foods Taiwan Ltd. (Taiwan)
- NH Foods U.K. Ltd. (The United Kingdom)
  
- NH Foods Ltd. (Japan)



# Corporate Data, Stock Information

(As of April 1, 2017)

## CORPORATE DATA

Corporate name	NH Foods Ltd.
Established	May 30, 1949
Capital	¥31,806 million
President	Juichi Suezawa
Employees (As of March 31, 2017)	29,679 (consolidated) 2,372 (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, 2017)

Authorized shares	570,000,000
Issued and outstanding	210,895,298
Shareholders	10,097

### Major Shareholders (Leading 10 by Shareholding)

Name of Shareholders	Thousands of Shares
The Master Trust Bank of Japan, Ltd. (Trust account)	22,544
Japan Trustee Services Bank, Ltd. (Trust account)	13,563
The Hyakujushi Bank, Ltd.	7,537
Meiji Yasuda Life Insurance Company	7,354
The Norinchukin Bank	5,926
Nippon Life Insurance Company	5,570
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,494
Sumitomo Mitsui Banking Corporation	4,650
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	3,654
Sompo Japan Nipponkoa Insurance Inc.	3,493

Note: In addition to the list above, NH Foods Ltd. holds 25 thousand shares of common stock.

### Shareholders by Category

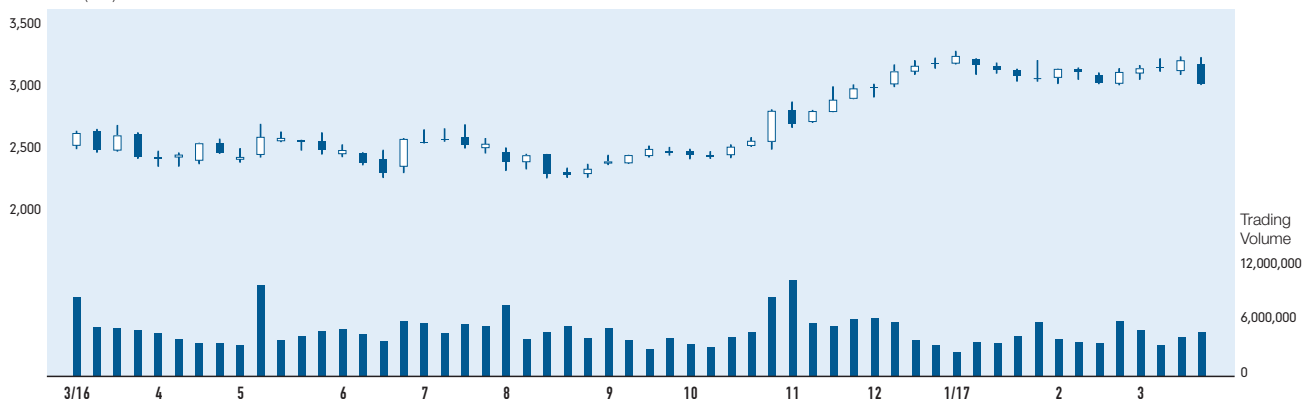
	Thousands of Shares	Shareholders
Financial institutions	111,570	(77)
Foreign investors	67,732	(538)
Individual/Other	15,586	(9,152)
Treasury stock	25	(1)
Other companies	8,617	(299)
Securities firms	7,362	(30)

### Shareholders by Holding

	Thousands of Shares	Shareholders
Less than 1,000	236	(1,647)
1,000 – Less than 10,000	11,147	(7,903)
10,000 – Less than 100,000	11,608	(355)
100,000 – Less than 1 million	48,195	(150)
1 million – Less than 5 million	71,717	(35)
5 million or more	67,990	(7)

## STOCK PRICE TREND

Stock Price (Yen)





[www.nipponham.co.jp/eng/](http://www.nipponham.co.jp/eng/)